CEMEX SA DE CV
Form POS AM
August 27, 2003

As filed with the Securities and Exchange Commission on August 27, 2003
Registration No. 333-11382

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 4
TO
FORM F-3
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

CEMEX, S.A. de C.V.
(Exact name of registrant as specified in its charter)

United Mexican States	3241	N.A.
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

CEMEX, S.A. de C.V.
Av. Ricardo Margain Zozaya #325
Colonia Valle del Campestre
Garza Garcia, Nuevo Leon
Mexico 66265
Tel: (011-5281) 8888-8888
(Address and Telephone Number of Registrant's Principal Executive Offices)

CEMEX Corp.
1200 Smith Street, Suite 2400
Houston, Texas 77002
(713) 650-6200
Attn: Gilberto Perez
(Name, Address and Telephone Number of Agent for Service)

Copy of all communications, including communications
sent to the agent for service, to:
Robert M. Chilstrom, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036

Approximate date of commencement of proposed sale to the public: At such time or times as the selling ADS holders may determine.

If the only securities being registered on this form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box. |_|

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. |X|

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_| ____________

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_| ____________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. |_|

The Registrant hereby amends this Post-Effective Amendment to the Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Post-Effective Amendment to the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Post-Effective Amendment to the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE

The prospectus which forms a part of this Post-Effective Amendment to the Registration Statement relates to the offering and sale, from time to time, by the selling ADS holders named herein of up to 25,457,378 American Depositary Shares, or ADSs, each representing five Ordinary Participation Certificates, or CPOs, of CEMEX, S.A. de C.V. The number of ADSs originally registered for resale under this Registration Statement was 21,000,000 ADSs; however, as a result of stock dividends received by the selling ADS holders in respect of such ADSs, the number of ADSs which may be sold by them under this Registration Statement has increased to 25,457,378 ADSs. In addition, the prospectus has been updated to reflect the new forward transactions entered into with the selling ADS holders in December 2002 upon the termination of the original forward transactions pursuant to which the selling ADS holders initially acquired the ADSs that may be sold hereunder and to reflect other updated information relating to CEMEX, S.A. de C.V.

PROSPECTUS

[graphical logo omitted]

CEMEX, S.A. de C.V.

25,457,378 American Depositary Shares
Each Representing Five
Ordinary Participation Certificates

This prospectus relates to the public offering and sale, from time to time, of up to 25,457,378 American Depositary Shares, or ADSs, each representing five Ordinary Participation Certificates, or CPOs, of CEMEX by the selling ADS holders. The ADSs are evidenced by American Depositary Receipts, or ADRs.

The selling ADS holders may sell at any time and from time to time all or a portion of the ADSs held by them.

We will provide the specific terms of any offering of our ADSs by the selling ADS holders in supplements to this prospectus. You should read this prospectus and the accompanying prospectus supplement carefully before you decide to invest in our ADSs and the underlying CPOs.

Our ADSs are listed on the New York Stock Exchange under the symbol "CX" and our CPOs are listed on the Mexican Stock Exchange under the symbol "CEMEX.CPO."

You should consider the risk factors beginning on page 7 before making an investment decision with respect to our ADSs and the underlying CPOs.

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

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

The date of this prospectus is August 27, 2003.

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Neither we nor the selling ADS holders have authorized any dealer, salesperson or other person to give any information or to make any representations other than those contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. You should not rely on any unauthorized information. This prospectus and any accompanying prospectus supplement do not offer to sell or buy any securities in any jurisdiction in which it is unlawful. The information in this prospectus is current as of the date on the cover.

References in this prospectus to "CEMEX," "we," "us" or "our" refer to CEMEX, S.A. de C.V., a Mexican corporation, and its consolidated subsidiaries.

References in this prospectus to "U.S.$" and "Dollars" are to U.S. Dollars, and, unless otherwise indicated, references to "Ps" and "Pesos" are to constant Mexican Pesos as of December 31, 2002. Unless otherwise indicated, the Dollar amounts provided in this prospectus are translations of constant Peso amounts, at an exchange rate of Ps10.38 to U.S.$1.00, the CEMEX accounting rate as of December 31, 2002. However, in the case of transactions conducted in Dollars, we have presented the Dollar amount of the transaction and the corresponding Peso amount that is presented in our consolidated financial statements. These translations have been prepared solely for the convenience of the reader and should not be construed as representations that the Peso amounts actually represent those Dollar amounts or could be converted into Dollars at the rate indicated. The noon buying rate for Pesos on December 31, 2002 was Ps10.425 to U.S.$1.00.

The CPOs underlying the ADSs being sold pursuant to this prospectus have been registered with the Securities and Special Sections of the National Securities Registry (Registro Nacional de Valores) maintained by the Mexican National Banking and Securities Commission (Comision Nacional Bancaria y de

Valores), or the CNBV. Registration of the CPOs with the Securities and Special Sections of the National Securities Registry maintained by the CNBV does not imply any certification as to the investment quality of the CPOs, the solvency of CEMEX or the accuracy or completeness of the information contained in this prospectus.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a "shelf" registration process. Under this shelf process, the selling ADS holders may sell the ADSs held by them in one or more offerings in any manner described under the section in this prospectus entitled "Plan of Distribution." This prospectus provides you with a general description of our ADSs and the underlying CPOs. Each time any of the selling ADS holders sells securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering by the selling ADS holders and the manner in which the ADSs will be offered. The prospectus supplement may also add, update, or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the headings "Where You Can Find More Information" and "Incorporation by Reference."

WHERE YOU CAN FIND MORE INFORMATION

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20459. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our ADSs are listed on the New York Stock Exchange under the symbol "CX." These reports and other information can also be read at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INCORPORATION BY REFERENCE

The SEC allows us to "incorporate by reference" information into this prospectus. This means that we can disclose important information to you by referring you to another document filed by us with the SEC. Any information referenced this way is considered part of this prospectus, and any information that we file after the date of this prospectus with the SEC will automatically update and supersede this information. We incorporate by reference into this prospectus the following documents:

- Our annual report on Form 20-F for the year ended December 31, 2002, filed with the SEC on April 8, 2003 and Amendment No. 1 thereto on Form 20-F/A, filed with the SEC on April 25, 2003;

- Our current report on Form 6-K furnished to the SEC on August 25, 2003; and

- The descriptions of our ADSs, CPOs, series A shares and series B shares contained in our registration statement on Form 8-A (SEC File No. 1-14946), filed with the SEC on September 10, 1999, and any amendment or report filed for the purpose of updating such descriptions.

In addition, any future filings on Form 20-F made with the SEC under the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of the offering of the ADSs, and any future reports on Form 6-K furnished by us to the SEC during such period or portions thereof that are identified in such forms as being incorporated into the registration statement of which this prospectus forms a part, shall be considered to be incorporated in this prospectus by reference and shall be considered a part of this prospectus from the date of filing of such documents.

We will provide without charge upon written or oral request, a copy of any and all of the information that has been incorporated by reference in this prospectus and that has not been delivered with this prospectus. Requests should be directed to Abraham Rodriguez, Investor Relations, CEMEX, S.A. de C.V., Av. Ricardo Margain Zozaya #325, Colonia Valle del Campestre, Garza Garcia, Nuevo Leon, Mexico 66265, Tel: +011-5281-8888-4262 or toll-free: 1-800-317-6000.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement may constitute forward-looking statements, which are subject to various risks and uncertainties. Such statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue," "plan" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. Although we believe these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to a number of assumptions, uncertainties and risks that could cause future results to be materially different from the results stated or implied in this prospectus and any accompanying prospectus supplement. When considering such forward-looking statements, you should keep in mind the factors described in "Risk Factors" appearing elsewhere in this prospectus. Additional information about issues that could lead to material changes in our performance is contained in our annual report on Form 20-F for the year ended December 31, 2002, which is incorporated by reference in this prospectus.

This prospectus and the documents incorporated in this prospectus by reference also include statistical data regarding the production, distribution, marketing and sale of cement, ready-mix concrete and clinker. These data were obtained from industry publications and reports that we believe to be reliable sources. We have not independently verified these data or sought the consent of any organizations to refer to their reports in this prospectus and in the documents incorporated in this prospectus by reference.

THE OFFERING

As discussed below, the ADSs that may be sold hereunder were initially acquired by the selling ADS holders pursuant to forward transactions we entered into with a number of banks and other financial institutions in December 1999 in order to hedge our obligations under appreciation warrants we issued at that time and as a result of stock dividends subsequently received by the selling ADS holders in respect of those ADSs. In connection with the originally scheduled termination of those forward transactions in December 2002, we agreed with the banks to settle those forward transactions for cash and simultaneously entered into new forward transactions, with a December 2003 maturity, with the same banks with respect to the underlying ADSs on similar terms to the original forward transactions, as described below. As a condition of entering into forward contracts, we agreed to keep continuously effective a registration statement, of which this prospectus is a part, that registers for resale by the banks these ADSs. We sometimes refer to the banks or others holding the ADSs that are registered for resale under the registration statement as the selling ADS holders.

Background and Purpose of the Offering

In December 1999, we issued to our shareholders, members of our board of directors and other executives 105 million appreciation warrants maturing on December 13, 2002, at a subscription price in pesos of Ps3.2808 per appreciation warrant. A portion of the appreciation warrants was subscribed as American Depositary Warrants, or ADWs, each ADW representing five appreciation warrants.

In November 2001, we launched a voluntary public exchange offer of new appreciation warrants and new ADWs maturing on December 21, 2004, for our existing appreciation warrants and our existing ADWs on a one-for-one basis. Of the total 105 million appreciation warrants originally issued, 103,790,945, or 98.85%, were tendered in exchange for the new appreciation warrants. Both the old appreciation warrants and the new appreciation warrants were designed to allow the holder to benefit from future increases in the market price of our CPOs, with any appreciation value to be received in the form of our CPOs or ADSs, as applicable. The old appreciation warrants expired on December 13, 2002 in accordance with their terms without any payments to the holders.

In order to cover our obligations under the old appreciation warrants and to provide us with financing on terms we believe have been advantageous, in December 1999, we entered into forward contracts with a number of banks and other financial institutions. Under the forward contracts, the banks purchased from us 21,000,000 of our ADSs and 33,751,566 shares of the common stock of Compania Valenciana de Cementos Portland, S.A., now known as CEMEX Espana, S.A. or CEMEX Espana, our Spanish subsidiary, for an aggregate price of approximately U.S.$905.7 million, or the notional amount. Upon closing of these forward transactions, we made an advance payment to the banks of approximately U.S.$439.9 million of the forward purchase price, U.S.$388.1 million of which represented payment in full of the portion of the forward purchase price relating to the CEMEX Espana shares and U.S.$51.8 million of which was an advance payment against the forward settlement price. We made additional advance payments to the banks toward the forward settlement price during the life of the forward contracts in accordance with their terms, and as of December 12, 2002, the adjusted forward settlement price was U.S.$469.3 million.

On December 13, 2002, the termination date of those forward contracts, we agreed with the banks to settle the original forward transactions for cash and simultaneously enter into new forward transactions with the same banks on similar terms to the original forward transactions with respect to the underlying ADSs and CEMEX Espana shares, with a December 12, 2003 maturity. In connection with the termination of the original forward contracts, we made a final advance payment of approximately U.S.$20.9 million to the banks toward the forward settlement price, and as of the termination date, the adjusted forward settlement price of the original forward contracts was U.S.$448.4 million. Under the new forward contracts, the banks retained the ADSs underlying the original forward contracts, which had increased to 24,008,313 ADSs as of the termination date as a result of stock dividends, and the CEMEX Espana shares underlying the original forward contracts, for which they agreed to pay us an aggregate price of approximately U.S.$828.5 million, or the notional amount of the new forward contracts. We agreed with the banks that the purchase price payable to us under the new forward contracts would be netted against the adjusted forward settlement price of the original forward contracts and any advance payments made by us in connection with the closing of the new forward contracts. Upon closing of the new forward transactions, we made an advance payment to the banks of approximately U.S.$380.1 million of the forward purchase price, U.S.$285 million

of which represented payment in full of the portion of the forward purchase price relating to the CEMEX Espana shares and U.S.$95.1 million of which was an advance payment against the forward settlement price. As of December 13, 2002, the forward purchase price of the new forward contracts was U.S.$448.4 million.

Absent a default under the forward contracts, the banks are required to deliver to us on December 12, 2003 a number of ADSs and CEMEX Espana shares equal to the number of ADSs and CEMEX Espana shares subject to the forward contracts against payment of the adjusted forward settlement price. As a result of stock dividends through June 2003, the number of ADSs subject to the forward contracts increased to 25,457,378 ADSs. The forward purchase price payable at any time under the forward contracts is the present value of the adjusted forward settlement price. The adjusted forward settlement price is the future value of the notional amount minus the future value of all prepayments under the forward contracts. The forward contracts provide for early delivery of ADSs and CEMEX Espana shares to us in specified circumstances. We are required to make payments during the life of the forward contracts and upon the occurrence of specified events. During the life of the forward contracts, we are required to make additional periodic prepayments if the current market value of the ADSs and CEMEX Espana shares subject to the contracts is less than 120% of the mark-to-market of the discounted remaining forward purchase price.

Under the forward contracts, the banks are permitted to sell at any time or from time to time all or a portion of the purchased ADSs and the purchased CEMEX Espana shares. In particular, we anticipate that the banks would sell ADSs and CEMEX Espana shares if we were to default on any of our obligations under the forward contracts. In the absence of a default under the forward contracts, the banks have agreed to pay to us an amount equal to any dividends paid on the purchased ADSs upon the maturity or early termination of the forward contracts. In addition, absent a default under the forward contracts, we retain all voting and economic rights with respect to the CEMEX

Espana shares purchased by the banks. Notwithstanding any contractual agreement between the banks and us, any person that purchases ADSs from the banks will be entitled to all dividend, voting, economic and corporate rights with respect to the ADSs purchased by them.

As mentioned above, as a condition of entering into the forward contracts, we agreed to keep continuously effective a registration statement, of which this prospectus is a part, that registers for resale by the banks the ADSs covered by the forward transactions. The banks may sell at any time or from time to time all or a portion of the ADSs pursuant to the registration statement.

We may agree with the selling ADS holders to settle the forward transactions for cash, and the selling ADS holders may sell all or a portion of the ADSs pursuant to the registration statement, of which this prospectus is a part, in order to pay us the cash settlement amount, if any, payable in connection with such agreement. If the forward transactions are settled for cash, we may receive a portion of the proceeds from the sale of ADSs pursuant to this prospectus to the extent such proceeds exceed the amount necessary to satisfy our obligations under the forward contracts. In addition, we may facilitate offers and sales of the ADSs by the selling ADS holders either directly to purchasers or through an underwritten offering, in which case we may be a party to the purchase agreement or underwriting agreement relating to such offers and sales. We may also arrange for the selling ADS holders to sell a portion of the ADSs to banks or other financial institutions in connection with new forward transactions or to a trust in order to hedge our obligations under the new appreciation warrants. In the event any selling ADS holder sells a portion of the ADSs to such new bank or trust, such new bank or trust may resell such ADSs under this registration statement from time to time, in one or more offerings, pursuant to an appropriate prospectus supplement.

For accounting purposes under Mexican GAAP, whether we settle the forward transactions for cash or physically by repurchasing the ADSs, the portions of the forward contracts relating to our ADSs are considered to be equity transactions. Therefore, changes in the fair value of the ADSs have not been and will not be recorded until settlement and the cost of the forward contracts relating to our ADSs will be recorded as a decrease in stockholders' equity. With respect to the portion of the forward contracts relating to CEMEX Espana shares, our obligations to the banks relating to those shares have been offset on our balance sheet against the portion of the forward purchase price that we prepaid to the banks.

Although our obligations under the forward contracts are not treated as debt on our balance sheet under Mexican GAAP, our obligations under the forward contracts are included as debt in the calculation of our debt to total capitalization ratio covenants contained in our principal financing agreements.

CEMEX, S.A. DE C.V.

Founded in 1906, CEMEX is the third largest cement company in the world, based on installed capacity as of December 31, 2002 of approximately 80.9 million tons. We are one of the world's largest traders of cement and clinker, having traded over 10.2 million tons of cement and clinker in 2002. We are a holding company engaged, through our operating subsidiaries, primarily in the production, distribution, marketing and sale of cement, ready-mix concrete and clinker. We are a global cement manufacturer with operations in North, Central and South America, Europe, the Caribbean, Asia and Africa. As of December 31, 2002, we had worldwide assets of Ps165.4 billion (U.S.$15.9 billion). On August 15, 2003, we had an equity market capitalization of approximately Ps82 billion (U.S.$7.6 billion).

We believe that we are one of the most efficient cement producers in the world. We believe we have achieved this competitive advantage through our significant utilization of technology throughout our entire organization, our superior operating practices, our turnaround expertise in newly acquired operations and our size as one of the largest cement companies in the world.

As of December 31, 2002, our main cement production facilities were located in Mexico, Spain, Venezuela, Colombia, the United States, Egypt, the Philippines, Thailand, Costa Rica, the Dominican Republic, Panama, Nicaragua and Puerto Rico. As of December 31, 2002, our assets, cement plants and installed capacity, on an unconsolidated basis, were as set forth below. Installed capacity, which refers to theoretical annual production capacity, represents gray cement equivalent capacity, which counts each ton of white cement capacity as approximately two tons of gray cement capacity. It also includes our proportional interest in the installed capacity of companies in which we hold a minority interest.

	As of December 31, 2	
	Assets (in billions of constant Pesos)	Number of Cement Plants
North America		
Mexico	Ps 57.0	15
United States	44.7	12
Europe, Asia and Africa		
Spain	21.5	8
Asia	12.1	4
Egypt	5.7	1
South America, Central America and the Caribbean		
Venezuela	7.9	3
Colombia	6.0	5
Central America and the Caribbean	10.7	5
Cement and Clinker Trading Assets and Other Operations	71.9	--

In the above table, "Asia" includes our Asian subsidiaries, and, for purposes of the columns labeled "Assets" and "Installed Capacity," includes our 25.5% interest, as of December 31, 2002, in PT Semen Gresik, or Gresik, an Indonesian cement producer. In addition to the three cement plants owned by our Asian subsidiaries, Gresik operated four cement plants with an installed capacity of 17.2 million tons, as of December 31, 2002. In the above table, "Central America and the Caribbean" includes our subsidiaries in Costa Rica, the Dominican Republic, Panama, Nicaragua, Puerto Rico and other assets in the Caribbean region. In the above table, "Cement and Clinker Trading Assets and Other Operations" includes in the column labeled "Assets" our 11.9% interest in Cementos Bio Bio, a Chilean cement producer having three cement plants with an installed capacity of approximately 2.2 million tons at December 31, 2002, and intercompany accounts receivable of CEMEX (the parent company only) in the amount of Ps33.9 billion, which would be eliminated if these assets were calculated on a consolidated basis.

During the last decade, we embarked on a major geographic expansion program to diversify our cash flows and enter markets whose economic cycles within the cement industry largely operate independently from that of Mexico and which offer long-term growth potential. We have built an extensive network of marine and land-based distribution centers and terminals that give us marketing access around the world.

For the year ended December 31, 2002, our net sales, before eliminations resulting from consolidation, were divided among the countries in which we operate as follows:

[pie chart omitted]

Mexico	35.0%
United States	26.0%
Spain	10.0%
Venezuela	6.0%
Colombia	3.0%
Central America and the Caribbean	6.0%
Philippines	2.0%
Egypt	2.0%
Others	10.0%

Executive Offices

We are a Mexican corporation with our principal executive offices located at Av. Ricardo Margain Zozaya #325, Colonia Valle del Campestre, Garza Garcia, Nuevo Leon, Mexico 66265. Our main phone number is +011-5281-8888-8888.

RISK FACTORS

You should carefully consider the following risks and all the information contained or incorporated by reference in this prospectus before making an investment decision regarding our securities. The following risks are not the only risks we face.

Risks Relating to our ADSs

Any sale of the ADSs by the selling ADS holders, or market anticipation of a sale, could cause the price of our CPOs and ADSs to decline.

Under the forward contracts, the selling ADS holders purchased the ADSs from us. A sale of these ADSs to the public could result in a decline in the market price of our CPOs and ADSs. In addition, market anticipation of a sale of ADSs by any of the selling ADS holders may cause the market price of our ADSs to decline. The selling ADS holders also have the right to sell the CEMEX Espana shares sold to them under the forward contracts, and a sale of those CEMEX Espana shares could also cause a decline in the market price of our CPOs and ADSs.

Preemptive rights may be unavailable to ADS holders.

ADS holders may be unable to exercise preemptive rights granted to our shareholders, in which case ADS holders could be substantially diluted. Under Mexican law, whenever we issue new shares for payment in cash or in kind, we are required to grant preemptive rights to our shareholders. However, ADS holders may not be able to exercise these preemptive rights to acquire new shares unless both the rights and the new shares are registered in the United States or an exemption from registration is available.

We cannot assure you that we would file a registration statement in the United States at the time of any rights offering. In addition, while the depositary is permitted, if lawful and feasible at that time, to sell those rights and distribute the proceeds of that sale to ADS holders who are entitled to those rights, current Mexican law does not permit sales of that kind.

Risks Relating to Our Business

Our ability to pay dividends and repay debt depends on our subsidiaries' ability to transfer income and dividends to us.

We are a holding company with no significant assets other than the stock of our wholly-owned and non-wholly-owned subsidiaries and our holdings of cash and marketable securities. Our ability to pay dividends and repay debt depends on the continued transfer to us of dividends and other income from our wholly-owned and non-wholly-owned subsidiaries. The ability of our subsidiaries to pay dividends and make other transfers to us is limited by various regulatory, contractual and legal constraints that affect our subsidiaries.

We have incurred and will continue to incur debt, which could have an adverse effect on the price of our CPOs and ADSs, result in us incurring increased interest costs and limit our ability to distribute dividends, finance acquisitions and expansions and maintain flexibility in managing our business activities.

We have incurred and will continue to incur significant amounts of debt, which could have an adverse effect on the price of our CPOs and ADSs. Our indebtedness may have important consequences, including increased interest costs if we are unable to refinance existing indebtedness on satisfactory terms. In addition, the debt instruments governing a substantial portion of our indebtedness contain various covenants which require us to maintain financial ratios, restrict asset sales and restrict our ability to use the proceeds from a sale of assets. Consequently, our ability to distribute dividends, finance acquisitions and expansions and maintain flexibility in managing our business activities could be limited. As of December 31, 2002, we had outstanding debt equal to Ps59.9 billion (U.S.$5.77 billion), not including obligations under preferred stock transactions and under equity derivative transactions in our own stock and in stock of our subsidiaries.

We have to service our Dollar and Yen denominated debt with revenues generated in Pesos or other currencies, as we do not generate sufficient revenue in Dollars and Yen from our operations to service all our Dollar and Yen

denominated debt. This could adversely affect our ability to service our debt in the event of a devaluation or depreciation in the value of the Peso or of any of the other currencies of the countries in which we operate.

A substantial portion of our outstanding debt is denominated in Dollars and Yen. This debt, however, must be serviced by funds generated from sales by our subsidiaries. Currently, we do not generate sufficient revenue in Dollars and Yen from our operations to service all our Dollar and Yen denominated debt. Consequently, we have to pay our Dollar and Yen denominated debt with revenues generated in Pesos or other currencies. A devaluation or depreciation in the value of the Peso, or any of the other currencies of the countries in which we operate, compared to the Dollar or the Yen could adversely affect our ability to service our debt. During 2002, Mexico and Spain, our main non-U.S. Dollar denominated operations, generated almost half of our sales (approximately 34% and 14%, respectively), before eliminations resulting from consolidation. In 2002, approximately 24% of our sales were generated in the United States with the remaining 28% of our sales being generated in several countries, with a number of currencies also having material depreciations against the Dollar and the Yen. During 2002, the Peso depreciated 13.2% against the Dollar and depreciated 20.2% against the Yen, while the Euro appreciated 16.1% against the Dollar and appreciated 7.6% against the Yen.

We may not be able to continue our growth if our acquisition strategy is not successful.

A key element of our growth strategy is to integrate our recently acquired operations with existing operations. Our ability to realize the expected benefits from future acquisitions depends, in large part, on our ability to integrate the new operations with existing operations in a timely and effective manner. We cannot assure you that these efforts will be successful with respect to future acquisitions by us. Furthermore, our strategy depends on our ability to identify and acquire suitable assets at desirable prices. We cannot assure you that we will be successful in identifying or purchasing suitable assets in the future. If we fail to make further acquisitions, we may not be able to continue to grow in the long term at our historic rate.

We are subject to restrictions due to minority interests in our consolidated subsidiaries.

We conduct our business through subsidiaries. In some cases, third-party shareholders hold minority interests in these subsidiaries. Various disadvantages may result from the participation of minority shareholders whose interests may not always coincide with ours. Some of these disadvantages may, among other things, result in our inability to implement organizational efficiencies and transfer cash and assets from one subsidiary to another in order to allocate assets most effectively.

Our derivative instruments and other financing arrangements may have adverse effects on the market for our securities and some of our subsidiaries' securities, and may adversely affect our ability to achieve operating efficiencies as a combined group.

In recent years, we have entered into several derivative instruments and engaged in other financing transactions involving shares of our capital stock and shares of capital stock of some of our subsidiaries under equity forward contracts as a source of financing and as a means of meeting our obligations that may require us to deliver significant numbers of shares of our own stock.

We have equity forward agreements in our own stock, the estimated fair value of which is linked to the market price of our CPOs or ADSs. As of December 31, 2002, the notional amount of our outstanding obligations under our equity forward contracts was approximately U.S.$1.4 billion, with an estimated fair value loss of U.S.$90.6 million. In addition to the estimated fair value loss of our equity forward agreements, a portion of which corresponds to the contracts designated as hedges of our stock option programs which are periodically recorded in our income statements, during 2002 we had losses amounting approximately to U.S.$98.3 million (Ps1,020.3 million) resulting from the net settlement in connection to the new forward transactions entered to cover our obligations under our appreciation warrants. The decline in the estimated fair value of our equity forward contracts is due to a decrease in the market price of our listed securities (ADSs and CPOs). Pursuant to the terms of our equity forward contracts, if the shares underlying our equity forward agreements suffer a substantial decrease in market value, we could be required to compensate for the decrease in market value. If we default in this obligation, the counterparties to our equity forward agreements have the option of either selling the underlying shares to the market or requiring us to repurchase the underlying shares.

As of December 31, 2002, U.S.$650 million was outstanding under a preferred equity financing arrangement, which is payable in two tranches in February 2004 and August 2004. Under the terms of the preferred equity financing arrangement, our subsidiary New Sunward Holding B.V. may be liquidated if we do not repurchase the preferred equity, or if we do not make payments on the preferred equity and in other adverse circumstances. Any such liquidation would include the sale of its assets (mainly the CEMEX Espana shares it holds) at market prices in an amount sufficient to satisfy the liquidation preference of the preferred equity.

As stated above, if we default on the terms of our equity forward or preferred equity agreements, our counterparties may sell the shares underlying these agreements, which may:

- dilute shareholders' interests in our equity securities;
- have an adverse effect on the market for our equity securities;
- have an adverse effect on the market for the equity securities of some of our subsidiaries;
- reduce the amount of dividends and other distributions that we receive from our subsidiaries;
- create public minority interests in our subsidiaries that may adversely affect our ability to realize operating efficiencies as a combined group; and
- have an adverse effect on other financing agreements.

Any of these factors could adversely affect the price of our CPOs and ADSs.

We are subject to several anti-dumping rulings that may limit our ability to export cement to the United States.

Our Mexican operations are subject to anti-dumping rulings by the U.S. Commerce Department which may limit our ability to export cement to the United States. Since April 1990, our exports of gray Portland cement and clinker to the United States from Mexico, which represented 4.5% of total sales volume of our Mexican operations in 2002, have been subject to U.S. anti-dumping duties. In addition, importers of gray Portland cement and clinker from Mexico, including our U.S. operations, have been required to pay substantial cash deposits to the U.S. Customs Service to secure the eventual payment of those duties.

We are disputing some tax claims an adverse resolution of which may result in a significant additional tax expense.

We have received notices from the Mexican tax authorities of tax claims in respect of the tax years from 1992 through 1996 for an aggregate amount of approximately Ps5.2 billion, including interest and penalties through December 31, 2002. An adverse resolution of these claims could materially reduce our net income.

Our operations are subject to environmental laws and regulations.

Our operations are subject to laws and regulations relating to the protection of the environment in the various jurisdictions in which we operate, such as regulations regarding the release of cement dust into the air. Stricter laws and regulations, or stricter interpretation of existing laws or regulations, may impose new liabilities on us or result in the need for additional investments in pollution control equipment, either of which could result in a material decline in our profitability in the short term.

We are an international company and are exposed to risks in the countries in which we have significant operations or interests.

We are dependent, in large part, on the economies of the countries in which we market our products. The economies of these countries are in different stages of socioeconomic development. Consequently, like many other companies

with significant international operations, we are exposed to risks from changes in foreign currency exchange rates, interest rates, inflation, governmental spending, social instability and other political, economic or social developments that may materially reduce our net income.

In 2002, the largest percentage of our net sales (34%) and total assets (24%), at year-end, were in Mexico. If the Mexican economy experiences a continued recession or if Mexican inflation and interest rates increase significantly, our net income from our Mexican operations may decline materially because construction activity may decrease, which may lead to a decrease in cement sales. The Mexican government does not currently restrict the ability of Mexicans or others to convert Pesos to Dollars, or vice versa. The Mexican Central Bank has consistently made foreign currency available to Mexican private sector entities, such as CEMEX, to meet their foreign currency obligations. Nevertheless, if renewed shortages of foreign currency occur, the Mexican Central Bank may not continue its practice of making foreign currency available to private sector companies and we may not be able to purchase the foreign currency we need to service our foreign currency obligations without substantial additional cost.

We also have operations in the United States (24% of net sales and 19% of total assets in 2002), Spain (14% of net sales and 9% of total assets), Venezuela (4% of net sales and 3% of total assets), Central America and the Caribbean (7% of net sales and 5% of total assets), Colombia (3% of net sales and 3% of total assets), the Philippines (2% of net sales and 4% of total assets), other Asian countries, including Thailand, (2% of total assets) and Egypt (2% of net sales and 2% of total assets). As in the case of Mexico, adverse economic conditions in any of these countries may produce a negative impact on our net income from our operations in that country.

In recent years, Venezuela has experienced considerable volatility and depreciation of its currency, high interest rates, political instability and declining asset values. In February 2002, the government abandoned its policy of locking the Venezuelan Bolivar within an exchange rate band in favor of a free floating exchange rate system. The Venezuelan Bolivar has depreciated considerably following this action and may continue to do so. Additionally, Venezuela has experienced increased inflation, decreased gross domestic product and labor unrest, including general strikes. In response to these events and in an effort to shore up the economy and control inflation, Venezuelan authorities have imposed foreign exchange and price controls on specified products, including cement. Further economic stagnation in the private sector is expected to result as a consequence of these market distortions. These developments have had and may continue to have an adverse effect on the construction sector in Venezuela, as a result of reduced demand for cement and ready-mix concrete, which has adversely affected our sales and net income.

We believe that Asia represents an important market for our future growth. However, since mid-1997, many countries in Asia in which we have made significant investments have experienced considerable volatility and depreciation of their currencies, high interest rates, banking sector crises, stock market volatility, political instability and declining asset values. These developments have had and may continue to have an adverse effect on the Asian construction sector, as a result of reduced demand for cement and ready-mix concrete, which has adversely affected our sales and net income.

We believe that Egypt also represents an important market for our future growth. Rising instability in the Middle East, however, has resulted from, among other things, civil unrest, extremism, the continued deterioration of Israeli-Palestinian relations and the recent war in Iraq. There can be no assurance that political turbulence in the Middle East will abate at any time in the near future or that neighboring countries, including Egypt, will not be drawn into the conflict. In Egypt, extremists have engaged in a sometimes violent campaign against the government in recent years. There can be no assurance that extremists will not escalate their opposition in Egypt or that the government will continue to be successful in maintaining the prevailing levels of domestic order and stability. Since 2000, the Egyptian government devalued the pound four times, and in January 2003, it decided to let the pound trade as a freely floating currency. Since that time, the Egyptian pound has depreciated significantly against the Dollar. Future depreciation of the Egyptian pound relative to other currencies could create additional inflationary pressures in Egypt by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, if the Egyptian pound were to appreciate against other currencies, this could dampen export-driven growth, thereby weakening the Egyptian economy and indirectly adversely affecting cement demand. The potential impact of the floating exchange rate system and of measures by the Egyptian government aimed at improving Egypt's investment climate is uncertain. The Egyptian Central Bank continues to monitor the exchange rate and reserves the right to intervene

without notice. Weakened investor confidence as a result of currency instability as well as any of the other foregoing circumstances could have a material adverse effect on the political and economic stability of Egypt and consequently on our Egyptian operations.

