

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-01-13** | Period of Report: **1993-11-30**  
SEC Accession No. **0000950109-94-000050**

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### FILER

#### AMERICAN GREETINGS CORP

CIK: **5133** | IRS No.: **340065325** | State of Incorp.: **OH** | Fiscal Year End: **0228**  
Type: **10-Q** | Act: **34** | File No.: **000-01502** | Film No.: **94501306**  
SIC: **2771** Greeting cards

Mailing Address  
10500 AMERICAN ROAD  
CLEVELAND OH 44144

Business Address  
10500 AMERICAN RD  
CLEVELAND OH 44144  
2162527300

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 1993  
-----

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 0-1502  
-----

AMERICAN GREETINGS CORPORATION  
-----

(Exact name of registrant as specified in its charter)

Ohio

34-0065325  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

One American Road, Cleveland, Ohio

44144  
-----

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area (216) 252-7300  
-----

Indicate whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the 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  
 ---            ---

As of November 30, 1993, the date of this report, the number of shares outstanding of each of the issuer's classes of common stock was:

Class A Common    69,562,368  
 Class B Common    4,579,465

Part I.    FINANCIAL INFORMATION  
 -----

Item 1.    Financial Statements  
 -----

AMERICAN GREETINGS CORPORATION  
 CONSOLIDATED STATEMENT OF INCOME

<TABLE>  
 <CAPTION>

	(Unaudited) Nine Months Ended November 30,	
	----- 1993	----- 1992
	----- (Thousands of dollars, except per-share amounts)	
	<C>	<C>
Net sales	\$1,296,652	\$1,228,346
Other income	9,674	11,315
	-----	-----
Total revenue	1,306,326	1,239,661
Costs and expenses:		
Material, labor and other production costs	512,681	495,749
Selling, distribution and marketing	474,861	451,899
Administrative and general	159,602	145,158
Interest	12,923	20,948
	-----	-----
Total costs and expenses	1,160,067	1,113,754
	-----	-----
Income before income taxes and cumulative effect of accounting changes	146,259	125,907
Income taxes	54,847	47,593
	-----	-----
Income before cumulative effect of accounting changes	91,412	78,314
Cumulative effect of accounting changes, net of		

tax	17,182	-
	-----	-----
Net income	\$74,230	\$78,314
	=====	=====
Income per share:		
Before cumulative effect of accounting changes	\$1.24	\$1.08
Cumulative effect of accounting changes, net of tax	0.23	-
	-----	-----
Net income per share	\$1.01	\$1.08
	=====	=====
Dividends per share	\$0.3575	\$0.3125
	=====	=====
Average number of common shares outstanding	73,670,209	72,293,148

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AMERICAN GREETINGS CORPORATION  
CONSOLIDATED STATEMENT OF INCOME

<TABLE>  
<CAPTION>

	(Unaudited)	
	Three Months Ended	
	November 30,	
	-----	-----
	1993	1992
	-----	-----
<S>	<C>	<C>
Net sales	\$518,987	\$489,491
Other income	3,517	3,484
	-----	-----
Total revenue	522,504	492,975
Costs and expenses:		
Material, labor and other production costs	210,215	203,605
Selling, distribution and marketing	170,288	160,741
Administrative and general	55,057	51,088
Interest	4,599	6,515
	-----	-----
Total costs and expenses	440,159	421,949
	-----	-----
Income before income taxes	82,345	71,026
Income taxes	30,879	27,122
	-----	-----

Net income	\$51,466	\$43,904
	=====	=====
Net income per share	\$0.70	\$0.60
	=====	=====
Dividends per share	0.1250	\$0.1075
	=====	=====
Average number of common shares outstanding	74,097,140	72,718,754

</TABLE>

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AMERICAN GREETINGS CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<TABLE>  
<CAPTION>

