

AMERICAN GREETINGS CORP

Form 11-K

June 27, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 11-K**

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(Mark One):

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2005.

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-1502

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A. Full title of the plan and the address of the plan, if different from that of the issuer name below:

**AMERICAN GREETINGS RETIREMENT**  
**PROFIT SHARING AND SAVINGS PLAN**

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**AMERICAN GREETINGS CORPORATION**

**ONE AMERICAN ROAD**



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REQUIRED INFORMATION

The following financial statements are being furnished for the American Greetings Retirement Profit Sharing and Savings Plan (the Plan):

1. Audited statement of net assets available for benefits as of December 31, 2005 and 2004.
2. Audited statement of changes in net assets available for benefits for the years ended December 31, 2005 and 2004.

EXHIBITS

**Exhibit No.**

23 Consent of Independent Registered Public Accounting Firm  
SIGNATURES

*The Plan.* Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN GREETINGS RETIREMENT  
PROFIT SHARING AND SAVINGS PLAN

June 27, 2006

By: /s/ Stephen J. Smith  
Name: Stephen J. Smith  
Title: Advisory Committee Member

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American Greetings  
Retirement Profit Sharing and Savings Plan  
Audited Financial Statements  
and Supplemental Schedule  
Years Ended December 31, 2005 and 2004

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Report of Independent Registered Public Accounting Firm

The Advisory Committee of the American Greetings

Retirement Profit Sharing and Savings Plan

Cleveland, Ohio

We have audited the accompanying statement of net assets available for benefits of American Greetings Retirement Profit Sharing and Savings Plan as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2005 and 2004, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2005, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Cleveland, Ohio

June 23, 2006

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American Greetings

Retirement Profit Sharing and Savings Plan

Statement of Net Assets Available for Benefits

|                                       | December 31               |                    |
|---------------------------------------|---------------------------|--------------------|
|                                       | 2005                      | 2004               |
| <b>Assets</b>                         |                           |                    |
| Investments, at fair value            | <b>\$ 688,695,659</b>     | \$ 708,908,241     |
| Participant loans                     | <b>1,188,089</b>          | 1,328,019          |
| Contribution receivables:             |                           |                    |
| Employer                              | <b>16,678,702</b>         | 15,962,087         |
| Participants                          | <b>68,084</b>             | 82,860             |
| <b>Total contribution receivables</b> | <b>16,746,786</b>         | 16,044,947         |
| <br>Net assets available for benefits | <br><b>\$ 706,630,534</b> | <br>\$ 726,281,207 |

*See notes to financial statements.*

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American Greetings

Retirement Profit Sharing and Savings Plan

Statement of Changes in Net Assets Available for Benefits

|  | <b>Years Ended December 31</b> |                       |
|--|--------------------------------|-----------------------|
|  | <b>2005</b>                    | <b>2004</b>           |
| <b>Additions</b>                                       |                                |                       |
| Investment income:                                     |                                |                       |
| Net appreciation in fair value of investments          | \$ 9,770,571                   | \$ 57,092,340         |
| Interest and dividends                                 | 24,605,728                     | 16,199,802            |
| Contributions:   |                                |                       |
| Participants   | 16,872,022                     | 18,038,866            |
| Employer   | 16,678,702                     | 15,962,087            |
| Rollovers  | 640,489                        | 704,271               |
| <b>Total additions</b>                                 | <b>68,567,512</b>              | <b>107,997,366</b>    |
| <b>Deductions</b>                                      |                                |                       |
| Benefits paid directly to participants                 | 88,177,225                     | 61,009,433            |
| Administrative expenses                                | 40,960                         | 43,777                |
| <b>Total deductions</b>                                | <b>88,218,185</b>              | <b>61,053,210</b>     |
| Net (decrease) increase                                | (19,650,673)                   | 46,944,156            |
| Net assets available for benefits at beginning of year | 726,281,207                    | 679,337,051           |
| Net assets available for benefits at end of year       | <b>\$ 706,630,534</b>          | <b>\$ 726,281,207</b> |

*See notes to financial statements.*

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American Greetings

Retirement Profit Sharing and Savings Plan

Notes to Financial Statements

Years Ended December 31, 2005 and 2004

**1. Description of Plan**

The following description of the American Greetings Retirement Profit Sharing and Savings Plan (the Plan) provides only general information. Participants should refer to the Plan Agreement for a more complete description of the Plan's provisions.

