FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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GIBSON GREETINGS INC

CIK:**717829**| IRS No.: **521242761** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-11902** | Film No.: **94527874**
SIC: **2771** Greeting cards

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission File Number 0-11902

GIBSON GREETINGS, INC.

Incorporated under the laws of the State of Delaware	IRS Employer Identification No. 52-1242761

2100 Section Road, Cincinnati, Ohio 45237

Telephone Number: Area Code 513-841-6600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) ofthe Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 16,089,186 shares of common stock, par value $.01, outstanding at May 8, 1994.

Part I., Item 1, Financial Statements
<TABLE>

GIBSON GREETINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share amounts)
(Unaudited)

<CAPTION>

<S>	March 31, 1994 <C>	December 31, 1993 <C>	March 31, 1993 <C>
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	$ 30,199	$ 9,477	$ 63,017
Trade receivables, net	60,457	192,163	48,900
Inventories	165,398	133,944	143,740
Prepaid expenses	5,578	4,207	4,632
Deferred income taxes	34,949	36,796	31,533
Total current assets	296,581	376,587	291,822
PLANT AND EQUIPMENT, net	117,591	116,900	114,629
NOTES RECEIVABLE, net	1,126	-	-
OTHER ASSETS, net	83,314	86,924	52,045
	$ 498,612	$ 580,411	$ 458,496
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Debt due within one year	$ 4,004	$ 66,187	$ 1,881
Accounts payable	18,454	18,835	16,442
Income taxes payable	1,154	17,230	4,844
Other current liabilities	52,709	60,479	47,143
Total current liabilities	76,321	162,731	70,310
DEFERRED INCOME TAXES	234	(1,102)	176
LONG-TERM DEBT	72,936	74,365	68,833
OTHER LIABILITIES	48,219	20,736	15,319
Total liabilities	197,710	256,730	154,638

STOCKHOLDERS' EQUITY:			
Preferred stock, par value $1.00; 5,000,000 shares authorized, none issued	-	-	-
Preferred stock, Series A, par value $1.00; 300,000 shares authorized, none issued	-	-	-
Common stock, par value $.01; 50,000,000 shares authorized, 16,561,530, 16,533,267 and 16,507,419 shares issued, respectively	166	165	165
Paid-in capital	45,703	45,209	44,522
Retained earnings	260,729	283,904	264,668
Foreign currency adjustment	200	291	391
	306,798	329,569	309,746
Less treasury stock, at cost, 481,344, 473,344 and 473,344 shares, respectively	5,896	5,888	5,888
Total stockholders' equity	300,902	323,681	303,858
	$ 498,612	$ 580,411	$ 458,496

</TABLE>
[FN]
See accompanying notes to condensed consolidated financial statements.

<TABLE>

GIBSON GREETINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except per share amounts)
(Unaudited)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
REVENUES	$ 93,429	$ 84,907
COSTS AND EXPENSES:		
Operating expenses:		
Cost of products sold	36,028	30,996

Selling, distribution and administrative expenses	57,852	49,661
	---------	---------
Total operating expenses	93,880	80,657
	---------	---------
Operating income (loss) before financing and derivative transaction expenses	(451)	4,250
Financing and derivative transaction expenses:		
Interest expense, net of capitalized interest	1,974	1,656
Interest income	(321)	(429)
Loss on derivative transactions	19,700	-
	---------	---------
Total financing and derivative transaction expenses, net	21,353	1,227
	---------	---------
Income (loss) before income taxes	(21,804)	3,023
Income taxes	(235)	1,221
	---------	---------
Net income (loss)	$ (21,569)	$ 1,802
	=========	=========
Net income (loss) per share	$ (1.33)	$ .11
	=========	=========
Dividends per share	$ .10	$ .10
	=========	=========

</TABLE>
[FN]
See accompanying notes to condensed consolidated financial statements.