The September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon temporarily disrupted the trading markets in the United States and caused declines in major stock markets around the world. Since those attacks, there have been terrorist attacks in Indonesia and ongoing threats of future terrorist attacks in the United States and abroad. In response to these terrorist attacks and threats, the United States has instituted several anti-terrorism measures, most notably, the formation of the Office of Homeland Security, a formal declaration of war against terrorism and the recent war in Iraq. Although it is not possible at this time to determine the long-term effect of these terrorist threats and attacks and the consequent response by the United States, including the war in Iraq, there can be no assurance that there will not be other attacks or threats in the United States or abroad that will lead to further economic contraction in the United States or any other of our major markets. In the short-term, however, terrorist activity against the United States and the consequent response by the United States has contributed to the uncertainty of the stability of the United States economy as well as global capital markets. The current weakness of the United States economy has had, and may continue to have, an adverse effect on the private construction sector. In addition, the projected United States budget deficits may have an adverse effect on the public construction sector. Further economic contraction in the United States or any of our major markets could affect domestic demand for cement and have a material adverse effect on our operations.

On November 1, 2001, the provincial administration of the Indonesian province of West Sumatra, in which Gresik's Padang plant is located, announced that it had directed the management of Semen Padang, the wholly-owned subsidiary of Gresik that owns and operates the Padang plant, to report to the provincial authorities and that it intended to spin off the Padang subsidiary. We believe the provincial administration lacked legal authority to direct the affairs of Semen Padang. Since the attempt of the West Sumatra provincial administration in November 2001 to "take over" the management of Semen Padang, several interest groups opposed to any further sale of the Indonesian government's stock ownership in PT Semen Gresik to us have threatened strikes and other actions that would affect our Indonesian operations. Further attempts to reassume control at Semen Padang, including shareholder-approved changes in management, have been met with resistance and lawsuits by various interest groups. The former management refused to relinquish control and the employees at the Padang facility have not recognized the new management. We intend to defend our interests in Gresik and its subsidiaries, including Semen Padang. We cannot predict, however, what effect, if any, this action will have on our investment in Gresik.

You may be unable to enforce judgments against us

You may be unable to enforce judgments against us. We are a stock corporation with variable capital, or sociedad anonima de capital variable, organized under the laws of Mexico. Substantially all our directors and officers and some of the experts named in this prospectus reside in Mexico, and all or a significant portion of the assets of those persons may be, and the majority of our assets are, located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those persons or to enforce judgments against them or against us in U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. We have been advised by Lic. Ramiro G. Villarreal, General Counsel of CEMEX, that it may not be possible to enforce, in original actions in Mexican courts, liabilities predicated solely on the U.S. federal securities laws and it may not be possible to enforce, in Mexican courts, judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

11

USE OF PROCEEDS

The selling ADS holders will receive the proceeds of sales of the ADSs. The selling ADS holders may apply such proceeds against the final forward purchase price we are obligated to pay under the forward contracts.

In the event that we agree with the selling ADS holders to settle the forward transactions for cash, in which case we may facilitate offers and sales of the ADSs by the selling ADS holders pursuant to this prospectus, we may receive a portion of the proceeds from such sales to the extent such proceeds exceed the amount necessary to satisfy our obligations under the forward contracts.

Unless otherwise set forth in a prospectus supplement, to the extent we receive any proceeds from the sales of ADSs hereunder in excess of the amounts required to settle the forward transactions, we intend to use such proceeds for general corporate purposes, including working capital, the repayment of debt and the expansion of our business through strategic acquisitions as opportunities arise.

SELLING ADS HOLDERS

The selling ADS holders listed in the table below may sell up to the number of ADSs set forth opposite to their respective names. The table sets forth information with respect to beneficial ownership of our common stock by the selling ADS holders as of June 30, 2003. The following information has been obtained from the selling ADS holders.

			Beneficial ownership of CEMEX common stock prior to the offering		Ben CEM aft
	Number of ADSs that may be sold in the offering(1)	Number of shares of CEMEX common stock represented by ADSs that may be sold in the offering	Number of shares of common stock	Percentage of outstanding common stock	Nu s c
Citibank, N.A.	4,750,943	71,264,145	71,264,145	1.47%	
ING Bank, N.V.	4,750,943	71,264,145	71,264,145	1.47%	
Deutsche Bank AG London	4,750,943	71,264,145	71,264,145	1.47%	
Credit Suisse First Boston International	4,099,226	61,488,390	61,488,390	1.27%	
ABN AMRO Special Corporate Services B.V.	2,732,818	40,922,270	40,992,270	*	
Societe Generale	2,186,253	32,793,795	32,793,795	*	
J.P. Morgan GT Corporation(4)	2,186,252	32,793,780	32,793,780	*	

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* Less than 1.0%.

(1) Includes, with respect to each selling ADS holder, the number of ADSs such selling ADS holder has received as stock dividends in respect of the ADSs underlying the forward contracts.

(2) Assumes that all the ADSs purchased from us pursuant to the forward contracts and all ADSs received as stock dividends in respect of such ADSs are sold by the selling ADS holders pursuant to the offering and that no other shares of CEMEX common stock owned by the selling ADS holders are sold by the selling ADS holders.

(3) Based on 4,845,934,017 shares of our common stock outstanding as of June 30, 2003.

(4) Although J.P. Morgan GT Corporation was not a party to the forward contracts, it received these ADSs from its affiliate, JPMorgan Chase Bank, one of the banks party to the forward contracts.

In the event a selling ADS holder sells all or a portion of its ADSs to another bank or financial institution, such bank or financial institution may resell such ADSs hereunder from time to time in one or more offerings.

Each of Citibank, N.A., ING Bank, N.V., Deutsche Bank AG London, Credit Suisse First Boston International, ABN AMRO Special Corporate Services B.V., Societe Generale, J.P. Morgan GT Corporation and their respective affiliated companies and/or individuals may, from time to time, own or have positions in, or options on, our securities and may also provide advisory services and/or lending or other credit services to us.

In addition, each of the selling ADS holders are affiliates of "brokers" or "dealers," as such terms are defined in Section 3 of the Securities Exchange Act of 1934, as amended. However, each such selling ADS holder purchased the ADSs to be resold by it pursuant to this prospectus in the ordinary course of business, and at the time of such purchase, no selling ADS holder had any agreement or understanding, directly or indirectly, with any person to distribute such ADSs. It is anticipated, however, that in the event of an underwritten offering of ADSs by the selling ADS holders pursuant to this prospectus, affiliates of the selling ADS holders will enter into underwriting agreements with CEMEX and the selling ADS holders in connection with such offering. The specific terms of any such underwritten offering will be reflected in an appropriate prospectus supplement.

DESCRIPTION OF OUR COMMON STOCK

General

We have two series of common stock, the series A common stock, with no par value, or A shares, which can only be owned by Mexican nationals, and the series B common stock, with no par value, or the B shares, which can be owned by both Mexican and non-Mexican nationals. Our by-laws state that the A shares may not be held by non-Mexican persons, groups, units or associations that are foreign or have participation by foreign governments or their agencies. Our by-laws also state that the A shares shall at all times account for a minimum of 64% of our total outstanding voting stock. Other than as described herein, holders of the A shares and the B shares have the same rights and obligations.

In 1994, we changed from a fixed capital corporation to a variable capital corporation in accordance with Mexican corporation law and effected a three-for-one split of all our outstanding capital stock. As a result, we changed our corporate name from CEMEX, S.A. to CEMEX, S.A. de C.V., established a fixed capital account and a variable capital account and issued one share of variable capital stock of the same series for each eight shares of fixed capital stock held by any shareholder, after giving effect to the stock split.

Each of our fixed and variable capital accounts are comprised of A shares and B shares. Under Mexican law and our by-laws, any holder of shares representing variable capital is entitled to have those shares redeemed at that holder's option for a price equal to the lower of:

- 95% of the market value of those shares based on the weighted average trading price of our CPOs on the Mexican Stock Exchange during the latest period of 30 trading days preceding the date on which the exercise of the redemption option is effective, for a period not to exceed six months; and

- the book value of those shares at the end of the fiscal year immediately prior to the effective date of the redemption option exercise by that shareholder as set forth in our annual financial statements approved at the ordinary meeting of shareholders.

If the period used in calculating the quoted share price as described above consists of less than 30 trading days, the number of days when shares were actually traded will be used. If shares have not been traded during this period, the redemption price will be the book value as set forth in the latest year-end financial statements issued prior to the redemption date. If a shareholder exercises its redemption option during the first three quarters of a fiscal year, that exercise is effective at the end of that fiscal year, but if a shareholder exercises its redemption option during the fourth quarter, that exercise is effective at the end of the next succeeding fiscal year. The redemption price is payable as of the day following the annual ordinary meeting of shareholders at which the relevant annual financial statements were approved.

Shareholder authorization is required to increase or decrease either the fixed capital account or the variable capital account. Shareholder authorization to increase or decrease the fixed capital account must be obtained at an extraordinary meeting of shareholders. Shareholder authorization to increase or decrease the variable capital account must be obtained at an ordinary general meeting of shareholders.

On September 15, 1999, we effected a further stock split. For every one of our shares of any series we issued two series A shares and one series B share. Concurrently with this stock split, we also consummated an exchange offer to exchange new CPOs and new ADSs representing the new CPOs for our then existing A shares, B shares and ADSs and converted our then existing CPOs into the new CPOs. As of December 31, 2002, approximately 94.84% of our outstanding share capital was represented by CPOs, a portion of which is represented by ADSs.

As of December 31, 2002, our capital stock consisted of 5,421,340,089 issued shares. As of December 31, 2002, series A shares represented 66.6% of our capital stock, or 3,614,226,726 shares, of which 3,331,300,154 shares were subscribed and paid, 151,182,076 shares were treasury shares, 15,218,400 were repurchased shares which had been subscribed and paid and 116,526,096 were authorized for issuance pursuant to our stock option plans, but which had not

yet been paid. B shares represented 33.4% of our capital stock, or 1,807,113,363 shares, of which 1,665,650,077 were subscribed and paid, 75,591,038 shares were treasury shares, 7,609,200 were repurchased shares which had been subscribed and paid and 58,263,048 were authorized for issuance pursuant to our employee stock option plans, but which had not yet been paid. Of the total of our A shares and B shares outstanding as of December 31, 2002, 3,267,000,000 shares corresponded to the fixed portion of our capital stock and 2,154,340,089 shares corresponded to the variable portion of our capital stock.

As of June 1, 2001, the Mexican securities law (Ley de Mercado de Valores) was amended to increase the protection granted to minority shareholders of Mexican listed companies and to commence bringing corporate governance procedures of Mexican listed companies in line with international standards.

On February 6, 2002, the Mexican securities authority (Comision Nacional Bancaria y de Valores) issued an official communication numbered DGA-13813138, authorizing the amendment of our by-laws to incorporate additional provisions to comply with the new provisions of the Mexican securities law. Following approval from our shareholders at our 2002 annual shareholders meeting, we amended and restated our by-laws to incorporate these additional provisions, which consist of, among other things, protective measures to prevent share acquisitions, hostile takeovers, and direct or indirect changes of control. As a result of the amendment and restatement of our by-laws, the expiration of our corporate term of existence was extended from 2019 to 2100.

On March 19, 2003, the Mexican securities authority issued new regulations designed to (i) further implement minority rights granted to shareholders by the Mexican securities law and (ii) simplify and comprise in a single document provisions relating to securities offerings and periodic reports by Mexican listed companies.

On April 24, 2003, our shareholders approved changes to our by-laws, incorporating additional provisions and removing some restrictions. The changes were as follows:

- The restriction that prohibits our subsidiaries from acquiring shares in companies that own our shares was amended to remove a condition that our subsidiaries have knowledge of such ownership.

- The limitation on our variable capital was removed. Formerly, our variable capital was limited to ten times our minimum fixed capital, which is currently set at Ps36.3 million.

- Increases and decreases in our variable capital now require the notarization of the minutes of the ordinary general shareholders' meeting that authorize such increase or decrease, as well as the filing of these minutes with the Mexican National Securities Registry (Registro Nacional de Valores), except when such increase or decrease results from (i) shareholders exercising their redemption rights or (ii) stock repurchases.

- Amendments were made to the calculation of the redemption price for our variable capital shares, which is described above.

- Approval by the board of directors is now required for transactions by us or any of our subsidiaries involving: (i) transactions not in the ordinary course of business with third parties related to us or to any of our subsidiaries, (ii) purchases or sales of assets having a value equal to or exceeding 10% or more of our total consolidated assets, (iii) the granting of security interests in an amount exceeding 30% of our total consolidated assets, and (iv) any other transaction that exceeds 1% of our total consolidated assets.

- The cancellation of registration of our shares in the Securities Section of the Mexican National Securities Registry now involves an amended procedure, which is described below under "Repurchase

Obligation." In addition, any amendments to the article containing these provisions no longer require the consent of the Mexican securities authority and 95% approval by shareholders entitled to vote.

Changes in Capital Stock and Preemptive Rights

Our by-laws allow for a decrease or increase in our capital stock if it is approved by our shareholders at a shareholders' meeting, as long as the A shares represent at least 64% of our ordinary common stock. Additional shares of our capital stock, having no voting rights or limited voting rights, are authorized by our by-laws and may be issued upon the approval of our shareholders at a shareholders' meeting, with the prior approval of the Mexican securities authority.

Our by-laws provide that shareholders have preemptive rights in proportion to the number of shares of our capital stock they hold, before any increase in the number of outstanding A shares, B shares, or any other existing series of shares, as the case may be, except in the case of common stock issued in connection with mergers or upon the conversion of convertible notes and debentures or as set forth in Article 81 of the Mexican Securities law. Preemptive rights give shareholders the right, upon any issuance of shares by us, to purchase a sufficient number of shares to maintain their existing ownership percentages. Preemptive rights must be exercised within the period and under the conditions established for that purpose by the shareholders, and our by-laws and applicable law provide that this period must be 15 days following the publication of the notice of the capital increase in the Periodico Oficial del Estado. With the prior approval of the Mexican securities authority, an extraordinary shareholders' meeting may approve the issuance of our stock in connection with a public offering, without the application of the preemptive rights described above. At that meeting, holders of our stock must waive preemptive rights by the affirmative vote of 50% of the capital stock, and the resolution duly adopted in this manner will be effective for all shareholders. If holders of at least 25% of our capital stock vote against the resolution, the issuance without the application of preemptive rights may not be effected. The Mexican securities authority may only approve the issuance if we maintain policies that protect the rights of minority shareholders. Any shareholder voting against the relevant resolution will have the right to have its shares placed in the public offering together with our shares and at the same market price.

Pursuant to our by-laws, significant acquisitions of shares of our capital stock and changes of control of CEMEX require prior approval from our board of directors. Our board of directors must authorize in advance any transfer of voting shares of our capital stock that would result in any person or group becoming a holder of 2% of more of our shares. If our board of directors denies that authorization, it must designate an alternative buyer for those shares, at a price equal to the price quoted on the Mexican Stock Exchange. Any acquisition of shares of our capital stock representing 20% or more of our capital stock by a person or group of persons requires prior approval from our board of directors and, in the event approval is granted, the acquiror has an obligation to make a public offer to purchase all of the outstanding shares of that class of capital stock being purchased. In the event the requirements described above for significant acquisitions of shares of our capital stock are not met, the persons acquiring such shares will not be entitled to any corporate rights with respect to such shares, such shares will not be taken into account for purposes of determining a quorum for shareholder meetings and we will not record such persons as holders of such shares in our shareholder ledger.

Our by-laws require the stock certificates representing shares of our capital stock to make reference to the provisions in our by-laws relating to the prior approval of the board of directors for significant share transfers and the requirements for recording share transfers in our shareholder ledger. In addition, shareholders are responsible for informing us whenever their shareholdings exceed 5%, 10%, 15% and 20% of the outstanding shares of a particular class of our capital stock. We are required to maintain a shareholder ledger that records the names, nationality and domicile of all significant shareholders, and any shareholder that meets or exceeds these thresholds must be recorded in this ledger if such shareholder is to be recognized or represented at any shareholders' meeting. If a shareholder fails to inform us of its shareholdings reaching a threshold as described above, we will not record the transactions that cause such threshold to be met or exceeded in our shareholder ledger, and such transaction will have no legal effect and will not be binding on us.

Repurchase Obligation

In accordance with Mexican securities authority regulations, our majority shareholders are obligated to make a public offer for the purchase of stock to the minority shareholders if the listing of our stock with the Mexican Stock Exchange is canceled, either by resolution of CEMEX or by an order of the Mexican securities authority. The price at which the stock must be purchased by the majority shareholders is the higher of:

- the weighted average price per share based on the weighted average trading price of our CPOs on the Mexican Stock Exchange during the latest period of 30 trading days preceding the date of the offer, for a period not to exceed six months; or

- the book value per share, as reflected in the last quarterly report filed with the Mexican securities authority and the Mexican Stock Exchange.

Five business days prior to the commencement of the offering, our board of directors must make a determination with respect to the fairness of the offer, taking into account the interests of the minority shareholders and disclose its opinion, which must refer to the justifications of the offer price; if the board of directors is precluded from making such determination as a result of a conflict of interest, the resolution of the board of directors must be based upon a fairness opinion issued by an expert selected by the audit committee in which emphasis must be placed on majority rights.

Following the expiration of this offer, if the majority shareholders do not acquire 100% of the paid-in share capital, such shareholders must place in a trust set up for that purpose for a six-month period an amount equal to that required to repurchase the remaining shares held by investors who did not participate in the offer. The majority shareholders are not obligated to make the repurchase if shareholders representing 95% of our share capital waive that right, and the amount offered for the shares is less than 300,000 UDIs (Unidades de Inversion), which are investment units in Mexico that reflect inflation variations. If these conditions are met, we must create a trust as described above and provide electronic notice to the Mexican Stock Exchange. For purposes of these provisions, majority shareholders are shareholders that own a majority of our shares, have voting power sufficient to control decisions at general shareholder meetings, or that may elect a majority of our board of directors.

Shareholders' Meetings and Voting Rights

Shareholders' meetings may be called by:

- our board of directors or statutory auditors;
- shareholders representing at least 10% of the then outstanding shares of our capital stock by requesting our board of directors or the statutory auditors to call a meeting;
- any shareholder if no meeting has been held for two consecutive years or when the matters referred to in Article 181 of the General Law of Commercial Companies (Ley General de Sociedades Mercantiles) have not been dealt with; or
- a Mexican court in the event our board of directors or the statutory auditors do not comply with the valid request of the shareholders indicated above.

Notice of shareholders' meetings must be published in the official gazette for the State of Nuevo Leon, Mexico or any major newspaper published and distributed in the City of Monterrey, Nuevo Leon, Mexico. The notice must be published at least 15 days prior to the date of any shareholders' meeting. Consistent with Mexican law, our by-laws further require that all information and documents relating to the shareholders meeting be available to shareholders from the date the notice of the meeting is published.

General shareholders' meetings can be ordinary or extraordinary. At every general shareholders' meeting, each holder of A shares and B shares is entitled to one vote per share. Shareholders may vote by proxy duly appointed in writing. Under the CPO trust agreement, holders of CPOs who are not Mexican nationals cannot exercise voting rights corresponding to the A shares represented by their CPOs.

An annual general ordinary shareholders' meeting must be held during the first four months after the end of each of our fiscal years to consider the approval of a report of our board of directors regarding our performance and our financial statements for the preceding fiscal year and to determine the allocation of the profits for the preceding year. At the annual general

shareholders' meeting, any shareholder or group of shareholders representing 10% or more of our outstanding voting stock has the right to appoint one regular and one alternate director in addition to the directors elected by the majority and the right to appoint a statutory auditor. The alternate director appointed by the minority holders may only substitute for the director appointed by that minority.

A general extraordinary shareholders' meeting may be called at any time to deal with any of the matters specified by Article 182 of the General Law of Commercial Companies, which include, among other things:

- extending our corporate existence;
- our early dissolution;
- increasing or reducing our fixed capital stock;
- changing our corporate purpose;
- changing our country of incorporation;
- changing our form of organization;
- a proposed merger;
- issuing preferred shares;
- redeeming our own shares;
- any amendment to our by-laws; and
- any other matter for which a special quorum is required by law or by our by-laws.

The above-mentioned matters may only be dealt with at extraordinary shareholders' meetings.

In order to vote at a meeting of shareholders, shareholders must appear on the list that Indeval, the Mexican securities depositary, and the Indeval participants holding shares on behalf of the shareholders, prepare prior to the meeting or must deposit prior to that meeting the certificates representing their shares at our offices or in a Mexican credit institution or brokerage house, or foreign bank approved by our board of directors to serve this function. The certificate of deposit with respect to the share certificates must be presented to our company secretary at least 48 hours before a meeting of shareholders. Our company secretary verifies that the person in whose favor any certificate of deposit was issued is named in our share registry and issues an admission pass authorizing that person's attendance at the meeting of shareholders.

Our by-laws provide that a shareholder may only be represented by proxy in a shareholders' meeting with a duly completed form provided by us authorizing the proxy's presence. In addition, our by-laws require that the secretary acting at the shareholders' meeting publicly affirm the compliance by all proxies with this requirement.

A shareholders' resolution is required to take action on any matter presented at a shareholders' meeting. At an ordinary meeting of shareholders, the affirmative vote of the holders of a majority of the shares present at the meeting is required to adopt a shareholders' resolution. At an extraordinary meeting of shareholders, the affirmative vote of at least 50% of the capital stock is required to adopt a shareholders' resolution, except that when amending Article 22 of our by-laws (which specifies the list of persons who are not eligible to be appointed as a director or a statutory auditor) the affirmative vote of at least 75% of the voting stock is needed. Our by-laws also require the approval of 75% of the voting shares of our capital stock to amend provisions in our by-laws relating to the prior approval of the board of directors for share transfers and the requirements for recording share transfers in our corporate ledger.

The quorum for a first ordinary meeting of shareholders is 50% of our outstanding and fully paid shares, and for the second ordinary meeting of shareholders is any number of our outstanding and fully paid shares. The quorum for the first extraordinary shareholders meeting is 75% of our outstanding and fully paid shares, and for the second extraordinary shareholders meeting the quorum is 50% of our outstanding and fully paid shares.

Rights of Minority Shareholders

Our by-laws provide that holders of at least 10% of our capital stock are entitled to demand the postponement of the voting on any resolution of which they deem they have not been adequately informed.

Under Mexican law, holders of at least 20% of our outstanding capital stock entitled to vote on a particular matter may seek to have any shareholder action with respect to that matter set aside, by filing a complaint with a court of law within 15 days after the close of the meeting at which that action was taken and showing that the challenged action violates Mexican law or our by-laws. Relief under these provisions is only available to holders who were entitled to vote on, or whose rights as shareholders were adversely affected by, the challenged shareholder action and whose shares were not represented when the action was taken or, if represented, voted against it.

Under Mexican law, an action for civil liabilities against directors may be initiated by a shareholders' resolution. In the event shareholders decide to bring an action of this type, the persons against whom that action is brought will immediately cease to be directors. Additionally, shareholders representing not less than 15% of the outstanding shares may directly exercise that action against the directors; provided that:

- those shareholders shall not have voted against exercising such action at the relevant shareholders' meeting; and

- the claim covers all of the damage alleged to have been caused to CEMEX and not merely the damage suffered by the plaintiffs.

Any recovery of damage with respect to these actions will be for the benefit of CEMEX and not that of the shareholders bringing the action.

Registration and Transfer

Our common stock is evidenced by share certificates in registered form with registered dividend coupons attached. Our shareholders may hold their shares in the form of physical certificates or through institutions that have accounts with Indeval. Accounts may be maintained at Indeval by brokers, banks and other entities approved by the Mexican securities authority. We maintain a stock registry, and, in accordance with Mexican law, only those holders listed in the stock registry and those holding certificates issued by Indeval and by Indeval participants indicating ownership are recognized as our shareholders.

Redemption

Our capital stock is subject to redemption, on a pro rata basis, upon approval of our shareholders at an extraordinary shareholders' meeting.

Share Repurchases

If our shareholders decide at a general shareholders' meeting that we should do so, we may purchase our outstanding shares for cancellation. We may also repurchase our equity securities on the Mexican Stock Exchange at the then prevailing market prices in accordance with the Mexican securities law. If we intend to repurchase shares representing more than 1% of our outstanding shares at a single trading session, we must inform the public of such intention at least ten minutes before submitting our bid. If we intend to repurchase shares representing 3% or more of our outstanding shares during a period of twenty trading days, we would be required to conduct a public tender offer for such shares. We must conduct share repurchases through the person or persons approved by our board of directors, through a single broker dealer during the relevant

trading session without submitting bids during the first and the last 30 minutes of each trading session and we must inform the Mexican Stock Exchange of the results of any share repurchase no later than the business day following any such share repurchase.

Directors' and Shareholders' Conflict of Interest

Under Mexican law, any shareholder that has a conflict of interest with CEMEX with respect to any transaction is obligated to disclose such conflict and is prohibited from voting on that transaction. A shareholder who violates this prohibition may be liable for damages if the relevant transaction would not have been approved without that shareholder's vote.

Under Mexican law, any director who has a conflict of interest with CEMEX in any transaction must disclose that fact to the other directors and is prohibited from voting on that transaction. Any director who violates this prohibition will be liable for damages. Additionally, our directors and statutory auditors may not represent shareholders in the shareholders' meetings.

Withdrawal Rights

Whenever our shareholders approve a change of corporate purpose, change of nationality or transformation from one form of corporate organization to another, Mexican law provides that any shareholder entitled to vote on that change that has voted against it may withdraw from CEMEX and receive the amount calculated as specified by Mexican law attributable to its shares, provided that it exercises that right within 15 days following the adjournment of the meeting at which the change was approved. For further details on the calculation of the withdrawal right, see "- General."

Dividends

At the annual ordinary general meeting of shareholders, our board of directors submits our financial statements together with a report on them by our board of directors and the statutory auditors, to our shareholders for approval. The holders of our shares, once they have approved the financial statements, determine the allocation of our net income, after provision for income taxes, legal reserve and statutory employee profit sharing payments, for the preceding year. All shares of our capital stock outstanding and fully paid at the time a dividend or other distribution is declared are entitled to share equally in that dividend or other distribution.

Liquidation Rights

In the event we are liquidated, the surplus assets remaining after payment of all our creditors will be divided among our shareholders in proportion to the respective shares held by them. The liquidator may, with the approval of our shareholders, distribute the surplus assets in kind among our shareholders, sell the surplus assets and divide the proceeds among our shareholders or put the surplus assets to any other uses agreed to by a majority of our shareholders voting at an extraordinary shareholders' meeting.

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DESCRIPTION OF OUR CPOs

Our CPOs are issued under the terms of a CPO trust agreement. The CPOs and the CPO trust agreement are governed by Mexican law. Set forth below is a summary description of the material terms of the CPOs and of a CPO holder's material rights. Because it is a summary, it does not describe every aspect of the CPOs and the CPO trust agreement. For more complete information, you should read the entire CPO trust agreement. A form of the CPO trust agreement is incorporated by reference as an exhibit to the registration statement of which this prospectus forms a part. See "Where You Can Find More Information" on page 1 for information on how to obtain copies of the CPO trust agreement.

Transfer and Withdrawal of CPOs

Under the terms of the CPO trust agreement, the CPO trustee may accept A shares and B shares against the issuance of CPOs. Each CPO will consist of two A shares and one B share. All A shares and B shares underlying the CPOs are held in trust by the CPO trustee in accordance with the terms and conditions of the CPO trust agreement. Those shares are registered in the name of the CPO trustee, which is the owner and holder of record of those shares.

The CPO trustee will deliver CPOs in respect of the shares as described above. All CPOs are evidenced by a single certificate, the global CPO. CPOs are issued to and deposited in accounts maintained at Indeval. Ownership of

CPOs deposited with Indeval is shown on, and transfer of the ownership of CPOs is effected through, records maintained by Indeval and Indeval participants. Holders of CPOs are not entitled to receive physical certificates evidencing their CPOs but may request certificates issued by Indeval and the relevant Indeval participants indicating ownership of CPOs. Holders of CPOs, including Mexican nationals, are not entitled to withdraw the A shares or B shares that are held in the CPO trust.

Dividends, Other Distributions and Rights

Holders of CPOs are entitled to receive the economic benefits to which they would be entitled if they were the holders of the A shares and B shares underlying those CPOs at the time that we declare and pay dividends or make distributions to holders of A shares and B shares. The CPO trustee will distribute cash dividends and other cash distributions received by it in respect of the A shares and B shares held in the CPO trust to the holders of CPOs in proportion to their respective holdings, in each case in the same currency in which they were received. The CPO trustee will distribute those cash dividends and other cash distributions through Indeval as custodian of the CPOs. Dividends paid with respect to CPOs deposited with Indeval will be distributed to the holders on the business day following the date on which the funds are received by Indeval.

If we pay a dividend in shares of our stock, those shares will be distributed to the CPO trustee who will hold those shares in the CPO trust for the benefit of CPO holders entitled thereto, and the CPO trustee if the shares so received constitute units identical to the unit of securities then represented by a CPO will distribute to the holders of outstanding CPOs, in proportion to their holdings, additional CPOs representing economic interests in the total number of shares received by the CPO trustee as that dividend. If the shares of stock so received do not constitute units of securities identical to the unit of securities then represented by a CPO, the CPO trustee will cause the securities received to be delivered to the CPO holders entitled thereto.

If we offer the holders of A shares and B shares the right to subscribe for additional A shares or B shares, the CPO trustee, subject to applicable laws, will offer to each holder of CPOs the right to instruct the CPO trustee to subscribe for that holder's proportionate share of those additional A shares or B shares, subject to that holder's providing the CPO trustee with the funds necessary to subscribe for those additional shares. The CPO trustee will offer those rights to a CPO holder only if that offer is legal and valid under the provisions of the laws of the country of residence of that CPO holder. Neither we nor the CPO trustee is obligated to register those rights, the CPOs or the underlying shares under the Securities Act. If CPO trust holders are offered those rights and if CPO holders provide the CPO trustee with the necessary funds, the CPO trustee will subscribe for the corresponding number of shares, which will be held in the CPO trust for the benefit of the subscribing holders, and if the shares so received constitute units identical to the unit of securities then represented by a CPO it will deliver additional CPOs representing those underlying shares to the applicable CPO holders.

Changes Affecting Underlying Shares

If as a result of a redemption of our common stock, see "Description of Our Common Stock-- Redemption", any underlying shares held in the CPO trust are called for redemption, the CPO trustee will proceed in accordance with the resolutions adopted by shareholders at the meeting of shareholders that authorize the redemption and repurchase the corresponding CPOs.

Voting of A Shares

Mexican holders of CPOs shall be entitled to attend our shareholders' meetings for purposes of representing and exercising the voting rights of the A shares underlying their CPOs.

Non-Mexican holders of CPOs are not entitled to exercise voting rights with respect to the A shares represented by their CPOs. At our shareholders' meetings the A shares of non-Mexican holders held in the CPO trust will be voted by the CPO trustee in accordance with the vote cast by the majority of Mexican holders of A shares and holders of B shares voting at the meeting. The nationality of a holder of CPOs is established by reference to the information contained in the CPO registry book of the CPO trust. A Mexican national constitutes either:

- an individual of Mexican nationality; or

- a Mexican corporation whose by-laws exclude foreign investors from owning or controlling, either directly or indirectly, a majority of its capital stock.

CPOs represented by ADSs will be deemed owned by non-Mexican nationals.

The CPO trustee shall attend our shareholders' meetings to represent and vote the A shares underlying the CPOs held by Mexicans for which no instructions were received from the holders of those CPOs. The technical committee under the trust shall have the power to cooperate with the CPO trustee's exercise of its corporate rights with respect to the A shares underlying the CPOs.

Voting of B Shares

All holders of CPOs shall be entitled to attend our shareholders' meetings for purposes of representing and exercising the voting rights of the B shares underlying their CPOs. The CPO trustee shall attend our shareholders' meetings to represent and vote the B shares underlying the CPOs for which no instructions were received from the holders of the CPOs. The technical committee under the trust shall have the power to cooperate with the CPO trustee's exercise of its corporate rights with respect to the B shares underlying the CPOs.

Voting at CPO Holders' Meetings

Whenever we call a meeting of holders of CPOs, Mexican and non-Mexican holders of CPOs, whether they hold their CPOs directly or in the form of ADSs, will have the right to give instructions to vote the CPOs at the meeting.

