Citibank **Name**___________________________________

Financial Statement Analysis/Applied Corporate Finance

Barry M Frohlinger

INSTRUCTIONS:

1. This examination consists of two parts
   - Questions totaling 100 points [of equal weight]
   - set of financial statements for American Greetings

   ➢ Place your name on the first page of each part.

2. Place all answers in spaces following questions. Write legibly.
   Do not write on the backs of the pages.

3. Always identify **specific accounts & amounts**
   ➢ use the Company's account titles.

4. If you can't determine an amount, show $X and explain in words.

5. Clearly label each figure (if "plug", say so).

6. Round all dollar amounts and show calculations.

7. **Support** your conclusions.

8. **Time**: You will have FOUR hours to answer the questions. Allocate your time wisely.
   Do not devote an inordinate time to any question.

9. When completed, return both (i) question pages and (ii) set of financial statements.

- American Greetings is the world's largest publicly owned creator, manufacturer and distributor of greeting cards.

REQUIRED: [dollars in thousands]

> You should assume that the amounts disclosed in all footnotes are significant; do ***not*** ignore possible adjustments or consequences just because the amounts are immaterial.

You have the following information about American Greetings [AG]:

A.	**Current beta**	**=**	**.96**
B.	**Risk free rate on government securities**	**=**	**5.89%**
C.	**Equity risk premium**	**=**	**5.50%**
D.	**AG's current cost of debt**	**=**	**7.55% [pretax]**
E.	**Tax rate**	**=**	**35%**
F.	**Current Share price per share**	**=**	**$22**

You have the following market comparable information:

A.	**Enterprise Value/EBITDA**	**=**	**6.6**
B.	**Enterprise Value/EBIT**	**=**	**9.8**
C.	**Enterprise Value/Sales**	**=**	**.73**
D.	**P/E**	**=**	**17.1**
E.	**Market/Book Equity**	**=**	**1.2**

The company assumes the following for next year [fiscal year ended Feb 29, 2000]:

A.	**Growth rate of net sales**	**= 3%**
B.	**EBITDA margin [based upon sales]**	**= 19.0%**
C.	**Depreciation and Amortization**	**= $70.0 million**
D.	**Capital Spending**	**= $ 65.0 million**
E.	**Statutory Tax Rate**	**= 35%**

Question 1. Analyze the level and trend in profits
Question 2. Analyze the level and trend in Balance Sheet Management
Question 3. Analyze the level and trend in Cash Flow
Question 4. Analyze the level and trend in Liquidity
Question 5. Analyze the level and trend in Capital Structure & Long Term Solvency
Question 6. Analyze the level and trend in Balance Sheet Management
Question 7. Calculate the Weighted Average Cost of Capital [WACC] for American Greetings at February 28, 1999. Complete the following table and then insert the WACC into the solution box at the bottom:

	Amount	**Cost**
Debt		
Equity		

WACC ==============➔ ________________________________.

Question 8. Calculation of Enterprise Value using multiples.

Calculate the Enterprise Value based upon the following multiples:

1- Multiple of EBITDA
2- Multiple of EBIT
3- Multiple of Revenue

Complete the following table

[for the year ended feb 28, 1999]	**Amount**	**Multiple**	**Enterprise Value**
Revenue			
EBIT			
EBITDA			

Question 9. Calculation of Enterprise Value using market survey.
Calculate the Enterprise Value of American Greetings using market survey information [i.e.-the market value of the capital].

Question 10. Discounted Cash Flow.

a. Calculate the Free Cash Flow to the Firm [FCFF] for the next year [ended February 29, 2000]. This calculation is for only ONE year.

b. Calculate the Present Value [the value today] of the FCFF for the next year.

end of examination questions.

NAME ________________________________

American Greetings Corporation

1999 Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

Years ended February 28, 1999, 1998 and 1997
Thousands of dollars except per share amounts

	1999	1998	1997
Net sales	$ 2,205,706	$ 2,198,765	$ 2,161,089
Costs and expenses:			
Material, labor and other production costs	757,080	790,688	805,124
Selling, distribution and marketing	894,323	876,822	839,916
Administrative and general	228,183	233,457	234,838
Non-recurring items	13,925	(22,125)	--
Interest	29,326	22,992	30,749
Other expense (income)	1,272	4,494	(3,868)
	1,924,109	1,906,328	1,906,759
Income before income taxes	281,597	292,437	254,330
Income taxes	101,375	102,353	87,235
Net income	$ 180,222	$ 190,084	$ 167,095
Earnings per share	$ 2.56	$ 2.58	$ 2.23
Earnings per share - assuming dilution	$ 2.53	$ 2.55	$ 2.22
Average number of shares outstanding	70,345,980	73,708,100	74,818,960

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

February 28, 1999 and 1998
Thousands of dollars

ASSETS	1999	1998
CURRENT ASSETS		
Cash and cash equivalents	$ 144,555	$ 47,623
Trade accounts receivable, less allowances for sales returns of $132,103 ($135,584 in 1998) and for doubtful accounts of $15,583 ($15,661 in 1998)	390,740	373,594
Inventories	251,289	271,205
Deferred income taxes	133,092	120,507
Prepaid expenses and other	226,142	210,316
Total current assets	1,145,818	1,023,245
GOODWILL	135,516	84,741
OTHER ASSETS	703,188	605,846
PROPERTY, PLANT AND EQUIPMENT - NET	434,806	447,632
	$2,419,328	$2,161,464