<TABLE>

GIBSON GREETINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	---------	---------
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (21,569)	$ 1,802
Adjustments to reconcile net income (loss)		

to net cash provided by operating activities:		
Depreciation and write-down of display fixtures	5,670	6,479
Loss on disposal of plant and equipment	514	418
Loss on derivative transactions	19,700	-
Deferred income taxes	3,183	(2,103)
Amortization and write-down of deferred costs and other intangibles	5,249	3,703
Change in assets and liabilities:		
Decrease in trade receivables, net	131,706	120,705
Increase in inventories	(31,454)	(24,982)
Increase in prepaid expenses	(1,371)	(331)
Increase in notes receivable, net	(1,126)	-
Increase in other assets, net of amortization	(1,639)	(1,472)
Increase (decrease) in accounts payable	(381)	1,704
Decrease in income taxes payable	(16,076)	(5,087)
Decrease in other current liabilities	(7,770)	(6,132)
Increase in other liabilities	7,783	279
All other, net	10	131
Total adjustments	113,998	93,312
Net cash provided by operating activities	92,429	95,114
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of plant and equipment	(7,005)	(8,820)
Proceeds from sale of plant and equipment	37	115
Net cash used in investing activities	(6,968)	(8,705)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in short-term borrowings	(62,270)	(30,100)
Payments on long-term debt	(1,350)	(1,280)
Issuance of common stock	495	86
Acquisition of common stock for treasury	(8)	-
Dividends paid	(1,606)	(1,603)
Net cash used in financing activities	(64,739)	(32,897)
NET INCREASE IN CASH AND EQUIVALENTS	20,722	53,512
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	9,477	9,505
CASH AND EQUIVALENTS AT END OF PERIOD	$ 30,199	$ 63,017
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 929	$ 1,221
Income taxes	12,632	8,406

</TABLE>

[FN]
See accompanying notes to condensed consolidated financial statements.

GIBSON GREETINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended March 31, 1994 and 1993
(Amounts in thousands)
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Gibson Greetings, Inc. and its subsidiaries (the Company). Intercompany transactions and balances have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with Article 10-01 of Regulation S-X of the Securities and Exchange Commission and, as such, do not include all information required by generally accepted accounting principles. However, in the opinion of the Company, these financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the financial position as of March 31, 1994, December 31, 1993 and March 31, 1993, the results of its operations for the three months ended March 31, 1994 and 1993 and its cash flows for the three months ended March 31, 1994 and 1993.

The Company suggests that these financial statements be read in conjunction with the consolidated financial statements and notes included in the Company's 1993 Annual Report to Stockholders.

Interest rate swap and derivative transactions that do not qualify as hedges are recorded at their fair market value which is the estimated amount that the Company would receive or pay to terminate the transactions at the reporting date.

Certain prior year amounts in the consolidated financial statements have been reclassified to conform with the 1994 presentation.

Note 2 - Seasonal Nature of Business

Because of the seasonal nature of the Company's business, results of operations for interim periods are not necessarily indicative of results for the full year.

Note 3 - Trade Receivables

Trade receivables consist of the following:

	March 31, 1994	December 31, 1993	March 31, 1993

Trade receivables	$ 105,480	$ 245,682	$ 100,007
Less reserve for returns, allowances, cash discounts and doubtful accounts	45,023	53,519	51,107
	$ 60,457	$ 192,163	$ 48,900

Note 4 - Inventories

Inventories consist of the following:

	March 31, 1994	December 31, 1993	March 31, 1993
Finished goods	$ 104,033	$ 83,074	$ 82,570
Work-in-process	13,845	13,147	13,637
Raw materials and supplies	47,520	37,723	47,533
	$ 165,398	$ 133,944	$ 143,740

Note 5 - Interest Expense

There was no capitalized interest for the three months ended March 31, 1994 and 1993.

Note 6 - Net Income Per Share

The weighted average number of shares of common stock and equivalents outstanding used in computing net income per share is as follows:

	1994	1993
Three months ended March 31,	16,198	16,074

Note 7 - Derivative Transactions

The Company has two interest rate derivative transactions outstanding at March 31, 1994 which are recorded at fair market value. The Company entered into these two transactions on March 4, 1994 in replacement of two prior interest rate derivative transactions that had a negative market value, on that date, of $17.5 million. The two new transactions have a set minimum floor loss of $3 million at maturity and a maximum potential loss of $27.575 million. The Company recorded a loss in the accompanying condensed consolidated statements of income of $19.7 million for the three months ended March 31, 1994 which is comprised of the $3 million minimum loss to be paid upon maturity and an additional $16.7 million unrealized loss to record these transactions at market value. The current market value was determined by a financial institution's valuation model based on the projected future value of the transactions at maturity.

