AMERICAN GREETINGS CORP
Form 424B3
May 12, 2006
Table of Contents

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-134029

Subject to completion, dated May 11, 2006

PRELIMINARY PROSPECTUS SUPPLEMENT

(To prospectus dated May 11, 2006)

$200,000,000

__% Senior Notes due 2016

American Greetings Corporation

Ø We are one of the world s largest manufacturers of social expression products. Along with greeting cards, our product lines include gift wrap, party goods, candles, stationery, calendars, educational products, ornaments and electronic greetings.

Notes

Ø We are offering $200,000,000 aggregate principal amount of % senior notes due 2016, which we refer to in this prospectus supplement as the notes.

Ø We will pay interest on the notes on and of each year, commencing on , 2006. The notes will mature on , 2016.

Ø We may redeem the notes, in whole or in part, at our option at any time on or after , 2011, at the redemption prices listed under Description of the Notes Optional Redemption in this prospectus supplement, plus accrued and unpaid interest, if any, to the date of redemption. We may also redeem the notes, in whole or in part, at our option at any time prior to , 2011, at a price equal to 100% of their principal amount plus a make-whole premium, together with accrued but unpaid interest, if any, to the date of redemption. In addition, at any time on or before , 2009, we may at our option, redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of one or more Qualified Equity Offerings at a redemption price equal to % of the face amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption.

- If we experience a change of control, we may be required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

Ranking

- The notes will be unsecured obligations of American Greetings Corporation and will rank equally with our other senior unsecured indebtedness outstanding from time to time.

Before buying any notes, you should read the discussion of the material risks of investing in the notes beginning on page S-9 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per note	Total
Public offering price of the notes	%	$
Underwriting discount of the notes	%	$
Proceeds to us from the notes (before expenses)	%	$

The notes will be ready for delivery in book-entry form only to The Depository Trust Company on or about , 2006.

Joint Book-Running Managers

UBS Investment Bank **JPMorgan**

Joint Lead Manager

KeyBanc Capital Markets

The date of this prospectus supplement is May , 2006.

Table of Contents

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell or a solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information appearing or incorporated by reference in this prospectus supplement is accurate only as of the date of this prospectus supplement or the date of the document in which incorporated information appears. Our business, financial condition, results of operations and prospects may have changed since those dates.

If the information varies between this prospectus supplement and the accompanying prospectus, the information in this prospectus supplement supersedes the information in the accompanying prospectus.

This prospectus supplement is accompanied by a copy of our Annual Report on Form 10-K for the fiscal year ended February 28, 2006, which contains additional information about us and is incorporated herein by reference. See Where You Can Find More Information and Information Incorporated by Reference in the accompanying prospectus for additional information regarding documents incorporated herein by reference.

TABLE OF CONTENTS

Table of Contents

Forward-looking statements and information

This prospectus supplement and the accompanying prospectus (including the information incorporated by reference) contain forward-looking statements within the meaning of the Federal securities laws. These statements can be identified by the fact that they do not relate strictly to historic or current facts. They use such words as anticipate, estimate, expect, project, intend, plan, believe, and other words and terms of meaning in connection with any discussion of future operating or financial performance. These forward-looking statements are based on currently available information, but are subject to a variety of uncertainties, unknown risks and other factors concerning our operations and business environment, which are difficult to predict and may be beyond our control. Important factors that could cause actual results to differ materially from those suggested by these forward-looking statements, and that could adversely affect our future financial performance, include, but are not limited to, the following:

- the timing and impact of changes that we plan to make to our capital structure, including the ability to successfully consummate the Exchange and the Refinancing (as defined in the Prospectus Supplement Summary Recent Developments);
- retail bankruptcies, consolidations and acquisitions, including the possibility of resulting adverse changes to retail contract terms;
- a weak retail environment;
- consumer acceptance of products as priced and marketed;
- the impact of technology on core product sales;
- competitive terms of sale offered to customers;
- successful implementation of supply chain improvements and achievement of projected cost savings from those improvements;
- increases in the cost of material, energy and other production costs;
- our ability to comply with our debt covenants;
- fluctuations in the value of currencies in major areas where we operate, including the U.S. Dollar, Euro, U.K. Pound Sterling, and Canadian Dollar;
- the timing and impact of investments in new retail or product strategies as well as new product introductions and achieving the desired benefits from those investments;
- escalation in the cost of providing employee health care;

- Ø our ability to execute share repurchase programs or the ability to achieve the desired accretive effect from such repurchases;
- Ø the timing and impact of any changes we may make to our capital structure;
- Ø successful integration of acquisitions; and
- Ø the outcome of any legal claims known or unknown.