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The following table sets forth the method of voting for each security contained in a CPO:

Securities Contained in a CPO	Meth

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A shares represented by CPOs held by non-Mexican nationals (all CPOs represented by ADSs are deemed held by non-Mexican persons).	CPO trustee wil accordance with shares held by shares voted at
A shares represented by CPOs held by Mexican nationals:	
o If the CPO holder timely instructs the trustee as to voting	CPO trustee wil accordance with instructions.
o If the CPO holder makes timely arrangements with the CPO trustee to attend the shareholders' meeting in person	CPO holder may meeting and vot
o If the CPO holder does not timely instruct the CPO trustee as to voting or does not make timely arrangements with the CPO trustee to attend the shareholders' meeting in person	CPO trustee wil discretion, in committee.
B shares represented by CPOs, whether held by Mexican or non-Mexican persons:	
o If the CPO holder timely instructs the CPO trustee as to voting	CPO trustee wil accordance with instructions.
o If the CPO holder makes timely arrangements with the CPO trustee to attend the shareholders' meeting in person	CPO holder may meeting and vot
o If the CPO holder does not timely instruct the CPO trustee as to voting or does not make timely arrangements with the CPO trustee to attend the shareholders' meeting in person	CPO trustee wil discretion, in cooperation wit

Administration of the CPO Trust

Under the terms of the CPO trust agreement, the CPO trust is administered by the CPO trustee under the direction of a technical committee, which must consist of at least three members. Substitute members may also be appointed, who may substitute for any of the other members. The chairman of the technical committee, Mr. Lorenzo H. Zambrano, will appoint, substitute or remove all other technical committee members, and he will have the deciding vote in case of a tie vote. Technical committee meetings may also be attended by the CPO trustee, by the CPO common representative and by our statutory auditors, who may participate in any debate but may not vote. Resolutions adopted by the technical committee are required to be approved by a majority of the members of the technical committee present at the respective meeting; provided, however, that at least the chairman and two other members of the technical committee must be present at a meeting in order validly to adopt resolutions. The technical committee has the authority to instruct the CPO trustee to increase the maximum number of additional CPOs which may be delivered for the purposes permitted by the CPO trust agreement.

Termination of the CPO Trust and Establishment of Successor Trust

The CPO trust term is 30 years from the date of execution and expires August 26, 2029. Upon termination, the trustee and the common representative of the CPO holders shall constitute a successor CPO trust with the same terms and conditions set forth in the CPO trust agreement, other than the provisions pertaining to the exchange of CPOs for successor trust CPOs. We refer to that successor CPO trust as the successor trust. Upon termination investors holding CPOs, subject to the provision of our by-laws described below, will receive in exchange for their CPOs, the successor trust CPOs issued by the successor trustee. Each successor trust CPO will represent the economic interests in two A shares and one B share.

The CPO trust cannot be terminated if any dividends or other distributions previously received by the CPO trustee remain unpaid to any CPO holder.

Upon termination of the CPO trust, any transfer of A shares or B shares which would result in any person or group of persons acting in concert

becoming a holder of 2% or more of our voting shares will be subject, as provided in our by-laws, to prior approval of our board of directors. See "Description of Our Common Stock--Changes in Capital Stock and Preemptive Rights."

We will be obligated to pay any cost or expense incurred in connection with the transfer of the shares from the CPO trust to the successor trust and the exchange of CPOs for successor trust CPOs.

Charges of the CPO trustee and Indeval

Under the CPO trust agreement, we will be obligated to pay the fees of the CPO trustee for the administration of the CPO trust and the fees of Indeval as depository.

DESCRIPTION OF OUR ADSs

Citibank, N.A. is the depositary for our ADSs. Citibank's depositary offices are located at 111 Wall Street, New York, New York 10005. The ADSs represent ownership interests in securities that are on deposit with the depositary. The depositary typically appoints a custodian to safe keep the securities on deposit. ADSs are normally represented by certificates that are commonly known as American Depositary Receipts, or ADRs.

We have appointed Citibank as ADS depositary pursuant to a deposit agreement. A copy of the ADS deposit agreement is on file with the SEC under cover of a Registration Statement on Form F-6. You may obtain a copy of the ADS deposit agreement from the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please refer to Registration Number 333-11338 when retrieving the copy.

Set forth below is a summary description of the material terms of the ADSs and of an ADS holder's material rights. Because it is a summary, it does not describe every aspect of the ADSs and the ADS deposit agreement. For more complete information, you should read the entire ADS deposit agreement and the form of ADR which contains the terms of the ADSs. The ADS deposit agreement is incorporated by reference as an exhibit to the registration statement of which this prospectus forms a part.

Each ADS represents five (5) CPOs. Each CPO is issued under the terms of a CPO trust and represents two (2) A shares and one (1) B share. The CPO trust is expected to terminate on or about August 26, 2029, at which point the CPO trustee and the common representative of the CPO holders will constitute a new CPO trust with the same terms and conditions as the CPO trust agreement, which we call the "successor trust." The terms of the CPO trust and the successor trust are more fully described above. See "Description of Our CPOs." Upon termination of the CPO trust, which we call the "conversion date," holders of CPOs will be entitled to receive successor trust CPOs. Assuming no change in the securities represented by CPOs during the term of the CPO trust, each successor trust CPO will represent two (2) A shares and one (1) B share. Holders of ADSs will, on and after the conversion date, have the right to receive five successor trust CPOs for every ADS held. The CPOs and successor trust CPOs eligible for deposit with the custodian are sometimes known as "eligible securities," and the eligible securities once deposited with the custodian are sometimes known as "deposited securities" against which the ADS depositary issues the ADSs. Please note that an ADS also represents any other property received by the ADS depositary or the custodian on behalf of the owner of the ADS but not distributed to that owner because of legal or practical restrictions. Citibank has appointed Banamex as custodian for the deposited securities represented by the ADSs. The receipts evidencing the ADSs are issuable in registered form by the depositary pursuant to the ADS deposit agreement.

The ADS deposit agreement and the related ADR contain our rights and obligations as well as your rights and obligations and those of the depositary. The ADS deposit agreement is governed by New York law. Each of CEMEX and the depositary has agreed that federal and state courts in the City of New York will have non-exclusive jurisdiction over any actions, proceedings or disputes that arise out of or in connection with the ADS deposit agreement and submits to that jurisdiction. However, our obligations to the holders of deposited securities will continue to be governed by the laws of Mexico, which may be very different from the laws in the United States.

If you become an owner of ADSs, you may hold your ADSs either in the form of an ADR certificate registered in your name or through a brokerage or safekeeping account. If you then decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or custodian to assert your rights as an ADS owner. This summary description assumes you have opted to own the ADSs directly by means of an ADR registered in your name and, as such, we will refer to you as "holder."

Dividends and Distributions

If you become a holder of ADSs, you will usually have the right to receive the distributions we make on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal restrictions. Holders will receive distributions they are entitled to receive under the terms of the ADS deposit agreement in proportion to the number of ADSs they hold as of a specified record date.

Distributions of Cash

Whenever we make a cash distribution payment for the securities on deposit with the custodian and the ADS depositary receives confirmation of our deposit of the distribution, the ADS depositary will convert the cash distribution into Dollars and distribute the proceeds of the conversion to the holders, so long as the conversion is reasonable and the Dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the ADS deposit agreement. The ADS depositary will distribute the proceeds of the sale of any property held by the custodian in respect of the securities on deposit in the same manner.

Distributions of Eligible Securities

Whenever we make a free distribution of eligible securities for the securities on deposit with the custodian, we will deposit the eligible securities with the custodian. When the ADS depositary receives confirmation of our deposit with the custodian, the ADS depositary will either distribute to holders ADSs representing the eligible securities deposited or modify the ADS to deposited securities ratio, in which case each ADS you hold will represent rights and interests in the additional eligible securities so deposited. The ADS depositary will distribute only whole numbers of ADSs. The ADS depositary will sell any remaining fractional entitlements and distribute the proceeds of that sale as in the case of a cash distribution.

The distribution of the new eligible securities will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the ADS deposit agreement. In order to pay those taxes and governmental charges, the ADS depositary may sell all or a portion of the eligible securities so distributed.

The ADS depositary will not make a distribution of ADSs if the distribution would constitute a breach of law. If the ADS depositary does not distribute ADSs upon the terms described above, it will sell the securities received, if that sale is lawful and reasonably practical, and will distribute the proceeds of the sale as in the case of a cash distribution.

Distributions of Rights

Whenever we intend to distribute rights to subscribe for additional eligible securities we will give prior notice to the ADS depositary and we will assist the ADS depositary in determining whether it is lawful and reasonably practicable to distribute the rights to subscribe for additional eligible securities to you and provide the ADS depositary with the documentation required under the ADS deposit agreement.

If we have satisfied these conditions, the ADS depositary will establish procedures to distribute rights and to enable holders to exercise those rights. Holders of ADSs may have to pay fees, expenses, taxes and other governmental charges to subscribe for the ADSs when they exercise their rights. We cannot assure you that any holder of ADSs will be able to exercise rights on the same terms as holders of eligible securities or that any holder of ADSs will be able to exercise its rights at all. The ADS depositary has no obligation to provide you with the means to exercise rights to subscribe for new eligible securities rather than ADSs.

The ADS depositary will not distribute the rights to any holder of ADSs if:

- we do not request that the rights be distributed to such holders or if we ask that the rights not be distributed to such holders;
- we fail to deliver the required documents to the ADS depositary; or
- it is not reasonably practicable to distribute the rights to such holders.

The ADS depositary will sell the rights that are not exercised or not distributed if such a sale would be lawful and reasonably practicable. The proceeds of that sale will be distributed to holders as in the case of a distribution in cash. If the ADS depositary is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional eligible securities, we will give prior notice thereof to the ADS depositary and will indicate whether we wish the elective distribution to be made available to holders of ADSs. In that case, we will assist the ADS depositary in determining whether that distribution is lawful and reasonably practical.

The ADS depositary will make the election available to holders of ADSs only if it is reasonably practical and if we have provided all of the documentation contemplated in the ADS deposit agreement. In that case, the ADS depositary will establish procedures to enable holders of ADSs to elect to receive either cash or additional ADSs, in each case as described in the ADS deposit agreement.

If the election is not made available to holders of ADSs, such holders will receive either cash or additional ADSs, depending on what a shareholder in Mexico would receive for failing to make an election, as more fully described in the ADS deposit agreement.

Redemption

Whenever we decide to redeem any of the securities on deposit with the custodian, we will notify the ADS depositary. If it is reasonably practicable and if we provide all of the documentation contemplated in the ADS deposit agreement, the ADS depositary will mail notice of the redemption to the holders.

The custodian will be instructed to surrender the deposited securities being redeemed against payment of the applicable redemption price. The ADS depositary will convert the redemption funds received into Dollars upon the terms of the ADS deposit agreement and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their ADSs to the ADS depositary. Holders of ADSs may have to pay fees, expenses, taxes and other governmental charges upon the redemption of their ADSs. If less than all ADSs are being redeemed, the ADSs to be retired will be selected by lot or on a pro rata basis, as the ADS depositary may determine.

Other Distributions

Whenever we intend to distribute property other than cash, eligible securities or rights to purchase additional eligible securities, we will give prior notice thereof to the ADS depositary and will indicate whether we wish the distribution to be made to you. In that case, we will assist the ADS depositary in determining whether the distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute the property to you and if we provide all the required documentation, the ADS depositary shall distribute that property to the holders in a manner it deems practicable for accomplishing the distribution.

The distribution of the property will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the ADS deposit agreement. In order to pay those taxes and governmental charges, the ADS depositary may sell all or a portion of the property.

The ADS depositary will not distribute the property to holders of ADSs and will sell the property if:

- we do not request that the property be distributed to such holders or if we ask that the property not be distributed to such holders;
- we do not deliver satisfactory documents to the depositary; or
- it is not reasonably practicable or feasible.

The proceeds of any sale of the property will be distributed to holders as in the case of a cash distribution.

Changes Affecting Deposited Securities

The deposited securities held on deposit in respect of ADSs may change from time to time as a result, for example, of a change in nominal or par value, a split-up, cancellation, consolidation or re-classification of deposited securities or a recapitalization, reorganization, merger, consolidation or sale of our assets.

If any such change were to occur, ADSs will, to the extent permitted by law, represent the right to receive the property received or exchanged or in respect of the deposited securities held on deposit. The ADS depositary may in such circumstances deliver additional ADSs to holders of ADSs or call for the exchange of ADSs for replacement ADSs. If the ADS depositary may not lawfully distribute that property to holders of ADSs, the ADS depositary may sell that property and distribute the net proceeds from that sale to such holders as in the case of a cash distribution.

Issuance of ADSs upon Deposit of Eligible Securities

The ADS depositary will create ADSs if eligible securities are deposited with the custodian. The ADS depositary will deliver the ADSs representing the eligible securities deposited to the person indicated after payment of the applicable issuance fees and all charges and taxes payable for the transfer of the eligible securities to the custodian. In the case of the distribution of ADSs to holders of ADWs equal to the appreciation value upon redemption or at maturity of the appreciation warrants, the ADW holders will not be required to make the deposit or pay a fee.

Please note that the issuance of ADSs in all cases, other than the distribution of the appreciation value, may be delayed until the ADS depositary or the custodian receives confirmation that all required approvals have been given and that the eligible securities have been duly transferred. The ADS depositary will only issue ADSs in whole numbers.

When a deposit of eligible securities is made, the depositor will be responsible for transferring good and valid title to the ADS depositary. In addition, the depositor will be deemed to represent and warrant that:

- the eligible securities are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all preemptive and similar rights, if any, with respect to the eligible securities have been validly waived or exercised;
- the depositor is duly authorized to deposit the eligible securities;
- the eligible securities presented for deposit are free and clear of any lien, encumbrance, security o interest, charge, mortgage or adverse claim, and are not, and the ADSs issuable upon that deposit will not be, "restricted securities"; and
- the eligible securities presented for deposit have not been stripped of any rights or entitlements.

If any of these representations or warranties are false in any way, we and the ADS depositary may, at the depositor's cost and expense, take any and all actions necessary to correct the consequences thereof.

Withdrawal of Deposited Securities Upon Cancellation of ADSs

A holder of ADSs is entitled to present its ADSs to the ADS depositary for cancellation and to receive delivery of the deposited securities represented by its ADSs at the custodian. In order to withdraw the deposited securities represented by such ADSs, the holder withdrawing will be required to pay the fees of the ADS depositary for cancellation of its ADSs and the charges and taxes payable for the transfer of the deposited securities being withdrawn. The holder withdrawing ADSs assumes the risk for delivery of all funds and securities upon withdrawal. Once cancelled, ADSs shall be devoid of any benefits provided under the ADS deposit agreement.

The ADS depositary may ask for proof of identity and the genuineness of signatures before canceling ADSs. The withdrawal of the deposited securities

represented by ADSs may be delayed until the ADS depositary receives satisfactory evidence of compliance with all applicable laws and regulations. A holder of ADSs is not entitled to withdraw the shares underlying CPOs. When ADSs are surrendered prior to the conversion date, the holder will be entitled to receive CPOs; after the conversion date, the holder will be entitled to receive successor trust CPOs. The ADS depositary will only accept ADSs for cancellation that represent a whole number of deposited securities.

A holder will have the right to withdraw the securities represented by its ADSs at any time except for:

- temporary delays that may arise because the transfer books for the CPOs, successor trust CPOs, or ADSs o are closed, or the deposited securities are immobilized on account of a shareholders' meeting or a payment of dividends;
- obligations to pay fees, taxes and similar charges; and

- restrictions imposed on account of laws or regulations applicable to ADSs or the withdrawal of the securities on deposit.

Please note that the ADS deposit agreement may not be modified to impair withdrawal rights in respect of deposited securities represented by ADSs except to comply with mandatory provisions of law.

Voting Rights

A holder of ADSs has the right to instruct the ADS depositary to exercise the voting rights for the deposited securities represented by its ADSs. However, our by-laws prohibit non-Mexican nationals from directly holding or voting A shares. A holder of ADSs is deemed to be a non-Mexican national and accordingly, has no right to vote the A shares held in the CPO trust or the successor trust. The voting rights of holders of deposited securities are described in "Description of Our CPOs--Voting of A Shares" and "Description of Our CPOs--Voting of B Shares" above.

At our request, the ADS depositary will coordinate with us the mailing to holders of ADSs of any notice of shareholders' meeting together with information explaining how to instruct the depositary to exercise the voting rights, if any, pertaining to the deposited securities represented by ADSs. We will use our best efforts to deliver the notice of shareholders' meeting to the ADS depositary 20 days prior to the date of the meeting. The ADS depositary will coordinate with us the mailing of the notice to ADS holders to coincide as closely as is reasonably practicable with the publication of the notice of shareholders' meeting in Mexico.

Prior to the conversion date, at any meeting of shareholders, ADS holders have the right to instruct the ADS depositary to exercise your voting rights only in respect of the B shares held in the CPO trust. The terms of the CPO trust require the CPO trustee to vote the A shares held in the CPO trust in the same manner as the votes cast by the holders of the majority of all A shares held by Mexican nationals and B shares voted at the meeting.

On and after the conversion date, at any meeting of shareholders, ADS holders have the right to instruct the ADS depositary to exercise their voting rights in respect of the B shares in the successor trust. The terms of the successor trust are expected to require the successor trustee to vote the A shares held in the successor trust in substantially the same manner as A shares are voted under the CPO trust.

Whenever we call a meeting of holders of CPOs or successor trust CPOs, you have the right, as a holder of ADSs representing CPOs or successor trust CPOs, to instruct the ADS depositary to vote the CPOs or successor trust CPOs according to your instructions.

If the ADS depositary timely receives your voting instructions, it will endeavor to vote the securities represented by ADSs for which holders of ADSs are entitled to give voting instructions according to those voting instructions.

If the ADS depositary does not receive voting instructions from a holder of ADSs in a timely manner such holder will nevertheless be treated as having instructed the ADS depositary to give a proxy to a person we designate to vote the B shares underlying the CPOs represented by your ADSs in his/her discretion. The ADS depositary will not deliver the discretionary proxy if:

- we do not provide the ADS depositary with the requisite materials pertaining to the meeting on a timely basis;
- we request that the discretionary proxy not be given;
- we do not deliver to the ADS depositary a satisfactory opinion of counsel providing legal comfort under Mexican laws on the subject of the discretionary proxy; or
- we do not deliver a satisfactory representation and indemnity letter to the ADS depositary.

Please note that the ability of the ADS depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure holders of ADSs that they will receive voting materials in sufficient time to enable them to return voting instructions to the ADS depositary in a timely manner.

The ADS depositary or the custodian for the CPOs on deposit may represent the CPOs at any meeting of holders of CPOs even if no voting instructions have been received. The CPO trustee may represent the A shares and the B shares represented by the CPOs at any meeting of holders of A shares or B shares even if no voting instructions have been received. By so attending, the ADS depositary, the custodian or the CPO trustee, as applicable, may contribute to the establishment of a quorum at a meeting of holders of CPOs, A shares or B shares, as appropriate.

Fees and Charges

An ADS holder is required to pay the following service fees to the ADS depositary:

Service	Fees
Issuance of ADSs	Up to 5(cent)per ADS issued
Cancellation of ADSs	Up to 5(cent)per ADS cancelled
Exercise of rights to purchase additional ADSs	Up to 5(cent)per ADS issued
Distribution of cash upon sale of rights and other entitlements	Up to 2(cent)per ADS held

An ADS holder also is responsible to pay fees and expenses incurred by the ADS depositary and taxes and governmental charges including, but not limited to:

- transfer and registration fees charged by the registrar and transfer agent for eligible and deposited securities, such as upon deposit of eligible securities and withdrawal of deposited securities;
- expenses incurred for converting foreign currency into Dollars;
- expenses for cable, telex and fax transmissions and for delivery of securities; and
- taxes and duties upon the transfer of securities, such as when you deposit eligible securities or withdraw deposited securities.

We have agreed to pay some of the other charges and expenses of the ADS depositary. Note that the fees and charges that a holder of ADSs is required to pay may vary over time and may be changed by us and by the ADS depositary. ADS holders will receive notice of the changes.

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Amendments and Termination

We may agree with the ADS depositary to modify or to supplement the ADS deposit agreement at any time without the consent of ADS holders. We undertake to provide ADS holders with 30 days' prior notice of any modifications or supplements that would materially prejudice the substantial rights of ADS holders under the ADS deposit agreement. We will not consider to be materially prejudicial to the substantial rights of ADS holders any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges ADS holders are required to pay. In addition, we may not be able to provide ADS holders with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law, whether or not those modifications or supplements could be considered to be materially prejudicial to the substantive rights of ADS holders.

ADS holders will be bound by the modifications to the ADS deposit agreement if they continue to hold ADSs after the modifications to the ADS deposit agreement become effective. The ADS deposit agreement cannot be amended to prevent ADS holders from withdrawing the deposited securities represented by ADSs, except as described above in "--Withdrawal of Deposited Securities Upon Cancellation of ADSs."

We have the right to direct the ADS depositary to terminate the ADS deposit agreement. Similarly, the ADS depositary may in some circumstances on its own initiative terminate the ADS deposit agreement. In either case, the ADS depositary must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the ADS deposit agreement:

- for a period of three months after termination, ADS holders will be able to request the cancellation of their ADSs and the withdrawal of the deposited securities represented by their ADSs and the delivery of all other property held by the ADS depositary in respect of their deposited securities on the same terms as prior to the termination. During this three-month period, the ADS depositary will continue to collect all distributions received on the deposited securities, such as dividends, but will not distribute any such property to ADS holders until they request the cancellation of their ADSs; and

- after the expiration of the three-month period, the ADS depositary may sell the deposited securities held on behalf of the remaining holders with the custodian. The ADS depositary will hold the proceeds o from the sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the ADS depositary will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding.

Books of ADS Depositary

The ADS depositary will maintain ADS holder records at its depositary office. Holders of ADSs may inspect those records at that office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the ADS deposit agreement.

The ADS depositary will maintain facilities in New York to record and to process the issuance, cancellation, combination, split-up and transfer of ADSs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The ADS deposit agreement limits our obligations and the ADS depositary's obligations to holders of ADSs. Please note the following:

- We and the ADS depositary are only obligated to take the actions specifically stated in the ADS deposit agreement without negligence or bad faith.

- The ADS depositary disclaims any liability for any failure to carry

out voting instructions, for any o manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the ADS deposit agreement.

- The ADS depositary disclaims any liability for any failure to determine the lawfulness or reasonable practicality of any action, for the content of any document forwarded to ADS holders on their behalf or for the accuracy of any translation of such document, for the investment risks associated with investing o in deposited securities, for the validity or worth of the deposited securities, for any tax consequences that result from the ownership of ADSs, for allowing any rights to lapse under the terms of the ADS deposit agreement, for the timeliness of any of our notices or for our failure to give notice.

- We and the ADS depositary will not be obligated to perform any act that is inconsistent with the terms of the ADS deposit agreement.

- We and the ADS depositary disclaim any liability if we are prevented or forbidden from acting on account o of any law or regulation, any provision of our by-laws, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.

- We and the ADS depositary disclaim any liability by reason of any exercise of, or failure to exercise, o any discretion provided for in the ADS deposit agreement or in our by-laws or in any provisions of the securities on deposit.

- We and the ADS depositary further disclaim any liability for any action or inaction in reliance upon the advice of or information from legal counsel, accountants, any person presenting eligible securities for o deposit, any holder of ADSs or authorized representative thereof, or any other person believed by us in good faith to be competent to give such advice or information.

- We and the ADS depositary also disclaim liability for the inability by a holder to benefit from any o distribution, offering, right or other benefit which is made available to holders of eligible securities but is not, under the terms of the ADS deposit agreement, made available to the holders of the ADSs.

- We and the ADS depositary may rely without any liability upon any written notice, request or other o document believed by the ADS depositary to be genuine and to have been signed or presented by the proper parties.

- We and the ADS depositary disclaim any liability for any consequential or punitive damages.

Pre-Release Transactions

The ADS depositary may, in some circumstances, issue ADSs before receiving a deposit of eligible securities or release deposited securities before receiving ADSs. These transactions are commonly referred to as "pre-release transactions." The ADS deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on such transactions including the need to receive collateral, the type of collateral required, and the representations required from brokers. The ADS depositary may retain the compensation received from the pre-release transactions.

Taxes

Holders of ADSs will be responsible for the taxes and other governmental charges payable on the ADSs and the securities represented by the ADSs. We, the ADS depositary and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. Holders of ADSs will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The ADS depositary may refuse to issue ADSs and to deliver, transfer, split and combine ADRs or to release securities on deposit until all applicable taxes and charges are paid by the holder. The ADS depositary and the custodian

may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on behalf of ADS holders. However, ADS holders may be required to provide to the ADS depositary and to the custodian proof of taxpayer status and residence and any other information as the ADS depositary and the custodian may reasonably require to fulfill legal obligations. Holders of ADSs are required to indemnify us, the ADS depositary and the custodian for any claims with respect to taxes based on any tax benefit obtained for such holders.

Foreign Currency Conversion

Whenever the ADS depositary or the custodian receives foreign currency and the ADS depositary can reasonably convert all foreign currency received into Dollars, the ADS depositary will distribute the Dollars according to the terms of the ADS deposit agreement. ADS holders may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the ADS depositary may take the following actions in its discretion:

- convert the foreign currency to the extent practical and lawful and distribute the Dollars to holders of ADSs when the conversion and distribution is lawful and practicable;

- distribute the foreign currency to holders of ADSs when the distribution is lawful and practicable; or

- hold the foreign currency, without liability for interest, for holders of ADSs.

INCOME TAX CONSIDERATIONS

U.S. Federal Income Tax Considerations

General

The following is a summary of the material U.S. federal income tax consequences relating to the ownership and disposition of our CPOs and ADSs.

This summary is based on provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations promulgated under the Code, and administrative rulings, and judicial interpretations of the Code, all as in effect on the date of this prospectus and all of which are subject to change, possibly retroactively. This summary is limited to U.S. Shareholders (as defined below) who acquire our ADSs from the selling ADS holders. This summary does not discuss all aspects of U.S. federal income taxation which may be important to you in light of your individual circumstances, for example, if you are an investor subject to special tax rules (e.g., if you are a bank, a thrift, a real estate investment trust, a regulated investment company, an insurance company, a dealer in securities or currencies, an expatriate or tax-exempt investor, a person whose functional currency is not the U.S. Dollar or a shareholder who owns (directly or indirectly) 10% or more of our outstanding voting stock) or if you hold a CPO or an ADS as a position in a "straddle," as part of a "synthetic security" or "hedge," as part of a "conversion transaction" or other integrated investment, or as other than a capital asset. In addition, this summary does not address any aspect of state, local or foreign taxation.

You are advised to consult with your own tax advisor regarding the U.S. federal income tax consequences to you of the ownership and disposition of CPOs or ADSs in light of your particular tax situation and under state, local and foreign tax laws applicable to you.

For purposes of this summary, a "U.S. Shareholder" means a beneficial owner of CPOs or ADSs who is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;

- a corporation or other entity taxable as a corporation that is created or organized in the United States or under the laws of the United States or any state thereof (including the District of Columbia);

- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or

- a trust if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of CPOs or ADSs, the U.S. federal income tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership.

Ownership of CPOs or ADSs in general

In general, for U.S. federal income tax purposes, U.S. Shareholders who own ADSs will be treated as the beneficial owners of the CPOs represented by those ADSs, and each CPO will represent a beneficial interest in two A shares and one B share.

Taxation of dividends with respect to CPOs and ADSs

Distributions of cash or property with respect to the A shares or B shares represented by CPOs, including CPOs represented by ADSs, usually will be includible in the gross income of a U.S. Shareholder as foreign source dividend income on the date the distributions are received by the CPO trustee, or successor thereof, to the extent paid out of our current or accumulated earnings and profits. These dividends will not be eligible for the dividends-received deduction usually allowed to corporate U.S. Shareholders. To the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the U.S. Shareholder's adjusted tax basis in the CPOs or ADSs and thereafter as capital gain.

Dividends paid in Pesos will be includible in the income of a U.S. Shareholder in a Dollar amount calculated by reference to the exchange rate in effect the day the Pesos are received by the CPO Trustee, whether or not they are converted into Dollars on that day. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is distributed to the date a U.S. Shareholder converts the payment into Dollars generally will be treated as ordinary income or loss. Such gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. For purposes of calculating the U.S. foreign tax credit, dividends paid by us usually will constitute "passive income," or in the case of some U.S. Shareholders "financial services income."

Taxation of capital gains on disposition of CPOs or ADSs

The sale or exchange of CPOs or ADSs will result in the recognition of gain or loss by a U.S. Shareholder for U.S. federal income tax purposes in the amount of the difference between the amount realized and the U.S. Shareholder's tax basis therein. That gain or loss recognized by a U.S. Shareholder usually will be long-term capital gain or loss if the U.S. Shareholder's holding period for the CPOs or ADSs exceeds one year at the time of disposition. Gain from the sale or exchange of the CPOs or ADSs usually will be treated as U.S. source gain for purposes of the foreign tax credit rules of U.S. tax law. Deposits and withdrawals of CPOs by U.S. Shareholders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Recent Tax Legislation

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), enacted on May 28, 2003, reduces the maximum rate of tax imposed on certain dividends received by U.S. Shareholders that are individuals to 15% (5% for individuals in the lower tax brackets and 0% for these taxpayers in 2008) (the "Reduced Rate"). The Reduced Rate applies to dividends received after December 31, 2002 and before January 1, 2009. In order for dividends paid by a foreign corporation to be eligible for the Reduced Rate, the foreign corporation must be a "qualified foreign corporation" within the meaning of the Act. We believe that we will be considered a "qualified foreign corporation" within the meaning of the Act because our ADSs are listed on the New York Stock Exchange and thus any distributions we make that are treated as taxable dividends whether in cash, stock or other property should qualify for the Reduced Rate. There can be no assurance, however, that we will continue to be considered a "qualified foreign corporation" and that our dividends will continue to be eligible for the Reduced Rate.

The Act also reduces the top individual tax rate on adjusted net capital gains for sales and exchanges of capital assets on or after May 6, 2003 and before January 1, 2009 from 20% (10% for individuals in the lower tax brackets) to 15% (5% for individuals in the lower tax brackets and 0% for these taxpayers in 2008).

United States Backup Withholding and Information Reporting

A U.S. Shareholder may, under certain circumstances, be subject to "backup withholding" with respect to some payments to the U.S. Shareholder, such as dividends or the proceeds of a sale or other disposition of the CPOs or ADSs, unless such holder (i) is a corporation or comes within certain exempt categories, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules will be creditable against the U.S. Shareholder's federal income tax liability.

Mexican Tax Considerations

General

The following is a summary of certain Mexican federal income tax considerations relating to your ownership and disposition of our CPOs or ADSs.

This summary is based on the Mexican federal income tax law that is in effect on the date of this prospectus which is subject to change. This summary is limited to tax consequences applicable to non-residents of Mexico, as defined below, who acquire our ADSs from selling ADS holders. This summary does not address all aspects of Mexican tax laws in effect as of the date of this prospectus. Prospective holders are urged to consult their own tax advisor as to the tax consequences of the ownership and disposition of CPOs or ADSs.

For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, unless he or she has resided in another country for more than 183 calendar days during the calendar year and can demonstrate that he or she has become a resident of that country for tax purposes. A legal entity is a resident of Mexico if it is organized under the laws of Mexico or if it maintains the principal administration of its business or the effective location of its management in Mexico. A Mexican citizen is presumed to be a resident of Mexico for tax purposes unless such person or entity can demonstrate otherwise. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, such legal entity or individual shall be required to pay taxes in Mexico on income attributable to such permanent establishment, in accordance with relevant tax provisions. A non-resident of Mexico is a legal entity or individual that does not satisfy the requirements to be considered a resident of Mexico for Mexican federal income tax purposes. U.S. Shareholder shall have the same meaning ascribed above under the section "Income Tax Considerations--U.S. Federal Income Tax Considerations."

Taxation of Dividends

Dividends, either in cash or in any other form, paid with respect to A shares or B shares represented by the CPOs (or in the case of holders who hold CPOs represented by ADSs), will not be subject to Mexican withholding tax.

Disposition of CPOs or ADSs

As discussed below, gains on the sale or disposition of CPOs or ADSs by a holder who is a non-resident of Mexico for tax purposes, generally will be exempt from Mexican taxation. Deposits of CPOs in exchange for ADSs and withdrawals of CPOs in exchange for ADSs will not give rise to any Mexican tax or transfer duties.

The sale or disposition of ADSs by a non-resident of Mexico will not be subject to Mexican taxes.

Gains from the sale of stock consummated by non-residents of Mexico through the Mexican Stock Exchange, is generally exempt from Mexican income taxation. Therefore, gains from the sale of CPOs consummated by nonresidents of Mexico through the Mexican Stock Exchange is exempt from Mexican income taxation. If, however, the sale of CPOs is consummated outside the Mexican Stock Exchange, the sale of CPOs by nonresidents of Mexico may be subject to Mexican income tax at a rate of 25% of the gross sales price, unless the seller is a resident of a qualifying country, including, among others, the United States, appoints a representative in Mexico for income tax purposes related to the sale and elects to pay Mexican federal income tax, in which case such tax will be imposed at a rate not to exceed 35% of the gain on the sale.

Moreover, under the U.S.-Mexico Income Tax Treaty, a U.S. Shareholder who owns less than 25% of our stock and is otherwise eligible for benefits under such tax treaty is not subject to Mexican tax on any gain derived from the disposition of ADSs or CPOs. In the case of non-residents of

Mexico, other than U.S. Shareholders, gains derived from the disposition of ADSs or CPOs may be exempt, in whole or in part, from Mexican taxation under provisions of an applicable treaty.

Commissions paid in respect of brokerage transactions for the sale of CPOs on the Mexican Stock Exchange are subject to a value-added tax of 15%.

Deposits and Withdrawals of CPOs

The deposit of CPOs in exchange for ADSs and the withdrawal of CPOs that were represented by ADSs is not subject to Mexican taxation.