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

February 28, 1999 and 1998
Thousands of dollars

LIABILITIES AND SHAREHOLDERS' EQUITY	1999	1998
CURRENT LIABILITIES		
Debt due within one year	$ 17,777	$ 199,640
Accounts payable and accrued liabilities	175,366	145,554
Accrued compensation and benefits	89,284	84,997
Dividends payable	26,337	12,813
Income taxes	27,165	22,536
Other current liabilities	81,745	51,676
Total current liabilities	417,674	517,216
LONG-TERM DEBT	463,246	148,800
OTHER LIABILITIES	142,045	107,509
DEFERRED INCOME TAXES	49,752	42,722
SHAREHOLDERS' EQUITY Common shares - par value $1:		
Class A - 71,717,174 shares issued less 7,283,846 Treasury shares in 1999 and 71,321,420 shares issued less 4,417,399 Treasury shares in 1998	64,433	66,904
Class B - 6,066,096 shares issued less 1,405,711 Treasury shares in 1999 and 6,066,096 shares issued less 1,787,665 Treasury shares in 1998	4,660	4,278
Capital in excess of par value	304,086	290,820
Treasury stock	(320,492)	(200,380)
Accumulated other comprehensive loss	(23,565)	(23,437)
Retained earnings	1,317,489	1,207,032
Total shareholders' equity	1,346,611	1,345,217
	$ 2,419,328	$ 2,161,464

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended February 28, 1999, 1998 and 1997

		Thousands of dollars 1999	1998	1997
OPERATING ACTIVITIES:				
Net income	1	$ 180,222	$ 190,084	$ 167,095
Adjustments to reconcile to net cash provided by operating activities:				
Non-recurring items	2	5,544	(22,125)	--
Depreciation	3	67,049	65,926	64,566
Deferred income taxes	4	(8,940)	(20,186)	294
Changes in operating assets and liabilities, net of effects from divestiture and acquisition:				
Increase in trade accounts receivable	5	(10,450)	(20,567)	(25,389)
Decrease in inventories	6	17,809	5,915	32,371
Increase in other current assets	7	(3,271)	(4,232)	(2,050)
Increase in deferred costs - net	8	(65,588)	(15,043)	(93,961)
Increase in accounts payable and other liab.	9	24,211	10,402	5,877
Other - net	10	4,682	5,018	5,100
Cash Provided by Operating Activities	11	211,268	195,192	153,903
INVESTING ACTIVITIES:				
Business (acquisition) divestiture	12	(52,957)	82,000	--
Property, plant and equipment additions	13	(60,950)	(67,898)	(92,895)
Proceeds from sale of fixed assets	14	2,522	2,148	2,579
Investment in corporate-owned life insurance	15	18,413	(6,358)	(8,454)
Other	16	8,040	2,057	(6,283)
Cash (Used) Provided by Investing Activities	17	(84,932)	11,949	(105,053)
FINANCING ACTIVITIES:				
Increase in long-term debt	18	317,096	9,430	8,451
Reduction of long-term debt	19	(22,669)	(6,988)	(12,232)
(Decrease) increase in short-term debt	20	(158,657)	8,049	4,869
Sale of stock under benefit plans	21	18,981	16,915	6,997
Purchase of treasury shares	22	(131,745)	(170,015)	(1,863)
Dividends to shareholders	23	(52,410)	(51,959)	(50,152)
Cash Used by Financing Activities	24	(29,404)	(194,568)	(43,930)
INCREASE IN CASH AND EQUIVALENTS	25	96,932	12,573	4,920
Cash and Equivalents at Beginning of Year		47,623	35,050	30,130
Cash and Equivalents at End of Year		$ 144,555	$ 47,623	$ 35,050

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Years ended February 28, 1999, 1998 and 1997
Thousands of dollars except per share amounts

	Common Shares Class A	Common Shares Class B	Capital in Excess of Par Value	Treasury Stock	Shares Held In Trust
BALANCE MARCH 1, 1996	$70,148	$4,560	$265,387	$ (32,835)	$ -
Net income					
Other comprehensive income:					
Foreign currency translation adjustment					
Comprehensive income					
Cash dividends - $0.67 per share					
Exchange of shares	131	(131)			
Sale of shares under benefit plans, including tax benefits	323	44	6,872	587	
Purchase of treasury shares	(8)	(85)		(2,609)	
Sale of treasury shares			3	7	
BALANCE FEBRUARY 28, 1997	70,594	4,388	272,262	(34,850)	-
Net income					
Other comprehensive income:					
Foreign currency translation adjustment					
Comprehensive income					
Cash dividends - $0.71 per share					
Exchange of shares	107	(107)			
Sale of shares under benefit plans, including tax benefits	713	33	18,386	438	
Purchase of treasury shares	(4,510)	(45)		(166,105)	
Sale of treasury shares		9	172	137	
BALANCE FEBRUARY 28, 1998	66,904	4,278	290,820	(200,380)	-
Net income					
Other comprehensive income:					
Foreign currency translation adjustment					
Unrealized gain on available-for-sale securities (net of tax)					
Comprehensive income					
Issuance of shares to trust					(20,480)
Cash dividends - $0.94 per share					
Exchange of shares	40	(40)			
Sale of shares under benefit plans, including tax benefits	395	574	13,033	8,403	
Purchase of treasury shares	(2,906)	(162)		(128,677)	
Sale of treasury shares		10	233	162	
BALANCE FEBRUARY 28, 1999	$64,433	$4,660	$304,086	$(320,492)	$(20,480)