Risks pertaining specifically to AG Interactive include the viability of online advertising, subscriptions and renewals thereof as revenue generators and the public s acceptance of online greetings and other social expression products and the ability of the mobile division to compete effectively in the wireless content aggregation market.

The risks and uncertainties identified above are not the only risks we face. Additional risks and uncertainties not presently known to us or that we believe to be immaterial also may adversely affect us. Should any known or unknown risks or uncertainties develop into actual events, or underlying assumptions prove inaccurate, these developments could have material adverse effects our business, financial condition and results of operations. We assume no obligation or duty to update any of the forward-looking statements included in this prospectus supplement and the accompanying prospectus (including the information incorporated by reference) except to the extent required by law.

Table of Contents

Prospectus supplement summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus or the documents incorporated by reference in these documents. See Where You Can Find More Information and Information Incorporated by Reference on pages 1 and 2 of the accompanying prospectus. Unless otherwise indicated or the context otherwise requires, all references in this prospectus supplement to we, us, our or American Greetings refer to American Greetings Corporation and its consolidated subsidiaries.

Our fiscal year ends on February 28 or 29. References to a particular year refer to the fiscal year ending in February of that year. For example, 2006 refers to the year ended February 28, 2006. Historically, our AG Interactive subsidiary was consolidated on a two-month lag corresponding with its fiscal year-end of December 31. In fiscal 2006, AG Interactive changed its year end to coincide with our fiscal year end. Fiscal 2006 includes fourteen months of AG Interactive s operations as a result of the change.

OUR COMPANY

Founded in 1906, we are one of the world s largest manufacturers of social expression products. We operate predominantly in a single industry: the design, manufacture and sale of everyday and seasonal greeting cards and other social expression products. We manufacture and sell greeting cards, gift wrap, party goods, candles, stationery and giftware in North America, including the United States, Canada and Mexico, and throughout the world, primarily in the United Kingdom, Australia, New Zealand and South Africa. In addition, AG Interactive, Inc. (which is now wholly owned by us and was formerly known as AmericanGreetings.com, Inc.) markets e-mail greetings, personalized printable greeting cards and other social expression products through our Web sites www.americangreetings.com, www.bluemountain.com, and www.egreetings.com; co-branded Web sites and on-line services. In 2005, AG Interactive launched its AG Mobile unit, which specializes in the distribution of ringtones for cellular telephones, graphics, games, alerts and other social messaging products and applications to mobile devices. Our subsidiary, Learning Horizons, Inc. distributes supplemental educational products. Design licensing and character licensing are done primarily by our subsidiaries, AGC Inc. and Those Characters From Cleveland, Inc., respectively. The Hatchery, LLC (50% of which is owned by us) also develops and produces original family and children s entertainment for all media. Our A.G. Industries, Inc. subsidiary manufactures custom display fixtures for our products and products of others. As of February 28, 2006, we also owned and operated 503 card and gift shops throughout North America.

Our principal executive office is located at One American Road, Cleveland, Ohio 44144. Our telephone number is (216) 252-7300. Our web site address is www.corporate.americangreetings.com. Information on our web site does not constitute part of this prospectus supplement.

OUR COMPETITIVE STRENGTHS

We believe that the following factors contribute significantly to our ability to compete effectively in the social expressions industry.

- Ø *Leading Market Share*. We have established a leading market position in many of our major businesses. We believe we have approximately a 35% market share in the North American greeting cards market. Our market position in the greeting cards market has been strengthened by both our broad product offering as well as by the size and scope of our distribution network. We also believe we are the number one supplier of online greeting cards with approximately a 50% market share and approximately 2.6 million subscribers to our various electronic greeting card websites. In addition, we believe we are the number one domestic supplier of gift wrap with approximately a 30% market share.

- Ø *Creative Culture with Broad Product Offering.* We have one of the world s largest creative studios with an extensive library of award-winning expressive content. We create thousands of new greeting card designs each year and have successfully leveraged our core competencies in the greeting card business to diversify into other social expression and related product categories, including gift wrap, party goods, calendars, candles, stationery, and educational products. Our ability to provide a full range of greeting cards and other social expression products allows retailers to effectively meet their merchandising goals thereby reinforcing our relationship with major retailers.