Estate and Gift Taxes

There are no Mexican inheritance, gift, succession or value-added taxes applicable to the ownership, transfer, exchange or disposition of ADSs or CPOs by holders that are non-residents of Mexico, although gratuitous transfers of CPOs may, in some circumstances, cause a Mexican federal tax to be imposed upon the recipient.

There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of ADSs or CPOs.

PLAN OF DISTRIBUTION

The ADSs offered hereby may be sold from time to time to purchasers directly by the selling ADS holders. Alternatively, the selling ADS holders may from time to time offer the ADSs to or through underwriters, broker/dealers or agents, who may receive compensation in the form of underwriting discounts, concessions or commissions from the selling ADS holders or the purchasers of ADSs for whom they may act as agents. The selling ADS holders and any underwriters, broker/dealers or agents that participate in the distribution of ADSs may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, and any profit on the sale of ADSs by them or any discounts, commissions, concessions or other compensation received by any such underwriter, broker/dealer or agent may be deemed to be underwriting discounts or commissions under the Securities Act.

The ADSs offered hereby may be sold from time to time in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale or at negotiated prices. The sale of the ADSs may be effected in transactions (i) on any national securities exchange or quotation service on which the ADSs may be listed or quoted at the time of sale, (ii) in the over-the-counter market, (iii) in transactions otherwise than on such exchanges or in the over-the-counter market or (iv) through the writing of options.

In addition, we may facilitate offers and sales of the ADSs by the selling ADS holders either directly to purchasers or through an underwritten offering, in which case we may be a party to the purchase agreement or underwriting agreement relating to such offers and sales. We may also arrange for the selling ADS holders to sell a portion of the ADSs to banks or other financial institutions in connection with new forward transactions or to a trust in order to hedge our obligations under the new appreciation warrants. In the event any selling ADS holder sells a portion of the ADSs to such new bank or trust, such new bank or trust may resell such ADSs under this registration statement from time to time, in one or more offerings, pursuant to an appropriate prospectus supplement.

A selling ADS holder may also distribute ADSs offered hereby upon settlement of exchangeable securities it issues or through one or more special purpose entities, which may distribute their own securities and purchase the ADSs from the selling ADS holder either when it issues those securities or on a future date under forward purchase arrangements it enters into when it issues those securities. In connection with an offering of securities of such a special purpose entity, the selling ADS holders may also enter into securities loan arrangements with the underwriters of the entity's securities in order to facilitate such underwriters' market-making activities in the entity's securities.

At the time a particular offering of the ADSs is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of ADSs being offered and the terms of the offering, including the name or names of any underwriters, broker/dealers or agents, any discounts, commissions and other terms constituting compensation from the selling ADS holders and any discounts, commissions or concessions allowed or reallowed or paid to broker/ dealers.

To comply with the securities laws of certain jurisdictions, if applicable, the ADSs will be offered or sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain jurisdictions the ADSs may not be offered or sold unless they have been registered or qualified for sale in such jurisdictions or any exemption from registration or qualification is available and is complied with.

The selling ADS holders will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, which provisions may limit the timing of purchases and sales of any of the ADSs by the selling ADS holders. The foregoing may affect the marketability of the ADSs.

VALIDITY OF THE SECURITIES

Several legal matters in connection with the CPOs underlying the ADSs have been passed upon for CEMEX by Lic. Ramiro G. Villarreal, General Counsel of CEMEX. Mr. Villarreal, our General Counsel and secretary of our board of directors, is a holder of our securities, and is a participant in our stock option programs.

EXPERTS

The consolidated financial statements and schedules of CEMEX as of December 31, 2002 and 2001, and for each of the years in the three-year period ended December 31, 2002, have been incorporated by reference into this prospectus in reliance upon the reports of KPMG Cardenas Dosal, S.C. and PricewaterhouseCoopers, independent accountants, appearing in CEMEX's annual report on Form 20-F for the fiscal year ended December 31, 2002, and upon the authority of those firms as experts in accounting and auditing.

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25,457,378 American Depositary Shares
Each Representing Five
Ordinary Participation Certificates

of

CEMEX, S.A. de C.V.

[CEMEX GRAPHICAL LOGO]

PROSPECTUS

August 27, 2003

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 8. Indemnification of Directors and Officers

The directors and officers of CEMEX are afforded indemnification pursuant to Mexican law for loss or damage suffered as a result of the performance of each of their respective mandates, as such mandate is specified in CEMEX's by-laws or any power of attorney granted by CEMEX. Both Article 2472 of the Civil Code for the State of Nuevo Leon and Article 2578 of the Civil Code for the Federal District (applied in Mexico for federal matters) provide that a corporation must indemnify its agents for all damages and losses that such agent suffers as a result of the performance of his mandate, and which are not the result of the fault or negligence of the agent. CEMEX's by-laws specifically afford the officers of CEMEX indemnification from any loss or damage they may suffer as a result of acts performed within the terms of each of their respective mandates, as conferred by the by-laws and in accordance with CEMEX's corporate purpose. CEMEX maintains, at its expense, a policy of insurance which insures its directors and officers, subject to certain exclusions and deductions as are usual in such insurance policies, against certain liabilities which may be incurred in those capacities.

Item 9. Exhibits and Financial Statement Schedules

The following is a list of all exhibits filed as a part of the registration statement on Form F-3, including those incorporated by reference:

3.1 Amended and Restated By-laws of CEMEX, S.A. de C.V. ****

4.1 Form of Trust Agreement between CEMEX, S.A. de C.V. and Banco Nacional de Mexico, S.A. regarding the CPOs*

4.2 Form of CPO Certificate*

4.3 Second Amended and Restated Deposit Agreement (A and B share CPOs), dated as of August 10, 1999, among CEMEX, S.A. de C.V., Citibank, N.A. and holders and beneficial owners of American Depositary Shares**

4.4 Form of American Depositary Receipt evidencing American Depositary Shares (included in Exhibit 4.3)**

4.5 Form of Certificate for shares of Series A Common Stock of CEMEX, S.A. de C.V.*

4.6 Form of Certificate for shares of Series B Common Stock of CEMEX, S.A. de C.V.*

5.1 Opinion of Lic. Ramiro G. Villarreal, General Counsel of CEMEX, regarding legality of the CPOs***

8.1 Opinion of Skadden, Arps, Slate, Meagher & Flom LLP, with respect to material U.S. federal tax matters***

8.2 Opinion of C.P. Eutimio Medellin, Corporate Tax Manager of CEMEX, with respect to material Mexican federal tax matters***

23.1 Consent of KPMG Cardenas Dosal, S.C.****

23.2 Consent of PricewaterhouseCoopers****

23.3 Consent of Lic. Ramiro G. Villarreal, General Counsel of CEMEX (included in the opinion filed as Exhibit 5.1)***

24.1 Powers of Attorney (included in the signature page of this Registration Statement)***

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* Incorporated by reference to CEMEX's Registration Statement on Form F-4 (Registration No. 333-10682), filed with the Securities and Exchange Commission on August 10, 1999.

** Incorporated by reference to Amendment No. 2 to CEMEX's Registration Statement on Form F-4 (Registration No. 333-13976), filed with the Securities and Exchange Commission on November 19, 2001.

*** Previously filed.

**** Filed herewith.

Item 10. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post- effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, provided, that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to the registration statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Act or Rule 3-19 of this chapter if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referred to in Item 8 hereof, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, (unless, in the opinion of its counsel, the matter has been settled by controlling precedent) submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3, and has duly caused this Post-Effective Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Garza Garcia, Nuevo Leon, Mexico on August 27, 2003.

CEMEX, S.A. de C.V.

By: /s/ Hector Medina
Name: Hector Medina
Title: Executive Vice President of Planning and Finance

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment to the Registrant Statement has been signed by the following persons in the capacities and on the dates indicated.

Signatures	Title	Date
* Lorenzo H. Zambrano	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	August 27,
* Armando J. Garcia Segovia	Director	August 27,
*	Director	August 27,

Signature	Title	Date
Lorenzo Milmo Zambrano		
*	Director	August 27,
Rodolfo Garcia Muriel		
*	Director	August 27,
Rogelio Zambrano Lozano		
*	Director	August 27,
Roberto Zambrano Villarreal		
*	Director	August 27,
Bernardo Quintana Isaac		
*	Director	August 27,
Dionisio Garza Medina		
*	Director	August 27,
Alfonso Romo Garza		

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Signature	Title	Date
Mauricio Zambrano Villarreal	Director	,
Tomas Brittingham Longoria	Director	,
/s/ Hector Medina Hector Medina	Executive Vice President of Planning and Finance (Principal Financial Officer)	August 27,
* Rafael Garza	Chief Accounting Officer (Principal Accounting Officer)	August 27,
* Gilberto Perez	Authorized Representative in the United States	August 27,

* By /s/ Hector Medina August 27, 2003

Hector Medina
Attorney-in-fact

Exhibit Index

Exhibit No.	Description
3.1	Amended and Restated By-laws of CEMEX, S.A. de C.V. ****
4.1	Form of Trust Agreement between CEMEX, S.A. de C.V. and Banco Nacional de Mexico, S.A. regarding the CPOs*
4.2	Form of CPO Certificate*
4.3	Second Amended and Restated Deposit Agreement (A and B share CPOs), dated as of August 10, 1999, among CEMEX, S.A. de C.V., Citibank, N.A. and holders and beneficial owners of American Depositary Shares**
4.4	Form of American Depositary Receipt evidencing American Depositary Shares (included in Exhibit 4.3)**
4.5	Form of Certificate for shares of Series A Common Stock of CEMEX, S.A. de C.V.*
4.6	Form of Certificate for shares of Series B Common Stock of CEMEX, S.A. de C.V.*
5.1	Opinion of Lic. Ramiro G. Villarreal, General Counsel of CEMEX, regarding legality of the CPOs***
8.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP, with respect to material U.S. federal tax matters***
8.2	Opinion of C.P. Eutimio Medellin, Corporate Tax Manager of CEMEX, with respect to material Mexican federal tax matters***
23.1	Consent of KPMG Cardenas Dosal, S.C.****
23.2	Consent of PricewaterhouseCoopers****
23.3	Consent of Lic. Ramiro G. Villarreal, General Counsel of CEMEX (included in the opinion filed as Exhibit 5.1)***

24.1 Powers of Attorney (included in the signature page of this Registration Statement)***

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* Incorporated by reference to CEMEX's Registration Statement on Form F-4 (Registration No. 333-10682), filed with the Securities and Exchange Commission on August 10, 1999.

** Incorporated by reference to Amendment No. 2 to CEMEX's Registration Statement on Form F-4 (Registration No. 333-13976), filed with the Securities and Exchange Commission on November 19, 2001.

*** Previously filed.

**** Filed herewith.

"> $216 $206

Peer Group*

$100 $143 $162 $149 $170 $182

Source: Bloomberg L.P.
*Peer Group

Blyth Inc. (BTH)	Fossil Inc. (FOSL)	McCormick & Co.-Non Vtg Shrs (MKC)
Central Garden & Pet Co. (CENT)	Jo-Ann Stores Inc. (JAS)	Scotts Miracle-Gro Co. (The) CL A (SMG)
CSS Industries Inc. (CSS)	Lancaster Colony Corp. (LANC)	Tupperware Corporation (TUP)

The Peer Group Index takes into account companies selling cyclical nondurable consumer goods with the following attributes, among others, that are similar to those of American Greetings: customer demographics, sales, market capitalizations and distribution channels.

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Securities Authorized for Issuance Under Equity Compensation Plans. Please refer to the information set forth under the heading Equity Compensation Plan Information included in Part III, Item 12 of this Annual Report on Form 10-K.

(b) Not applicable.

(c) The following table provides information with respect to our purchases of our common shares made during the three months ended February 29, 2008.

Period		**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs**
December 2007	Class A	1,863,900	$ 22.75(2)	1,863,900(3)	$ 5,852,332
	Class B	1,829(1)	$ 24.11		
January 2008	Class A	1,494,672	$ 19.00(2)	1,494,672(3)	$ 77,453,222
	Class B				
February 2008	Class A	1,300,000	$ 20.40(2)	1,300,000(3)	$ 50,935,815
	Class B	12,540(1)	$ 21.39		
Total	Class A	4,658,572		4,658,572(3)	
	Class B	14,369(1)			

(1) There is no public market for our Class B common shares. Pursuant to our Amended Articles of Incorporation, all of the Class B common shares were repurchased by American Greetings for cash pursuant to its right of first refusal.
(2) Excludes commissions paid, if any, related to the share repurchase transactions.
(3) On April 17, 2007, American Greetings announced that its Board of Directors authorized a program to repurchase up to $100 million of its Class A common shares. There was no set expiration date for this repurchase program and these repurchases were made through a 10b5-1 program in open market or privately negotiated transactions which were intended to be in compliance with the SEC s Rule 10b-18. This program was completed in January 2008. On January 8, 2008, American Greetings announced that its Board of Directors authorized a program to repurchase up to an additional $100 million of its Class A common shares. There is no set expiration date for this repurchase program and the repurchases reflected above were made through a 10b5-1 program in open market or privately negotiated transactions, which were intended to be in compliance with the SEC s Rule 10b-18. The amounts repurchased in December 2007 were purchased under the repurchase program announced in April 2007. The amounts repurchased in January 2008 were purchased under both programs. The amounts repurchased in February 2008 were purchased under the repurchase program announced in January 2008.

Item 6. Selected Financial Data
Thousands of dollars except share and per share amounts

	2008	2007	2006	2005	2004
Summary of Operations					
Net sales	$ 1,730,784	$ 1,744,798	$ 1,875,472	$ 1,871,386	$ 1,926,470
Total revenue	1,776,451	1,794,290	1,928,136	1,935,109	1,971,350
Goodwill impairment		2,196	43,153		
Interest expense	20,006	34,986	35,124	79,397	85,690
Income from continuing operations	83,320	39,938	89,219	67,605	99,236
(Loss) income from discontinued operations, net of tax	(317)	2,440	(4,843)	27,674	5,434
Net income	83,003	42,378	84,376	95,279	104,670
Earnings per share:					
Income from continuing operations	1.54	0.69	1.35	0.99	1.49
(Loss) income from discontinued operations, net of tax	(0.01)	0.04	(0.07)	0.40	0.08
Earnings per share	1.53	0.73	1.28	1.39	1.57
Earnings per share assuming dilution	1.52	0.71	1.16	1.25	1.40
Cash dividends declared per share	0.40	0.32	0.32	0.12	
Fiscal year end market price per share	18.82	23.38	20.98	24.63	22.67
Average number of shares outstanding	54,236,961	57,951,952	65,965,024	68,545,432	66,509,332
Financial Position					
Accounts receivable net	$ 61,902	$ 104,000	$ 139,385	$ 179,833	$ 223,101
Inventories	216,671	182,618	213,109	216,255	232,520
Working capital	216,949	425,228	603,797	828,484	819,925
Total assets	1,804,428	1,778,214	2,218,962	2,524,207	2,475,535
Property, plant and equipment additions	56,623	41,716	46,177	47,179	31,526
Long-term debt	200,518	223,915	300,516	486,087	665,835
Shareholders equity	943,411	1,012,574	1,220,025	1,386,780	1,267,540
Shareholders equity per share	19.35	18.37	20.22	20.09	18.79
Net return on average shareholders equity from continuing operations	8.5%	3.6%	6.8%	5.1%	8.5%

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the audited consolidated financial statements. This discussion and analysis, and other statements made in this Report, contain forward-looking statements. See Factors That May Affect Future Results at the end of this discussion and analysis for a discussion of the uncertainties, risks and assumptions associated with these statements.

OVERVIEW

Founded in 1906, we are the world's largest publicly owned creator, manufacturer and distributor of social expression products. Headquartered in Cleveland, Ohio, we employ approximately 18,000 associates around the world and are home to one of the world's largest creative studios.

Our major domestic greeting card brands are American Greetings, Carlton Cards and Gibson and other domestic products include DesignWare party goods, Plus Mark gift wrap and boxed cards, DateWorks calendars and AGI In-Store (formerly AGI Schutz) display fixtures. We also create and license our intellectual properties such as the Care Bear and Strawberry Shortcake characters. The Internet and wireless business unit, AG Interactive, is a leading provider of electronic greetings and other content for the digital marketplace. As of February 29, 2008, the Retail Operations segment owned and operated 414 card and gift retail stores throughout North America.

Our international operations include wholly-owned subsidiaries in the United Kingdom (U.K.), Canada, Australia, New Zealand and Mexico, as well as licensees in approximately 60 other countries.

Our business exhibits seasonality, which is typical for most companies in the retail industry. Sales are higher in the second half of our fiscal year due to the concentration of major holidays during that period. Net earnings are highest during the months of September through December when sales volume provides significant operating leverage. Working capital requirements needed to finance operations fluctuate during the year and reach their highest levels during the second and third fiscal quarters as inventory is increased in preparation for the peak selling season.

Two years ago we launched an operating strategy focused on investing in growth through improving the core greeting card business (investment in cards strategy). As we noted in our 2006 Annual Report on Form 10-K, we estimated that we would spend at least $100 million over two years for the combination of the investment in cards strategy and scan-based trading (SBT) implementations. The investment in cards strategy is focused on improving the design, production, display and promotion of our cards, creating relevant and on-trend products, brought to market quickly and merchandised in a manner that enhances the shopping experience. The most significant costs associated with this strategy are incentive allowances for new fixtures and removal of product at retail (to improve productivity), as credits issued to customers exceed new product shipments. Due to the nature of these costs, generally sales incentives and credits for removed product, they are reported as reductions to net sales. In addition, there are costs to implement the strategy, including installation services, information system improvements, point of purchase materials, scrap and order filling costs, which are reported within the appropriate expense lines of the Consolidated Statement of Income.

The investment in cards strategy and SBT implementation activities have significantly reduced our sales and operating earnings over the past two years. For the year ended February 29, 2008, total revenue was reduced by approximately $6 million for actions related to our investment in cards strategy and approximately $25 million for SBT implementations, compared to approximately $38 million and $21 million, respectively, in the prior year. Other related costs to implement the strategy were approximately $3 million in the current year, compared to approximately $7 million in the prior year, none of which were individually significant. In total, actions related to our investment in cards strategy and SBT implementations reduced current year consolidated pre-tax income by approximately $34 million, compared with approximately $66 million in the prior year, for a total of $100 million in the two-year period as expected.

Through the investment in cards strategy, we have reset thousands of retailers stores with new products and fixtures and also placed new cards in tens-of-thousands of retailers stores. The goal of the strategy was to drive sales improvement and our card units and sales are beginning to track to our expectations. While this two-year initiative has been completed, many of the processes, activities and lessons learned in implementing the strategy have become embedded in our business model and methodology for bringing products to market. Going forward, our focus will be on creative content, product freshness and merchandising.

We were impacted during the year by an unexpected challenge created by the weakening of the U.S. dollar versus the Canadian dollar. Historically, most of our products have been dual priced, with both the U.S. and Canadian currency prices printed on them. With the parity of the currency exchange rates, we have encountered some challenges in the marketplace. To address these challenges, we have created a new Canadian line of single priced products. The impact on the company of this situation has been a temporary reduction in revenues due to promotional activities and a temporary increase in costs to create, manufacture and distribute the new product line.

Through our AG Interactive business, we made two acquisitions during the year, Webshots and PhotoWorks. These acquisitions will provide us with entry into the online photo sharing space, a significant number of unique visitors and a platform to provide consumers the ability to use their own photos to create unique, high quality physical products, including greeting cards, calendars, photo albums and photo books. Our overall photo strategy is designed to bring together the strengths of both acquisitions, and then leverage the users across all of our existing websites. This integration, which is currently in process, should also enhance our online advertising model by driving consumer traffic across all our websites. In addition, we are developing products to link our websites and our retail stores.

Looking forward to fiscal 2009, we are concerned about the strength of the U.S. economy and the ensuing impact it may have on our retail partners and our consumers. Depending on how our retail partners are impacted by weakness in the economy, including consumer foot traffic at retail and potential changes to consumer discretionary purchasing patterns, we could see events such as retailer consolidation or store closures impacting our results.

We recognized net income of $83.0 million in 2008 compared to $42.4 million in 2007, on total revenue of $1.78 billion in 2008 compared to $1.79 billion in 2007.

The lower consolidated revenues were the result of reductions in all segments except the International Social Expression Products segment, partially offset by the favorable impact of foreign currency movements. Revenues in the North American Social Expression Products segment declined primarily due to the prior year divestiture of the candle product lines and lower sales of gift packaging products, partially offset by lower costs related to our investment in cards strategy. We also had lower revenues in our Retail Operations segment, despite positive year over year comparative store sales growth, due to a reduced number of stores. Our AG Interactive segment also had lower revenues driven by the reduced offerings in the mobile products group, partially offset by revenues from the photo acquisitions and increased memberships in the core online greeting card product line. The revenue improvement in the International Social Expression Products segment was primarily driven by additional distribution obtained during the year.

The improvement to pre-tax earnings was driven by a change in the mix of product sold to a richer mix (as defined by higher gross margins) of card versus non-card products, a favorable shift in business mix, the impact of continued cost savings programs, particularly in the areas of manufacturing and supply chain, and lower interest expense. Within the segments, the International Social Expression Products segment and the Retail Operations segment saw dramatic improvement over the prior year. The international improvement was driven by operations in the U.K. where expanded distribution, product mix and cost savings initiatives in manufacturing and supply chain drove favorable results. The improvement within the Retail Operations segment was due to the impact of closing underperforming stores in the prior year, same-store sales growth, improvements in product mix and cost reductions.

The prior year results included a gain of approximately $20 million as a result of retailer consolidations, wherein, multiple long-term supply agreements were terminated and a new agreement was negotiated with a new legal entity with substantially different terms and sales commitments. We received cash of approximately $60 million during the fourth quarter of 2007 as a result of this transaction. The prior year also included a pre-tax loss of approximately $16 million in connection with the sale of our candle product lines and a pre-tax charge of approximately $7 million related to the closing of 60 underperforming retail stores.

During 2008, we repurchased 6.7 million of our Class A common shares under share repurchase programs for $149.2 million compared to 11.1 million shares for $257.5 million in the prior year.

RESULTS OF OPERATIONS

Comparison of the years ended February 29, 2008 and February 28, 2007

In 2008, net income was $83.0 million, or $1.52 per diluted share, compared to net income of $42.4 million, or $0.71 per diluted share, in 2007. During the fourth quarter of 2008, it was determined that our entertainment development and production joint venture no longer met all of the criteria necessary to be classified as held for sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. As a result, this business unit has been reclassified into continuing operations for all periods presented. These reclassifications had no material impact on earnings or cash flows.

Our results for 2008 and 2007 are summarized below:

(Dollars in thousands)	**2008**	**% Total Revenue**	**2007**	**% Total Revenue**
Net sales	$ 1,730,784	97.4%	$ 1,744,798	97.2%
Other revenue	45,667	2.6%	49,492	2.8%
Total revenue	1,776,451	100.0%	1,794,290	100.0%
Material, labor and other production costs	780,771	43.9%	826,791	46.1%
Selling, distribution and marketing	621,478	35.0%	627,940	35.0%
Administrative and general	246,722	13.9%	253,035	14.1%
Goodwill impairment		0.0%	2,196	0.1%
Other operating income net	(1,325)	(0.1%)	(5,252)	(0.3%)
Operating income	128,805	7.3%	89,580	5.0%
Interest expense	20,006	1.1%	34,986	2.0%
Interest income	(7,758)	(0.4%)	(8,135)	(0.5%)
Other non-operating income net	(7,411)	(0.4%)	(2,682)	(0.1%)
Income from continuing operations before income tax expense	123,968	7.0%	65,411	3.6%
Income tax expense	40,648	2.3%	25,473	1.4%
Income from continuing operations	83,320	4.7%	39,938	2.2%
(Loss) income from discontinued operations, net of tax	(317)	(0.0%)	2,440	0.2%
Net income	$ 83,003	4.7%	$ 42,378	2.4%

Revenue Overview

Consolidated net sales in 2008 were $1.73 billion, a decrease of $14.0 million from the prior year. This decrease was primarily the result of lower sales in our North American Social Expression Products segment, our Retail Operations segment, AG Interactive and our fixtures business partially offset by an increase in our International Social Expression Products segment and the impact of favorable foreign currency translation.

The North American Social Expression Products segment decreased approximately $22 million. Our candle product lines, which were sold in January 2007, contributed approximately $33 million to net sales in the prior year. As a result, sales of products other than candles increased approximately $11 million. Approximately $32 million of the increase was due to lower spending on our investment in cards strategy and improvements in everyday and seasonal card sales provided approximately $27 million. These increases were partially offset by approximately $3 million of increased SBT implementations in the current year, a decline in specialty product sales, which include stationery, calendars and stickers, of approximately $12 million, a decline in gift packaging sales of approximately $19 million as well as the impact of the temporary promotional activities related to the Canadian dual-priced products of approximately $13 million.

The Retail Operations segment decreased approximately $17 million as the reduction in stores more than offset the increase in same-store sales. Net sales in our fixtures business were lower by approximately $10 million.

The reduction of approximately $7 million in AG Interactive s net sales was due to lower sales in the mobile product group partially offset by growth in the online product group and digital photography revenue from the two acquisitions made in the second half of 2008.

These decreases were partially offset by an increase of approximately $5 million in our International Social Expression Products segment as well as favorable foreign currency of approximately $37 million.

The contribution of each major product category as a percentage of net sales for the past two fiscal years was as follows:

	2008	**2007**
Everyday greeting cards	41%	38%
Seasonal greeting cards	22%	21%
Gift packaging	15%	16%
All other products*	22%	25%

* The all other products classification includes giftware, party goods, calendars, custom display fixtures, stickers, online greeting cards and other digital products in both years. Candles and balloons are included in 2007 only.

Other revenue, primarily royalty revenue, decreased $3.8 million from $49.5 million in 2007 to $45.7 million in 2008.

Wholesale Unit and Pricing Analysis for Greeting Cards

Unit and pricing comparatives (on a sales less returns basis) for 2008 and 2007 are summarized below:

	Increase (Decrease) From the Prior Year					
	Everyday Cards		**Seasonal Cards**		**Total Greeting Cards**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Unit volume	9.6%	(10.6%)	7.0%	(9.6%)	8.8%	(10.3%)
Selling prices	(5.6%)	4.8%	(4.4%)	5.7%	(5.2%)	5.1%
Overall increase / (decrease)	3.5%	(6.3%)	2.3%	(4.5%)	3.1%	(5.7%)

During 2008, combined everyday and seasonal greeting card sales less returns increased 3.1% compared to the prior year, with increases in both everyday and seasonal cards.

Everyday card unit volume was up 9.6% compared to the prior year. Approximately one-third of the increase was related to SBT implementation activities. The remaining improvement was driven by increases in the North

American Social Expression Products segment where, through the investment in cards strategy, we have been focused on driving card productivity. The decrease in selling prices, down 5.6%, was the result of significant volume increases in the sales of value line cards.

Seasonal card unit volume increased 7.0% compared to the prior year. This increase was driven by improvements in the Valentine s Day, Christmas and Easter seasons, slightly offset by a decline in the Mother s Day season. The overall unit increase was within the North American Social Expression Products segment, with the International Social Expression Products segment flat compared to the prior year. Seasonal selling prices decreased 4.4% compared to the prior year. This decline in average selling prices was the result of significant volume increases in the sales of value line cards.

Expense Overview

Material, labor and other production costs (MLOPC) for 2008 were $780.8 million, a decrease from $826.8 million in 2007. As a percentage of total revenue, these costs were 43.9% in 2008 compared to 46.1% in 2007. The decrease of $46.0 million is due to favorable mix ($55 million) and volume variances ($16 million) due to lower sales volume in the current year partially offset by unfavorable spending variances ($8 million) and the impact of foreign currency translation ($17 million). The favorable product mix is due to a change to a richer mix of card versus non-card products. The mix impact was accentuated by the increase in card sales and the significant reduction of non-card sales, primarily as a result of the sale of our candle product lines in January 2007 and lower sales of gift packaging products. The increased spending is attributable to higher SBT scrap and shrink costs, which continue to increase as more customers are moved to the SBT business model, as well as higher expenses associated with our production of film-based entertainment, which is used to support our merchandise licensing strategies by increasing the awareness of our properties within the target audience.

Selling, distribution and marketing expenses were $621.5 million in 2008, decreasing from $627.9 million in the prior year. The decrease of $6.4 million is due primarily to reduced spending ($20 million) partially offset by the impact of unfavorable foreign currency translation ($14 million). The lower spending is the direct result of strategic actions taken in the prior and current periods. In the prior year, we closed 60 underperforming retail stores and exited lower margin products within the AG Interactive mobile products group. The store closures resulted in exit costs in the prior year ($7 million) and reduced store expenses ($10 million), including rent, depreciation and personnel costs, in the current year. The reduced offerings in the mobile products group drove lower current year marketing-related expenses in AG Interactive ($7 million). The current year also includes savings from supply chain cost reduction programs ($2 million). These amounts were partially offset by higher advertising and research expenses ($6 million), a portion of which is attributable to our focus on our core greeting card business.

Administrative and general expenses were $246.7 million in 2008, compared to $253.0 million in 2007. The $6.3 million decrease in expense in 2008 is due primarily to reduced spending ($10 million) partially offset by unfavorable foreign currency translation impacts ($4 million). The lower spending is the direct result of cost savings initiatives taken in the prior and current periods. The decreased spending is attributable to lower payroll and benefits-related expenses ($3 million), reduced information technology-related expenses ($2 million), less profit-sharing plan expense ($2 million), lower non-income related business taxes ($2 million), reduced consulting expenses ($2 million) and less stock-based compensation expense ($1 million). These were partially offset by higher amortization expense ($2 million) of intangible assets, primarily due to the acquisitions in 2008 and 2007.

A goodwill impairment charge of $2.2 million was recorded in 2007 representing all the goodwill of our entertainment development and production joint venture. There were no goodwill impairment charges in 2008.

Interest expense was $20.0 million in 2008, compared to $35.0 million in 2007. The decrease of $15.0 million is primarily attributable to interest savings ($11 million) associated with the reduced balances outstanding of our

6.10% notes, 7.00% convertible notes and facility borrowings. The reduced balances for our 6.10% notes and the 7.00% convertible notes are due to the financing activities undertaken in 2007. The remaining decrease in interest expense in 2008 is also attributable to the prior year refinancing activities. As a result of those activities, certain additional expenses were incurred in 2007, such as the write-off of deferred financing fees, which did not recur in 2008. Also, certain expenses were reduced in the current year due to the 2007 activities such as commitment fees, which decreased as a result of the reduced availability under the term loan facility. See Note 11 to the Consolidated Financial Statements for further information on the financing activities in 2007.

Other operating income net was $1.3 million in 2008 compared to $5.3 million in 2007. The decrease of $4.0 million is due primarily to a gain ($20 million) related to terminations of long-term supply agreements associated with retailer consolidations partially offset by the loss ($16 million) on the sale of our candle product lines, both of which were recorded in 2007. Other non-operating income net was $7.4 million in 2008 compared to $2.7 million in 2007. The $4.7 million increase is attributable primarily to higher foreign exchange gains in 2008 compared to 2007.

The effective tax rate for 2008 and 2007 was 32.8% and 38.9%, respectively. These rates reflect the United States statutory rate of 35% combined with the additional net impact of the various foreign, state and local income tax rates. The lower rate in 2008 compared to 2007 is primarily the result of the restructuring and consolidation of several foreign entities that reduced our future tax liabilities and the recognition of additional interest income on our net tax positions during the current year. See Note 16 to the Consolidated Financial Statements for further information.

Loss from discontinued operations was $0.3 million for 2008 compared to income from discontinued operations of $2.4 million in 2007. The loss in 2008 primarily relates to income tax expense on the sale of Learning Horizons in the first quarter of 2008. The 2007 amount included a gain based on the closing balance sheet adjustments for the sale of Magnivision ($3 million after tax) and a tax benefit on the South African business unit sale ($2 million) partially offset by a loss from Learning Horizons ($3 million after tax). The Learning Horizons loss included goodwill and fixed asset impairment charges ($1 million). The impairments for Learning Horizons were primarily recorded as a result of the intention to sell the business, and therefore, present the operation at its estimated fair value.

Segment Results

The Corporation s management reviews segment results using consistent exchange rates between years to eliminate the impact of foreign currency fluctuations. For additional segment information, see Note 15 to the Consolidated Financial Statements.

<u>North American Social Expression Products Segment</u>

(Dollars in thousands)	**2008**	**2007**	**% Change**
Total revenue	$ 1,124,225	$ 1,146,555	(2.0%)
Segment earnings	175,287	161,362	8.6%

In 2008, total revenue of the North American Social Expression Products segment, excluding the impact of foreign exchange and intersegment items, decreased $22.3 million, or 2.0%, from 2007. Our candle product lines, which were sold in January 2007, contributed approximately $33 million to net sales in the prior year. As a result, sales of products other than candles increased approximately $11 million. Approximately $32 million of the increase was due to lower spending on our investment in cards strategy and improvements in everyday and seasonal card sales provided approximately $27 million. These increases were partially offset by approximately $3 million of increased SBT implementations in the current year, a decline in specialty product sales, which include stationery, calendars and stickers, of approximately $12 million, a decline in gift packaging sales of approximately $19 million as well as the impact of the temporary promotional activities related to the Canadian dual-priced products of approximately $13 million.