	Deferred Compensation Plans	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE MARCH 1, 1996	$ -	$(24,202)	$ 951,964	$1,235,022
Net income			167,095	167,095
Other comprehensive income:				
Foreign currency translation adjustment		4,556		4,556
Comprehensive income				171,651
Cash dividends - $0.67 per share			(50,152)	(50,152)
Exchange of shares				
Sale of shares under benefit plans, including tax benefits				7,826
Purchase of treasury shares				(2,702)
Sale of treasury shares				10
BALANCE FEBRUARY 28, 1997	-	(19,646)	1,068,907	1,361,655
Net income			190,084	190,084
Other comprehensive income:				
Foreign currency translation adjustment		(3,791)		(3,791)
Comprehensive income				186,293
Cash dividends - $0.71 per share			(51,959)	(51,959)
Exchange of shares				
Sale of shares under benefit plans, including tax benefits				19,570
Purchase of treasury shares				(170,660)
Sale of treasury shares				318
BALANCE FEBRUARY 28, 1998	-	(23,437)	1,207,032	1,345,217
Net income			180,222	180,222
Other comprehensive income:				
Foreign currency translation adjustment		(6,819)		(6,819)
Unrealized gain on available-for-sale securities (net of tax)		6,691		6,691
Comprehensive income				180,094
Issuance of shares to trust	20,480			-
Cash dividends - $0.94 per share			(65,935)	(65,935)
Exchange of shares				
Sale of shares under benefit plans, including tax benefits			(3,830)	18,575
Purchase of treasury shares				(131,745)
Sale of treasury shares				405
BALANCE FEBRUARY 28, 1999	$20,480	$(23,565)	$1,317,489	$1,346,611

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended February 28, 1999, 1998 and 1997
Thousands of dollars except per share amounts

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Consolidation: The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany accounts and transactions are eliminated.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform with the 1999 presentation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents: The Corporation considers all highly liquid instruments purchased with a maturity of less than three months to be cash equivalents.

Financial Instruments: The carrying value of the Corporation's financial instruments approximate their fair market values.

Concentration of Credit Risks: The Corporation sells primarily to customers in the retail trade, including those in the mass merchandiser, drug store, supermarket and other channels of distribution. These customers are located throughout the United States, Canada, the United Kingdom, Australia, New Zealand, France, Mexico and South Africa. Sales to the Corporation's five largest customers accounted for approximately 32% of net sales in 1999.

The Corporation conducts business based on periodic evaluations of its customers' financial condition and generally does not require collateral. While the competitiveness of the retail industry presents an inherent uncertainty, the Corporation does not believe a significant risk of loss from a concentration of credit exists.

Inventories: Finished products, work in process and raw material inventories are carried at the lower of cost or market. The last-in, first-out (LIFO) cost method is principally used for the majority of the domestic inventories. The foreign subsidiaries principally use the first-in, first-out method. Display material and factory supplies are carried at average cost.

Investment in Life Insurance: The Corporation's investment in corporate-owned life insurance policies is recorded in other assets net of policy loans. The net life insurance expense, including interest expense, is included in administrative and general expenses in the Consolidated Statement of Income. The related interest expense, which approximates amounts paid, was $54,670, $59,642 and $67,788 in 1999, 1998 and 1997, respectively.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Goodwill: Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired and is amortized on a straight-line basis over a period of 40 years for goodwill associated with the social expression product segment and 15 years for goodwill associated with all other businesses. Accumulated amortization of goodwill at February 28, 1999 and 1998 was $20,851 and $14,407, respectively. Goodwill is reviewed annually for impairment in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of" (SFAS No. 121).

Property and Depreciation: Property, plant and equipment are carried at cost. Depreciation and amortization of buildings, equipment and fixtures is computed principally by the straight-line method over the useful lives of the various assets. The cost of buildings is depreciated over 25 to 40 years and equipment and fixtures over 3 to 20 years. Property, plant and equipment are reviewed annually for impairment in accordance with SFAS No. 121.

Revenue Recognition: Sales and related costs are recorded by the Corporation upon shipment of products to non-related retailers and upon the sale of products at Corporation-owned retail locations. Seasonal cards are sold with the right of return on unsold merchandise. The Corporation provides for estimated returns of seasonal cards when those products are shipped to non-related retailers.

Advertising Expense: Advertising costs are expensed as incurred. Advertising expense was $67,369, $61,062 and $58,794 in 1999, 1998 and 1997, respectively.

Other Expense (Income): Other expense (income) consists primarily of costs to convert the Corporation's computer systems to be Year 2000 compliant, amortization of goodwill, foreign exchange gains and losses, gains and losses on asset disposals, and royalty and interest income.

Income Taxes: Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes.

Stock-Based Compensation: The Corporation has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. Because the exercise price of the Corporation's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Corporation has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation".