The Company cannot realize a gain at maturity on either open transaction. Each transaction has a $25 million notional value. On one transaction, the Company's minimum loss will be $3 million and its maximum loss would be $17.5 million, depending on the six-month LIBOR rate on June 7, 1995. The Company is adversely impacted at the rate of $72.5 for each basis point that the six-month LIBOR rate on that date exceeds 3.90%, up to a maximum of 5.90%. On the other transaction, the Company's maximum loss is capped at $10.075 million, depending on the basis point spread for interest rate swaps (the "swap spread") on August 15, 1995 relative to the 10.75% U.S. Treasury Note maturing August 15, 2005. The Company is adversely impacted if such swap spread on that date is less than 33.5 basis points, with the amount of its loss calculated at the rate of $746.3 for each basis point, and with its exposure capped if such spread is less than 20 basis points. The Company will realize no loss on this transaction if the swap spread is at or above 33.5 basis points on August 15, 1995. As of March 31, 1994, the six-month LIBOR rate was 4.25% and the swap spread was 33 basis points. The Company may elect to liquidate the transactions at any time prior to maturity based on market conditions prevailing at the time.

The negative market values of these two positions at March 31, 1994 are as follows:

Six-month LIBOR Band - 3.9% to 5.9%	$13,450
Swap Spread	6,250

	$19,700
	=======

Based on the stated maturity dates, the accrual for the loss is shown as an Other Liability in the accompanying condensed consolidated balance sheet. As required by SFAS No. 109, the Company has recorded the tax benefit from the loss on these derivative transactions and an offsetting valuation allowance for the full amount of the estimated tax benefit due to current uncertainties surrounding the amount, timing and characteristics of the loss.

Note 8 - Legal Matters

In 1990, a complaint was issued against the Company alleging certain unfair labor practices in connection with a strike at one of its facilities. On December 18, 1991, an Administrative Law Judge of the National Labor Relations Board ("NLRB") issued a recommended order, which included reinstatement and back pay affecting approximately 160 strikers, based on findings that the Company had violated certain provisions of the National Labor Relations Act.

On May 7, 1993, the NLRB upheld the Administrative Law Judge's decision in some respects, and enlarged the number of strikers entitled to back pay to approximately 240. A prompt notice of appeal was filed in the United States Court of Appeals for the District of Columbia Circuit. Management believes it has substantial defenses to these charges and these defenses are being presented in briefs in the Company's appeal. The appeal is scheduled to be heard on September 14, 1994. In addition, the Company is a defendant in certain other litigation. Management does not believe that an adverse outcome as to any or all of these matters would have a material adverse effect on the Company's net worth or total cash flows; however, the impact on the statement of operations in a given year could be material.

Part I., Item 2., Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Three Months Ended March 31, 1994 and 1993 Revenues increased 10.0% to $93.4 million in the first quarter of 1994 from $84.9 million in the first quarter of 1993. This was principally due to sales by The Paper Factory of Wisconsin, Inc. (The Paper Factory) which was acquired June 1, 1993, as well as increases in sales of gift wrap and international sales of greetings cards. These gains were partially offset by lower domestic shipments of greeting cards during the quarter as a result of shipments in late 1993 to ensure that customers received adequate replenishment of everyday cards as well as supplies of Valentine products. Additionally, the severe winter weather experienced in certain areas of the country adversely impacted retail sales and, in turn, customer reordering of everyday products. Returns and allowances were 21.3% of sales for the three months ended March 31, 1994 compared to 23.9% for the same period in 1993. Operating expenses totaled $93.9 million in the first quarter of 1994 representing a 16.4% increase over the corresponding quarter in 1993. Cost of products sold, as a percent of revenues, increased due to lower domestic greeting card sales while selling, distribution and administrative expenses increased due to expenses associated with The Paper Factory as well as higher expenses to expand the Company's rapidly growing Mexican operations.

Financing and derivative transaction expenses increased over 1993 primarily due to losses on certain interest rate derivative transactions of $19.7 million in the first quarter of 1994 (see below).