Segment earnings, excluding the impact of foreign exchange and intersegment items, increased $13.9 million, or 8.6%, in 2008 compared to the prior year. Approximately $32 million of the increase was due to lower spending on our investment in cards strategy and SBT conversions. Segment earnings were impacted by a favorable product mix due to a change to a richer mix of card versus non-card products, driven by improved everyday and seasonal card sales and decreased sales of non-card products, primarily as a result of the sale of our candle product lines in January 2007 and lower sales of gift packaging products. These improvements were partially offset by increases in card product costs associated with more technology cards (paper cards that include lights and/or sound), increased SBT scrap, higher creative content costs and the impact on earnings of the decrease in total revenue. Segment earnings in 2007 benefited from the gain related to terminations of long-term supply agreements associated with retailer consolidations ($20 million), but was unfavorably impacted by the loss incurred on the sale of the candle product lines ($16 million).

International Social Expression Products Segment

(Dollars in thousands)	2008	2007	% Change
Total revenue	$ 285,658	$ 279,845	2.1%
Segment earnings	22,208	9,434	135.4%

Total revenue of the International Social Expression Products segment, excluding the impact of foreign exchange, increased $5.8 million, or 2.1%, in 2008 compared to 2007. This increase was driven by additional distribution obtained during the year, primarily in the U.K.

Segment earnings, excluding the impact of foreign exchange, increased $12.8 million compared to 2007. This increase is attributable to improvements in our U.K. operations, including expanded distribution, changes in product mix and cost savings initiatives in manufacturing and supply chain. Also, the prior year earnings included severance charges ($3 million) primarily as a result of facility closures, including the manufacturing facility in Australia.

Retail Operations Segment

(Dollars in thousands)	2008	2007	% Change
Total revenue	$ 190,149	$ 207,441	(8.3%)
Segment loss	(4,482)	(16,415)	72.7%

The Retail Operations segment exhibits considerable seasonality, which is typical for most retail store operations. A significant amount of the total revenue and segment earnings occur during the fourth quarter in conjunction with the major holiday season.

Total revenue in our Retail Operations segment, excluding the impact of foreign exchange, decreased $17.3 million, or 8.3%, year over year. Total revenue at stores open one year or more was up approximately 3.6%, or approximately $7 million, from 2007 but was more than offset by the reduction in store doors. The average number of stores decreased approximately 13.0% compared to the prior year, which reduced revenues by approximately $24 million. The current year benefited from the performance of children s gifting products, which was the driver of the same-store sales increase.

Segment loss, excluding the impact of foreign exchange, was $4.5 million in 2008 compared to $16.4 million in 2007. Approximately half of the $11.9 million improvement in earnings is due to the prior year charges associated with the closure of 60 underperforming stores during the fourth quarter. The remaining improvement is attributable to lower store and administrative expenses due to fewer doors as well as improved product mix. Gross margins increased by approximately 2 percentage points, partially due to less promotional pricing compared to the prior year.

AG Interactive Segment

(Dollars in thousands)	2008	2007	% Change
Total revenue	$ 78,051	$ 85,347	(8.6%)
Segment earnings	6,323	5,813	8.8%

Total revenue, excluding the impact of foreign exchange, decreased $7.3 million, or 8.6%, from 2007. This decrease is the result of the lower revenue in the mobile product group ($16 million) due to reduced offerings in 2008 partially offset by advertising and subscription revenue growth in the online product group ($4 million) and digital photography revenue ($5 million) in the current year associated with the two acquisitions made in the second half of the year. At the end of 2008, AG Interactive had approximately 3.8 million paid subscriptions versus 3.5 million in 2007.

Segment earnings, excluding the impact of foreign exchange, increased $0.5 million in 2008 compared to 2007. Growth in advertising and subscription revenue as well as lower expenses in the mobile product group due to the reduced offerings in that group were substantially offset by expenses incurred in the current year associated with the two digital photography acquisitions in the second half of the year.

Unallocated Items

Centrally incurred and managed costs, excluding the impact of foreign exchange and totaling $83.9 million and $106.5 million in 2008 and 2007, respectively, are not allocated back to the operating segments. The unallocated items included interest expense for centrally incurred debt of $20.0 million and $35.0 million in 2008 and 2007, respectively, and domestic profit-sharing expense of $5.2 million and $6.8 million in 2008 and 2007, respectively. Unallocated items also included stock-based compensation expense in accordance with SFAS No. 123 (revised 2004) (SFAS 123R) of $6.5 million and $7.6 million in 2008 and 2007, respectively. In addition, unallocated items included costs associated with corporate operations including the senior management staff, corporate finance, legal and human resource functions, as well as insurance programs and other strategic costs. These costs totaled $52.2 million and $57.1 million in 2008 and 2007, respectively.

Comparison of the years ended February 28, 2007 and 2006

Net income was $42.4 million, or $0.71 per diluted share, in 2007 compared to net income of $84.4 million, or $1.16 per diluted share, in 2006.

Our results for 2007 and 2006 are summarized below:

(Dollars in thousands)	**2007**	**% Total Revenue**	**2006**	**% Total Revenue**
Net sales	$ 1,744,798	97.2%	$ 1,875,472	97.3%
Other revenue	49,492	2.8%	52,664	2.7%
Total revenue	1,794,290	100.0%	1,928,136	100.0%
Material, labor and other production costs	826,791	46.1%	846,958	43.9%
Selling, distribution and marketing	627,940	35.0%	631,988	32.8%
Administrative and general	253,035	14.1%	244,851	12.7%
Goodwill impairment	2,196	0.1%	43,153	2.2%
Other operating income net	(5,252)	(0.3%)	(416)	(0.0%)
Operating income	89,580	5.0%	161,602	8.4%
Interest expense	34,986	2.0%	35,124	1.8%
Interest income	(8,135)	(0.5%)	(10,910)	(0.6%)
Other non-operating income net	(2,682)	(0.1%)	(712)	(0.0%)
Income from continuing operations before income tax expense	65,411	3.6%	138,100	7.2%
Income tax expense	25,473	1.4%	48,881	2.6%
Income from continuing operations	39,938	2.2%	89,219	4.6%
Income (loss) from discontinued operations, net of tax	2,440	0.2%	(4,843)	(0.2%)
Net income	$ 42,378	2.4%	$ 84,376	4.4%

Revenue Overview

Consolidated net sales in 2007 were $1.74 billion, a decrease of $130.7 million from the prior year. This decrease was primarily the result of lower sales in the North American Social Expression Products segment. Lower sales in our Retail Operations segment, our International Social Expression Products segment and AG Interactive were substantially offset by an increase in our fixtures business and a favorable foreign currency translation impact.

The North American Social Expression Products segment decreased approximately $130 million. Approximately $38 million of the decrease was due to the implementation of our investment in cards strategy and approximately $21 million resulted from SBT implementations during 2007. The remaining decrease was attributable to a significant decline in gift packaging sales of approximately $30 million as well as lower sales of everyday cards, party goods, seasonal cards and ornaments.

The Retail Operations segment decreased approximately $13 million due to fewer stores while our International Social Expression Products segment was down approximately $4 million, primarily in the U.K. These decreases were partially offset by an increase of approximately $8 million in our fixtures business as well as favorable foreign currency of approximately $17 million.

The reduction of approximately $4 million in AG Interactive s net sales was due to the additional two months included in the prior year as a result of the fiscal year change partially offset by growth in the online product group, including the current year acquisition of an online greeting card business. The additional two months in the prior year added approximately $11 million to net sales in 2006.

The contribution of each major product category as a percentage of net sales for the past two fiscal years was as follows:

	2007	2006
Everyday greeting cards	38%	38%
Seasonal greeting cards	21%	22%
Gift packaging	16%	16%
All other products*	25%	24%

* The all other products classification includes giftware, party goods, candles, balloons, calendars, custom display fixtures, stickers, online greeting cards and other digital products.

Other revenue, primarily royalty revenue, decreased $3.2 million from $52.7 million in 2006 to $49.5 million in 2007.

Wholesale Unit and Pricing Analysis for Greeting Cards

Unit and pricing comparatives (on a sales less returns basis) for 2007 and 2006 are summarized below:

	Increase (Decrease) From the Prior Year					
	Everyday Cards		Seasonal Cards		Total Greeting Cards	
	2007	2006	2007	2006	2007	2006
Unit volume	(10.6%)	(0.2%)	(9.6%)	(4.8%)	(10.3%)	(1.6%)
Selling prices	4.8%	0.9%	5.7%	5.2%	5.1%	2.2%
Overall increase / (decrease)	(6.3%)	0.7%	(4.5%)	0.2%	(5.7%)	0.5%

During 2007, combined everyday and seasonal greeting card sales less returns fell 5.7% compared to the prior year. Approximately 18% of this decrease was the result of the SBT buybacks during the period.

Everyday card unit volume, down 10.6%, and selling prices, up 4.8%, were significantly impacted during the year by the SBT buybacks. Approximately 39% of the decrease in everyday card unit volume and approximately 65% of the increase in selling prices was the direct result of the product mix of the SBT buybacks. The remaining everyday card sales less returns decreased 4.8%, including a decline in unit volume of 6.4% and an increase in selling prices of 1.7%. Of the remaining unit decrease, approximately 25% was related to the investment in cards strategy with the balance due to shortfalls in North America and the U.K. Selling prices increased due to a lower overall mix of value cards compared to the prior year period.

Seasonal card unit volume decreased 9.6% compared to the prior year. Approximately 60% of this decrease relates to the timing of shipments for the upcoming Easter, Mother s Day and Graduation seasons compared to the prior year and the impact of ongoing SBT conversions. The implementation of SBT impacts the timing of sales with these customers compared to the prior year because, under SBT, American Greetings owns the product delivered to the retail customer until the product is sold by the retailer to the ultimate consumer, at which time we record the sale. From a timing perspective, we expect a recovery during the first quarter of 2008. The remaining decrease in units relates to weakness in all other seasons, particularly Christmas and Valentine s Day. Seasonal selling prices increased 5.7% compared to the prior year. The overall increase in pricing from the prior year is driven by the timing of shipments discussed above and the mix of price points that shipped in the current year relative to the total pricing of those seasons. We expect this favorable average price to reverse in the first quarter of 2008. In addition, favorable pricing from changes in mix from the current year Mother s Day and Graduation seasons were partially offset by slight decreases from the Christmas and Valentine s Day seasons, both driven by changes in product mix.

Expense Overview

MLOPC for 2007 were $826.8 million, a decrease from $847.0 million in 2006. As a percentage of total revenue, these costs were 46.1% in 2007 compared to 43.9% in 2006. The $20.2 million decrease from the prior year is due to favorable volume variances ($59 million) due to the lower sales volume in the current year partially offset by unfavorable product and business mix ($12 million) and unfavorable spending ($27 million). The spending increases are attributable to higher inventory and SBT scrap costs ($15 million), increased creative content costs and royalties ($7 million) and severance charges ($3 million) primarily due to the facility closure in Australia.

Selling, distribution and marketing expenses were $627.9 million in 2007, decreasing from $632.0 million in the prior year. The decrease of $4.1 million is due primarily to reductions in order filling and freight expense ($8 million) and field sales expenses ($2 million). Also contributing to the decrease was our Retail Operations segment. The Retail Operations segment was favorably impacted by reduced store expenses ($6 million) and lower depreciation expense and fixed asset impairment charges ($4 million) due to fewer doors compared to the prior year, but did incur incremental store exit costs ($5 million) associated with the 60 stores closed in the fourth quarter of 2007. These decreases were partially offset by higher advertising expenses ($5 million) and unfavorable foreign currency translation impacts ($6 million).

Administrative and general expenses were $253.0 million in 2007, compared to $244.9 million in 2006. The $8.1 million increase in expense in 2007 is due primarily to stock-based compensation expense in the current year in accordance with SFAS 123R ($8 million). Increases in severance charges ($3 million), payroll and benefits-related expenses ($2 million), amortization of intangible assets ($1 million), postretirement benefit obligation expense ($1 million) and non-income related business taxes ($1 million) were substantially offset by reduced profit-sharing plan expense ($6 million) and bad debt expense ($3 million) due primarily to recoveries recorded in the current year. Unfavorable foreign currency translation impacts ($1 million) also contributed to the increased expense.

A goodwill impairment charge of $2.2 million was recorded in 2007 representing all the goodwill of our entertainment development and production joint venture compared to a goodwill impairment charge of $43.2 million in 2006. The charge in 2006 was recorded in the third quarter, as indicators emerged during that period that led us to conclude that an impairment test was required prior to the annual test. As a result, impairment was recorded in one reporting unit in the International Social Expression Products segment, located in Australia ($25 million), and in our Retail Operations segment ($18 million). These amounts represented all of the goodwill of these reporting units. See Note 9 to the Consolidated Financial Statements for further discussion of the facts and circumstances that led to the recording of these goodwill impairment charges.

Interest expense was $35.0 million in 2007, compared to $35.1 million in 2006. The decrease of $0.1 million is attributable to interest savings ($21 million) associated with the reduced balance outstanding of 6.10% notes and the 7.00% convertible notes, the net gain recognized on the interest rate derivative entered into and settled during 2007 ($2 million) and the prior year expenses for the retirement of $10.2 million of the 11.75% notes ($1 million). Partially offsetting these decreases are expenses including the consent payment, fees paid and the write-off of deferred financing costs related to the early retirement of the 6.10% notes ($5 million) and additional interest expense ($14 million) associated with the new 7.375% notes and the borrowings under the credit and receivable facilities during the year. Expenses associated with both the new and old credit facilities ($5 million), which included the write-off of deferred financing fees for the old facility, increased commitment fees for the new facility and the write-off of deferred financing fees for the term loan facility due to the reduction in the available borrowing, also offset the decreases.

Other operating income net was $5.3 million in 2007 compared to $0.4 million in 2006. The increase of $4.9 million is due primarily to a gain ($20 million) related to terminations of long-term supply agreements associated with retailer consolidations offset by the loss ($16 million) on the sale of our candle product lines, both of which were recorded in 2007. Other non-operating income net was $2.7 million in 2007 compared to $0.7 million in 2006. The $2.0 million increase is attributable primarily to a smaller loss on disposal of fixed assets in 2007 compared to 2006.

The effective tax rate for 2007 and 2006 was 38.9% and 35.4%, respectively. These rates reflect the United States statutory rate of 35% combined with the additional net impact of the various foreign, state and local income tax rates. See Note 16 to the Consolidated Financial Statements for causes of the differences between tax expense at the federal statutory rate and actual tax expense.

Income from discontinued operations was $2.4 million for 2007 compared to a loss from discontinued operations of $4.8 million in 2006. The 2007 amount included a gain based on the closing balance sheet adjustments for the sale of Magnivision ($3 million after tax) and a tax benefit on the South African business unit sale ($2 million) partially offset by a loss from Learning Horizons ($3 million after tax). The Learning Horizons loss included goodwill and fixed asset impairment charges ($1 million). Loss from discontinued operations for 2006 included a loss from the South African business unit ($8 million) partially offset by income from Learning Horizons ($1 million) and a tax benefit from the Magnivision sale ($2 million). The loss from the South African business unit included a goodwill impairment charge ($2 million) and a long-lived asset impairment charge ($6 million). The charges and impairments for Learning Horizons and the South African business unit were primarily recorded as a result of the intention to sell the businesses, and therefore, present the operations at their estimated fair values.

Segment Results

We review segment results using consistent exchange rates between years to eliminate the impact of foreign currency fluctuations. For additional segment information, see Note 15 to the Consolidated Financial Statements.

North American Social Expression Products Segment

(Dollars in thousands)	2007	2006	% Change
Total revenue	$ 1,146,555	$ 1,277,067	(10.2%)
Segment earnings	161,362	259,158	(37.7%)

In 2007, total revenue of the North American Social Expression Products segment, excluding the impact of foreign exchange and intersegment items, decreased $130.5 million, or 10.2%, from 2006. The implementation of our investment in cards strategy and SBT conversions reduced revenue by approximately $38 million and $21 million, respectively, during the current year. The remainder of the decrease was due to significantly lower gift packaging sales as well as lower sales of party goods, everyday cards, seasonal cards and ornaments.

Segment earnings, excluding the impact of foreign exchange and intersegment items, decreased $97.8 million, or 37.7%, in 2007 compared to the prior year. The implementation of our investment in cards strategy and SBT conversions reduced segment earnings by approximately $66 million during the current year. The decrease in revenue also contributed to the lower segment earnings in the current year. Segment earnings in 2007 benefited from the gain related to terminations of long-term supply agreements associated with retailer consolidations ($20 million), but was unfavorably impacted by the loss incurred on the sale of the candle product lines ($16 million), increased severance charges ($3 million) and higher advertising expenses ($4 million).

International Social Expression Products Segment

(Dollars in thousands)	2007	2006	% Change
Total revenue	$ 279,845	$ 284,899	(1.8%)
Segment earnings (loss)	9,434	(11,357)	183.1%

Total revenue of the International Social Expression Products segment, excluding the impact of foreign exchange, decreased $5.1 million, or 1.8%, in 2007 compared to 2006. This decrease was due to continued weak economic conditions in the U.K., which drove down revenue in both everyday and seasonal card categories. This decrease was partially offset by a slight increase in revenue in Australia.

Segment earnings, excluding the impact of foreign exchange, increased $20.8 million compared to 2006. This overall increase is due to the goodwill impairment charge in the Australian reporting unit of approximately $25 million that occurred in 2006. Partially offsetting the favorable impact of the prior year goodwill impairment on segment earnings was the lower revenue in the current year and severance charges recorded in 2007 ($3 million). The severance charges were incurred in the current year primarily as a result of facility closures, including the manufacturing facility in Australia.

Retail Operations Segment

(Dollars in thousands)	2007	2006	% Change
Total revenue	$ 207,441	$ 221,009	(6.1%)
Segment loss	(16,415)	(32,179)	49.0%

The Retail Operations segment exhibits considerable seasonality, which is typical for most retail store operations. A significant amount of the total revenue and segment earnings occur during the fourth quarter in conjunction with the major holiday season.

Total revenue in our Retail Operations segment, excluding the impact of foreign exchange, decreased $13.6 million, or 6.1%, year over year. Total revenue at stores open one year or more was up approximately 0.7% from 2006 but was more than offset by the reduction in store doors. The average number of stores decreased approximately 7.0% compared to the prior year, which reduced total revenue by approximately $15 million.

Segment loss, excluding the impact of foreign exchange, was $16.4 million in 2007 compared to $32.2 million in 2006. The current year included charges associated with the closure of 60 underperforming stores during the fourth quarter ($7 million) and fixed asset impairment charges ($2 million). The prior year loss included charges for goodwill impairment ($18 million) and fixed asset impairment ($4 million). Also, 2006 was unfavorably impacted by certain noncapitalizable implementation costs associated with a systems infrastructure upgrade. Lower store expenses including depreciation expense due to fewer doors favorably impacted segment earnings, but was substantially offset by the impact of the decrease in revenue.

AG Interactive Segment

(Dollars in thousands)	2007	2006	% Change
Total revenue	$ 85,347	$ 89,616	(4.8%)
Segment earnings	5,813	4,237	37.2%

For 2006, AG Interactive changed its fiscal year-end from December 31 to February 28/29. As a result, 2006 included fourteen months of AG Interactive s operations.

Total revenue, excluding the impact of foreign exchange, decreased $4.3 million, or 4.8%, from 2006. This decrease is the result of the additional two months of activity ($11 million) in 2006 and lower revenue in the mobile product group ($5 million) due to reduced offerings in 2007. This is partially offset by advertising and subscription revenue growth in the online product group due to both ongoing business operations ($8 million) and the current year acquisition of an online greeting card business ($4 million). At the end of 2007, AG Interactive had approximately 3.5 million paid subscriptions versus 2.6 million in 2006. Approximately 0.6 million of the subscription increase was due to the current year acquisition.

Segment earnings, excluding the impact of foreign exchange, increased $1.6 million in 2007 compared to 2006. The improvement is attributable to the prior year including costs associated with the fiscal 2005 acquisitions, higher technology costs and the costs of new business initiatives. Segment earnings also benefited from the current year acquisition. The additional two months of activity in the prior year had no significant impact on segment earnings.

Unallocated Items

Centrally incurred and managed costs, excluding the impact of foreign exchange and totaling $106.5 million and $100.7 million in 2007 and 2006, respectively, are not allocated back to the operating segments. The unallocated items included interest expense for centrally incurred debt of $35.0 million and $35.1 million in 2007 and 2006, respectively, and domestic profit-sharing expense of $6.8 million and $12.4 million in 2007 and 2006, respectively. Unallocated items in 2007 also included stock-based compensation expense in accordance with SFAS 123R of $7.6 million. In addition, unallocated items included costs associated with corporate operations including the senior management staff, corporate finance, legal and human resource functions, as well as insurance programs and other strategic costs. These costs totaled $57.1 million and $53.2 million in 2007 and 2006, respectively.

Liquidity and Capital Resources

Cash flow generation remained strong in 2008 and we ended the year with a combined balance of cash and cash equivalents of $123.5 million. In the past two years, we have reduced our debt by approximately $232 million, improving our debt to total capital ratio from 28.0% in 2006 to 20.5% in 2008.

Operating Activities

During the year, cash flow from operating activities provided cash of $243.5 million compared to $264.7 million in 2007, a decrease of $21.2 million. Cash flow from operating activities for 2007 compared to 2006 resulted in a decrease of $2.6 million from $267.3 million in 2006.

Accounts receivable, net of the effect of acquisitions and dispositions, provided a source of cash of $41.8 million in 2008, compared to $42.2 million in 2007 and $33.9 million in 2006. As a percentage of the prior twelve months net sales, net accounts receivable was 3.6% at February 29, 2008, compared to 6.0% at February 28, 2007. This source of cash is primarily attributable to our lower level of sales and additional customers moving to the SBT business model. In general, customers on the SBT business model tend to have shorter payment terms than non-SBT customers.

Inventories, net of the effect of acquisitions and dispositions, were a use of cash of $28.5 million in 2008 compared to sources of cash of $22.2 million in 2007 and $1.5 million in 2006. The increase in inventory in 2008 from 2007 is attributable to the North American Social Expression Products segment, primarily due to the increase in technology cards and the inventory build related to the new Canadian product line. The decrease in inventory in 2007 from 2006 was primarily due to decreased inventory levels in the North American Social Expression Products and Retail Operations segments. The reduced inventory in our Retail Operations segment is due to both fewer stores as well as reduced inventory levels in those stores.

Other current assets, net of the effect of acquisitions and dispositions, were a source of cash of $28.0 million in 2008 compared to uses of cash of $36.1 million in 2007 and $13.4 million in 2006. Both the current year cash provided and the prior year cash usage are attributable to a receivable of approximately $90 million recorded as part of the termination of several long-term supply agreements in the third quarter of 2007. Approximately $60 million of this receivable was collected in the fourth quarter of 2007 and the balance was received in 2008.

Deferred costs net generally represents payments under agreements with retailers net of the related amortization of those payments. During 2008, 2007 and 2006, amortization exceeded payments by $38.5 million, $52.4 million and $56.6 million, respectively. In 2008, deferred costs net also includes the impact of a reduction of deferred contract costs of approximately $15 million associated with the termination of a long-term supply agreement and related refund received. In 2007, deferred costs net also included the reduction of approximately $76 million of deferred contract costs associated with retailer consolidations. None of our major customer agreements are scheduled to expire in fiscal 2009.

Accounts payable and other liabilities, net of the effect of acquisitions and dispositions, were a source of cash of $18.9 million in 2008 compared to a source of cash of $0.6 million in 2007 and a use of cash of $33.3 million in 2006. The increase in accounts payable and other liabilities in 2008 was attributable to accrued compensation and benefits and income taxes payable. The change in accounts payable and other liabilities in 2007 was primarily due to a reduction in trade payables and the profit-sharing accrual partially offset by an increase in income taxes payable. The decrease in accounts payable and other liabilities in 2006 was primarily due to a reduction in severance accruals and income taxes payable.

Investing Activities

Cash used by investing activities was $125.6 million during 2008, compared to cash provided of $177.5 million during 2007 and cash used of $50.1 million in 2006. The use of cash in the current year is primarily related to business acquisitions. During 2008, we acquired two businesses for $70.2 million. In October 2007, we acquired the online assets of the Webshots brand from CNET Networks, Inc., and in January 2008, we acquired PhotoWorks, Inc., an online photo sharing and personal publishing company. Also, the final payment of $6.1 million for the online greeting card business acquired in 2007 was made during the first quarter of 2008. These outflows were partially offset by cash inflows of $3.1 million from the sale of fixed assets and $4.3 million related to discontinued operations.

Capital expenditures totaled $56.6 million, $41.7 million and $46.2 million in 2008, 2007 and 2006, respectively. We currently expect 2009 capital expenditures to total in the range of $50 million to $70 million.

Cash flows from investing activities in 2007 also included the net proceeds from sales of short-term investments. Short-term investments decreased $208.7 million as sales of short-term investments exceeded purchases. In addition, $12.6 million was received related to discontinued operations, $6.2 million was received from the sale of the candle product lines and $4.8 million was received from the sale of fixed assets. These sources of cash were partially offset by a use of cash of $13.1 million for the acquisition of the online greeting card business and the final payment for the acquisition of Collage, which occurred in 2005.

Cash flows from investing activities in 2006 also included an outflow of $15.3 million related to the acquisition of Collage and the buyout of the remaining portion of the minority interest of AG Interactive and an inflow of $11.4 million for the proceeds from the sale of fixed assets.

Financing Activities

Financing activities used $146.9 million of cash in 2008 compared to $518.5 million in 2007 and $249.5 million in 2006. The current year amount relates primarily to our Class A common share repurchase programs. During 2008, $149.2 million was paid to repurchase 6.7 million shares under the repurchase programs. We paid $23.1 million to repurchase 0.9 million Class B common shares during 2008, in accordance with our Amended Articles of Incorporation. The majority of the Class B common shares repurchased were held by the American Greetings Retirement Profit Sharing and Savings Plan (the Plan) on behalf of participants investing in the Plan s company stock fund. In connection with the Plan s determination that the company stock fund should consist solely of Class A common shares to facilitate participant transactions, during November 2007, the Plan sold the remaining Class B common shares back to American Greetings in accordance with our Amended Articles of Incorporation. The cash outflow for repurchases was partially offset by net borrowings of $20.1 million under our credit facility.

In 2007, cash used for financing activities related primarily to our debt activities in the period. We retired $277.3 million of our 6.10% senior unsecured notes and issued $200.0 million of 7.375% senior unsecured notes. We repaid $159.1 million of our 7.00% convertible subordinated notes. We paid $8.5 million of debt issuance costs during the period for our new credit facility, the 7.375% senior unsecured notes and the exchange offer on our 7.00% convertible subordinated notes. These amounts were deferred and are being amortized over the respective periods of the instruments. Our Class A common share repurchase programs also contributed to the cash used for financing activities in 2007. During 2007, $257.5 million was paid to repurchase 11.1 million shares under the repurchase programs. We paid $0.3 million to repurchase Class B common shares during 2007, in accordance with our Amended Articles of Incorporation.

In 2006, cash used for financing activities related primarily to our two programs to repurchase Class A common shares. In total under both programs, we paid $243.1 million to repurchase 10.3 million Class A common shares during the year. In addition, we paid $1.5 million to repurchase Class B common shares primarily related to options that were exercised, which shares were repurchased by us in accordance with our Amended Articles of Incorporation. We also paid $10.8 million to repurchase the remaining portion of our 11.75% senior subordinated notes.

Our receipt of the exercise price on stock options provided $27.2 million, $6.8 million and $27.1 million in 2008, 2007 and 2006, respectively. In accordance with SFAS 123R, tax benefits associated with share-based payments are classified as financing activities in the Consolidated Statement of Cash Flows, rather than as operating cash flows as required under previous accounting guidance. Prior year amounts, which totaled approximately $5 million in 2006, were not reclassified.

We paid dividends totaling $21.8 million, $18.4 million and $21.2 million in 2008, 2007 and 2006, respectively.

Credit Sources

Substantial credit sources are available to us. In total, we had available sources of approximately $600 million at February 29, 2008. This included our $450 million senior secured credit facility and our $150 million accounts receivable securitization facility. We had $20.1 million outstanding under the revolving credit facility at February 29, 2008. In addition to these borrowings, we had, in the aggregate, $25.7 million outstanding under letters of credit, which reduces the total credit availability thereunder.

The credit agreement includes a $350 million revolving credit facility and a $100 million delay draw term loan. The obligations under the credit agreement are guaranteed by our material domestic subsidiaries and are secured by substantially all of the personal property of American Greetings and each of our material domestic subsidiaries, including a pledge of all of the capital stock in substantially all of our domestic subsidiaries and 65% of the capital stock of our first tier foreign subsidiaries. The revolving credit facility will mature on April 4, 2011, and any outstanding term loans will mature on April 4, 2013. Each term loan will amortize in equal quarterly installments equal to 0.25% of the amount of such term loan, beginning on April 4, 2008, with the balance payable on April 4, 2013.

Revolving loans denominated in U.S. dollars under the credit agreement will bear interest at a rate per annum based on the then applicable London Inter-Bank Offer Rate (LIBOR) or the alternate base rate (ABR), as defined in the credit agreement, in each case, plus margins adjusted according to our leverage ratio. Term loans will bear interest at a rate per annum based on either LIBOR plus 150 basis points or based on the ABR, as defined in the credit agreement, plus 25 basis points. We pay an annual commitment fee of 75 basis points on the undrawn portion of the term loan. The commitment fee on the revolving facility fluctuates based on our leverage ratio.

The credit agreement contains certain restrictive covenants that are customary for similar credit arrangements, including covenants relating to limitations on liens, dispositions, issuance of debt, investments, payment of dividends, repurchases of capital stock, acquisitions and transactions with affiliates. There are also financial performance covenants that require us to maintain a maximum leverage ratio and a minimum interest coverage ratio. The credit agreement also requires us to make certain mandatory prepayments of outstanding indebtedness using the net cash proceeds received from certain dispositions, events of loss and additional indebtedness that we may incur from time to time.

The credit agreement was amended on March 28, 2008 to extend the period during which we may borrow on the term loan until April 3, 2009 and change the start of the amortization period from April 4, 2008 until April 3, 2009. We are also party to an amended and restated receivables purchase agreement with available financing of up to $150 million. The agreement expires on October 23, 2009. Under the amended and restated receivables purchase agreement, American Greetings and certain of its subsidiaries sell accounts receivable to AGC Funding Corporation (AGC Funding), a wholly-owned, consolidated subsidiary of American Greetings, which in turn sells undivided interests in eligible accounts receivable to third party financial institutions as part of a process that provides funding similar to a revolving credit facility. Funding under the facility may be used for working capital, general corporate purposes and the issuance of letters of credit.

The interest rate under the accounts receivable securitization facility is based on (i) commercial paper interest rates, (ii) LIBOR rates plus an applicable margin or (iii) a rate that is the higher of the prime rate as announced by the applicable purchaser financial institution or the federal funds rate plus 0.50%. AGC Funding pays an annual commitment fee of 28 basis points on the unfunded portion of the accounts receivable securitization facility, together with customary administrative fees on outstanding letters of credit that have been issued and on outstanding amounts funded under the facility.

The amended and restated receivables purchase agreement contains representations, warranties, covenants and indemnities customary for facilities of this type, including the obligation of American Greetings to maintain the same consolidated leverage ratio as it is required to maintain under its secured credit facility.

On March 28, 2008, the receivables facility was further amended to decrease the amount of available financing from $150 million to $90 million.

Our future operating cash flow and borrowing availability under our credit agreement and our accounts receivable securitization facility are expected to meet currently anticipated funding requirements. The seasonal nature of the business results in peak working capital requirements that may be financed through short-term borrowings.

Contractual Obligations

The following table presents our contractual obligations and commitments to make future payments as of February 29, 2008:

	Payment Due by Period as of February 29, 2008						
(In thousands)	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Long-term debt	$ 22,690	$ 518	$	$	$	$ 200,000	$ 223,208
Operating leases	30,986	23,829	18,381	12,943	8,414	12,860	107,413
Commitments under customer agreements	68,457	25,259	24,806	426			118,948
Commitments under royalty agreements	12,844	8,871	3,659	750	375		26,499
Interest payments	17,273	16,477	16,290	15,572	15,500	48,006	129,118
Severance	7,726	1,499	273	150			9,648
	$ 159,976	$ 76,453	$ 63,409	$ 29,841	$ 24,289	$ 260,866	$ 614,834

In addition to the contracts noted in the table, we issue purchase orders for products, materials and supplies used in the ordinary course of business. These purchase orders typically do not include long-term volume commitments, are based on pricing terms previously negotiated with vendors and are generally cancelable with the appropriate notice prior to receipt of the materials or supplies. Accordingly, the foregoing table excludes open purchase orders for such products, materials and supplies as of February 29, 2008.

Our 6.10% senior notes due on August 1, 2028 may be put back to us on August 1, 2008, at the option of the holders, at 100% of the principal amount provided the holders exercise this option between July 1, 2008 and August 1, 2008. As such, this amount is included in the 2009 column in the above table.