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounting Standards Changes: In 1999, the Corporation adopted the following Statements of Financial Accounting Standards ("SFAS"):

- **SFAS No. 130, "Reporting Comprehensive Income", which requires the components of comprehensive income to be disclosed in the financial statements.**
- **SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which requires disclosures of certain information about the Corporation's operating segments on a basis consistent with the way in which the Corporation is managed and operated.**
- **SFAS No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits", which revises disclosures about pensions and other postretirement benefits and requires presentation of information about such plans in a standardized format.**

Adoption of these new standards required that the Corporation reclassify prior years' information and make certain new disclosures in the notes to the consolidated statements.

New Pronouncements: In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued. This standard, which establishes new accounting and reporting standards for derivative financial instruments, must be adopted no later than 2001. The Corporation is currently analyzing the effect of this standard and does not expect it to have a material effect on the Corporation's consolidated financial position, results of operations or cash flows.

NOTE B - NON-RECURRING ITEMS

During the quarter ended November 30, 1998, the Corporation recorded a restructuring charge of $13,925 ($8,342 net of tax, or earnings per share of $0.12). The primary components of this charge were employee severance and termination benefit costs associated with a headcount reduction of approximately 300 management, salaried and clerical positions. The balance of the charge is comprised of costs associated with exiting the Corporation's kiosk business and lease exit costs due to the closure of certain sales offices. At February 28, 1999, $5,544 was included in accounts payable and accrued liabilities, representing the portion of the restructuring charge not yet expended.

On August 12, 1997, the Corporation divested the net assets of two subsidiaries, Acme Frame Products, Inc., a manufacturer and distributor of picture frames, and Wilhold, Inc., a manufacturer and distributor of hair accessories. As a result of the transaction, the Corporation recorded a one-time pre-tax gain of $22,125 ($13,192 net of tax, or earnings per share of $0.18).

NOTE C - EARNINGS PER SHARE

The following table sets forth the computation of earnings per share and earnings per share - assuming dilution:

	1999	1998	1997
Numerator:			
Net income, earnings per share and earnings per share - assuming dilution	$180,222	$190,084	$167,095
Denominator (thousands):			
Denominator for earnings per share - weighted average shares outstanding	70,346	73,708	74,819
Effect of dilutive securities - stock options	758	838	507
Denominator for earnings per share - assuming dilution - adjusted weighted average shares outstanding	71,104	74,546	75,326
Earnings per share	$ 2.56	$ 2.58	$ 2.23
Earnings per share - assuming dilution	$ 2.53	$ 2.55	$ 2.22

NOTE D - COMPREHENSIVE INCOME

In 1999, the Corporation adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Corporation's net income or shareholders' equity. SFAS No. 130 requires other comprehensive income to include foreign currency translation adjustments and unrealized gains on available-for-sale securities, which prior to adoption were reported separately in shareholders' equity.

Accumulated other comprehensive income (loss) consists of the following components:

	Foreign Currency Translation Adjustments	Unrealized Gains on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss)
Balance at March 1, 1996	$(24,202)		$(24,202)
Other comprehensive income	4,556		4,556
Balance at February 28, 1997	(19,646)		(19,646)
Other comprehensive loss	(3,791)		(3,791)
Balance at February 28, 1998	(23,437)		(23,437)
Other comprehensive income (loss)	(6,819)	$6,691	(128)
Balance at February 28, 1999	$(30,256)	$6,691	$(23,565)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE E - INVENTORIES

	1999	1998
Raw material	$ 37,745	$ 42,641
Work in process	25,523	37,204
Finished products	229,220	240,845
	292,488	320,690
Less LIFO reserve	89,207	90,130
	203,281	230,560
Display material and factory supplies	48,008	40,645
	$ 251,289	$ 271,205

NOTE F - PROPERTY, PLANT AND EQUIPMENT

	1999	1998
Land	$ 11,288	$ 11,910
Buildings	281,726	279,395
Equipment and fixtures	665,609	647,438
	958,623	938,743
Less accumulated depreciation	523,817	491,111
	$ 434,806	$ 447,632

NOTE G - DEFERRED COSTS

Deferred costs relating to agreements with certain customers are charged to operations on a straight-line basis over the effective period of each agreement, generally three to six years. Deferred costs estimated to be charged to operations during the next year are classified with prepaid expenses and other. Total commitments under the agreements are capitalized as deferred costs and future payment commitments, if any, are recorded as liabilities when the agreements are consummated.

At February 28, 1999 and 1998 deferred costs and future payment commitments are included in the following financial statement captions:

	1999	1998
Prepaid expenses and other	$ 192,619	$ 179,818
Other assets	595,136	481,236
Other current liabilities	(81,745)	(51,676)
Other liabilities	(113,799)	(81,080)
	$ 592,211	$ 528,298

NOTE H - LONG AND SHORT-TERM DEBT

On May 20, 1998, the Corporation filed a Form S-3 Registration Statement with the Securities and Exchange Commission for a shelf registration to issue up to $600,000 of debt securities. Under the registration, the Corporation on July 27, 1998 completed the sale of $300,000 of 30-year senior notes with a 6.10% coupon rate. The majority of the proceeds were used to retire commercial paper and other short-term debt, with the remainder used for other general corporate purposes and short-term investments.