Pretax loss of $21.8 million in the first quarter of 1994 compared with 1993 pretax income of $3.0 million, while the net loss of $21.6 million in the first quarter of 1994 compared with 1993 net income of $1.8 million for the same period.

Financing and derivative transaction expenses The Company has two interest rate derivative transactions outstanding at March 31, 1994, which are recorded at fair market value. These two transactions have caps on the Company's total exposure and replace previous uncapped positions that were entered into subsequent to December 31, 1993. Except for the two positions described below and two relatively minor ($3 million notional value) interest rate swaps on industrial revenue bonds, the Company has discontinued trading in any swap/derivative positions.

On March 4, 1994, the Company felt compelled to enter into the two outstanding interest rate derivative transactions in order to replace and to cap its exposure on two prior interest rate derivative transactions that had a negative market value, on that date, of $17.5 million. The two new transactions, which are recorded at fair market value, have a set minimum floor loss of $3 million at maturity and a maximum potential loss of $27.575 million. The Company recorded a loss in the accompanying condensed consolidated statements of income of $19.7 million for the three months ended March 31, 1994 which is comprised of the $3 million minimum loss to be paid upon maturity and an additional $16.7 million unrealized loss based upon the fair market value of the transactions on that date. The current market value was determined by a financial institution's valuation model based on the projected future value of the transactions at maturity. These positions will continue to be reported at current fair market value until they mature or are closed out.

The combined effect of these two transactions is that the Company's losses will be between $3 million and $27.575 million. The Company's losses would be minimized at $3 million if the six-month LIBOR rate is at or below 3.90% on June 7, 1995 and the basis point spread for interest rate swaps (the "swap spread") relative to the 10.75% U.S. Treasury Note maturing August 15, 2005 is at or above 33.5 basis points on August 15, 1995. On the other hand, its losses would be maximized at $27.575 million if the six-month LIBOR rate equals or exceeds 5.90% on June 7, 1995 and the swap spread is 20 basis points or less on August 15, 1995. The Company may elect to liquidate the transactions at any time prior to maturity based on market conditions prevailing at the time. As of March 31, 1994, the six-month LIBOR rate was 4.25% and the swap spread was 33 basis points. See also Note 7 of Notes to Condensed Consolidated Financial Statements.

If held to maturity, and if market conditions at maturity are the same as existed on March 31, 1994, the transactions would result in a total realized loss of approximately $5.9 million. The additional $13.8 million unrealized loss that is being recognized currently results from future adverse movements projected by the financial institution's valuation model. If those projected adverse movements do not occur, or if favorable movements occur, gains in an amount determined by then current market conditions would be recognized in future periods to reverse the prior recognition of unrealized losses, up to a net loss of $3 million in the best case at maturity of the transactions. Similarly, if there are further future adverse movements, the Company could be required to recognize up to an additional $7.875 million of loss.

The full amount of the $19.7 million loss had no cash flow impact in the first quarter of 1994; cash will not be required until maturity for each of the respective positions unless they are liquidated prior thereto. The positions may be liquidated and paid out at any time prior to maturity and the Company will continue to review the desirability of liquidating them on an ongoing basis.

Liquidity and Capital Resources

Cash flows from operating activities for the first three months of 1994 provided $114.0 million in cash compared to $93.3 million for the same period in 1993. The increase from 1993 reflected a higher trade receivable balance from the previous year-end, combined with an increase of non-cash charges of $25.8 million, primarily reflecting the unrealized loss on derivative transactions. Partially offsetting this increase was higher inventory levels combined with lower income taxes payable.

Cash used in investing activities for plant and equipment purchases in 1994 was $7.0 million compared to $8.8 million in 1993. Capital expenditures in 1993 included the purchase of a distribution center by the Company's U.K. based subsidiary.

Cash used in financing activities in the first quarter of 1994 was $64.7 million compared to $32.9 million in 1993. The increase reflects the payoff of higher short-term borrowing levels at December 31, 1993 compared to December 31, 1992.

Management believes that its cash flows from operations and credit sources will provide adequate funds, both on a short-term and on a long-term basis, for currently foreseeable debt payments, lease commitments and payments under existing customer agreements, as well as for financing existing operations, currently projected capital expenditures, anticipated long-term sales agreements consistent with industry trends and other contingencies. See Part II, Item 1.