Although we do not anticipate that contributions will be required in 2009 to the defined benefit pension plan that we assumed in connection with our acquisition of Gibson Greetings, Inc. in 2001, we may make contributions in excess of the legally required minimum contribution level. Refer to Note 12 to the Consolidated Financial Statements.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Refer to Note 1 to the Consolidated Financial Statements. The following paragraphs include a discussion of the critical areas that required a higher degree of judgment or are considered complex.

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a customer s inability to meet its financial obligations (evidenced by such events as bankruptcy or insolvency proceedings), a specific allowance for bad debts against amounts due is recorded to reduce the receivable to the amount we reasonably expect will be collected. In addition, we recognize allowances for bad debts based on estimates developed by using standard quantitative measures incorporating historical write-offs and current economic conditions. The establishment of allowances requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Although we consider these balances adequate and proper, changes in economic conditions in the retail markets in which we operate could have a material effect on the required allowance balances.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in business combinations accounted for by the purchase method. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and certain intangible assets are presumed to have indefinite useful lives and are thus not amortized, but subject to an impairment test annually or more frequently if indicators of impairment arise. We have no intangible assets with indefinite useful lives. We complete the annual goodwill impairment test during the fourth quarter. To test for goodwill impairment, we are required to estimate the fair market value of each of our reporting units. While we use a variety of methods to estimate fair value for impairment testing, our primary methods are discounted cash flows and a market based analysis. We estimate future cash flows and allocations of certain assets using estimates for future growth rates and our judgment regarding the applicable discount rates. Changes to our judgments and estimates could result in a significantly different estimate of the fair market value of the reporting units, which could result in an impairment of goodwill.

Deferred Costs

In the normal course of our business, we enter into agreements with certain customers for the supply of greeting cards and related products. We view such agreements as advantageous in developing and maintaining business with our retail customers. The customer typically receives a combination of cash payments, credits, discounts, allowances and other incentive considerations to be earned as product is purchased from us over the stated time period of the agreement to meet a minimum purchase volume commitment. These agreements are negotiated individually to meet competitive situations and therefore, while some aspects of the agreements may be similar, important contractual terms may vary. In addition, the agreements may or may not specify us as the sole supplier of social expression products to the customer.

Although risk is inherent in the granting of advances, we subject such customers to our normal credit review. We maintain a general allowance for deferred costs based on estimates developed by using standard quantitative measures incorporating historical write-offs. In instances where we are aware of a particular customer's inability to meet its performance obligation, we record a specific allowance to reduce the deferred cost asset to an estimate of its future value based upon expected performance. Losses attributed to these specific events have historically not been material.

For contractual arrangements that are based upon a minimum purchase volume commitment, we periodically review the progress toward the volume commitment and estimate future sales expectations for each customer. Factors that can affect our estimate include store door openings and closings, retail industry consolidation, amendments to the agreements, consumer shopping trends, addition or deletion of participating products and product productivity. Based upon our review, we may modify the remaining amortization periods of individual agreements to reflect the changes in the estimates for the attainment of the minimum volume commitment in order to align amortization expense with the periods benefited. We do not make retroactive expense adjustments to prior fiscal years as amounts, if any, have historically not been material. The aggregate average remaining life of our contract base is 6.4 years.

The accuracy of our assessments of the performance-related value of a deferred cost asset related to a particular agreement and of the estimated time period of the completion of a volume commitment is based upon our ability to accurately predict certain key variables such as product demand at retail, product pricing, customer viability and other economic factors. Predicting these key variables involves uncertainty about future events; however, the assumptions used are consistent with our internal planning. If the deferred cost assets are assessed to be recoverable, they are amortized over the periods benefited. If the carrying value of these assets is considered to not be recoverable through performance, such assets are written down as appropriate.

Deferred Income Taxes

Deferred income taxes are recognized at currently enacted tax rates for temporary differences between the financial reporting and income tax bases of assets and liabilities and operating loss and tax credit carryforwards. In assessing the realizability of deferred tax assets, we assess whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. The assumptions used in this assessment are consistent with our internal planning. A valuation allowance is recorded against those deferred tax assets determined to not be realizable based on our assessment. The amount of net deferred tax assets considered realizable could be increased or decreased in the future if our assessment of future taxable income or tax planning strategies change.

Sales Returns

We provide for estimated returns of seasonal cards and certain other seasonal products in the same period as the related revenues are recorded. These estimates are based upon historical sales returns, the amount of current year seasonal sales and other known factors. Estimated return rates utilized for establishing estimated returns reserves have approximated actual returns experience. However, actual returns may differ significantly, either favorably or unfavorably, from these estimates if factors such as the historical data we used to calculate these estimates do not properly reflect future returns or as a result of changes in economic conditions of the customer and/or its market. We regularly monitor our actual performance to estimated rates and the adjustments attributable to any changes have historically not been material.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (the FASB) issued SFAS No. 157 (SFAS 157), Fair Value Measurements, which provides a definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. In November 2007, the

FASB deferred the effective date of SFAS 157 for non-financial assets and liabilities until fiscal years and interim periods beginning after November 15, 2008. SFAS 157 is still effective for the Corporation in fiscal 2009 for financial assets and liabilities. The provisions of SFAS 157 will be applied prospectively. We are currently evaluating the impact that SFAS 157 will have on our consolidated financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows companies to choose to measure financial instruments and certain other financial assets and financial liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS 159 will have on our consolidated financial statements upon adoption.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), Business Combinations. SFAS 141R provides revised guidance on the recognition and measurement of the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests and goodwill acquired in a business combination. SFAS 141R also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS 141R is effective, on a prospective basis, for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS 160 establishes accounting and reporting standards for noncontrolling interests (i.e. minority interests) in a subsidiary and for the deconsolidation of a subsidiary. Under the standard, noncontrolling interests are considered equity and should be clearly identified, presented and disclosed in the consolidated statement of financial position within equity, but separate from the parent s equity. SFAS 160 is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. We are currently evaluating the impact that SFAS 160 will have on our consolidated financial statements upon adoption.

In September 2006, the FASB ratified the Emerging Issues Task Force (EITF) consensus on EITF Issue No. 06-4 (EITF 06-4), Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 indicates that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for future postemployment benefits based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact that EITF 06-4 will have on our consolidated financial statements upon adoption.

In March 2007, the FASB ratified the EITF consensus on EITF Issue No. 06-10 (EITF 06-10), Accounting for Collateral Assignment Split-Dollar Life Insurance. EITF 06-10 indicates that for collateral assignment split-dollar life insurance, an employer should recognize a liability for postretirement benefits based on the substantive agreement with the employee. In addition, it provides guidance for the recognition and measurement of an asset related to a collateral assignment split-dollar life insurance arrangement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact that EITF 06-10 will have on our consolidated financial statements upon adoption.

Factors That May Affect Future Results

Certain statements in this report may constitute 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 similar 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:

- a weak retail environment;
- retail consolidations, acquisitions and bankruptcies, including the possibility of resulting adverse changes to retail contract terms;
- competitive terms of sale offered to customers;
- the ability to successfully implement our strategy to invest in our core greeting card business;
- 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;
- consumer acceptance of products as priced and marketed;
- the impact of technology on core product sales;
- the timing and impact of converting customers to a scan-based trading model;
- escalation in the cost of providing employee health care;
- the ability to successfully integrate acquisitions;
- the ability to successfully implement, or achieve the desired benefits associated with any information systems refresh we may implement;
- the ability to execute share repurchase programs or the ability to achieve the desired accretive effect from such repurchases;
- the ability to comply with our debt covenants;
- our ability to successfully complete, or achieve the desired benefits associated with, dispositions;
- 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; and

the outcome of any legal claims known or unknown.

Risks pertaining specifically to AG Interactive include the viability of online advertising, subscriptions as revenue generators, the public's acceptance of online greetings and other social expression products, and the ability to gain a leadership position in the digital photo sharing space.

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 on our business, financial condition and results of operations. For further information concerning the risks we face and issues that could materially affect our financial performance related to forward-looking statements, refer to the Risk Factors section included in Part I, Item 1A of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Derivative Financial Instruments During 2007, we entered into an interest rate derivative designed to offset the interest rate risk related to the forecasted issuance of $200 million of senior indebtedness. The interest rate derivative agreement expired during the year. We did not designate this agreement as a hedging instrument pursuant to the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Accordingly, the change in fair value of this agreement was recognized and included in Interest expense in the Consolidated Statement of Income in 2007. We have no derivative financial instruments as of February 29, 2008.

Interest Rate Exposure We manage interest rate exposure through a mix of fixed and floating rate debt. Currently, the majority of our debt is carried at fixed interest rates. Therefore, our overall interest rate exposure risk is minimal. Based on our interest rate exposure on our non-fixed rate debt as of and during the year ended February 29, 2008, a hypothetical 10% movement in interest rates would not have had a material impact on interest expense. Under the terms of our current credit agreement, we have the ability to borrow significantly more floating rate debt, which, if incurred could have a material impact on interest expense in a fluctuating interest rate environment.

Foreign Currency Exposure Our international operations expose us to translation risk when the local currency financial statements are translated into U.S. dollars. As currency exchange rates fluctuate, translation of the statements of operations of international subsidiaries to U.S. dollars could affect comparability of results between years. Approximately 28%, 26% and 23% of our 2008, 2007 and 2006 total revenue from continuing operations, respectively, were generated from operations outside the United States. Operations in Australasia, Canada, Mexico, the European Union and the U.K. are denominated in currencies other than U.S. dollars. No assurance can be given that future results will not be affected by significant changes in foreign currency exchange rates.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 29, 2008 and February 28, 2007, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended February 29, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a). 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 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. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Greetings Corporation at February 29, 2008 and February 28, 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 29, 2008, in conformity with U.S. 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.

As discussed in Note 1 to the consolidated financial statements, the Corporation adopted the provisions of (i) FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109," in fiscal 2008, (ii) SFAS No. 123(R), *Share Based Payment*, effective March 1, 2006; (iii) SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R),* effective February 28, 2007; and (iv) SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, applying the one-time special transition provisions, in fiscal 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American Greetings Corporation s internal control over financial reporting as of February 29, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

April 25, 2008

CONSOLIDATED STATEMENT OF INCOME

Years ended February 29, 2008, February 28, 2007 and February 28, 2006

Thousands of dollars except share and per share amounts

	2008	2007	2006
Net sales	$ 1,730,784	$ 1,744,798	$ 1,875,472
Other revenue	45,667	49,492	52,664
Total revenue	1,776,451	1,794,290	1,928,136
Material, labor and other production costs	780,771	826,791	846,958
Selling, distribution and marketing	621,478	627,940	631,988
Administrative and general	246,722	253,035	244,851
Goodwill impairment		2,196	43,153
Other operating income net	(1,325)	(5,252)	(416)
Operating income	128,805	89,580	161,602
Interest expense	20,006	34,986	35,124
Interest income	(7,758)	(8,135)	(10,910)
Other non-operating income net	(7,411)	(2,682)	(712)
Income from continuing operations before income tax expense	123,968	65,411	138,100
Income tax expense	40,648	25,473	48,881
Income from continuing operations	83,320	39,938	89,219
(Loss) income from discontinued operations, net of tax	(317)	2,440	(4,843)
Net income	$ 83,003	$ 42,378	$ 84,376
Earnings per share basic:			
Income from continuing operations	$ 1.54	$ 0.69	$ 1.35
(Loss) income from discontinued operations	(0.01)	0.04	(0.07)
Net income	$ 1.53	$ 0.73	$ 1.28
Earnings per share assuming dilution:			
Income from continuing operations	$ 1.53	$ 0.67	$ 1.22
(Loss) income from discontinued operations	(0.01)	0.04	(0.06)
Net income	$ 1.52	$ 0.71	$ 1.16
Average number of shares outstanding	54,236,961	57,951,952	65,965,024
Average number of shares outstanding assuming dilution	54,506,048	62,362,794	79,226,384
Dividends declared per share	$ 0.40	$ 0.32	$ 0.32

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

February 29, 2008 and February 28, 2007

Thousands of dollars except share and per share amounts

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 123,500	$ 144,713
Trade accounts receivable, net	61,902	104,000
Inventories	216,671	182,618
Deferred and refundable income taxes	72,280	135,379
Assets of businesses held for sale		2,810
Prepaid expenses and other	195,017	227,496
Total current assets	669,370	797,016
GOODWILL	285,072	224,105
OTHER ASSETS	420,219	419,071
DEFERRED AND REFUNDABLE INCOME TAXES	133,762	52,869
PROPERTY, PLANT AND EQUIPMENT NET	296,005	285,153
	$ 1,804,428	$ 1,778,214
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Debt due within one year	$ 42,790	$
Accounts payable	123,713	118,250
Accrued liabilities	79,345	80,389
Accrued compensation and benefits	68,669	61,192
Income taxes payable	29,037	26,386
Liabilities of businesses held for sale		674
Other current liabilities	108,867	84,897
Total current liabilities	452,421	371,788
LONG-TERM DEBT	200,518	223,915
OTHER LIABILITIES	181,720	163,623
DEFERRED INCOME TAXES AND NONCURRENT INCOME TAXES PAYABLE	26,358	6,314
SHAREHOLDERS EQUITY		
Common shares par value $1 per share:		
Class A 80,522,153 shares issued less 35,198,300 treasury shares in 2008 and 79,301,976 shares issued less 28,462,579 treasury shares in 2007	45,324	50,839
Class B 6,066,092 shares issued less 2,632,087 treasury shares in 2008 and 6,066,092 shares issued less 1,782,695 treasury shares in 2007	3,434	4,283
Capital in excess of par value	445,696	414,859
Treasury stock	(872,949)	(710,414)
Accumulated other comprehensive income (loss)	21,244	(1,013)
Retained earnings	1,300,662	1,254,020
Total shareholders equity	943,411	1,012,574
	$ 1,804,428	$ 1,778,214

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended February 29, 2008, February 28, 2007 and February 28, 2006

Thousands of dollars

	2008	**2007**	**2006**
OPERATING ACTIVITIES:			
Net income	$ 83,003	$ 42,378	$ 84,376
Loss (income) from discontinued operations	317	(2,440)	4,843
Income from continuing operations	83,320	39,938	89,219
Adjustments to reconcile to net cash provided by operating activities:			
Goodwill impairment		2,196	43,153
Net loss on disposal of fixed assets	961	1,726	4,355
Loss on purchase of debt		5,055	863
Loss on disposal of product lines		15,969	
Depreciation and amortization	48,535	49,412	54,202
Deferred income taxes	(7,562)	(16,277)	23,225
Other non-cash charges	9,303	13,891	7,219
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Decrease in trade accounts receivable	41,758	42,206	33,850
(Increase) decrease in inventories	(28,456)	22,227	1,541
Decrease (increase) in other current assets	27,970	(36,082)	(13,371)
Decrease in deferred costs net	53,438	128,752	56,610
Increase (decrease) in accounts payable and other liabilities	18,934	553	(33,257)
Other net	(4,664)	(4,836)	(302)
Cash Provided by Operating Activities	243,537	264,730	267,307
INVESTING ACTIVITIES:			
Proceeds from sale of short-term investments	692,985	1,026,280	1,733,470
Purchases of short-term investments	(692,985)	(817,540)	(1,733,470)
Property, plant and equipment additions	(56,623)	(41,716)	(46,177)
Cash payments for business acquisitions, net of cash acquired	(76,338)	(13,122)	(15,315)
Cash receipts related to discontinued operations	4,283	12,559	
Proceeds from sale of fixed assets	3,104	4,847	11,416
Other net		6,160	
Cash (Used) Provided by Investing Activities	(125,574)	177,468	(50,076)
FINANCING ACTIVITIES:			
Increase in long-term debt		200,000	
Reduction of long-term debt		(440,588)	(10,782)
Increase in short-term debt	20,100		
Sale of stock under benefit plans	27,156	6,834	27,068
Purchase of treasury shares	(172,328)	(257,817)	(244,642)
Dividends to shareholders	(21,803)	(18,418)	(21,184)
Debt issuance costs		(8,533)	
Cash Used by Financing Activities	(146,875)	(518,522)	(249,540)
DISCONTINUED OPERATIONS:			
Cash (used) provided by operating activities from discontinued operations	(59)	1,283	(640)
Cash provided by investing activities from discontinued operations		1,634	687
Cash (Used) Provided by Discontinued Operations	(59)	2,917	47
EFFECT OF EXCHANGE RATE CHANGES ON CASH	7,758	4,507	(1,924)

DECREASE IN CASH AND CASH EQUIVALENTS	(21,213)	(68,900)	(34,186)
Cash and Cash Equivalents at Beginning of Year	144,713	213,613	247,799
Cash and Cash Equivalents at End of Year	$ 123,500	$ 144,713	$ 213,613

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Years ended February 29, 2008, February 28, 2007 and February 28, 2006

Thousands of dollars except per share amounts

	Common Shares Class A	Common Shares Class B	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE MARCH 1, 2005	$ 64,867	$ 4,160	$ 368,777	$ (445,618)	$29,039	$ 1,365,555	$ 1,386,780
Net income						84,376	84,376
Other comprehensive income (loss):							
Foreign currency translation adjustment					(19,657)		(19,657)
Minimum pension liability (net of tax of $123)					193		193
Unrealized gain on available-for-sale securities (net of tax of $49)					125		125
Other					123		123
Comprehensive income							65,160
Cash dividends $0.32 per share						(21,184)	(21,184)
Sale of shares under benefit plans, including tax benefits	1,491	58	27,839	1,688		(490)	30,586
Purchase of treasury shares	(10,252)	(59)		(234,331)			(244,642)
Stock compensation expense			1,256				1,256
Stock grants and other	24	59	633	1,825		(472)	2,069
BALANCE FEBRUARY 28, 2006	56,130	4,218	398,505	(676,436)	9,823	1,427,785	1,220,025
Cumulative effect adjustment, adoption of SAB 108 (net of tax of $1,808)						3,348	3,348
Net income						42,378	42,378
Other comprehensive income (loss):							
Foreign currency translation adjustment					30,990		30,990
Minimum pension liability (net of tax of $55)					150		150
Unrealized loss on available-for-sale securities (net of tax of $1)					(10)		(10)
Reclassification adjustment for amounts recognized in income (net of tax of $216)					359		359
Comprehensive income							73,867
Adjustment recognized upon adoption of SFAS 158 (net of tax of $32,909)					(42,325)		(42,325)
Cash dividends $0.32 per share						(18,418)	(18,418)
Sale of shares under benefit plans, including tax benefits	351		6,462				6,813
Purchase of treasury shares	(11,149)	(12)		(246,656)			(257,817)
Debt conversion and settlement	5,506		107	210,726		(200,680)	15,659
Stock compensation expense			7,559				7,559
Stock grants and other	1	77	2,226	1,952		(393)	3,863
BALANCE FEBRUARY 28, 2007	50,839	4,283	414,859	(710,414)	(1,013)	1,254,020	1,012,574
Cumulative effect adjustment, adoption of FIN 48						(14,017)	(14,017)
Net income						83,003	83,003
Other comprehensive income (loss):							
Foreign currency translation adjustment					18,691		18,691
Pension and postretirement adjustments recognized in accordance with SFAS 158 (net of tax of $7,093)					3,567		3,567
Unrealized loss on available-for-sale securities (net of tax of $1)					(1)		(1)
Comprehensive income							105,260
Cash dividends $0.40 per share						(21,803)	(21,803)
Sale of shares under benefit plans, including tax benefits	1,220	2	25,533	79		(43)	26,791
Purchase of treasury shares	(6,736)	(928)		(164,664)			(172,328)

Stock compensation expense			6,547				6,547
Stock grants and other	1	77	(1,243)	2,050		(498)	387
BALANCE FEBRUARY 29, 2008	$ 45,324	$ 3,434	$ 445,696	$ (872,949)	$21,244	$ 1,300,662	$ 943,411

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 29, 2008, February 28, 2007 and February 28, 2006

Thousands of dollars except per share amounts

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Consolidation: The consolidated financial statements include the accounts of American Greetings Corporation and its subsidiaries (the Corporation). All significant intercompany accounts and transactions are eliminated. The Corporation s 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, 2008 refers to the year ended February 29, 2008. For 2005, the Corporation s subsidiary, AG Interactive, Inc. (AG Interactive), was consolidated on a two-month lag corresponding with its fiscal year-end of December 31. For 2006, AG Interactive changed its fiscal year-end to coincide with the Corporation s fiscal year-end. As a result, the year ended February 28, 2006 included fourteen months of AG Interactive s operations. The additional two months of activity generated revenues of approximately $11,000 for the year ended February 28, 2006, but had no significant impact on earnings.

The Corporation s investments in less than majority-owned companies in which it has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method except when they qualify as variable interest entities in which case the investments are consolidated in accordance with Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the 2008 presentation. Previously included in Other income net, royalty revenue is now reported as Other revenue and interest income is now included as a separate line item on the Consolidated Statement of Income. The remaining items previously included in Other income net have been segregated between operating and non-operating. During the fourth quarter of 2008, it was determined that the Corporation s entertainment development and production joint venture no longer met all of the criteria necessary to be classified as held for sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets. As a result, this business unit has been reclassified into continuing operations for all periods presented. These reclassifications had no material impact on earnings or cash flows.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. On an ongoing basis, management reviews its estimates, including those related to seasonal returns, allowance for doubtful accounts, customer allowances and discounts, recoverability of intangibles and other long-lived assets, deferred tax asset valuation allowances, deferred costs and various other operating allowances and accruals, based on currently available information. Changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods.

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

Short-term Investments: At times, the Corporation invests in auction rate securities, which are variable-rate debt securities associated with bond offerings. While the underlying security has a long-term nominal maturity, the interest rate is reset through Dutch auctions that are typically held every 7, 28 or 35 days, creating short-term liquidity for the Corporation. The securities trade at par and are callable at par on any interest payment date at the option of the issuer. Interest is paid at the end of each auction period. The investments are classified as available-for-sale and are recorded at cost, which approximates market value. There were no short-term investments as of February 29, 2008 or February 28, 2007.

Allowance for Doubtful Accounts: The Corporation evaluates the collectibility of its accounts receivable based on a combination of factors. In circumstances where the Corporation is aware of a customer s inability to meet its financial obligations (evidenced by such events as bankruptcy or insolvency proceedings), a specific allowance for bad debts against amounts due is recorded to reduce the receivable to the amount the Corporation reasonably expects will be collected. In addition, the Corporation recognizes allowances for bad debts based on estimates developed by using standard quantitative measures incorporating historical write-offs and current economic conditions. See Note 6 for further information.

Customer Allowances and Discounts: The Corporation offers certain of its customers allowances and discounts including cooperative advertising, rebates, marketing allowances and various other allowances and discounts. These amounts are recorded as a reduction of gross accounts receivable and are recognized as reductions of net sales when earned. These amounts are earned by the customer as product is purchased from the Corporation and are recorded based on the terms of individual customer contracts. See Note 6 for further information.

Financial Instruments: The carrying value of the Corporation's financial instruments approximate their fair market values. See Note 11 for further discussion. The Corporation had no derivative financial instruments as of February 29, 2008 or February 28, 2007.

Concentration of Credit Risks: The Corporation sells primarily to customers in the retail trade, including those in the mass merchandise, drug store, supermarket and other channels of distribution. These customers are located throughout the United States, Canada, the United Kingdom, Australia, New Zealand and Mexico. Net sales from continuing operations to the Corporation s five largest customers accounted for approximately 37%, 36% and 34% of total revenue in 2008, 2007 and 2006, respectively. Net sales to Wal-Mart Stores, Inc. and its subsidiaries accounted for approximately 16% of total revenue from continuing operations in 2008, 2007 and 2006.

The Corporation conducts business based on periodic evaluations of its customers financial condition and generally does not require collateral to secure their obligation to the Corporation. 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.

Deferred Costs: In the normal course of its business, the Corporation enters into agreements with certain customers for the supply of greeting cards and related products. The Corporation classifies the total contractual amount of the incentive consideration committed to the customer but not yet earned as a deferred cost asset at the inception of an agreement, or any future amendments. Deferred costs estimated to be earned by the customer and charged to operations during the next twelve months are classified as Prepaid expenses and other in the Consolidated Statement of Financial Position and the remaining amounts to be charged beyond the next twelve months are classified as Other assets. The periods of amortization are continually evaluated to determine if later circumstances warrant revisions of the estimated amortization periods. Such costs are capitalized as assets reflecting the probable future economic benefits obtained as a result of the transactions. Future economic benefit is further defined as cash inflow to the Corporation. The Corporation, by incurring these costs, is ensuring the probability of future cash flows through sales to customers. The amortization of such deferred costs properly matches the cost of obtaining business over the periods to be benefited. The Corporation believes that it maintains an adequate allowance for deferred contract costs related to supply agreements. See Note 10 for further discussion.

Deferred Film Production Costs: The Corporation is engaged in the production of film-based entertainment, which is generally exploited in the DVD, theatrical release or broadcast format. This entertainment is related to Strawberry Shortcake, Care Bears and other properties developed by the Corporation and is used to support the Corporation s merchandise licensing strategy.

Film production costs are accounted for pursuant to American Institute of Certified Public Accountants Statement of Position 00-2 (SOP 00-2), Accounting by Producers or Distributors of Films, and are stated at the lower of cost or net realizable value based on anticipated total revenue (ultimate revenue). Film production costs are generally capitalized and amortized based on the ratio of the current period s revenue to estimated remaining ultimate revenues. Ultimate revenues are calculated in accordance with SOP 00-2 and require estimates and the exercise of judgment. Accordingly, these estimates are periodically updated to include the actual results achieved or new information as to anticipated revenue performance of each title.

During 2008, production expense totaled $8,560 and included amounts related to changes in ultimate revenue estimates of approximately $4,035. The balance of deferred film production costs was $12,899 and $6,818 at February 29, 2008 and February 28, 2007, respectively. The Corporation expects to amortize approximately $4,000 of production costs during the next twelve months.

Inventories: Finished products, work in process and raw materials inventories are carried at the lower of cost or market. The last-in, first-out (LIFO) cost method is used for certain domestic inventories, which approximate 70% and 65% of the total pre-LIFO consolidated inventories in 2008 and 2007, respectively. Foreign inventories and the remaining domestic inventories principally use the first-in, first-out (FIFO) method except for display material and factory supplies which are carried at average cost. See Note 7 for further information.

In November 2004, the Financial Accounting Standards Board (the FASB) issued SFAS No. 151 (SFAS 151), Inventory Costs an amendment of ARB No. 43, Chapter 4. SFAS 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. SFAS 151 also establishes the concept of normal capacity and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead would be treated as a current period expense in the period incurred. This statement was effective for fiscal years beginning after July 15, 2005. The adoption of SFAS 151, effective March 1, 2006, did not significantly impact the Corporation s consolidated financial statements.

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 $10,779, $10,938 and $10,728 in 2008, 2007 and 2006, respectively.

In September 2006, the FASB ratified the Emerging Issues Task Force (EITF) consensus on EITF Issue No. 06-4 (EITF 06-4), Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 indicates that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for future postemployment benefits based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Corporation is currently evaluating the impact that EITF 06-4 will have on its consolidated financial statements upon adoption.

In March 2007, the FASB ratified the EITF consensus on EITF Issue No. 06-10 (EITF 06-10), Accounting for Collateral Assignment Split-Dollar Life Insurance. EITF 06-10 indicates that for collateral assignment split-dollar life insurance, an employer should recognize a liability for postretirement benefits based on the substantive agreement with the employee. In addition, it provides guidance for the recognition and measurement of an asset related to a collateral assignment split-dollar life insurance arrangement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Corporation is currently evaluating the impact that EITF 06-10 will have on its consolidated financial statements upon adoption.

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in business combinations and is not amortized in accordance with SFAS No. 142 (SFAS 142), Goodwill and Other Intangible Assets. This statement addresses the amortization of intangible assets with defined lives and addresses the impairment testing and recognition for goodwill and indefinite-lived intangible assets. The Corporation is required to evaluate the carrying value of its goodwill for potential impairment on an annual basis or more frequently if indicators arise. While the Corporation uses a variety of methods to estimate fair value for impairment testing, its primary methods are discounted cash flows and a market based analysis. The required annual goodwill impairment test is completed during the fourth quarter. Intangible assets with defined lives are amortized over their estimated lives. See Note 9 for further discussion.

Translation of Foreign Currencies: Asset and liability accounts are translated into United States dollars using exchange rates in effect at the date of the Consolidated Statement of Financial Position; revenue and expense accounts are translated at average exchange rates during the related period. Translation adjustments are reflected as a component of shareholders equity. Gains and losses resulting from foreign currency transactions, including intercompany transactions that are not considered permanent investments, are included in net income as incurred.

Property and Depreciation: Property, plant and equipment are carried at cost. Depreciation and amortization of buildings, equipment and fixtures are 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; computer hardware and software over 3 to 7 years; machinery and equipment over 10 to 15 years; and furniture and fixtures over 20 years. Leasehold improvements are amortized over the lesser of the lease term or the estimated life of the leasehold improvement. Property, plant and equipment are reviewed for impairment in accordance with SFAS 144. SFAS 144 also provides a single accounting model for the disposal of long-lived assets. In accordance with SFAS 144, assets held for sale are stated at the lower of their fair values or carrying amounts and depreciation is no longer recognized. See Note 8 for further information.

Operating Leases: Rent expense for operating leases, which may have escalating rentals over the term of the lease, is recorded on a straight-line basis over the initial lease term. The initial lease term includes the build-out period of leases, where no rent payments are typically due under the terms of the lease. The difference between rent expense and rent paid is recorded as deferred rent. Construction allowances received from landlords are recorded as a deferred rent credit and amortized to rent expense over the initial term of the lease. See Note 13 for further information.

In October 2005, the FASB issued FASB Staff Position No. FAS 13-1 (FSP 13-1), Accounting for Rental Costs Incurred During a Construction Period, to clarify the proper accounting for rental costs incurred on building or ground operating leases during a construction period. FSP 13-1 requires that rental costs incurred during a construction period be expensed, not capitalized. The statement is effective for the first reporting period beginning after December 15, 2005. The adoption of FSP 13-1, effective March 1, 2006, did not materially affect the Corporation s consolidated financial statements.

Revenue Recognition: Sales of seasonal product to unrelated, third party retailers are recognized at the approximate date the product is received by the customer, commonly referred to in the industry as the ship-to-arrive date (STA). The Corporation maintains STA data due to the large volume of seasonal product shipment activity and the lead time required to achieve customer-requested delivery dates. Seasonal cards and certain other seasonal products are generally sold with the right of return on unsold merchandise. In addition, the Corporation provides for estimated returns of seasonal cards and certain other seasonal products when those sales to unrelated, third party retailers are recognized. Accrual rates utilized for establishing estimated returns reserves have approximated actual returns experience. At Corporation-owned retail locations, sales of seasonal product are recognized upon the sales of products to the consumer.

Except for seasonal products and retailers with a scan-based trading (SBT) arrangement, sales are generally recognized by the Corporation upon shipment of products to unrelated, third party retailers and upon the sale of

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products to the consumer at Corporation-owned retail locations. Sales of these products are generally sold without the right of return. Sales credits for non-seasonal product are issued at the Corporation s discretion for damaged, obsolete and outdated products.

For retailers with an SBT arrangement, the Corporation owns the product delivered to its retail customers until the product is sold by the retailer to the ultimate consumer, at which time the Corporation recognizes revenue, for both everyday and seasonal products. When a retailer commits to convert to an SBT arrangement, the Corporation reverses previous sales transactions. Legal ownership of the inventory at the retailer s stores reverts back to the Corporation at the time of conversion. The timing and amount of the sales reversal depends on retailer inventory turn rates and the estimated timing of the store conversions.

Subscription revenue, primarily for AG Interactive, represents fees paid by customers for access to particular services for the term of the subscription. Subscription revenue is generally billed in advance and is recognized ratably over the subscription periods.

The Corporation has agreements for licensing the Care Bear and Strawberry Shortcake characters and other intellectual property. These license agreements provide for royalty revenue to the Corporation based on a percentage of net sales and are subject to certain guaranteed minimum royalties. Certain of these agreements are managed by outside agents. All payments flow through the agents prior to being remitted to the Corporation. Typically, the Corporation receives quarterly payments from the agents. Royalty revenue is generally recognized upon receipt and recorded in Other revenue and expenses associated with the servicing of these agreements are primarily recorded as Selling, distribution and marketing.

Deferred revenue, included in Other current liabilities on the Consolidated Statement of Financial Position, totaled $37,895 and $35,519 at February 29, 2008 and February 28, 2007, respectively. The amounts relate primarily to the Corporation s AG Interactive segment and the licensing activities included in non-reportable segments.

In June 2006, the FASB ratified EITF Issue No. 06-3 (EITF 06-3), How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). The scope of EITF 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer. This issue provides that a company may adopt a policy of presenting taxes either gross within revenue or net. If taxes subject to this issue are significant, a company is required to disclose its accounting policy for presenting taxes and the amount of such taxes that are recognized on a gross basis. EITF 06-3 is effective for the first interim or annual reporting period beginning after December 15, 2006. The Corporation accounts for taxes on a net basis; therefore the adoption of EITF 06-3 did not have a material impact on the Corporation s consolidated financial statements.