On August 7, 1998, the Corporation entered into a new multi-currency credit facility to provide liquidity and working capital financing for the Corporation and its subsidiaries in the United States, Canada, the United Kingdom, Australia, New Zealand and France. The aggregate availability under this facility is approximately $715,000 of which approximately $546,000 is available at February 28, 1999. The United States and one-half of the Canadian portions of the facilities, totaling $499,740, mature on August 6, 1999. The balance of the facility matures on August 7, 2003. The United States and Canadian portions of the facility are annually renewable for additional 364-day periods and are convertible to term loans with a maturity of August 7, 2003. A facility fee is due on the aggregate amount of the facility and can vary with the Corporation's debt rating. At February 28, 1999, the facility fee is 0.075% for the non-364 day portion of the facility and 0.065% for the 364-day portion.

The borrowings of the Corporation in Canada consist solely of commercial paper. At February 28, 1999, commercial paper borrowings were $81,824, of which $66,320 is classified as long-term. The commercial paper borrowings are supported by the multi-currency credit facility described above.

The Corporation's subsidiaries in Mexico and South Africa have credit agreements permitting borrowings of up to $2,088. At February 28, 1999, $1,250 is outstanding under these foreign revolving credit facilities.

All of the Corporation's revolving credit and term loan agreements provide for various borrowing alternatives in their respective currencies with interest rates generally ranging from 5.0% to 9.0% for amounts borrowed as of February 28, 1999.

At February 28, 1999 and 1998, debt due within one year consists of the following:

	1999	1998
Current maturities of long-term debt	$ 968	$ 695
Foreign revolving credit facilities	1,250	46,505
Aggregate current maturities	2,218	47,200
Commercial paper	15,504	148,855
Other short-term debt	55	3,585
	$ 17,777	$ 199,640

NOTE H - LONG AND SHORT-TERM DEBT (CONTINUED)

At February 28, 1999 and 1998, long-term debt consists of the following:

	1999	1998
Revolving credit, commercial paper and term loan agreements	$ 154,674	$ 193,224
Notes payable	310,145	-
Other	645	2,776
	465,464	196,000
Less current maturities	2,218	47,200
	$ 463,246	$ 148,800

Aggregate maturities of long-term debt are as follows:

2000	$ 2,218
2001	1,221
2002	11,723
2003	33
2004	153,424
Thereafter	296,845
	$ 465,464

At February 28, 1999 the Corporation had credit arrangements to support the issuance of letters of credit in the amount of $99,181 with $21,450 of open credits outstanding.

Interest paid on short-term and long-term debt was $27,831 in 1999, $22,735 in 1998 and $29,914 in 1997.

The weighted average interest rate on short-term borrowings outstanding was 5.1% and 5.8% as of February 28, 1999 and 1998, respectively.

NOTE H - LONG AND SHORT-TERM DEBT (CONTINUED)

As of February 28, 1999, the Corporation's subsidiary in Australia has an interest rate swap agreement for notional borrowings of $30,950 under which the Corporation pays a fixed rate and receives a floating rate. The pay rate and receive rate under this agreement are 5.1% and 4.8%, respectively. This agreement matures October 3, 1999. The floating rate under the agreement is based on the three-month Australian Bank Bill Rate. Net payments or receipts under the agreement are recognized as an adjustment to interest expense. The agreement was entered into with a major financial institution, and the Corporation anticipates that the financial institution will satisfy its obligations under the agreement. The Corporation guarantees payment of the subsidiary's obligations under the swap agreement. No collateral is held in relation to the agreement.

NOTE I - RETIREMENT PLANS

The Corporation has a non-contributory profit-sharing plan with a contributory 401(k) provision covering most of its United States employees. Contributions to the profit-sharing plan were $22,687, $23,850 and $22,990 for 1999, 1998 and 1997, respectively. The Corporation matches a portion of 401(k) employee contributions contingent upon meeting specified annual operating results goals. The Corporation's matching contributions were $4,622, $2,802 and $2,698 for 1999, 1998 and 1997, respectively.

The Corporation also has several defined benefit and defined contribution pension plans covering certain employees in foreign countries. The cost of these plans was not material in any of the years presented. In the aggregate, the actuarially computed plan benefit obligation approximates the fair value of the plan assets.

NOTE J - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits to full-time United States employees who are age 65 or over at retirement with 15 or more years of service and who were hired on or before December 31, 1991. In addition, for retirements on or after January 2, 1992 the retiree must have been continuously enrolled for health care for a minimum of five years or since January 2, 1992. The plan is contributory, with retiree contributions adjusted periodically, and contains other cost-sharing features such as deductibles and coinsurance. The Corporation maintains a trust for the payment of retiree health care benefits. This trust is funded at the discretion of management.