**General**

The Plan is a defined contribution plan covering substantially all full-time, nonunion employees and certain union employees of American Greetings Corporation (the Corporation and Plan Sponsor) and its domestic subsidiaries. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

**Contributions**

The Corporation annually contributes 8% of its consolidated domestic pretax profits (as defined), excluding gains and losses from capital assets, dividends, and foreign currency transactions, to the Plan. A contribution of \$10,991,679 and \$3,395,200 was made by the Corporation in 2005 and 2004, respectively, based on the Corporation's pretax profits for its fiscal year-end February 28, 2006 and 2005, respectively. Additional discretionary amounts may be contributed at the option of the Corporation's Board of Directors. The Corporation made a discretionary contribution of \$1,392,162 and \$7,884,800 in 2005 and 2004, respectively.

Participants may contribute 2% to 50% of pretax annual compensation (401(k) contributions) to the Plan, as defined in the Plan. The Corporation may restrict individual contributions below 50% in order to meet certain governmental limitations. The Corporation contributes 40% of the first 6% of pretax annual compensation that a participant contributes to the Plan, provided that the Corporation achieves certain predetermined financial goals. The Corporation's matching contribution was \$4,294,861 and \$4,682,087 in 2005 and 2004, respectively. All contributions are invested in accordance with the participants' investment elections.

Participants direct the investment of their accounts, together with their share of the Corporation's annual contributions, in increments of 1% to any of the investment options offered under the Plan.



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American Greetings

Retirement Profit Sharing and Savings Plan

Notes to Financial Statements (continued)

**1. Description of the Plan (continued)**

**Participant Accounts and Vesting**

Each participant's account is credited with the participant's 401(k) contributions and allocations of (a) the Corporation's profit sharing contribution and 401(k) matching contribution and (b) Plan earnings. Allocations are based on participant compensation, participant elections, or account balances, as defined. Individuals who have retired or terminated employment with the Corporation do not participate in the Corporation's future contributions to the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. Participants are immediately vested in both their and the Corporation's contributions, plus actual earnings thereon.

**Participant Loans**

Participants may borrow against their elected deferred contributions or rollover contributions, a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their account balance. Loan terms range from six to sixty months, or a reasonable period of time as determined by the Advisory Committee for loans used for the purchase of a participant's primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate of prime plus one percent at the time of the loan origination. Principal and interest are paid ratably through monthly payroll deductions.

**Payment of Benefits**

At the time of a participant's retirement or termination of service, the participant may elect to receive a lump sum payment or to be paid in monthly, quarterly, or annual installments.

**Plan Termination**

Although it has not expressed any intent to do so, the Corporation has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, the assets of the Plan will be distributed to the participants on the basis of individual account balances at the date of termination.

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American Greetings

Retirement Profit Sharing and Savings Plan

Notes to Financial Statements (continued)

**2. Summary of Accounting Policies**

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting.

**Investment Valuation and Income Recognition**

The Plan's investments are stated at fair value. The shares of registered investment companies are valued at quoted market prices, which represent the net asset values of shares held by the Plan at year-end. The common shares of the Corporation are valued at the last reported sales price on the last business day of the Plan year. The participant loans are valued at their outstanding balances, which approximate fair value.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

**Use of Estimates**

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

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American Greetings

Retirement Profit Sharing and Savings Plan

Notes to Financial Statements (continued)

**3. Investments**

The Plan's investments are held by Vanguard Fiduciary Trust Company, Trustee of the Plan. The fair value of individual investments that represent 5% or more of the fair value of the Plan's net assets are as follows:

|  | December 31    |                |
|--|----------------|----------------|
|  | 2005           | 2004           |
| Vanguard 500 Index Fund Investor Shares  | \$ 125,817,850 | \$ 132,823,700 |
| Vanguard PRIMECAP Fund                   | 198,548,386    | 208,258,043    |
| Vanguard Wellington Fund Investor Shares | 59,781,757     | 61,630,769     |
| Vanguard Windsor II Fund Investor Shares | 37,419,610     | 35,243,311     |
| Vanguard Prime Money Market Fund         | 60,993,153     | 68,759,246     |
| One Group Bond Fund; Class I Shares      | 112,803,399    | 125,246,623    |