Shipping and Handling Fees: The Corporation classifies shipping and handling fees as part of Selling, distribution and marketing expenses. Shipping and handling costs were $128,177, $126,880 and $133,329 in 2008, 2007 and 2006, respectively.

Advertising Expense: Advertising costs are expensed as incurred. Advertising expense was $45,099, $43,314 and $39,516 in 2008, 2007 and 2006, respectively.

Income Taxes: Income tax expense includes both current and deferred taxes. Current tax expense represents the amount of income taxes paid or payable (or refundable) for the year, including interest and penalties. Deferred income taxes, net of appropriate valuation allowances, are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. See Note 16 for further discussion.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertain tax positions recognized in a company s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes, including what criteria must be met prior to recognition of the financial statement benefit of a position taken or expected to be taken in a tax return. FIN 48 requires a company to include additional qualitative and quantitative disclosures within its financial statements. The disclosures include potential tax benefits from positions taken for tax return purposes that have not been recognized for financial reporting purposes and a tabular presentation of significant changes during each annual period. The disclosures also include a discussion of the nature of uncertainties, factors that could cause a change and an estimated range of reasonably possible changes in tax uncertainties. FIN 48 requires a company to recognize a financial statement benefit for a position taken for tax return purposes when it is more likely than not that the position will be sustained. The cumulative effect of adopting FIN 48 is recorded as an adjustment to the opening balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Corporation adopted FIN 48 on March 1, 2007. See Note 16.

Pension and Other Postretirement Benefits: In September 2006, the FASB issued SFAS No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires an employer to recognize a plan s funded status in its statement of financial position, measure a plan s assets and obligations as of the end of the employer s fiscal year and recognize the changes in a defined benefit postretirement plan s funded status in comprehensive income in the year in which the changes occur. SFAS 158 s requirement to recognize the funded status of a benefit plan and new disclosure requirements were adopted by the Corporation effective February 28, 2007. See Note 12.

Stock-Based Compensation: Effective March 1, 2006, the Corporation adopted SFAS No. 123 (revised 2004) (SFAS 123R), Share-Based Payment, utilizing the modified prospective method as described in SFAS 123R. In the modified prospective method, compensation cost is recognized for all share-based payments granted after the effective date and for all unvested awards granted prior to the effective date. In accordance with SFAS 123R, prior period amounts were not restated. See Note 14.

Staff Accounting Bulletin No. 108: In 2007, the Corporation determined that the reported February 28, 2006 Trade accounts receivable, net was understated by $5,156 ($3,348 after-tax) as a result of an accounting error in which the allowance for rebates was overstated. The Corporation assessed the error amounts considering Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 99, Materiality, as well as SEC SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. The error was not deemed to be material to any prior period reported consolidated financial statements, but was deemed material in the current year. Accordingly, the Corporation recorded the correction of the overstatement of the allowance for rebates (correspondingly, an understatement of net income of prior periods) as an adjustment to beginning retained earnings pursuant to the special transition provision detailed in SAB No. 108.

Recent Accounting Pronouncements: In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements, which provides a definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. In November 2007, the FASB deferred the effective date of SFAS 157 for non-financial assets and liabilities until fiscal years and interim periods beginning after November 15, 2008. SFAS 157 is still effective for the Corporation in fiscal 2009 for financial assets and liabilities. The provisions of SFAS 157 will be applied prospectively. The Corporation is currently evaluating the impact that SFAS 157 will have on its consolidated financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows companies to choose to measure financial instruments and certain other financial assets and financial liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Corporation is currently evaluating the impact that SFAS 159 will have on its consolidated financial statements upon adoption.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), Business Combinations. SFAS 141R provides revised guidance on the recognition and measurement of the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests and goodwill acquired in a business combination. SFAS 141R also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS 141R is effective, on a prospective basis, for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS 160 establishes accounting and reporting standards for noncontrolling interests (i.e. minority interests) in a subsidiary and for the deconsolidation of a subsidiary. Under the standard, noncontrolling interests are considered equity and should be clearly identified, presented and disclosed in the consolidated statement of financial position within equity, but separate from the parent s equity. SFAS 160 is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The Corporation is currently evaluating the impact that SFAS 160 will have on its consolidated financial statements upon adoption.

NOTE 2 ACQUISITIONS

During the second half of 2008, the Corporation acquired Webshots and PhotoWorks, Inc. (PhotoWorks) for $45,200 and $26,484, respectively. The financial results of these acquisitions are included in the Corporation s consolidated results from their respective dates of acquisition. Pro forma results of operations have not been presented as the effects of these acquisitions were not deemed material.

Webshots is an online digital photography business. The $45,200 cash payment is reflected in investing activities in the Consolidated Statement of Cash Flows. Although the allocation of the purchase price has not yet been finalized, preliminary estimates of $9,300 and $41,100 were recorded for intangible assets and goodwill, respectively. Liabilities of approximately $5,000 were also assumed as part of the acquisition.

PhotoWorks is a leading online photo sharing and personal publishing company that allows consumers to use their digital images to create quality photo-personalized products like greeting cards, calendars, online photo albums and photo books. In accordance with the terms of its agreement with PhotoWorks, on December 13, 2007, the Corporation commenced a cash tender offer to acquire all outstanding common stock of PhotoWorks at a price of 59.5 cents per share. Cash paid, net of cash acquired, was $25,082 and is reflected in investing activities in the Consolidated Statement of Cash Flows. The allocation of the purchase price has not yet been finalized, but preliminary estimates were recorded for intangible assets and goodwill totaling approximately $9,000 and $15,200, respectively. A deferred tax asset of approximately $10,000 was recorded in connection with a net operating loss carryforward that was acquired in the transaction and liabilities of approximately $10,000 were also assumed as part of the acquisition.

In March 2008, the Corporation acquired a greeting card business in the United Kingdom for approximately $15,000.

During the second quarter of 2007, the Corporation acquired an online greeting card business for approximately $21,000. Approximately $15,000 was paid in the second quarter of 2007 and approximately $6,000, which was recorded in Accrued liabilities on the Consolidated Statement of Financial Position as of February 28, 2007, was paid in the first quarter of 2008. Cash paid, net of cash acquired, was $11,154 in 2007 and $6,056 in 2008 and is reflected in investing activities in the Consolidated Statement of Cash Flows. In connection with this acquisition, intangible assets and goodwill of $11,200 and $12,500, respectively, were recorded. The financial results of this acquisition are included in the Corporation s consolidated results from the date of acquisition. The pro forma results of operations have not been presented because the effect of this acquisition was not deemed material.

During the fourth quarter of 2005, the Corporation acquired 100% of the equity interests of Collage Designs Limited (Collage). The financial results of this acquisition are included in the Corporation s consolidated results from the date of acquisition. Pro forma results of operations have not been presented because the effect of this acquisition was not deemed material. Collage is a European manufacturer of gift wrap products. The Corporation acquired the net assets of Collage valued at approximately $300 and recorded goodwill of approximately $6,000. Approximately $2,700 was paid at the closing and $1,300 was paid in 2006. The remainder, totaling $1,968, was paid in February 2007.

During 2006, the Corporation paid approximately $14,000 to acquire the outstanding shares representing the 10% interest in AG Interactive held by minority shareholders. As a result, the Corporation recorded additional goodwill of approximately $700. As of February 28, 2006, the Corporation owns 100% of AG Interactive.

NOTE 3 OTHER INCOME AND EXPENSE

	2008	2007	2006
Gain on contract terminations	$	$ (20,004)	$
Loss on disposal of candle product lines		15,969	
Other	(1,325)	(1,217)	(416)
Other operating income net	$ (1,325)	$ (5,252)	$ (416)

During 2007, the $20,004 gain on contract terminations was a result of retailer consolidations, wherein, multiple long-term supply agreements were terminated and a new agreement was negotiated with a new legal entity with substantially different terms and sales commitments. Also, in 2007, the Corporation sold substantially all of the assets associated with its candle product lines and recorded a loss of $15,969. This sale reflects the Corporation s strategy to focus its resources on businesses and product lines closely related to its core social expression business. The proceeds of $6,160 received from the sale of the candle product lines in 2007 are included in Other net investing activities in the Consolidated Statement of Cash Flows.

	2008	2007	2006
Foreign exchange gain	$ (7,206)	$ (2,733)	$ (3,292)
Rental income	(1,225)	(1,326)	(1,576)
Other	1,020	1,377	4,156
Other non-operating income net	$ (7,411)	$ (2,682)	$ (712)

Other includes, among other things, gains and losses on asset disposals and equity income.

NOTE 4 EARNINGS PER SHARE

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

	2008	2007	2006
Numerator:			
Income from continuing operations	$ 83,320	$ 39,938	$ 89,219
Add-back interest on convertible subordinated notes, net of tax		1,967	7,498
Income from continuing operations assuming dilution	$ 83,320	$ 41,905	$ 96,717
Denominator (thousands):			
Weighted average shares outstanding	54,237	57,952	65,965
Effect of dilutive securities:			
Convertible debt		4,015	12,576
Stock options and other	269	396	685
Weighted average shares outstanding assuming dilution	54,506	62,363	79,226
Income from continuing operations per share	$ 1.54	$ 0.69	$ 1.35
Income from continuing operations per share assuming dilution	$ 1.53	$ 0.67	$ 1.22

Approximately 1.7 million, 3.2 million and 1.2 million stock options, in 2008, 2007 and 2006, respectively, were excluded from the computation of earnings per share assuming dilution because the options exercise prices were greater than the average market price of the common shares during the respective years.

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The balance of accumulated other comprehensive income (loss) consisted of the following components:

	February 29, 2008	February 28, 2007
Foreign currency translation adjustments	$ 60,607	$ 41,916
Pension and postretirement benefits adjustments, net of tax (See Note 12)	(39,364)	(42,931)
Unrealized investment gain, net of tax	1	2
	$ 21,244	$ (1,013)

NOTE 6 TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable are reported net of certain allowances and discounts. The most significant of these are as follows:

	February 29, 2008	February 28, 2007
Allowance for seasonal sales returns	$ 59,626	$ 57,584
Allowance for doubtful accounts	3,778	6,350
Allowance for cooperative advertising and marketing funds	33,662	24,048
Allowance for rebates	41,435	40,053
	$ 138,501	$ 128,035

NOTE 7 INVENTORIES

	February 29, 2008	February 28, 2007
Raw materials	$ 17,701	$ 17,590
Work in process	10,516	11,315
Finished products	244,379	207,676
	272,596	236,581
Less LIFO reserve	82,085	79,145
	190,511	157,436
Display material and factory supplies	26,160	25,182
	$ 216,671	$ 182,618

There were no material LIFO liquidations in 2008, 2007 or 2006. Inventory held on location for retailers with SBT arrangements totaled approximately $32,000 and $29,000 as of February 29, 2008 and February 28, 2007, respectively.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

	February 29, 2008	February 28, 2007
Land	$ 16,568	$ 15,005
Buildings	263,682	264,935
Equipment and fixtures	693,823	664,706
	974,073	944,646
Less accumulated depreciation	678,068	659,493
	$ 296,005	$ 285,153

During 2008, the Corporation disposed of approximately $38,000 of property, plant and equipment that included accumulated depreciation of approximately $34,000 compared to disposals in 2007 of approximately $62,000 with accumulated depreciation of approximately $45,000. The disposals in 2007 included the fixed assets that were part of the candle product lines. Also, continued operating losses and negative cash flows led to testing for impairment of long-lived assets in the Retail Operations segment in accordance with SFAS 144. As a result, fixed asset impairment charges of $1,436, $1,760 and $3,956 were recorded in Selling, distribution and marketing on the Consolidated Statement of Income for 2008, 2007 and 2006, respectively.

Depreciation expense totaled $43,903, $47,006 and $52,828 in 2008, 2007 and 2006, respectively.

NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS

In 2007, the required annual goodwill impairment test resulted in an impairment charge of $2,196 for the Corporation s entertainment development and production joint venture, which is included in the non-reportable segments. This charge represented all of the goodwill of this entity. A discounted cash flow method was used for testing purposes.

In 2006, during the third quarter, indicators emerged within the Retail Operations segment and one international reporting unit in the International Social Expression Products segment that led the Corporation s management to conclude that a SFAS 142 goodwill impairment test was required to be performed during the third quarter. A discounted cash flow method was used for testing purposes.

Within the international reporting unit, located in Australia, there were two primary indicators. First, continued failure to meet operating and cash flow performance indicators and secondly, a revised long-term cash flow forecast that was significantly lower than prior estimates. As a result of the testing, the Corporation concluded the goodwill value had declined to zero and recorded an impairment charge of $25,318.

There were three primary indicators that emerged within the Retail Operations segment during the third quarter: (1) continued operating losses and negative cash flows led to the testing and impairment of long-lived assets in some retail stores in accordance with SFAS 144. As a result, a fixed asset impairment charge was recorded in the third quarter of 2006. Fixed asset recovery testing under SFAS 144 is an indicator of potential goodwill impairment under SFAS 142; (2) recent negotiations indicated the potential loss of approximately 40 to 60 retail locations due to the inability to renew or extend lease terms; and (3) a revised long-term cash flow forecast that was significantly lower than prior estimates. As a result of the testing, the Corporation recorded an impairment charge of $17,835, representing all of the goodwill for the Retail Operations segment.

The Corporation completed the required annual impairment test of goodwill in the fourth quarter of 2008 and 2006 and based on the results of the testing, no impairment charges were recorded for continuing operations.

A summary of the changes in the carrying amount of the Corporation s goodwill during the years ended February 29, 2008 and February 28, 2007 by segment, is as follows:

	North American Social Expression Products	International Social Expression Products	AG Interactive	Non-Reportable Segments	Total
Balance at February 28, 2006	$ 48,172	$ 76,784	$ 75,725	$ 2,278	$ 202,959
Acquisition related			12,500		12,500
Impairment				(2,196)	(2,196)
Currency translation	(329)	9,257	1,914		10,842
Balance at February 28, 2007	47,843	86,041	90,139	82	224,105
Acquisition related			56,349		56,349
Currency translation	19	1,009	3,590		4,618
Balance at February 29, 2008	$ 47,862	$ 87,050	$ 150,078	$ 82	$ 285,072

At February 29, 2008 and February 28, 2007, intangible assets subject to the amortization provisions of SFAS 142, net of accumulated amortization, were $27,438 and $12,687, respectively. The Corporation does not have any indefinite-lived intangible assets.

The following table presents information about other intangible assets, which are included in Other assets on the Consolidated Statement of Financial Position:

	February 29, 2008			February 28, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	$ 3,686	$ (3,207)	$ 479	$ 3,540	$ (3,124)	$ 416
Trademarks	35,735	(10,262)	25,473	16,926	(6,318)	10,608
Leasehold interest	4,824	(4,824)		4,427	(4,427)	
Other	2,177	(691)	1,486	2,002	(339)	1,663
	$ 46,422	$ (18,984)	$ 27,438	$ 26,895	$ (14,208)	$ 12,687

Amortization expense for intangible assets totaled $4,632, $2,406 and $1,374 in 2008, 2007 and 2006, respectively. Estimated annual amortization expense for the next five years will approximate $9,455 in 2009, $6,667 in 2010, $6,042 in 2011, $3,037 in 2012 and $1,562 in 2013. The weighted average remaining amortization period is approximately 4 years.

NOTE 10 DEFERRED COSTS

In the normal course of its business, the Corporation enters into agreements with certain customers for the supply of greeting cards and related products. Under these agreements, the customer typically receives from the Corporation a combination of cash payments, credits, discounts, allowances and other incentive considerations to be earned by the customer as product is purchased from the Corporation over the effective time period of the agreement to meet a minimum purchase volume commitment. In the event a contract is not completed, the Corporation has a claim for unearned advances under the agreement. The Corporation periodically reviews the progress toward the commitment and adjusts the estimated amortization period accordingly to match the costs with the revenue associated with the agreement. The agreements may or may not specify the Corporation as the sole supplier of social expression products to the customer.

A portion of the total consideration may be payable by the Corporation at the time the agreement is consummated. All future payment commitments are classified as liabilities at inception until paid. The payments that are expected to be made in the next twelve months are classified as "Other current liabilities" in the Consolidated Statement of Financial Position and the remaining payment commitments beyond the next twelve months are classified as "Other liabilities." The Corporation maintains an allowance for deferred costs related to supply agreements of $29,700 and $28,000 at February 29, 2008 and February 28, 2007, respectively. This allowance is included in Other assets in the Consolidated Statement of Financial Position.

Deferred costs and future payment commitments were as follows:

	February 29, 2008	February 28, 2007
Prepaid expenses and other	$ 119,069	$ 131,972
Other assets	338,003	355,115
Deferred cost assets	457,072	487,087
Other current liabilities	(68,457)	(47,692)
Other liabilities	(50,491)	(49,648)
Deferred cost liabilities	(118,948)	(97,340)
Net deferred costs	$ 338,124	$ 389,747

A summary of the changes in the carrying amount of the Corporation s net deferred costs during the years ended February 29, 2008, February 28, 2007 and February 28, 2006 is as follows:

Balance at February 28, 2005	$ 574,329
Payments	105,173
Amortization	(161,783)
Currency translation and other	(2,077)
Balance at February 28, 2006	515,642
Payments	102,265
Net contract termination	(76,438)
Amortization	(154,579)
Currency translation and other	2,857
Balance at February 28, 2007	389,747
Payments	104,705
Net contract termination	(14,920)
Amortization	(143,223)
Currency translation and other	1,815
Balance at February 29, 2008	$ 338,124

NOTE 11 LONG AND SHORT-TERM DEBT

On June 29, 2001, the Corporation issued $175,000 of 7.00% convertible subordinated notes, due on July 15, 2006. The notes were convertible at the option of the holders into Class A common shares of the Corporation at any time before the close of business on July 15, 2006, at a conversion rate of 71.9466 common shares per $1 principal amount of notes. During 2006, $208 of these notes were converted into approximately 15,000 Class A common shares.

On May 26, 2006, $159,122 of the 7.00% convertible subordinated notes were exchanged (modified) for a new series of 7.00% convertible subordinated notes due on July 15, 2006. The Corporation paid an exchange fee of $796 that was deferred at May 26, 2006 and amortized over the remaining term of the new convertible subordinated notes. The terms of the new notes were substantially the same as the old notes except that upon conversion, the new notes were settled in cash and Class A common shares. Upon conversion, the old notes could only be settled in Class A common shares. During 2007, the Corporation issued 1,126,026 Class A common shares upon conversion of $15,651 of the old series of 7.00% convertible subordinated notes. Upon settlement of the new series of 7.00% convertible subordinated notes, the Corporation paid $159,122 in cash and issued 4,379,339 Class A common shares. The 5,505,365 Class A common shares issued upon conversion of the convertible notes were issued from the Corporation s treasury shares. This issuance resulted in a treasury stock loss of approximately $200,000, which was recorded against retained earnings.

On May 24, 2006, the Corporation issued $200,000 of 7.375% senior unsecured notes, due on June 1, 2016. The proceeds from this issuance were used for the repurchase of the Corporation s 6.10% senior notes due on August 1, 2028 that were tendered in the Corporation s tender offer and consent solicitation that was completed on May 25, 2006.

On May 25, 2006, the Corporation repurchased $277,310 of its 6.10% senior notes due on August 1, 2028 and recorded a charge of $5,055 for the consent payment and other fees associated with the notes repurchased, as well as for the write-off of related deferred financing costs. In conjunction with the tender, the indenture governing the 6.10% senior notes was amended to eliminate certain restrictive covenants and events of default. The balance of the 6.10% senior notes was reclassified to current during the second quarter of 2008 as these notes may be put back to the Corporation on August 1, 2008, at the option of the holders, at 100% of the principal amount provided the holders exercise this option between July 1, 2008 and August 1, 2008.

The total fair value of the Corporation s publicly traded debt, based on quoted market prices, was $220,406 (at a carrying value of $222,690) and $229,906 (at a carrying value of $222,690) at February 29, 2008 and February 28, 2007, respectively.

On April 4, 2006, the Corporation entered into a new $650,000 secured credit agreement. The new credit agreement included a $350,000 revolving credit facility and a $300,000 delay draw term loan. The Corporation could request one or more term loans until April 4, 2007. In connection with the execution of this new agreement, the Corporation s amended and restated credit agreement dated May 11, 2004 was terminated and deferred financing fees of $1,013 were written off. The obligations under the new credit agreement are guaranteed by the Corporation s material domestic subsidiaries and are secured by substantially all of the personal property of American Greetings Corporation and each of its material domestic subsidiaries, including a pledge of all of the capital stock in substantially all of the Corporation s domestic subsidiaries and 65% of the capital stock of the Corporation s first tier foreign subsidiaries. The revolving credit facility will mature on April 4, 2011 and any outstanding term loans will mature on April 4, 2013. Each term loan will amortize in equal quarterly installments equal to 0.25% of the amount of such term loan, beginning on April 4, 2007, with the balance payable on April 4, 2013.

Revolving loans denominated in U.S. dollars under the new credit agreement will bear interest at a rate per annum based on the then applicable London Inter-Bank Offer Rate (LIBOR) or the alternate base rate (ABR), as defined in the credit agreement, in each case, plus margins adjusted according to the Corporation s leverage ratio. Term loans will bear interest at a rate per annum based on either LIBOR plus 150 basis points or based on the ABR, as defined in the credit agreement, plus 25 basis points. The Corporation pays an annual commitment fee of 25 basis points on the undrawn portion of the revolving credit facility and 62.5 basis points on the undrawn portion of the term loan. As of November 30, 2006, in accordance with the terms of the new credit agreement, the commitment fee on the revolving facility fluctuates based on the Corporation s leverage ratio.

On February 26, 2007, the credit agreement dated April 4, 2006 was amended. The amendment decreased the size of the term loan facility to $100,000 and extended the period during which the Corporation may borrow on the term loan until April 4, 2008. In connection with the reduction of the term loan facility, deferred financing fees of $1,128 were written off. Further, it extended the commitment fee on the term loan through April 4, 2008 and increased the fee to 75 basis points on the undrawn portion of the loan. The start of the amortization period was also changed from April 4, 2007 to April 4, 2008.

The credit agreement contains certain restrictive covenants that are customary for similar credit arrangements, including covenants relating to limitations on liens, dispositions, issuance of debt, investments, payment of dividends, repurchases of capital stock, acquisitions and transactions with affiliates. There are also financial performance covenants that require the Corporation to maintain a maximum leverage ratio and a minimum interest coverage ratio. The credit agreement also requires the Corporation to make certain mandatory prepayments of outstanding indebtedness using the net cash proceeds received from certain dispositions, events of loss and additional indebtedness that the Corporation may incur from time to time.

On March 28, 2008, the aforementioned credit agreement was further amended. The amendment extends the period during which the Corporation may borrow on the term loan until April 3, 2009 and changes the start of the amortization period from April 4, 2008 until April 3, 2009.

The Corporation is also party to an amended and restated receivables purchase agreement that had available financing of up to $150,000. The agreement expires on October 23, 2009. Under the amended and restated receivables purchase agreement, the Corporation and certain of its subsidiaries sell accounts receivable to AGC Funding Corporation (AGC Funding), a wholly-owned, consolidated subsidiary of the Corporation, which in turn sells undivided interests in eligible accounts receivable to third party financial institutions as part of a process that provides funding to the Corporation similar to a revolving credit facility. Funding under the facility may be used for working capital, general corporate purposes and the issuance of letters of credit. This arrangement is accounted for as a financing transaction.

The interest rate under the accounts receivable securitization facility is based on (i) commercial paper interest rates, (ii) LIBOR rates plus an applicable margin or (iii) a rate that is the higher of the prime rate as announced by the applicable purchaser financial institution or the federal funds rate plus 0.50%. AGC Funding pays an annual commitment fee of 28 basis points on the unfunded portion of the accounts receivable securitization facility, together with customary administrative fees on outstanding letters of credit that have been issued and on outstanding amounts funded under the facility.

The amended and restated receivables purchase agreement contains representations, warranties, covenants and indemnities customary for facilities of this type, including the obligation of the Corporation to maintain the same consolidated leverage ratio as it is required to maintain under its secured credit facility.

On March 28, 2008, the amended and restated receivables purchase agreement was further amended. The amendment decreased the amount of available financing from $150,000 to $90,000. There were no balances outstanding under the amended and restated receivables purchase agreement as of February 29, 2008.

At February 29, 2008, the Corporation was in compliance with its financial covenants under the borrowing agreements described above.

As of February 29, 2008, debt due within one year was as follows:

	February 29, 2008
Revolving credit facility	$ 20,100
6.10% senior notes, due 2028	22,690
	$ 42,790

There was no debt due within one year as of February 28, 2007.

At February 29, 2008, the balances outstanding on the revolving credit facility bear interest at a rate of approximately 4.7%. In addition to the balances outstanding under the aforementioned agreement, the Corporation provides financing for certain transactions with some of its vendors, which includes a combination of various guarantees and letters of credit. At February 29, 2008, the Corporation had credit arrangements to support the letters of credit in the amount of $124,317 with $25,748 of credit outstanding.

Long-term debt and their related calendar year due dates were as follows:

	February 29, 2008	February 28, 2007
7.375% senior notes, due 2016	$ 200,000	$ 200,000
6.10% senior notes, due 2028		22,690
Other (due 2010)	518	1,225
	$ 200,518	$ 223,915

Aggregate maturities of long-term debt are as follows:

2009	$ 22,690
2010	518
2011	
2012	
2013	
Thereafter	200,000
	$ 223,208

Interest paid in cash on short-term and long-term debt was $18,512 in 2008, $32,410 in 2007 and $32,797 in 2006. In 2007, interest expense included $5,055 related to the early retirement of substantially all of our 6.10% senior notes including the consent payment, fees paid and the write-off of deferred financing costs. Deferred financing costs of $1,013 and $1,128 associated with the termination of the credit facility in April 2006 and the amendment of the term loan facility in February 2007, respectively, were also written off during the year. These amounts were partially offset by $2,390 for the net gain recognized on an interest rate derivative entered into and settled during 2007. In 2006, interest expense included $863 for the payment of the premium associated with the remaining 11.75% senior subordinated notes repurchased as well as the write-off of related deferred financing costs.

NOTE 12 RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

The Corporation has a non-contributory profit-sharing plan with a contributory 401(k) provision covering most of its United States employees. Corporate contributions to the profit-sharing plan were $5,184, $6,751 and $12,384 for 2008, 2007 and 2006, respectively. In addition, the Corporation matches a portion of 401(k) employee contributions contingent upon meeting specified annual operating results goals. The Corporation s matching contributions were $4,521, $4,545 and $4,296 for 2008, 2007 and 2006, respectively.

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Employees of certain foreign subsidiaries are covered by local pension or retirement plans. Annual expense and accumulated benefits of these foreign plans were not material to the consolidated financial statements. For the defined benefit plans, in the aggregate, the actuarially computed plan benefit obligation approximates the fair value of plan assets.

The Corporation also participates in a multi-employer pension plan covering certain domestic employees who are part of a collective bargaining agreement. Total pension expense for the multi-employer plan, representing contributions to the plan, was $554, $753 and $988 in 2008, 2007 and 2006, respectively.

The Corporation has deferred compensation plans that provide executive officers and directors with the opportunity to defer receipt of compensation and director fees, respectively, including compensation received in the form of the Corporation's common shares. The Corporation funds these deferred compensation liabilities by making contributions to a rabbi trust. In accordance with EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, both the trust assets and the related obligation associated with deferrals of the Corporation s common shares are recorded in equity at cost and offset each other. There was approximately 0.2 million common shares in the trust at February 29, 2008 with a cost of $3,571 compared to approximately 0.1 million common shares with a cost of $2,129 at February 28, 2007.

In 2001, the Corporation assumed the obligations and assets of Gibson s defined benefit pension plan (the Retirement Plan) that covered substantially all Gibson employees who met certain eligibility requirements. Benefits earned under the Retirement Plan have been frozen and participants no longer accrue benefits after December 31, 2000. The Retirement Plan has a measurement date of February 28 or 29. No contributions were made to the plan in either 2008 or 2007. The Retirement Plan was fully funded at both February 29, 2008 and February 28, 2007.

The Corporation also has a defined benefit pension plan (the Supplemental Executive Retirement Plan) covering certain management employees. The Supplemental Executive Retirement Plan has a measurement date of February 28 or 29. The Supplemental Executive Retirement Plan was amended in 2005 to change the twenty-year cliff-vesting period with no minimum plan service requirements to a ten-year cliff-vesting period with a requirement that at least five years of that service must be as a plan participant. The plan was amended in 2008 to authorize the Corporation to make a one-time offer to each participant who is no longer employed by American Greetings, but is either currently receiving payments under the plan or has a deferred vested benefit under the plan to receive a lump sum cash payment in 2008 in satisfaction of all future benefit payments under the Supplemental Executive Retirement Plan. As a result, a settlement expense of $105 was recorded during the year.

The Corporation also has several defined benefit pension plans at its Canadian subsidiary. These include a defined benefit pension plan covering most Canadian salaried employees, which was closed to new participants effective January 1, 2006, but eligible members continue to accrue benefits and an hourly plan in which benefits earned have been frozen and participants no longer accrue benefits after March 1, 2000. There are also two unfunded plans, one that covers a supplemental executive retirement pension relating to an employment agreement and one that pays supplemental pensions to certain former hourly employees pursuant to a prior collective bargaining agreement. All plans have a measurement date of February 28 or 29. During 2008, the Corporation settled a portion of its obligation under one of the defined benefit pension plans at its Canadian subsidiary. For the affected participants, the plan was converted to a defined contribution plan. As a result, a settlement expense of $1,067 was recorded.

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits to full-time United States employees who meet certain age, service and other requirements. The plan is contributory; with retiree contributions adjusted periodically, and contains other cost-sharing features such as deductibles and coinsurance. The plan has a measurement date of February 28 or 29. The Corporation made significant changes to its retiree health care plan in 2002 by imposing dollar maximums on the per capita cost paid by the

Corporation for future years. The plan was amended in 2004 and 2005 to further limit the Corporation s contributions at certain locations. The Corporation maintains a trust for the payment of retiree health care benefits. This trust is funded at the discretion of management.

On February 28, 2007, the Corporation adopted SFAS 158. SFAS 158 requires the Corporation to recognize the funded status of its defined benefit plans in the Consolidated Statement of Financial Position as of February 28, 2007, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs (credits) and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87 (SFAS 87), Employers Accounting for Pensions, and SFAS No. 106 (SFAS 106), Employers Accounting for Postretirement Benefits Other Than Pension, all of which were previously netted against the plans funded status in the Corporation s Consolidated Statement of Financial Position in accordance with the provisions of SFAS 87 and SFAS 106. These amounts will be subsequently recognized as net periodic benefit cost in accordance with the Corporation s historical accounting policy for amortizing these amounts. In addition, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS 158.

The following table sets forth summarized information on the defined benefit pension plans and postretirement benefits plan:

	Pension Plans		**Postretirement Benefits**	
	2008	**2007**	**2008**	**2007**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 162,434	$ 164,780	$ 143,803	$ 133,119
Service cost	987	924	3,885	3,681
Interest cost	8,919	8,668	8,229	7,733
Participant contributions	54	43	4,618	4,371
Retiree drug subsidy payments				212
Plan amendments	90			(211)
Actuarial (gain) loss	(7,147)	(1,232)	(12,255)	4,097
Benefit payments	(10,502)	(9,832)	(8,615)	(9,199)
Settlements	(7,280)			
Currency exchange rate changes	5,010	(917)		
Benefit obligation at end of year	152,565	162,434	139,665	143,803
Change in plan assets:				
Fair value of plan assets at beginning of year	135,526	129,479	77,114	77,155
Actual return on plan assets	500	11,746	3,761	5,275
Employer contributions	3,134	4,860	(192)	(488)
Participant contributions	54	43	4,618	4,371
Benefit payments	(10,502)	(9,832)	(8,615)	(9,199)
Settlements	(7,280)			
Currency exchange rate changes	4,591	(770)		
Fair value of plan assets at end of year	126,023	135,526	76,686	77,114
Funded status at end of year	$ (26,542)	$ (26,908)	$ (62,979)	$ (66,689)

Amounts recognized in the Consolidated Statement of Financial Position consist of the following:

	Pension Plans		Postretirement Benefits	
	2008	2007	2008	2007
Other assets	$ 7,861	$ 7,444	$	$
Accrued compensation and benefits	(2,018)	(2,002)		
Other liabilities	(32,385)	(32,350)	(62,979)	(66,689)
Net amount recognized	$ (26,542)	$ (26,908)	$ (62,979)	$ (66,689)
Amounts recognized in accumulated other comprehensive income:				
Net actuarial loss	$ 24,345	$ 24,991	$ 66,683	$ 83,644
Net prior service cost (credit)	1,296	1,465	(26,602)	(34,020)
Net transition obligation	63	59		
Accumulated other comprehensive income	$ 25,704	$ 26,515	$ 40,081	$ 49,624

For the defined benefit pension plans, the estimated net loss, prior service cost and transition obligation that will be amortized from accumulated other comprehensive income into periodic benefit cost over the next fiscal year are approximately $1,285, $260, and $10, respectively. For the postretirement benefit plan, the estimated net loss and prior service credit that will be amortized from accumulated other comprehensive income into periodic benefit cost over the next fiscal year are approximately $4,400 and ($7,400), respectively.