	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 63,677	$ 51,327
Service cost	1,817	1,711
Interest cost	4,702	4,282
Actuarial losses	9,183	10,951
Benefit payments	(4,103)	(4,594)
Benefit obligation at end of year	75,276	63,677
Change in plan assets:		
Fair value of plan assets at beginning of year	39,760	32,358
Actual return on plan assets	3,072	5,093
Contributions	5,985	6,903
Benefit payments	(4,103)	(4,594)
Fair value of plan assets at year end	44,714	39,760
Funded status at February 28	(30,562)	(23,917)
Unrecognized loss	21,774	13,314
Accrued benefit cost recognized in the consolidated statement of financial position	$ (8,788)	$(10,603)

NOTE J - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

	1999	1998
Components of net periodic benefit cost:		
Service cost	$1,817	$1,711
Interest cost	4,702	4,282
Expected return on plan assets	(3,064)	(2,508)
Amortization of actuarial loss	716	598
Net periodic benefit cost	$4,171	$4,083
Weighted average assumptions as of February 28:		
Discount rate	6.75%	7.25%
Expected long-term return on plan assets	8.00%	8.00%
Health care cost trend rate	5.00%	5.00%
Effect of a 1% increase in health care cost trend rate on:		
Service cost plus interest cost		$ 1,295
Accumulated postretirement benefit obligation		13,447
Effect of a 1% decrease in health care cost trend rate on:		
Service cost plus interest cost		$ (1,015)
Accumulated postretirement benefit obligation		(10,726)

NOTE K - LONG-TERM LEASES

The Corporation is committed under noncancelable operating leases for commercial properties (certain of which have been subleased) and equipment, terms of which are generally less than 25 years. Rental expense under operating leases for the years ended February 28, 1999, 1998 and 1997 follows:

	1999	1998	1997
Gross rentals	$ 58,616	$ 57,320	$ 59,228
Less sublease rentals	4,470	4,985	7,423
Net rental expense	$ 54,146	$ 52,335	$ 51,805

At February 28, 1999, future minimum rental payments for noncancelable operating leases, net of aggregate future minimum noncancelable sublease rentals, follow:

Gross Rentals:	
2000	$ 46,746
2001	41,449
2002	35,278
2003	28,563
2004	22,941
Later years	57,187
	232,164
Sublease rentals	(15,202)
Net rentals	$ 216,962

NOTE L - COMMON SHARES AND STOCK OPTIONS

At February 28, 1999 and 1998, common shares authorized consisted of:

	Class A	Class B
1999	187,600,000	15,832,968
1998	93,800,000	7,916,484

Class A shares have one vote per share and Class B shares have ten votes per share. There is no public market for the Class B common shares of the Corporation. Pursuant to the Corporation's Amended Articles of Incorporation, a holder of Class B common shares may not transfer such Class B common shares (except to permitted transferees, a group that generally includes members of the holder's extended family, family trusts and charities) unless such holder first offers such shares to the Corporation for purchase at the most recent closing price for the Corporation's Class A common shares. If the Corporation does not purchase such Class B common shares, the holder must convert such shares, on a share for share basis, into Class A common shares prior to any transfer.

Under the Corporation's Stock Option Plans, options to purchase Class A and Class B shares are granted to directors, officers and other key employees at the then-current market price. In general, subject to continuing employment, options become exercisable commencing one year after date of grant in four annual installments and expire over a period of not more than ten years from the date of grant. The options granted to non-employee directors become exercisable in six installments over five years.

The Corporation has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Corporation's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Corporation had accounted for its employee stock options issued subsequent to February 28, 1995 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model.

NOTE L - COMMON SHARES AND STOCK OPTIONS (CONTINUED)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The pro forma information for stock options indicates decreases in net income of $3,248 in 1999, $4,931 in 1998 and $2,347 in 1997. The pro forma information and related assumptions under the Black-Scholes method follow:

	1999	1998	1997
Net income	$ 176,974	$ 185,153	$ 164,748
Earnings per share	$ 2.52	$ 2.51	$ 2.20
Earnings per share - assuming dilution	$ 2.49	$ 2.48	$ 2.19
Assumptions:			
Risk-free interest rate	5.4%	6.1%	6.4%
Dividend yield	1.6%	2.0%	2.4%
Expected stock volatility	0.27	0.26	0.25
Expected life in years:			
Grant date to exercise date	5.6	5.6	4.6
Vest date to exercise date	2.4	2.3	2.1

NOTE L - COMMON SHARES AND STOCK OPTIONS (CONTINUED)
Stock option transactions and prices are summarized as follow:

	Number of Options		Weighted-Average Exercise Price Per Share	
	Class A	Class B	Class A	Class B
Options outstanding				
February 29, 1996	1,466,997	740,090	$ 20.29	$ 11.01
Granted	891,595	215,922	27.29	27.32
Exercised	(317,409)	(43,500)	18.10	19.31
Cancelled	(84,800)	-	27.13	-
Options outstanding				
February 28, 1997	1,956,383	912,512	$ 23.57	$ 14.42
Granted	1,453,677	470,000	30.45	29.50
Exercised	(616,675)	(33,500)	21.14	19.85
Cancelled	(182,250)	-	28.96	-
Options outstanding				
February 28, 1998	2,611,135	1,349,012	$ 27.58	$ 19.54
Granted	189,850	596	45.73	48.06
Exercised	(395,754)	(573,422)	25.54	9.07
Cancelled	(127,200)	(7,000)	30.25	26.13
Options outstanding				
February 28, 1999	2,278,031	769,186	$ 29.18	$ 27.30
Options exercisable at February 28:				
1999	1,235,331	490,936	$ 26.23	$ 26.23
1998	1,077,035	902,262	24.42	14.84
1997	1,169,083	689,762	20.90	12.79

The weighted average remaining contractual life of the options outstanding as of February 28, 1999 is 6.9 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE L - COMMON SHARES AND STOCK OPTIONS (CONTINUED)