During the years ended December 31, 2005 and 2004, the Plan's investments (including investments purchased, sold, as well as held during the year) appreciated (depreciated) in fair value as determined by quoted market prices as follows:

|   | 2005          | 2004          |
|---|---------------|---------------|
| Registered investment companies                 | \$ 13,188,369 | \$ 52,839,402 |
| Common shares of American Greetings Corporation | (3,417,798)   | 4,252,938     |
| Net appreciation in fair value of investments   | \$ 9,770,571  | \$ 57,092,340 |

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American Greetings

Retirement Profit Sharing and Savings Plan

Notes to Financial Statements (continued)

**4. Income Tax Status**

The Plan has received a determination letter from the Internal Revenue Service (the IRS) dated December 9, 2004, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the IRS, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

**5. Transactions With Parties in Interest**

The Plan held 148,845 Class A common shares and 900,000 Class B common shares of American Greetings Corporation at December 31, 2005, with a combined fair value of \$23,043,125 (295,601 and 900,000 common shares, respectively, at December 31, 2004, with a combined fair value of \$30,308,485). Class B common shares are not publicly traded. Dividend income on the Corporation's common shares of \$335,298 and \$143,550 was recognized in 2005 and 2004, respectively. The Plan invests in shares of mutual funds managed by an affiliate of the Trustee. Accounting, legal, and certain other administrative fees are paid by the Corporation. All other expenses of the Plan are paid by the Plan. Investment advisory fees for portfolio management of Vanguard Funds are paid directly from individual fund earnings.

**6. Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

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American Greetings

Retirement Profit Sharing and Savings Plan

EIN #34-0065325 Plan #001

Schedule H, Line 4i Schedule of Assets

(Held at End of Year)

December 31, 2005

| Identity of Issue, Borrower, Lessor, or Similar Party             | Description of Investment Including Maturity Date, | Rate of Interest, | Current               |
|---|--|-------------------|-----------------------|
| Value of interest in registered investment companies              | Par, or Maturity Value                             |                   | Value                 |
| One Group Bond Fund; Class I Shares                               | 10,611,797 shares                                  |                   | \$ 112,803,399        |
| *Vanguard 500 Index Fund Investor Shares                          | 1,094,830 shares                                   |                   | 125,817,850           |
| *Vanguard PRIMECAP Fund   | 3,040,092 shares                                   |                   | 198,548,386           |
| *Vanguard Wellington Fund Investor Shares                         | 1,969,745 shares                                   |                   | 59,781,757            |
| *Vanguard Prime Money Market Fund                                 | 60,993,153 shares                                  |                   | 60,993,153            |
| *Vanguard Target Retirement 2005 Fund                             | 359,667 shares                                     |                   | 3,931,155             |
| *Vanguard Target Retirement 2015 Fund                             | 638,346 shares                                     |                   | 7,315,440             |
| *Vanguard Target Retirement 2025 Fund                             | 196,261 shares                                     |                   | 2,309,990             |
| *Vanguard Target Retirement 2035 Fund                             | 85,773 shares                                      |                   | 1,051,572             |
| *Vanguard Target Retirement 2045 Fund                             | 52,470 shares                                      |                   | 659,543               |
| *Vanguard Target Retirement Income Fund                           | 232,434 shares                                     |                   | 2,426,606             |
| *Vanguard Windsor II Fund Investor Shares                         | 1,194,370 shares                                   |                   | 37,419,610            |
| *Vanguard Wellesley Income Fund Investor Shares                   | 866,548 shares                                     |                   | 18,258,159            |
| *Vanguard International Growth Fund                               | 822,709 shares                                     |                   | 17,276,898            |
| *Vanguard Extended Market Index Fund Investor Shares              | 497,928 shares                                     |                   | 17,059,016            |
| <b>Total value of interest in registered investment companies</b> |  |                   | <b>665,652,534</b>    |
| <b>Employer-related investments</b>                               |  |                   |                       |
| *American Greetings Corp. Class A Common Shares                   | 148,845 shares                                     |                   | 3,270,125             |
| *American Greetings Corp. Class B Common Shares                   | 900,000 shares                                     |                   | 19,773,000            |
| <b>Total employer-related investments</b>                         |  |                   | <b>23,043,125</b>     |
| <b>*Loans to participants</b>                                     | 5.0% to 10.5%,<br>various maturity dates           |                   | 1,188,089             |
|   |  |                   | <b>\$ 689,883,748</b> |

\* Indicates party in interest to the Plan.