- *Strong Retail Partnerships*. We have long-standing relationships with major retailers in the mass retail channels, having supplied our top five retail partners for an average of 38 years. We believe we are one of only two companies out of the many greeting card suppliers that can meet the combination of merchandising, quality, selection, inventory and distribution criteria required by today s largest and best retailers. In addition, as of February 28, 2006, three of our five largest customers were on a scan-based trading model, a business model that is based on providing product to our customers on a consignment basis where we record sales at the time a product is electronically scanned through the retailer s cash register. We believe that scan-based trading solidifies our retailer relationships and provides benefits such as improved point of sale information from our retail customers, contract enhancements and cash management efficiencies. Our strong retail relationships allow us to engage in longer-term contracts that strengthen our ability to compete in the greeting card business.

- *Extensive Distribution Capabilities*. Through our multiple manufacturing and distribution facilities, we deliver thousands of products to tens of thousands of doors on a weekly basis across North America. Our distribution network is supported by our automated distribution system which allows us to replenish retailers shelves promptly following the initiation of a re-order by approximately 16,000 part-time in-store merchandisers, who are responsible for the stocking of pockets in displays and overall display appearance within the retail locations. These capabilities allow us to service our customers in an effective and efficient manner, thereby positioning us as a leading supplier to our retail customers.

- *Diversified Channel Exposure*. Our distribution continues to be primarily through mass retail, which is comprised of three distinct channels: mass merchandisers; chain drug stores; and supermarkets. In addition, we sell our products through a variety of other distribution channels, including card and gift shops, department stores, military post exchanges, variety stores and combo stores (stores combining food, general merchandise and drug items). As of February 28, 2006, we also owned and operated 503 card and gift retail stores, which are primarily located in malls and strip shopping centers, in the US and Canada.

- *Strong Cash Flows*. During fiscal 2006, the majority of our net sales were derived from long-term contractual relationships with our retail partners, providing us with stability in our net sales and, therefore, a more predictable cash flow. We believe our relatively stable revenue in conjunction with our modest working capital needs and low maintenance capital expenditures (estimated to be approximately 2-3% of annual net sales) have resulted in significant free cash flow generation. Since the end of the third quarter of fiscal 2002, we have reduced net debt (which we define as total debt less cash, cash equivalents and short-term investments) by over $900 million.

OUR BUSINESS STRATEGY

Our objective is to continue to expand our position as a leading creator, manufacturer and distributor of social expression products by generating innovative products and services to meet the consumers needs to connect, express and celebrate. Our key strategic initiatives are to:

- *Grow our Greeting Cards Business.* We will focus our resources on our core greeting card business. We seek to lead the category through differentiation and thereby gain profitable market share, primarily by concentrating our efforts to:

  Enhance our Product Portfolio. We will continue to leverage one of the world s largest creative studios and digital libraries of award-winning expressive content to create a full range of fresh and new greeting card designs each year.

Table of Contents

Bring Best in Class Merchandising to the Point of Sale. We will seek to improve the merchandising of our products to enrich the consumers shopping experience. This represents the next step in the process we have been following the past few years as we are working to enhance our product development, sourcing and distribution capabilities while becoming a more consumer driven organization. We currently expect to spend at least $100 million over the next several years on this Win at Cards initiative, with the majority of the expenses occurring during fiscal 2007. We expect approximately one-third of this amount to be related to converting additional customers to the scan-based trading business model, with the remainder associated with implementing creative initiatives, process changes, reducing certain retailers inventory in order to flow future new product changes more rapidly and improving merchandising, including new and enhanced display fixtures. The actual amount and timing of the expenditures will depend on the success of our Win at Cards initiative and the schedules of our retail partners.

Ø *Focus on Supply Chain Management.* We will seek to improve our business by continuing our focus on supply chain transformation, an initiative designed to improve the way we develop, manufacture, distribute and service our products. We will seek to strengthen our greeting card business by creating cross functional teams to ensure flawless supply chain execution, improving our measurement and tracking metrics and ensuring a flexible and nimble supply chain capable of responding to market demands. In addition, we will continue to concentrate on ways to create sustainable cost savings by, among other things, continuously balancing the mix of our own manufacturing and outsourcing production and reducing overhead and fixed costs.

Ø *Enhance the Profitability of our Retail Operations Unit.* We will seek to enhance the profitability of our Retail Operations unit by continuously seeking new store merchandising concepts. We expect the new store concepts will be able to effectively compete against other independent retail stores. To improve our competitive position, we plan to improve products and the in-store assortment to emphasize greeting cards. In addition, we will also reduce costs and rationalize our store portfolio in order to close under-performing stores. To this end, over the last 30 months, we have closed 129 stores to enhance our store portfolio and to improve the profitability of our retail operations unit.

