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AMERICAN GREETINGS CORP
Form 8-K/A
June 01, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
AMENDMENT NO. 1 TO CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report
(Date of earliest event reported) March 19, 2001

AMERICAN GREETINGS CORPORATION

(Exact name of registrant as specified in Charter)

1-13859

Commission File Number

Ohio 34-0065325

(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

One American Road, Cleveland, Ohio 44144

(Address of principal executive Offices) (Zip Code)

(216) 252-7300

Registrant's telephone number, including area code

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

This Current Report on Form 8-K/A (Amendment No. 1) amends the Current Report on Form 8-K previously filed with the Commission on April 3, 2001 relating to the acquisition by American Greetings Corporation, an Ohio corporation ("American Greetings") through its subsidiary AmericanGreetings.com, Inc., of Egreetings Network, Inc., a Delaware corporation ("Egreetings"), on March 19, 2001. The following documents are included as part of this report:

(a) Financial Statements of Business Acquired

The audited financial statements of Egreetings Network, Inc. as of and for the year ended December 31, 2000, together with the report of independent auditors are incorporated herein by reference from Exhibit 99.2 of Egreetings Network, Inc.'s Form 8-K received by the Commission on March 16, 2001, File Number 000-28479.

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(b) Unaudited Pro Forma Financial Information

The accompanying unaudited pro forma financial information has been prepared to give effect to the acquisition of Egreetings by American Greetings. The unaudited pro forma combined statement of operations for the year ended February 28, 2001 gives effect to the acquisition as if the acquisition had occurred on March 1, 2000. The unaudited pro forma combined statement of operations presented for the year ended February 28, 2001 includes the historical financial results of American Greetings for the year ended February 28, 2001 and of Egreetings for the year ended December 31, 2000. Synergies and expected cost savings from the integration of Egreetings with American Greetings' existing businesses or any additional profitability resulting from the application of American Greetings revenue enhancement measures have not been included in the unaudited pro forma combined statement of operations.

The unaudited pro forma combined statement of financial position as of February 28, 2001 gives effect to the acquisition as if the acquisition had occurred on that date. The unaudited pro forma combined statement of financial position includes the balance sheet of American Greetings as of February 28, 2001 and the balance sheet of Egreetings as of December 31, 2000.

The unaudited pro forma financial information includes the adjustments that have a continuing impact to the combined company to reflect the transaction using purchase accounting. The pro forma adjustments are described in the notes to the unaudited pro forma financial information. The adjustments are based upon preliminary information and certain management judgments and estimates. The purchase accounting adjustments are subject to revisions which will be reflected in future periods. Revisions, if any, are not expected to have a material effect on the statement of operations or financial position of American Greetings. Certain reclassifications have been reflected to conform Egreetings' financial information to American Greetings' presentation.

The unaudited pro forma financial information and accompanying notes are presented for illustrative purposes only and do not purport to be indicative of and should not be relied upon as indicative of the financial position or operating results which may occur in the future, or that would have occurred if the acquisition had been consummated on March 1, 2000. The unaudited pro forma financial information should be read in conjunction with American Greetings' consolidated financial statements and notes thereto and management's discussion and analysis for the year ended February 28, 2001 filed as part of American Greetings' Form 10-K and Egreetings' financial statements and notes thereto for the year ended December 31, 2000 filed as part of Egreetings' Form 8-K.

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Unaudited Pro Forma Combined Statement of Operations
For the Year Ended February 28, 2001
Thousands of dollars except per share amounts

Historical		
American Greetings Corporation	Egreetings Network, Inc.	P Ad

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Net sales	\$2,518,814	\$10,437
Costs and expenses:		
Material, labor and other production costs	999,271	11,609
Selling, distribution and marketing	1,068,543	16,438
Administrative and general	280,202	27,121
Non-recurring items	-	24,856
Interest expense	55,387	747
Other expense (income) -net	16,778	(3,763)
	-----	-----
	2,420,181	77,008
	-----	-----
Income (loss) before income taxes and cumulative effect of accounting change	98,633	(66,571)
Income tax provision (benefit)	191,306	-
	-----	-----
Net (loss) income before cumulative effect of accounting change	\$ (92,673)	\$ (66,571)
	=====	=====
Loss per share and loss per share assuming dilution before cumulative effect of accounting change	\$ (1.46)	
Weighted average number of shares outstanding for loss per share and loss per share assuming dilution	63,646,405	

See notes to Unaudited Pro Forma Combined Statement of Operations

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Notes to Unaudited Pro Forma Combined Statement of Operations

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- (1) Elimination of royalties paid by Egreetings to American Greetings for online card content.
 - (2) Costs related to marketing are included in selling, distribution and marketing by American Greetings. Certain of these costs are classified as product costs by Egreetings. This adjustment conforms the classification of these costs to that of American Greetings.
 - (3) Costs related to bad debt expense are included in administrative and general expenses by American Greetings. These costs are classified as selling costs by Egreetings. This adjustment conforms the

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classification of these costs to that of American Greetings.