Part II. Other Information

Item 1. Legal Proceedings

In 1989, unfair labor practice charges were filed against the Company as an outgrowth of a strike at its Berea, Kentucky facility. Remedies sought include back pay from August 8, 1989 and reinstatement of employment for approximately 200 employees. In February 1990, the General Counsel of the National Labor Relations Board ("NLRB") issued a complaint based on certain of the allegations of these charges (In the Matter of Gibson Greetings, Inc. and International Brotherhood of Fireman and Oilers, AFL-CIO, Cases 9-CA-26706, 27660, 26875). On December 18, 1991, an Administrative Law Judge of the NLRB issued a recommended order, which included reinstatements and back pay affecting approximately 160 strikers, based on findings that the Company had violated certain provisions of the National Labor Relations Act. On May 7, 1993, the NLRB upheld the Administrative Law Judge's decision in some respects, and enlarged the number of strikers entitled to back pay to approximately 240. A prompt notice of appeal was filed in the United States Court of Appeals for the District of Columbia Circuit. The Company believes it has substantial defenses to the charges, and these defenses are being presented in briefs in the Company's appeal. The appeal is scheduled to be heard on September 14, 1994. In addition, the Company is a defendant in certain other litigation. Management does not believe that an adverse outcome as to any or all of these matters would have a material adverse effect on the Company's net worth or total cash flows; however,the impact on the statement of operations in a given year could be material.

Item 2. Changes In Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibit 10(a) Employment Agreement between Gibson Greetings, Inc. and Nelson J. Rohrbach, dated May 28, 1993

b) Reports on Form 8-K

The Company filed a Form 8-K with the Securities and Exchange Commission on March 4, 1994 attaching the Company's press release dated March 4, 1994. No financial statements were required to be filed in connection with the report.

The Company filed a Form 8-K with the Securities and Exchange Commission on April 20, 1994 attaching the Company's press release dated April 19, 1994. No financial statements were required to be filed in connection with the report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Gibson Greetings, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GIBSON GREETINGS, INC.

Date May 13, 1993

By:/s/ William L. Flaherty

William L. Flaherty
Vice President-Finance
Principal Financial
and Accounting Officer

Exhibit 10(a)

May 28, 1993

Mr. Nelson J. Rohrbach
Appleton, Wisconsin

Dear Jack:

This will confirm that you have agreed to serve as President of the Paper Factory of Wisconsin, Inc. ("the Company"). As President, you will report directly to the Board of Directors of the Company and to the Chief Executive Officer of Gibson Greetings, Inc. and will be responsible for all of the operations of the Company as Chief Executive Officer. The following terms and conditions will govern your service to the Company.

1. You will serve the Company, whose home office shall be located in Appleton, Wisconsin, for your term of employment hereunder, on a full-time basis as Chief Executive Officer, and the Company will employ you as such, for a period of four years commencing on the date of Closing of that Stock Purchase Agreement to which you are a party and ending four years from such date unless your employment terminates (or death occurs) as hereinafter provided. Your annual salary will be your current salary which amount will be reviewed every fifteen months from your last salary adjustment and which may be adjusted from time to time by the Company throughout the term of this Agreement in accordance with the salary administration program at Gibson Greetings, Inc.

2. You will participate, subject to legal requirements and to mutually agreeable changes, to the same extent and in the same manner as you participated prior to execution of this agreement, in the Management Incentive Plan attached hereto as Exhibit A (but with the individual incentive measurements and various target levels determined by the Chief Executive Officer of Gibson Greetings, Inc.) and in the fringe benefit programs of the Company which, as examples, include the Company's 401(k) plan, the Company's vacation plan, the Company's health benefit plan, and, in your case, the provision of an automobile and Country Club dues. In addition, you will participate in a Special Bonus Plan to the extent set forth herein and in Exhibit B, which is attached to and made a part hereof. You also will be an eligible employee for purposes of

consideration for participation in the Stock Option Plan of Gibson Greetings, Inc. subject to determinations of participation by the appropriate Gibson committee.