Ø *Evolve our Product Line Beyond the Core Greeting Card Business.* We will seek to extend our existing competencies and evolve our product line beyond the core greeting card business by leveraging our creative capabilities. We expect to evolve beyond cards by growing organically and by acquiring businesses or forming strategic partnerships, including investments that build on our intellectual property assets.

RECENT DEVELOPMENTS

On April 4, 2006, we replaced our existing credit facility with a new $650.0 million credit facility. The new credit facility includes a $350.0 million revolving credit facility and a $300.0 million term loan. On April 6, 2006, we commenced an offering to exchange our outstanding 7.00% Convertible Subordinated Notes due July 15, 2006, for our new 7.00% Convertible Subordinated Notes due July 15, 2006, which exchange we refer to in this prospectus supplement as the **Exchange.**

In addition, on April 6, 2006, we commenced an offer to purchase and a consent solicitation related to our 6.10% senior notes due August 1, 2028. There is approximately $300.0 million in aggregate principal amount of the 6.10% senior notes outstanding. In connection with the offer to purchase, we also solicited the consent of holders to eliminate certain covenants in the existing indenture. The consummation of our offer to purchase the 6.10% senior notes is conditioned upon the satisfaction, or waiver by us, of certain conditions, including the receipt of sufficient gross proceeds from this offering and the consent of 66 $^{2}/_{3}$% of the principal amount of the existing notes to a proposed amendment to the indenture governing the 6.10% senior notes. On April 20, 2006, we

Table of Contents

announced that we had received sufficient consents to amend the indenture governing the 6.10% senior notes. We intend to use the net proceeds of this offering together with available cash and cash equivalents to fund the purchase of and pay amounts due with respect to the offer to purchase and consent solicitation for the 6.10% senior notes. As of May 10, 2006, holders of approximately 92.4% of the aggregate amount of outstanding principal of the 6.10% senior notes have tendered their notes pursuant to the offer to purchase. The expiration date for the offer to purchase is currently set at May 24, 2006, and additional holders may tender or withdraw their notes prior to the expiration date.

The repurchase of all of our outstanding 6.10% senior notes pursuant to the tender offer and payment of the related consent payment with the proceeds from this offering and available cash and cash equivalents, together with the amendments to the related indenture, are referred to in this prospectus supplement as the **Refinancing.** The replacement of our existing credit agreement with a new $650.0 million credit facility, together with the consummation of the Exchange and the Refinancing, are referred to in this prospectus supplement as the **Capital Transactions.**

Table of Contents

The offering

Issuer	American Greetings Corporation
The Notes	$200,000,000 aggregate principal amount of % senior notes due 2016.
Maturity	Unless redeemed prior to maturity as described below, the notes will mature on , 2016.
Payment of Interest	Interest on the notes will be payable semi-annually in arrears on and of each year, commencing , 2006.
Ranking	The notes will be our general unsecured obligations. The notes will rank equally with our other senior unsecured indebtedness and senior in right of payment to all of our obligations that are, by their terms, expressly subordinated in right of payment to the notes. The notes will be effectively subordinated to all of our secured indebtedness, including borrowings under our new credit facility, to the extent of the value of the assets securing such indebtedness. The notes will be structurally subordinated to all existing and future obligations of our subsidiaries that do not guarantee the notes. On the issue date, none of our subsidiaries will guarantee the notes.

As of February 28, 2006, assuming this offering and the Capital Transactions had occurred on such date, including the application of the net proceeds therefrom as set forth under Use of proceeds, we would have had total unsecured indebtedness of approximately $376.4 million. In addition, as of such date and after giving effect to such Capital Transactions, we would have had approximately $36.8 million in letters of credit outstanding and approximately $613.2 million of additional secured borrowing availability under our new credit facilities and our subsidiaries would have had approximately $82.3 million of indebtedness and other liabilities, including trade payables.

Optional Redemption	We may redeem the notes, in whole or in part, at our option at any time on or after , 2011, at the redemption prices listed under Description of the Notes Optional Redemption, plus accrued and unpaid interest, if any, to the date of redemption.

In addition, on or before , 2009, we may, at our option, redeem up to 35% of the aggregate principal amount of notes issued under the indenture with the net cash proceeds of one or more Qualified Equity Offerings at a redemption price equal to % of the face amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption; *provided* that (1) at least 65% of the aggregate principal amount of notes issued under the indenture remains outstanding immediately after the occurrence of such redemption and (2) the redemption occurs within 90 days of the date of the closing of any such Qualified Equity Offering.