	(Unaudited)	(Unaudited)	(Unaudited)
	-----	-----	-----
	Nov 30, 1993	Feb 28, 1993	Nov 30, 1992
	-----	-----	-----
ASSETS	(Thousands of dollars)		
<S>	<C>	<C>	<C>
Current assets			
Cash and equivalents	\$ 64,752	\$ 235,186	\$ 52,760
Trade accounts receivable, less allowances of \$91,152, \$85,870 and \$77,028, respectively (principally for sales returns)	568,931	276,932	446,787
Inventories:			
Raw material	38,155	44,469	38,850
Work in process	29,609	30,171	23,933
Finished products	223,156	204,010	242,727
	-----	-----	-----
	290,920	278,650	305,510
Less LIFO reserve	87,976	84,887	92,382
	-----	-----	-----
	202,944	193,763	213,128
Display material and factory supplies	33,957	34,360	27,751
	-----	-----	-----
Total inventories	236,901	228,123	240,879
Deferred and refundable income taxes	49,583	66,339	59,626
Prepaid expenses	108,334	105,277	95,464

Total current assets	1,028,501	911,857	895,516
Other assets	247,431	248,991	233,816
Property, plant and equipment	757,095	708,241	681,105
Less accumulated depreciation and amortization	351,485	320,689	313,439
Property, plant and equipment -- net	405,610	387,552	367,666
	\$1,681,542	\$1,548,400	\$1,496,998
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Debt due within one year	\$ 256,420	\$ 113,986	\$ 148,087
Accounts payable	124,281	113,684	73,681
Payroll and payroll taxes	54,504	54,099	42,138
Retirement plans	14,527	17,409	12,648
Dividends payable	9,293	7,837	7,829
Income taxes	29,256	23,191	28,166
Total current liabilities	488,281	330,206	312,549
Long-term debt	87,129	169,381	162,859
Postretirement benefit obligation	20,832	--	--
Deferred income taxes	62,023	96,278	95,856
Shareholders' equity	1,023,277	952,535	925,734
	\$1,681,542	\$1,548,400	\$1,496,998

</TABLE>

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AMERICAN GREETINGS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>  
<CAPTION>

(Unaudited)  
Nine Months Ended  
November 30,

1993	1992
(Thousands of dollars)	

<S>

<C>

<C>

OPERATING ACTIVITIES:		
Net income	\$74,230	\$78,314
Adjustments to reconcile to net cash used by operating activities:		
Postretirement benefit obligation	22,530	--
Depreciation and amortization	43,222	36,644
Deferred and refundable income taxes	(3,626)	(2,665)
Change in operating assets and liabilities	(322,283)	(202,419)
Other -- net	7,471	3,685
	-----	-----
Cash Used by Operating Activities	(178,456)	(86,441)
INVESTING ACTIVITIES:		
Property, plant & equipment additions	(61,695)	(43,557)
Other -- net	32,336	(4,215)
	-----	-----
Cash Used by Investing Activities	(29,359)	(47,772)
FINANCING ACTIVITIES		
Increase in long-term debt	17,864	19,090
Reduction of long-term debt	(204,606)	(3,032)
Increase in notes payable	236,368	10,221
Sale of stock under benefit plans	20,311	14,012
Purchase of treasury shares	(6,145)	(8,023)
Dividends to shareholders	(26,411)	(22,657)
	-----	-----
Cash Provided by Financing Activities	37,381	9,611
	-----	-----
DECREASE IN CASH AND EQUIVALENTS	(170,434)	(124,602)
Cash and Equivalents at Beginning of Year	235,186	177,362
	-----	-----
Cash and Equivalents at End of Period	\$64,752	\$52,760
	=====	=====

</TABLE>

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#### NOTES TO FINANCIAL STATEMENTS

Nine Months Ended November 30, 1993 and 1992

#### Note A -- Basis of Presentation

The accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q. Although they are unaudited, the Corporation believes that all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations have been made.