- (4) Reclassification of depreciation expense as reported by Egreetings to conform the classification of these costs to that of American Greetings
- (5) Represents reduction of depreciation expense reflecting write-down of property, plant and equipment to fair value.
- (6) Reclassification of occupancy costs as reported by Egreetings to conform the classification of these costs to that of American Greetings.
- (7) Costs related to Internet web monitoring and maintenance are included in material, labor and other production costs by American Greetings. These costs are classified as administrative and general costs by Egreetings. This adjustment conforms the classification of these costs to that of American Greetings.
- (8) Income tax benefit at statutory rate of 37% for loss incurred by Egreetings (but for which no benefit was available to Egreetings due to its having no operating profits in any of its periods), including pro forma adjustments.

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Unaudited Pro Forma Combined Statement of Financial Position
February 28, 2001
Thousands of dollars except per share amounts

ASSETS	Historical		Pro Forma Adjustments
	American Greetings Corporation	Egreetings Network, Inc.	
CURRENT ASSETS			
Cash and cash equivalents	\$ 51,691	\$ 3,841	\$ (24,552) (3)
Marketable securities		36,535	43 (1)
Trade accounts receivable, less allowances for sales returns and for doubtful accounts	387,534	2,635	(88) (1)
Inventories	365,221	59	(54) (1)
Deferred and refundable income taxes	190,241		10,982 (2)
Prepaid expenses and other	211,049	802	(464) (1)
Total current assets	1,205,736	43,872	(14,133)
GOODWILL	229,802		
OTHER ASSETS	799,348	825	(651) (4)
PROPERTY, PLANT AND EQUIPMENT-NET	477,188	10,365	(5,757) (9)
	477,188	10,365	(7,826) (5)

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	\$ 2,712,074	\$ 55,062	\$ (28,367)
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Debt due within one year	\$ 378,904	\$ 1,994	
Accounts payable and accrued liabilities	304,063	3,467	\$ (167) (1)
			8,088 (6)
Accrued compensation and benefits	89,936	1,807	(40) (1)
Dividends payable	12,732		
Income taxes	192,936		
Other current liabilities	132,710	1,612	(56) (1)
	-----	-----	-----
Total current liabilities	1,111,281	8,880	7,825
LONG-TERM DEBT	380,124	1,759	(171) (1)
OTHER LIABILITIES	146,187		
DEFERRED INCOME TAXES	27,292		
SHAREHOLDERS' EQUITY			
Common shares - par value \$1			
Class A	58,860	160,971	(160,971) (7)
Class B	4,629		
Capital in excess of par value	286,054	(266)	266 (7)
Treasury stock	(447,127)		
Accumulated other comprehensive loss	(58,179)		
Retained earnings	1,202,953	(116,282)	116,282 (7)
			8,402 (8)
	-----	-----	-----
Total shareholders' equity	1,047,190	44,423	(36,021)
	-----	-----	-----
	\$ 2,712,074	\$ 55,062	\$ (28,367)
	=====	=====	=====

See Notes to Unaudited Pro Forma Combined Statement of Financial Position

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Notes to Unaudited Pro Forma Combined Statement of Financial Position

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- (1) Certain items included in Egreetings' balance sheet have been adjusted to reflect their fair value.
 - (2) Represents deferred tax asset established in purchase accounting.
 - (3) Represents net cash paid for acquisition of Egreetings shares.
 - (4) Write off deferred financing costs, security deposits and other assets.
 - (5) Net write down of leasehold improvements, furniture and fixtures, software and hardware computer equipment, net of related accumulated depreciation, to estimated fair values.
 - (6) Represents accruals for costs related to the assumptions and cancellation of facility leases and the related exit costs for the closure of those facilities and the related termination of employees in connection with

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redundant activities and operations.

- (7) Represents the elimination of the shareholders' equity related to Egreetings.
- (8) Difference in acquisition date net book value as compared to December 31, 2000 net book value.
- (9) Elimination of book value of Egreetings shares held by American Greetings at February 28, 2001.

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(c) Exhibits:

		Page Number

Exhibit 23.1	Consent of Ernst & Young LLP	A-1

SIGNATURE

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 hereunto duly authorized.

AMERICAN GREETINGS CORPORATION

By: /s/ Joseph B. Cipollone

Joseph B. Cipollone
Vice President-Controller

June 1, 2001