Table of Contents

We may also redeem the notes, in whole or in part, at our option at any time prior to , 2011, at a price equal to 100% of their principal amount plus a make-whole premium, together with accrued but unpaid interest, if any, to the date of redemption.

Change of Control	Upon the occurrence of any change of control (as defined in the indenture), each holder of notes will have the right to require us to purchase all of that holder s notes for a cash price equal to 101% of the principal amount of the notes to be purchased, plus accrued and unpaid interest, if any, to the date of purchase.
Certain Covenants	The indenture governing the notes will contain certain covenants that, among other things, will limit our ability and the ability of certain of our restricted subsidiaries to: incur additional debt; declare or pay dividends, make distributions on or repurchase or redeem our capital stock; make certain investments; enter in agreements affecting the ability of our restricted subsidiaries to pay dividends; enter into transactions with affiliates; grant or permit liens; sell assets; enter in sale and leaseback transactions; and consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important detailed exceptions and qualifications, which are described under Description of the Notes, including but not limited to exceptions whereby some of these covenants will cease to apply before the notes mature if the notes achieve investment grade ratings from either or both of Standard & Poor s Ratings Services and Moody s Investors Service Inc.
Use of Proceeds	

	The net proceeds from the offering of notes are expected to be approximately $ million after deducting the underwriting discount and estimated expenses. We will use the net proceeds of this offering to repurchase our 6.10% senior notes due August 1, 2028. See Use of proceeds in this prospectus supplement.
Risk Factors	See Risk factors beginning on page S-9 for discussion of factors you should carefully consider before deciding to invest in the notes.

Table of Contents

Summary historical consolidated financial data

The following summary historical consolidated financial data for the years ended February 28, 2002, February 28, 2003, February 29, 2004, February 28, 2005 and February 28, 2006 should be read in conjunction with this prospectus supplement and our financial statements and the related notes which are included in our Annual Report on Form 10-K for the year ended February 28, 2006. See Where You Can Find More Information in the accompanying prospectus. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

	Fiscal Year Ended February 28 or 29				
	2002	2003	2004	2005	2006
	(Dollars in thousands)				
Statement of Operations:[1]					
Net sales	$ 1,857,134	$ 1,923,483	$ 1,937,540	$ 1,883,367	$ 1,885,701
Material, labor and other production costs	902,101	847,383	904,552	895,110	850,158
Selling, distribution and marketing	667,391	603,291	629,663	648,120	637,496
Administrative and general	306,565	233,134	217,381	249,984	245,608
Goodwill impairment					43,153
Restructure charges	55,819				
Interest expense	78,433	78,972	85,690	79,397	35,124
Other expense (income) net	50,272	(25,458)	(58,267)	(96,069)	(64,773)
(Loss) income from continuing operations before income taxes	(203,447)	186,161	158,521	106,825	138,935
Income tax (benefit) expense	(77,291)	74,327	61,862	37,328	48,810
(Loss) income from continuing operations	(126,156)	111,834	96,659	69,497	90,125
Income (loss) from discontinued operations, net of tax	3,846	9,272	8,011	25,782	(5,749)
Net (loss) income	$ (122,310)	$ 121,106	$ 104,670	$ 95,279	$ 84,376
Balance Sheet Data (end of period):[1]					
Cash and cash equivalents, including short-term investments	$ 100,974	$ 208,259	$ 284,743	$ 456,539	$ 422,353
Working capital	379,233	564,030	782,181	804,234	578,102
Total assets	2,607,215	2,574,147	2,475,535	2,524,207	2,218,962
Total debt	864,341	859,631	665,835	486,087	475,308
Total net debt[2]	763,367	651,372	381,092	29,548	52,955
Total liabilities	1,704,796	1,496,683	1,207,995	1,137,427	998,937
Cash Flow Data:[1]					
Cash flows provided by operating activities			$ 284,151	$ 366,218	$ 277,396
Cash flows used by investing activities			(32,106)	(196,387)	(61,151)
Purchase of treasury shares			(828)	(24,080)	(244,642)
Cash flows used by financing activities			(192,009)	(208,647)	(249,540)
Other Data:[1]					
EBITDA[3]	$ (45,872)	$ 325,184	$ 303,121	$ 242,514	$ 228,281
Adjusted EBITDA[3]					271,434
Capital expenditures	22,295	27,484	31,541	47,243	