#### Note B -- Seasonal Nature of Business

The Corporation's business is seasonal in nature. Therefore, the results of operations for interim periods are not necessarily indicative of the results for the fiscal year taken as a whole.

#### Note C -- Reclassifications

Certain amounts in the 1992 financial statements have been reclassified to conform with the 1993 presentation.

#### Note D -- Cumulative Effect of Accounting Changes

Effective March 1, 1993, the Corporation adopted Statement of Financial Accounting Standard Number 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the cumulative effect of which was to reduce net income by \$22,530. Operating income has not been materially impacted by this accounting change. Also effective March 1, 1993, the Corporation adopted Statement of Financial Accounting Standard Number 109, "Accounting for Income Taxes," the cumulative effect of which was to increase net income by \$5,348.

#### Note E -- Stock Split

On June 25, 1993, the Corporation declared a two-for-one stock split of the Corporation's common stock, effected in the form of a 100% share dividend. Such distribution was made on September 10, 1993 to stockholders of record at the close of business on August 27, 1993. All share and per share amounts have been restated to retroactively reflect the stock split.

#### Note F -- Basis for Determining Net Income Per Share Information

Net income per share information is based on the average number of shares outstanding. For the periods presented, stock options have an immaterial dilutive effect.

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#### Note G -- Prepaid Expenses

The prepaid expense classification consists of deferred costs relating to agreements with certain customers, cash and short-term investments held in trust for the payment of medical benefits, rent and insurance. The largest component of prepaid expenses is deferred costs estimated to be charged to operations during the next twelve months.

#### Note H -- Other Assets



The other asset classification consists of various long-term assets such as deferred costs relating to agreements with certain customers, corporate-owned life insurance, goodwill and equity investments. The largest component of other assets is deferred costs, which are charged to operations on a straight-line basis, generally three to six years. Deferred costs estimated to be charged to operations during the next twelve months are classified as a prepaid expense.

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Part I., Item 2., MANAGEMENT'S DISCUSSION AND ANALYSIS

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Results of Operations

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Third quarter net sales of \$519 million represent a 6% increase over the same period last year and, for the nine months ended November 30, 1993, net sales increased 5.6% to \$1.3 billion. Both periods reflect strong sales of Everyday cards and Seasonal cards and accessories through traditional channels. These increases were offset somewhat by the continuing decreases in foreign currency exchange rates. Unit sales of greeting cards were up 1% for both the quarter and the nine months.

Compared to the prior year, other income at \$3.5 million for the third quarter and \$9.7 million through nine months was flat for the quarter and decreased \$1.6 million for the nine months. This decrease resulted from lower investment income, primarily due to lower interest rates, and lower character and design licensing royalties.

Material, labor and other production costs as a percent of net sales continued to decrease compared to the prior year, both for the quarter and the nine months. As a percent of net sales, these costs were 40.5% for the quarter and 39.5% for the nine months down from 41.6% and 40.4%, respectively, for the same periods last year as strong sales of the higher margin greeting cards continued to improve this cost relationship.

Expenses in the categories of selling, distribution and marketing and general and administrative continue to reflect the impact of the CreataCard and Magnivision units. These operating units, when compared to the traditional business, have lower selling expenses and higher administrative expenses in relation to net sales. As a result, the impact of increases in selling, distribution and marketing expenses due to higher amortization of deferred costs has been offset by the lower costs in these units. For the nine months selling, distribution and marketing expenses decreased slightly to 36.6% of net sales from 36.8% last year. Administrative and general expenses, however, increased to 12.3% of net sales for the nine months from 11.8% last year.

Interest expense continued to be impacted by lower interest rates and the savings associated with the repayment of the 8.375% notes on March 1, 1993. Compared to the same periods last year, interest expense decreased \$1.9 million for the quarter and \$8 million for the nine months.

#### Liquidity and Capital Resources

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The seasonality of the Corporation's business precludes a useful comparison of the current period and the year end financial position; therefore, a Statement of Financial Position for November 30, 1992 has been included.