Range of exercise prices for options outstanding:

	Outstanding		Exercisable		
Exercise Price Ranges	Optioned Shares	Weighted-Average Exercise Price	Optioned Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)
$11.44 - 26.00	493,000	$19.79	481,800	$19.67	3.2
26.13 - 27.25	703,792	27.17	521,142	27.16	6.9
27.50 - 29.38	74,187	28.43	51,337	28.42	6.2
29.50 - 30.00	1,376,142	29.50	605,042	29.50	7.9
30.13 - 51.63	400,096	39.70	66,946	34.99	8.7
	3,047,217		1,726,267		

NOTE M - BUSINESS SEGMENT INFORMATION

The Corporation is organized and managed according to a number of factors, including product categories, geographic locations and channels of distribution. The Social Expression Products segment primarily designs, manufactures and sells greeting cards and other products through various channels of distribution with mass retailers as the primary channel. As permitted under Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," certain operating divisions have been aggregated into one reportable segment. These operating divisions have similar economic characteristics, products, production processes, types of customers and distribution methods.

The Corporation's non-reportable operating segments include the design, manufacture and sale of promotional Christmas product, non-prescription reading glasses, educational materials and display fixtures; personalized and e-mail greeting cards; and the sale of both the Corporation's products and other products through retail stores.

The Corporation evaluates segment performance based on earnings before foreign currency exchange gains or losses, interest income, interest expense and income taxes. Centrally incurred and managed costs and non-recurring items are not allocated back to the operating segments. The accounting policies of the reportable segments are the same as those described in Note A - Significant Accounting Policies, except those that are related to LIFO or applicable to only corporate items.

Intersegment sales are recorded at wholesale prices. Intersegment sales and profits are eliminated in consolidation. All inventories resulting from intersegment sales are carried at cost.

The reporting and evaluation of segment assets include net accounts receivable, inventory on a "first-in, first-out" basis, display materials and factory supplies, prepaid expenses, other assets (including net deferred costs), and net property, plant and equipment.

Segment results are reported and evaluated at consistent exchange rates between years to eliminate the impact of foreign currency fluctuations. An exchange rate adjustment is included in the reconciliation of the segment results to the consolidated results; this adjustment represents the impact on the segment results of the difference between the exchange rates used for segment reporting and evaluation and the actual exchange rates for the periods presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

OPERATING SEGMENT INFORMATION

	Net Sales			Earnings		
	1999	1998	1997	1999	1998	1997
Social Expressions Prod.	$1,854,106	$1,786,756	$1,737,883	$450,512	$418,078	$410,915
Intersegment items	(83,004)	(77,836)	(69,534)	(58,409)	(52,172)	(45,653)
Net	1,771,102	1,708,920	1,668,349	392,103	365,906	365,262
Non-reportable segments	454,796	487,884	481,157	41,679	30,486	16,838
Non-recurring items	-	-	-	(13,925)	22,125	-
Exchange rate adjustment	(20,192)	1,961	11,583	(1,619)	(16)	402
Unallocated items - net	-	-	-	(136,641)	(126,064)	(128,172)
Consolidated	$2,205,706	$2,198,765	$2,161,089	$281,597	$292,437	$254,330

	Assets			Depreciation		
	1999	1998	1997	1999	1998	1997
Social Expressions Prod.	$1,698,251	$1,545,732	$1,522,981	$43,254	$40,143	$39,688
Non-reportable segments	277,592	295,440	349,604	24,337	25,662	24,426
Unallocated and intersegment items	474,345	327,175	247,645	(99)	(58)	68
Exchange rate adjustment	(30,860)	(6,883)	14,890	(443)	179	384
Consolidated	$2,419,328	$2,161,464	$2,135,120	$67,049	$65,926	$64,566

	Capital Expenditures		
	1999	1998	1997
Social Expressions Products	$43,907	$45,984	$72,398
Non-reportable segments	17,553	22,064	19,880
Unallocated and intersegment items	-	-	-
Exchange rate adjustment	(510)	(150)	617
Consolidated	$60,950	$67,898	$92,895

OTHER INFORMATION

	1999	1998	1997
Product Information			
Everyday greeting cards	$1,051,374	$1,010,857	$ 955,430
Seasonal greeting cards	450,611	466,761	471,321
Gift wrapping and wrap accessories	301,517	309,763	305,917
All other	402,204	411,384	428,421
Consolidated Net Sales	$2,205,706	$2,198,765	$2,161,089

GEOGRAPHIC INFORMATION

	Net Sales			Fixed Assets - Net		
	1999	1998	1997	1999	1998	1997
United States	$1,819,857	$1,864,368	$1,831,834	$363,802	$371,733	$378,054
Foreign	385,849	334,397	329,255	71,004	75,899	84,733
Consolidated	$2,205,706	$2,198,765	$2,161,089	$434,806	$447,632	$462,787

NOTE N - INCOME TAXES

Income (loss) before income taxes:

	1999	1998	1997
United States	$ 300,411	$ 298,817	$ 264,077
Foreign	(18,814)	(6,380)	(9,747)
	$ 281,597	$ 292,437	$ 254,330

Income taxes have been provided as follows:

	1999	1998	1997
Current:			
Federal	$ 111,736	$ 107,135	$ 71,582
Foreign	(18,423)	(6,873)	936
State and local	16,977	21,318	14,400
	110,290	121,580	86,918
Deferred (principally federal)	(8,915)	(19,227)	317
	$ 101,375	$ 102,353	$ 87,235

Significant components of the Corporation's deferred tax assets and liabilities at February 28, 1999 and 1998 are as follows:

	1999	1998
Deferred tax assets:		
Sales returns	$ 36,924	$ 39,152
Other	133,131	121,464
	170,055	160,616
Valuation allowance	(10,819)	(13,362)
Total deferred tax assets	159,236	147,254
Deferred tax liabilities:		
Depreciation	47,440	44,694
Other	28,457	24,775
Total deferred tax liabilities	75,897	69,469
Net deferred tax assets	$ 83,339	$ 77,785

The decrease in the valuation allowance was due to decreases in net operating loss carryforwards in the United Kingdom.

NOTE N - INCOME TAXES (CONTINUED)

The statutory federal income tax rate and the effective income tax rate are reconciled as follows:

	1999	1998	1997
Statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	3.7	4.0	3.9
Subsidiaries' losses without tax benefit	0.1	0.7	1.0
Corporate-owned life insurance investments	(2.9)	(3.4)	(4.3)
Other	0.1	(1.3)	(1.3)
Effective tax rate	36.0%	35.0%	34.3%

Income taxes paid were $102,363 in 1999, $101,261 in 1998 and $99,391 in 1997.

Deferred taxes have not been provided on approximately $30,386 of undistributed earnings of foreign subsidiaries since substantially all of these earnings are necessary to meet their business requirements. It is not practicable to calculate the deferred taxes associated with these earnings, however, foreign tax credits would be available to reduce federal income taxes in the event of distribution. At February 28, 1999, the Corporation had approximately $74,934 of foreign operating loss carryforwards, of which $23,885 have no expiration dates and $51,049 have expiration dates ranging from 2000 through 2009.

The Internal Revenue Service has examined the Corporation's federal income tax returns for the fiscal years ended 1993 through 1995 and, as part of its Coordinated Issues Program, has made inquiries related to the Corporation's corporate-owned life insurance programs. Although no adjustments to taxable income have been made, the Corporation plans to fully contest any assessments relative to corporate-owned life insurance. An examination of fiscal years 1996 and 1997 was initiated in early March 1999.

QUARTERLY RESULTS OF OPERATIONS

(Unaudited)
Thousands of dollars except per share amounts

The following is a summary of the unaudited quarterly results of operations for the years ended February 28, 1999 and 1998.

	Quarter Ended			
	May 31	August 31	November 30	February 28
Fiscal 1999				
Net sales	$ 487,908	$ 479,733	$ 638,363	$ 599,702
Gross profit	328,189	309,246	412,032	399,159
Non-recurring charge	-	-	13,925	-
Net income	33,831	13,925	74,561	57,905
Earnings per share	.47	.20	1.06	.83
Earnings per share - assuming dilution	.47	.20	1.04	.82
Fiscal 1998				
Net sales	$ 475,059	$ 484,742	$ 639,655	$ 599,309
Gross profit	313,585	296,806	397,324	400,362
Non-recurring gain	-	22,125	-	-
Net income	30,259	26,097	79,038	54,690
Earnings per share	.40	.35	1.07	.76
Earnings per share - assuming dilution	.40	.35	1.05	.75

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
American Greetings Corporation

We have audited the accompanying consolidated statement of financial position of American Greetings Corporation as of February 28, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 1999. Our audits also included the finanical statement schedule listed in the Index at Item 14(a)3. These financial statements and schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Greetings Corporation at February 28,1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 28, 1999, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

Cleveland, Ohio
March 25, 1999

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
AMERICAN GREETINGS CORPORATION AND SUBSIDIARIES
(000)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
Year ended February 28, 1999:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 15,661	$ 8,472	$ 91 (A)	$ 8,641 (B)	$ 15,583
Allowance for sales returns	$ 135,584	$ 342,267	$ 308 (A)	$ 346,056 (C)	$ 132,103
Allowance for other assets	$ 16,400	$ 0	$ 0	$ 0	$ 16,400
Year ended February 28, 1998:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 15,264	$ 11,585	$ (1,119) (A)	$ 10,069 (B)	$ 15,661
Allowance for sales returns	$ 121,856	$ 337,320	$ (1,040) (A)	$ 322,552 (C)	$ 135,584
Allowance for other assets	$ 16,400	$ 0	$ 0	$ 0	$ 16,400
Year ended February 28, 1997:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 16,214	$ 8,210	$ 113 (A)	$ 9,273 (B)	$ 15,264
Allowance for sales returns	$ 141,412	$ 306,755	$ 164 (A)	$ 326,475 (C)	$ 121,856
Allowance for other assets	$ 16,400	$ 0	$ 0	$ 0	$ 16,400

Note A: Includes translation adjustment on foreign subsidiary balances; business unit acquisitions for the year ended February 28, 1999 of $841 allowance for doubtful accounts and $1,816 allowance for sales returns; business unit disposals for the year ended February 28, 1998 of $1,064 allowance for doubtful accounts and $392 allowance for sales returns; and other minor reclasses and adjustments.
Note B: Accounts charged off, less recoveries.
Note C: Sales returns charged to the allowance account for actual returns for the year.