3. In the event you are unable to perform your duties hereunder due to illness or other incapacity, which illness or incapacity continues for more than six consecutive or nonconsecutive months in any twelve-month period, the Company shall have the right, on not less than 30 days written notice to you, to terminate your employment hereunder. In the event of such termination of employment or in the case of your death:

   (a) your participation in Phase I of the Special Bonus Plan shall continue unabated for the period of such Phase I;

   (b) your participation in Phase II of the Special Bonus Plan shall terminate immediately and you shall not participate in such Phase II Bonus Plan with respect to the fiscal year in which such termination occurs or thereafter; and

   (c) your salary and participation in other fringe benefit programs and including the Company's Management Incentive Plan shall terminate as of the end of the month of terminated employment or death, provided you shall participate in the Management Incentive Plan on a prorata basis with respect to the fiscal year in which such termination or death occurs but not thereafter.

   Termination of employment under this paragraph shall terminate provisions of this Agreement with the exception of the provisions of Paragraphs 5 and 6 of this Paragraph 3.

4. In the event you voluntarily terminate your employment during the term of this Agreement (including retirement), of if the Company terminates your employment for cause:

   (a) your participation in Phase I of the Special Bonus Plan shall continue unabated for the period of such Phase I;

   (b) your participation in Phase II of the Special Bonus Plan shall terminate immediately and you shall not participate in such Phase II Bonus Plan with respect to the fiscal year in which such termination occurs or thereafter; and

(c) your salary and participation in other fringe benefit programs and including the Company's Management Incentive Plan shall terminate as of the date of termination and you shall not participate in such Plan with respect to the fiscal year in which such termination occurs or thereafter.

As used herein, "cause" shall include, without limitation, inadequate performance, a lack of commitment to the operations of the Company, negligent performance, misconduct, a refusal to follow appropriate directions or a material breach of this Agreement. Termination of employment under this paragraph shall terminate provisions of this Agreement with the exception of the provisions of Paragraphs 5 and 6 and of this Paragraph 4.

5. In the event of termination of your employment hereunder for any reason, you agree that (in addition to any other restrictions applicable to you under the Stock Purchase Agreement described in Paragraph 1) for a period of one year thereafter you will not directly or indirectly engage or participate as a director, officer, employee, consultant, advisor, shareholder, partner or joint venturer in any specialty retail store engaged in the sale of paper party goods, greeting cards or gift wrap in any of the markets served by Company on the date of termination. If any of the provisions of this Paragraph 5 are held to be unenforceable because of the scope, duration or area of its applicability, the court making such determination shall have the power to modify such scope, duration or area or all of them, and such provision shall then be applicable in such modified form. Because the Company will be irreparably damaged if the provisions of this paragraph are not specifically enforced, Company shall be entitled to an injunction restraining any violation of this paragraph by you (without any bond or other security being required), or any other appropriate decree for specific performance. Such remedies shall not be exclusive and shall be in addition to any other remedy which Company may have.

6. In connection with this Agreement, you agree to continue to receive

Confidential Information in confidence, and not to disclose to others, assist others in the application of, or use for your own gain, such information, or any part thereof, unless and until it has become public knowledge or has come into the possession of others by legal and equitable means. You further agree that, upon termination of employment with the Company, all documents, records, notebooks, and similar writings, including copies thereof, then in your possession, whether prepared by you or by others, will be left with or returned promptly to the Company. For purposes of this Paragraph 6, "Confidential Information" means information concerning Company's finances, plans, sales, products, processes and services, and those of Company's parent,

subsidiaries, divisions, and affiliates, which is disclosed to you or known by you as a consequence of or through your employment with the Company, and which is not generally know in the industry in which the Company or its subsidiaries, divisions or affiliates are or may become engaged.

7. So long as you are a participant in the Special Bonus Plan, the Company shall be maintained as a separate operating entity.

8. This Agreement shall inure to the benefit of and be binding upon you and your legal representatives as well as the Company, its successors and assigns including, without limitations, any person, partnership, corporation or other entity which may acquire all, or substantially all, of the Company's assets and business.

To indicate your acceptance of and willingness to be bound by this Agreement, please sign and return one duplicate original of this letter.

Yours truly,

THE PAPER FACTORY OF WISCONSIN, INC.

By /s/ Tom Thompson

ACCEPTED AND AGREED TO:

/s/ Nelson J. Rohrbach
- - ------------------------
Nelson J. Rohrbach

Dated: May 28, 1993