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Working capital of \$540.2 million at November 30, 1993 represents a \$42.7 million decrease from last year and reflects a shift from long term debt to short term borrowings. On July 15, 1993, the Corporation called the \$100 million 8.125% notes and repaid them with short term debt. The interest rate swap related to these notes was exercised by the option holder on July 15, 1993. Under the terms of the swap, the Corporation pays 8.125% fixed and receives the US Dealer Commercial Paper Composite Rate floating until July 15, 1996, the maturity date of the swap agreement.

Cash used by operating activities for the nine months ended November 30, 1993 was \$92 million higher than in the prior year. Higher accounts receivable resulting from increased sales and extended terms caused this greater use of cash. The receivables related to the extended terms are expected to decrease by the end of the fiscal year. As a percent of the prior twelve months' net sales, accounts receivable increased to 32.7% from 27.8% last year.

Investing activities used \$18.4 million less cash during the nine months compared to last year, primarily due to cash withdrawals from the corporate-owned life insurance programs. Financing activities included higher seasonal short term borrowings and provided \$27.8 million more cash this year.

Debt as a percentage of debt and equity remained at the 25.1% reported last year as the additional seasonal borrowings offset the increase in shareholders' equity. Shareholders' equity increased to \$13.80 per share at November 30, 1993, up from \$12.71 per share last year.

There were no material changes in the financial condition, liquidity or capital resources of the Corporation from February 28, 1993, the end of its preceding fiscal year, to November 30, 1993, the end of its last fiscal quarter and the date of the most recent balance sheet included in this report, nor from November 30, 1992, the end of the corresponding fiscal quarter last year, to November 30, 1993, except the changes discussed above and aside from normal seasonal fluctuations.

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Management is not aware of any current trends, events, demands, commitments or uncertainties, aside from general industry competitive conditions, which reasonably can be expected to have a material effect on the liquidity, capital resources, financial condition or results of operations of the Corporation.

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PART II OTHER INFORMATION  
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Item 6. Exhibits and Reports on Form 8-K  
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- (a) Exhibits (exhibit reference numbers refer to Item 601 of Regulation S-K)
  - 11 (a) Calculation of Primary Earnings Per Share
  - 11 (b) Calculation of Fully-Diluted Earnings Per Share
- (b) Reports on Form 8-K
  - None

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

AMERICAN GREETINGS CORPORATION

Date: January 12, 1994  
-----

By: \_\_\_\_\_

William S. Meyer  
Controller

AMERICAN GREETINGS CORPORATION

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</TABLE>

American Greetings Corporation  
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Computation of Common Earnings Per Share  
-----

<TABLE>  
<CAPTION>

	(Unaudited)	
	Nine Months Ended November 30,	
	----- 1993 -----	----- 1992 -----
<S>	<C>	<C>
Average number of common shares outstanding	73,670,209 =====	72,293,148 =====
Net income (thousands)	\$74,230 =====	\$78,314 =====
Primary earnings per share	\$1.01 =====	\$1.08 =====

</TABLE>

Computation of Primary and Fully-Diluted Earnings Per Share (a)  
-----

<TABLE>  
<CAPTION>

	(Unaudited)	
	Nine Months Ended November 30,	
	----- 1993 -----	----- 1992 -----
<S>	<C>	<C>
Weighted average common shares outstanding on a fully diluted basis assuming exercise of stock options based on the treasury stock		

method using the ending price which was higher than the average market price	74,988,675 =====	73,365,176 =====
Net income (thousands)	\$74,230 =====	\$78,314 =====
Fully-diluted earnings per share	\$.99 =====	\$1.07 =====

</TABLE>

(a) This calculation is submitted in accordance with Securities Exchange Act of 1934, although not required by Accounting Principles Board Opinion No. 15, since less than a 3% dilution results.