The following table presents significant weighted-average assumptions to determine benefit obligations and net periodic benefit cost:

	Pension Plans		Postretirement Benefits	
	2008	2007	2008	2007
Weighted average discount rate used to determine:				
Benefit obligations at measurement date				
US	6.50%	5.75%	6.50%	5.75%
International	5.75%	5.25%	N/A	N/A
Net periodic benefit cost				
US	5.75%	5.50%	5.75%	5.50%
International	5.25%	5.25%	N/A	N/A
Expected long-term return on plan assets:				
US	7.00%	7.00%	7.00%	7.00%
International	6.00%	6.00%	N/A	N/A
Rate of compensation increase:				
US	Up to 6.50%	Up to 6.50%	N/A	N/A
International	3.50 4.00%	3.50 4.00%	N/A	N/A
Health care cost trend rates:				
For year ending February 28 or 29	N/A	N/A	9.50%	10.00%
For year following February 28 or 29	N/A	N/A	9.00%	9.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	6.00%	6.00%
Year the rate reaches the ultimate trend rate	N/A	N/A	2014	2014

For 2008, the net periodic pension cost for the pension plans was based on long-term asset rates of return as noted above. In developing these expected long-term rate of return assumptions, consideration was given to expected returns based on the current investment policy and historical return for the asset classes.

For 2008, the Corporation assumed a long-term asset rate of return of 7% to calculate the expected return for the postretirement benefit plan. In developing the 7% expected long-term rate of return assumption, consideration was given to various factors, including a review of asset class return expectations based on historical 15-year compounded returns for such asset classes. This rate is also consistent with actual compounded returns earned by the plan over several years.

	2008	2007
Effect of a 1% increase in health care cost trend rate on:		
Service cost plus interest cost	$ 1,105	$ 1,005
Accumulated postretirement benefit obligation	10,311	10,431
Effect of a 1% decrease in health care cost trend rate on:		
Service cost plus interest cost	(935)	(740)
Accumulated postretirement benefit obligation	(8,883)	(8,092)

The following table presents selected pension plan information:

	2008	2007
For all pension plans:		
Accumulated benefit obligation	$ 149,054	$ 158,844
For pension plans that are not fully funded:		
Projected benefit obligation	37,798	37,408
Accumulated benefit obligation	34,374	34,035
Fair value of plan assets	3,395	3,056

A summary of the components of net periodic benefit cost for the pension plans is as follows:

	2008	2007	2006
Components of net periodic benefit cost:			
Service cost	$ 987	$ 924	$ 1,071
Interest cost	8,919	8,668	8,602
Expected return on plan assets	(8,761)	(8,524)	(8,215)
Amortization of transition obligation	6	6	95
Amortization of prior service cost	260	254	254
Amortization of actuarial loss	1,454	2,218	1,438
Settlements/curtailments	1,172		914
Net periodic benefit cost	4,037	3,546	$ 4,159
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Actuarial loss	1,047	24,991	N/A
Prior service cost	90	1,465	N/A
Transition obligation		59	N/A
Amortization of prior service cost	(260)		N/A
Amortization of actuarial loss	(1,454)		N/A
Amortization of transition obligation	(6)		N/A
Settlement loss	(1,172)		N/A
Total recognized in net periodic benefit cost and other comprehensive income	$ 2,282	$ 30,061	N/A

A summary of the components of net periodic benefit cost for the postretirement benefit plan is as follows:

	2008	2007	2006
Components of net periodic benefit cost:			
Service cost	$ 3,885	$ 3,681	$ 3,224
Interest cost	8,229	7,733	7,060
Expected return on plan assets	(5,097)	(5,098)	(4,804)
Amortization of prior service credit	(7,418)	(7,418)	(7,395)
Amortization of actuarial loss	6,042	7,022	6,562
Net periodic benefit cost	5,641	5,920	$ 4,647
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Actuarial (gain) loss	(10,919)	83,644	N/A
Prior service credit		(34,020)	N/A
Amortization of actuarial loss	(6,042)		N/A
Amortization of prior service credit	7,418		N/A
Total recognized in net periodic benefit cost and other comprehensive income	$ (3,902)	$ 55,544	N/A

At February 29, 2008 and February 28, 2007, the assets of the plans are held in trust and allocated as follows:

	Pension Plans		Postretirement Benefits		
	2008	2007	2008	2007	Target Allocation
Equity securities:					
US	53%	55%	35%	35%	15% 35%
International	23%	52%	N/A	N/A	N/A
Debt securities:					
US	46%	44%	60%	62%	55% 75%
International	64%	31%	N/A	N/A	N/A
Cash and cash equivalents:					
US	1%	1%	5%	3%	0% 20%
International	13%	17%	N/A	N/A	N/A

As of February 29, 2008, the investment policy for the U.S. pension plans target an approximately even distribution between equity securities and debt securities with a minimal level of cash maintained in order to meet obligations as they come due. The investment policy for the international pension plans target an approximately 20/60/10 distribution between equity securities, debt securities and cash and cash equivalents.

The investment policy for the postretirement benefit plan targets a distribution among equity securities, debt securities and cash and cash equivalents as noted above. All investments are actively managed, with debt securities averaging 2.5 years to maturity with a credit rating of A or better. This policy is subject to review and change.

Although the Corporation does not anticipate that contributions to the Retirement Plan will be required in 2009, it may make contributions in excess of the legally required minimum contribution level. Any voluntary contributions by the Corporation are not expected to exceed deductible limits in accordance with Internal Revenue Service (IRS) regulations.

Based on historic patterns and currently scheduled benefit payments, the Corporation expects to contribute $1,950 to the Supplemental Executive Retirement Plan in 2009. The plan is a non-qualified and unfunded plan, and annual contributions, which are equal to benefit payments, are made from the Corporation s general funds.

In addition, the Corporation does not anticipate contributing to the postretirement benefit plan in 2009.

The benefits expected to be paid out are as follows:

		Postretirement Benefits	
	Pension Plans	**Excluding Effect of Medicare Part D Subsidy**	**Including Effect of Medicare Part D Subsidy**
2009	$ 10,164	$ 9,935	$ 9,020
2010	10,313	10,483	9,467
2011	10,400	11,021	9,898
2012	10,405	11,517	10,598
2013	10,575	11,713	10,700
2014 2018	54,769	62,467	59,264

NOTE 13 LONG-TERM LEASES AND COMMITMENTS

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 29, 2008, February 28, 2007 and February 28, 2006 are as follows:

	2008	**2007**	**2006**
Gross rentals	$ 47,536	$ 55,537	$ 56,258
Sublease rentals	(241)	(235)	(436)
Net rental expense	$ 47,295	$ 55,302	$ 55,822

At February 29, 2008, future minimum rental payments for noncancelable operating leases, net of aggregate future minimum noncancelable sublease rentals, are as follows:

Gross rentals:	
2009	$ 30,986
2010	23,829
2011	18,381
2012	12,943
2013	8,414
Later years	12,860
	107,413
Sublease rentals	(1,062)
Net rentals	$ 106,351

NOTE 14 COMMON SHARES AND STOCK OPTIONS

At February 29, 2008 and February 28, 2007, common shares authorized consisted of 187,600,000 Class A and 15,832,968 Class B common shares.

Class A common shares have one vote per share and Class B common 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.

Total stock-based compensation expense, recognized in Administrative and general expenses on the Consolidated Statement of Income, was $6,547 ($4,114 net of tax), which reduced earnings per share and earnings per share assuming dilution by $0.08 and $0.08 per share, respectively, during the year ended February 29, 2008. During 2007, total stock-based compensation was $7,559 ($4,604 net of tax), which reduced earnings per share and earnings per share assuming dilution by $0.08 and $0.07 per share, respectively.

Prior to March 1, 2006, the Corporation followed Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations for its stock options granted to employees and directors. Because the exercise price of the Corporation s stock options equals the fair market value of the underlying stock on the date of grant, no compensation expense was recognized. The Corporation had adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Pro forma information regarding the impact of total stock-based compensation on net income and earnings per share for prior periods is required by SFAS 123R. SFAS 123R also requires the tax benefits associated with the share-based payments to be classified as financing activities in the Consolidated Statement of Cash Flows, rather than as operating cash flows as required under previous accounting guidance.

The following illustrates the pro forma information, determined as if the Corporation had applied the fair value method of accounting for stock options, for the fiscal year ended February 28, 2006:

	2006
Net income as reported	$ 84,376
Add: Stock-based compensation expense included in net income, net of tax	767
Deduct: Stock-based compensation expense determined under fair value based method, net of tax	6,273
Pro forma net income	$ 78,870
Earnings per share:	
As reported	$ 1.28
Pro forma	1.20
Earnings per share assuming dilution:	
As reported	$ 1.16
Pro forma	1.09

Under the Corporation's stock option plans, options to purchase common shares are granted to directors, officers and other key employees at the then-current market price. In general, subject to continuing service, options become exercisable commencing twelve months after date of grant in annual installments and expire over a period of not more than ten years from the date of grant. The Corporation, from time to time, makes certain grants whereby the vesting or exercise periods have the potential to be accelerated if the market value of the Corporation s Class A common shares reaches certain specified prices. These grants are subject to the terms of the applicable option plans and agreements. There were none of these types of grants outstanding at February 29, 2008. The Corporation generally issues new shares when options to purchase Class A common shares are exercised and treasury shares when options to purchase Class B common shares are exercised.

Stock option transactions and prices are summarized as follows:

	Number of Class A Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 28, 2007	5,386,446	$ 21.87		$ 12,844
Granted	1,025,650	25.53		
Exercised	(1,220,177)	26.79		
Cancelled	(261,140)	29.16		
Outstanding at February 29, 2008	4,930,779	$ 22.81	6.2	$ 2,629
Exercisable at February 29, 2008	3,444,192	$ 22.07	5.4	$ 2,629

	Number of Class B Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 28, 2007	633,920	$ 22.94		$ 664
Granted	193,000	25.57		
Exercised	(2,400)	25.97		
Cancelled				
Outstanding at February 29, 2008	824,520	$ 23.59	7.4	
Exercisable at February 29, 2008	447,521	$ 22.86	6.8	

The fair value of the options granted is the estimated present value at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007	2006
Risk-free interest rate	4.6%	5.0%	3.5%
Dividend yield	1.25%	1.41%	0.08%
Expected stock volatility	0.25	0.24	0.33
Expected life in years	2.3	2.2	4.1

The weighted average fair value per share of options granted during 2008, 2007 and 2006 was $4.44, $3.81 and $7.69, respectively. The total intrinsic value of options exercised was $8,937, $2,192 and $14,963 in 2008, 2007 and 2006, respectively.

During 2006, approximately 180,000 performance shares were awarded to certain executive officers under the American Greetings 1997 Equity and Performance Incentive Plan. The performance shares represent the right to receive Class B common shares, at no cost to the officer, upon achievement of management objectives over a five-year performance period. The performance shares are in lieu of a portion of the officer s annual cash bonus. The number of performance shares actually earned will be based on the percentage of the officer s target incentive award, if any, that the officer achieves during the performance period under the Annual Incentive Plan. The Corporation recognizes compensation expense related to performance shares ratably over the estimated vesting period.

The fair value of the performance shares is the estimated present value at March 1 of each respective fiscal year using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007	2006
Risk-free interest rate	4.95%	4.74%	3.20%
Dividend yield	1.38%	1.52%	0.24%

Expected stock volatility	0.25	0.24	0.24
Expected life in years	1.0	1.0	1.0

The fair value per share of the performance shares in 2008, 2007 and 2006 was $22.79, $20.73 and $24.88, respectively. Compensation costs recognized for approximately 60,000 performance shares vesting in each of 2008, 2007 and 2006 were approximately $1,400 (included in the $6,547 stock compensation expense disclosed above), $1,200 (included in the $7,559 stock compensation expense disclosed above) and $1,300, respectively. Approximately 60,000 Class B common shares were issued in both 2008 and 2007 related to the performance shares earned and vested in 2007 and 2006, respectively.

As of February 29, 2008, the Corporation had unrecognized compensation expense of approximately $2,800, before taxes, related to stock options. The unrecognized compensation expense is expected to be recognized over an average period of approximately one year.

The number of shares available for future grant at February 29, 2008 is 2,745,948 Class A common shares and 550,939 Class B common shares.

NOTE 15 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 North American Social Expression Products and International Social Expression Products segments primarily design, manufacture and sell greeting cards and other related products through various channels of distribution with mass retailers as the primary channel. As permitted under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, certain operating divisions have been aggregated into both the North American Social Expression Products and International Social Expression Products segments. The aggregated operating divisions have similar economic characteristics, products, production processes, types of customers and distribution methods. Approximately 40% of the International Social Expression Products segment s revenue in 2008 and 2007 is attributable to its top three customers.

At February 29, 2008, the Corporation owned and operated 414 card and gift retail stores in the United States and Canada through its Retail Operations segment. The stores are primarily located in malls and strip shopping centers. The stores sell products purchased from the North American Social Expression Products segment as well as products purchased from other vendors.

AG Interactive distributes social expression products, including electronic greetings, personalized printable greeting cards and a broad range of graphics and digital services and products, through a variety of electronic channels, including Web sites, Internet portals, instant messaging services and electronic mobile devices. The two acquisitions in 2008, which are included in this segment, provide the Corporation entry into the online photo sharing space and a platform to provide consumers the ability to use their own photos to create unique, high quality physical products, including greeting cards, calendars, photo albums and photo books.

The Corporation s non-reportable operating segments primarily include licensing activities and the design, manufacture and sale of display fixtures.

The Corporation s senior management evaluates segment performance based on earnings before foreign currency exchange gains or losses, interest income, interest expense, centrally-managed costs and income taxes. The accounting policies of the reportable segments are the same as those described in Note 1 Significant Accounting Policies, except those that are related to LIFO or applicable to only corporate items.

Intersegment sales from the North American Social Expression Products segment to the Retail Operations segment are recorded at estimated arm s-length prices. Intersegment sales and profits are eliminated in consolidation. All inventories resulting from intersegment sales are carried at cost. Accordingly, the Retail Operations segment records full profit upon its sales to consumers.

The reporting and evaluation of segment assets include net accounts receivable, inventory on a FIFO basis, display materials and factory supplies, prepaid expenses, other assets and net property, plant and equipment.

Segment results are internally 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.

Centrally incurred and managed costs are not allocated back to the operating segments. The unallocated items include interest expense on centrally-incurred debt, domestic profit-sharing expense and stock-based compensation expense. In addition, the costs associated with corporate operations including the senior management, corporate finance, legal and human resource functions, among other costs, are included in the unallocated items.

Geographical Information

		Total Revenue		Fixed Assets Net	
	2008	**2007**	**2006**	**2008**	**2007**
United States	$ 1,286,213	$ 1,336,241	$ 1,478,631	$ 244,405	$ 232,378
United Kingdom	260,288	228,779	221,951	30,785	35,556
Other foreign	229,950	229,270	227,554	20,815	17,219
Consolidated	$ 1,776,451	$ 1,794,290	$ 1,928,136	$ 296,005	$ 285,153

Product Information

		Total Revenue	
	2008	**2007**	**2006**
Everyday greeting cards	$ 709,824	$ 656,906	$ 717,622
Seasonal greeting cards	379,603	363,793	404,227
Gift packaging	264,040	278,140	293,549
Other revenue	45,667	49,492	52,664
All other products	377,317	445,959	460,074
Consolidated	$ 1,776,451	$ 1,794,290	$ 1,928,136

Operating Segment Information

	Total Revenue			Segment Earnings (Loss)		
	2008	2007	2006	2008	2007	2006
North American Social Expression Products	$ 1,178,961	$ 1,206,361	$ 1,338,113	$ 216,354	$ 204,079	$ 303,071
Intersegment items	(54,736)	(59,806)	(61,046)	(41,067)	(42,717)	(43,913)
Exchange rate adjustment	5,417	(254)	(4,180)	1,941	(87)	(1,787)
Net	1,129,642	1,146,301	1,272,887	177,228	161,275	257,371
International Social Expression Products	285,658	279,845	284,899	22,208	9,434	(11,357)
Exchange rate adjustment	25,668	1,885	(7,641)	2,528	259	(2,082)
Net	311,326	281,730	277,258	24,736	9,693	(13,439)
Retail Operations	190,149	207,441	221,009	(4,482)	(16,415)	(32,179)
Exchange rate adjustment	7,200	(255)	(4,693)	829	(22)	(343)
Net	197,349	207,186	216,316	(3,653)	(16,437)	(32,522)
AG Interactive	78,051	85,347	89,616	6,323	5,813	4,237
Exchange rate adjustment	664	101	(47)	132	(39)	27
Net	78,715	85,448	89,569	6,455	5,774	4,264
Non-reportable segments	59,356	73,441	68,621	3,779	11,852	23,372
Unallocated	63	184	3,485	(83,939)	(106,544)	(100,701)
Exchange rate adjustment				(638)	(202)	(245)
Net	63	184	3,485	(84,577)	(106,746)	(100,946)
Consolidated	$ 1,776,451	$ 1,794,290	$ 1,928,136	$ 123,968	$ 65,411	$ 138,100

	Depreciation and Amortization			Capital Expenditures		
	2008	2007	2006	2008	2007	2006
North American Social Expression Products	$ 29,304	$ 31,831	$ 34,203	$ 43,371	$ 27,711	$ 36,432
Exchange rate adjustment	8	(1)	(8)	17		(2)
Net	29,312	31,830	34,195	43,388	27,711	36,430
International Social Expression Products	4,650	5,280	5,704	847	5,365	1,776
Exchange rate adjustment	396	21	(174)	87	22	(56)
Net	5,046	5,301	5,530	934	5,387	1,720
Retail Operations	5,425	6,353	7,607	6,151	3,435	6,097
Exchange rate adjustment	200	(7)	(131)	297	(5)	(72)
Net	5,625	6,346	7,476	6,448	3,430	6,025
AG Interactive	6,194	3,953	4,891	3,326	3,751	1,566
Exchange rate adjustment	330	19	(6)		6	137

Net	6,524	3,972	4,885	3,326	3,757	1,703
Non-reportable segments	1,425	1,375	1,125	2,492	1,428	241
Unallocated	603	588	991	35	3	58
	$ 48,535	$ 49,412	$ 54,202	$ 56,623	$ 41,716	$ 46,177

	Assets	
	2008	2007
North American Social Expression Products	$ 914,628	$ 964,524
Exchange rate adjustment	574	(187)
Net	915,202	964,337
International Social Expression Products	243,297	257,718
Exchange rate adjustment	19,947	13,268
Net	263,244	270,986
Retail Operations	53,832	52,009
Exchange rate adjustment	3,123	(630)
Net	56,955	51,379
AG Interactive	188,615	114,570
Exchange rate adjustment	5,520	1,396
Net	194,135	115,966
Non-reportable segments	45,615	40,607
Unallocated and intersegment items	312,289	332,883
Exchange rate adjustment	16,988	2,056
Net	329,277	334,939
Consolidated	$ 1,804,428	$ 1,778,214

Termination Benefits and Facility Closings

Termination benefits are primarily considered part of an ongoing benefit arrangement, accounted for in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits, and are recorded when payment of the benefits is probable and can be reasonably estimated.

The Corporation recorded severance charges of $6,288 and $10,347 in 2008 and 2007, respectively, related to certain headcount reductions and facility closures including manufacturing facilities in the North American Social Expression Products segment in 2008 and a manufacturing facility in the International Social Expression Products segment in 2007. During 2006, the Corporation recorded a severance charge of $4,443 related to the Lafayette, Tennessee plant closure and other headcount reductions. In connection with the 2005 Franklin plant closing, the North American Social Expression Products segment incurred costs of $5,345 in 2006 for the write-down of the building, the write-off of equipment disposed, moving costs and various other related expenses.

The following table summarizes these charges by segment:

	2008	2007	2006
North American Social Expression Products	$ 4,902	$ 5,486	$ 2,952
International Social Expression Products	71	3,199	
Retail Operations	74	362	466
AG Interactive	22	1,020	880
Non-reportable	27		
Unallocated	1,192	280	145
Total	$ 6,288	$ 10,347	$ 4,443

The remaining balance of the severance accrual was $9,648 and $8,389 at February 29, 2008 and February 28, 2007, respectively.

NOTE 16 INCOME TAXES

Income from continuing operations before income taxes:

	2008	2007	2006
United States	$ 89,409	$ 49,766	$ 149,510
Foreign	34,559	15,645	(11,410)
	$ 123,968	$ 65,411	$ 138,100

Income taxes (benefit) from the Corporation s continuing operations have been provided as follows:

	2008	2007	2006
Current:			
Federal	$ 21,849	$ 27,703	$ 13,792
Foreign	18,496	8,313	4,707
State and local	8,075	1,719	510
	48,420	37,735	19,009
Deferred	(7,772)	(12,262)	29,872
	$ 40,648	$ 25,473	$ 48,881

Significant components of the Corporation s deferred tax assets and liabilities are as follows:

	February 29, 2008	February 28, 2007
Deferred tax assets:		
Employee benefit and incentive plans	$ 44,775	$ 46,741
Net operating loss carryforwards	51,364	43,826
Deferred capital loss	9,071	9,256
Reserves not currently deductible	65,178	53,681
Charitable contributions carryforward	2,434	6,016
Foreign tax credit carryforward	25,101	19,945
Other	7,751	13,922
	205,674	193,387
Valuation allowance	(38,544)	(40,322)
Total deferred tax assets	167,130	153,065
Deferred tax liabilities:		
Intangible assets	4,153	9,009
Property, plant and equipment	17,892	24,025
Other	2,216	1,665
Total deferred tax liabilities	24,261	34,699
Net deferred tax assets	$ 142,869	$ 118,366

Net deferred tax assets are included in the Consolidated Statement of Financial Position in the following captions:

	February 29, 2008	February 28, 2007
Deferred and refundable income taxes (current)	$ 70,923	$ 71,811
Deferred and refundable income taxes (noncurrent)	78,363	52,869
Deferred income taxes and noncurrent income taxes payable	(6,417)	(6,314)
Net deferred tax assets	$ 142,869	$ 118,366

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases as well as from net operating loss and tax credit carryforwards, and are stated at tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets represent amounts available to reduce income tax payments in future years.

The Corporation periodically reviews the need for a valuation allowance against deferred tax assets and recognizes these deferred tax assets to the extent that realization is more likely than not. Based upon a review of earnings history and trends, forecasted earnings and the relevant expiration of carryforwards, the Corporation believes that the valuation allowances provided are appropriate. At February 29, 2008, the valuation allowance of $38,544 related principally to certain foreign and domestic net operating loss carryforwards and deferred capital losses.

Reconciliation of the Corporation s income tax expense from continuing operations from the U.S. statutory rate to the actual effective income tax rate is as follows:

	2008	2007	2006
Income tax expense at statutory rate	$ 43,389	$ 22,894	$ 48,335
State and local income taxes, net of federal tax benefit	3,744	(1,825)	5,757
Canada income tax audit assessment		5,133	
Tax-exempt interest	(548)	(1,396)	(2,788)
Nondeductible goodwill			4,170
Research and experimental tax credits	(60)	(570)	(4,069)
Foreign differences	(1,793)	1,554	2,028
Foreign tax credit related matters	(4,977)	(3,163)	(2,447)
Mexico valuation allowance		2,707	
Accruals and settlements related to federal tax audits	3,491	2,585	
Other	(2,598)	(2,446)	(2,105)
Income tax at effective tax rate	$ 40,648	$ 25,473	$ 48,881

Income taxes paid from continuing operations were $40,205 in 2008, $30,375 in 2007 and $43,267 in 2006. As of February 29, 2008, the Corporation has projected income tax refunds of $56,756 related primarily to federal amended returns filed, IRS exam adjustments for 1999 through 2006 and Canadian exam adjustments for 2000 through 2002.

At February 29, 2008, the Corporation had approximately $29,845 of foreign net operating loss carryforwards, of which $15,927 has no expiration dates and $13,918 has expiration dates ranging from 2008 through 2017. In addition, the Corporation had deferred tax assets related to domestic net operating loss, state net operating loss, charitable contribution and foreign tax credit (FTC) carryforwards of approximately $27,616, $12,929, $2,434 and $25,101, respectively. The federal net operating loss carryforwards have expiration dates ranging from 2020 to 2027. The state net operating loss carryforwards have expiration dates ranging from 2008 to 2028. The charitable contribution carryforwards have expiration dates ranging from 2008 to 2009. The FTC carryforwards have expiration dates ranging from 2011 to 2014.

During 2007, the Corporation re-evaluated its position regarding the expected outcome of the assessments from the Canada Customs and Revenue Agency and revised the amount of expected Canadian refund and associated FTC by $5,133. Also, in 2007, during the fourth quarter, the Corporation re-evaluated its position regarding its ability to utilize the deferred tax assets of its subsidiary in Mexico. Based on the cumulative operating losses, the Corporation believes a full valuation allowance is necessary. Tax expense of $2,707 was recorded in 2007 to increase the Mexican valuation allowance in order to fully reserve against the net deferred tax assets.

Deferred taxes have not been provided on approximately $29,470 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.

Effective March 1, 2007, the Corporation adopted FIN 48, including the provisions of FASB Staff Position No. FIN-48-1, Definition of Settlement in FASB Interpretation No. 48. In connection with the adoption of FIN 48, the Corporation recorded a decrease to retained earnings of $14,017 to recognize an increase in its liability (or decrease to its refundable) for unrecognized tax benefits, interest and penalties under the recognition and measurement criteria of FIN 48. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

Balance at March 1, 2007	$ 24,722
Additions based on tax positions related to the current year	1,401
Additions for tax positions of prior years	9,339
Reductions for tax positions of prior years	(7,939)
Balance at February 29, 2008	$ 27,523

Included in the balance of unrecognized tax benefits at February 29, 2008, is $21,003 in unrecognized tax benefits, the recognition of which would have a favorable effect on the effective tax rate. It is reasonably possible that the Corporation s unrecognized tax positions as of February 29, 2008 could decrease approximately $2,000 during 2009 due to anticipated settlements and resulting cash payments related to open years after 1999, which are currently under examination.

The Corporation recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. During the year ended February 29, 2008, the Company recognized $1,061 of net interest and penalties. As of February 29, 2008, the total amount of gross accrued interest and penalties included in the Consolidated Statement of Financial Position is $6,516.

The Corporation is subject to examination by the IRS and various U.S. state and local jurisdictions for tax years 1996 to the present. The Corporation is also subject to tax examination in various foreign tax jurisdictions, including Canada, the United Kingdom, Australia, France, Italy, Mexico and New Zealand for tax years 2003 to the present.

NOTE 17 DISCONTINUED OPERATIONS

Discontinued operations include the Corporation s educational products business, its South African business unit and its nonprescription reading glasses business. Learning Horizons, Magnivision and the South African business units each meet the definition of a component of an entity and have been accounted for as discontinued operations under SFAS 144. Accordingly, the Corporation s consolidated financial statements and related notes have been presented to reflect all three as discontinued operations for all periods presented. Learning Horizons and Magnivision were previously included within the Corporation s non-reportable segments and the South African business unit was included within the former Social Expression Products segment.

The following summarizes the results of discontinued operations for the periods presented:

	2008	2007	2006
Total revenue	$ 299	$ 14,457	$ 28,674
Pre-tax loss from operations	(47)	(5,553)	(7,544)
Gain on sale	34	5,784	
	(13)	231	(7,544)
Income tax expense (benefit)	304	(2,209)	(2,701)
(Loss) income from discontinued operations, net of tax	$ (317)	$ 2,440	$ (4,843)

In February 2007, the Corporation entered into an agreement to sell its educational products subsidiary, Learning Horizons. The sale reflects the Corporation s strategy to focus its resources on business units closely related to its core social expression business. The sale closed in March 2007 and the Corporation received cash proceeds of $2,183, which is included in Cash receipts related to discontinued operations in the Consolidated Statement of Cash Flows. The pre-tax loss from operations in 2007 included $108 of fixed asset impairment charges in accordance with SFAS 144 and $640 of goodwill impairment charges in accordance with SFAS 142, representing all the goodwill of the reporting unit. Additional charges of $3,472 were recorded for other inventory and receivable reductions. The charges and impairments were primarily recorded as a result of the intention to sell Learning Horizons, and therefore, present the operation at its estimated fair value.

In February 2006, the Corporation committed to a plan to sell its South African business unit. It had been determined that the business unit was no longer a strategic fit for the Corporation. The sale closed in the second quarter of 2007 during which the Corporation recorded a pre-tax gain of $703. Immediately prior to, but in conjunction with, the sale of the South African business, approximately 50% of the shares owned by the Corporation were sold back to the South African business for approximately $4,000. The remaining outstanding shares owned by the Corporation were sold to a third party for proceeds of approximately $5,500. The total of approximately $9,500 is included in Cash receipts related to discontinued operations in the Consolidated Statement of Cash Flows. The pre-tax loss from operations in 2006 included $3,494 of fixed asset impairment charges in accordance with SFAS 144 and $2,453 of goodwill impairment charges in accordance with SFAS 142, representing all the goodwill of the reporting unit. Additional charges of $5,921 were recorded for the write-off of deferred costs and other inventory and receivable reductions. The charges and impairments were primarily recorded as a result of the intention to sell the South African business, and therefore, present the operation at its estimated fair value.

On July 30, 2004, the Corporation announced it had signed a letter of agreement to sell its Magnivision nonprescription reading glasses business to AAiFosterGrant, a unit of sunglasses maker Foster Grant. The sale reflected the Corporation s strategy to focus its resources on business units closely related to its core social expression business. The sale of Magnivision closed in the third quarter of 2005 during which the Corporation received cash proceeds of $77,000 and recorded a pre-tax gain of $35,525. In the third quarter of 2006, a modification of the differential of the tax basis of the gain on the sale of Magnivision resulted in a $2,620 tax benefit. In the third quarter of 2007, the Corporation recorded an additional pre-tax gain of $5,100 based on the final closing balance sheet adjustments for the sale of Magnivision. Proceeds of $2,100 and $3,000 are included in Cash receipts related to discontinued operations in the Consolidated Statement of Cash Flows in 2008 and 2007, respectively.

Assets of businesses held for sale and Liabilities of businesses held for sale in the Consolidated Statement of Financial Position include the following:

	February 28, 2007
Assets of businesses held for sale:	
Current assets	$ 2,810
	$ 2,810
Liabilities of businesses held for sale:	
Current liabilities	$ 564
Noncurrent liabilities	110
	$ 674

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Thousands of dollars except per share amounts

The business exhibits seasonality, which is typical for most companies in the retail industry. Sales are higher in the second half of the fiscal year due to the concentration of major holidays during that period. Net earnings are highest during the months of September through December when sales volume provides significant operating leverage. Working capital requirements needed to finance operations fluctuate during the year and reach their highest levels during the second and third fiscal quarters as inventory is increased in preparation for the peak selling season.

The following is a summary of the unaudited quarterly results of operations for the years ended February 29, 2008 and February 28, 2007:

	Quarter Ended			
	May 25	Aug 24	Nov 23	Feb 29
Fiscal 2008				
Net sales	$ 418,016	$ 365,878	$ 475,015	$ 471,875
Total revenue	419,967	377,485	485,766	493,233
Gross profit	256,888	202,826	251,686	238,613
Income from continuing operations	30,263	8,375	29,120	15,562
Loss from discontinued operations, net of tax	(213)		(104)	
Net income	30,050	8,375	29,016	15,562
Earnings per share:				
Continuing operations	$ 0.54	$ 0.15	$ 0.53	$ 0.31
Net income	0.54	0.15	0.53	0.31
Earnings per share assuming dilution:				
Continuing operations	0.54	0.15	0.52	0.31
Net income	0.54	0.15	0.52	0.31
Dividends declared per share	0.10	0.10	0.10	0.10

During the fourth quarter of 2008, it was determined that the Corporation s entertainment development and production joint venture no longer met all of the criteria necessary to be classified as held for sale in accordance with SFAS 144. As a result, this business unit has been reclassified into continuing operations for all periods presented.

The fourth quarter included a pre-tax fixed asset impairment charge of $1,436 in the Retail Operations segment and a pre-tax severance charge of $4,331. The fourth quarter also included a pre-tax charge of $13,500 associated with the Canadian dual-priced products, primarily temporary promotional activities.

Quarterly earnings per share amounts do not add to the full year primarily due to share repurchases during the periods.

	Quarter Ended			
	May 26	**Aug 25**	**Nov 24**	**Feb 28**
Fiscal 2007				
Net sales	$ 404,182	$ 357,486	$ 510,161	$ 472,969
Total revenue	405,624	371,530	521,212	495,924
Gross profit	228,945	184,678	264,974	239,410
Income (loss) from continuing operations	16,088	(13,027)	46,668	(9,791)
(Loss) income from discontinued operations, net of tax	(696)	2,529	3,039	(2,432)
Net income (loss)	15,392	(10,498)	49,707	(12,223)
Earnings (loss) per share:				
Continuing operations	$ 0.27	$ (0.22)	$ 0.79	$ (0.18)
Net income (loss)	0.26	(0.18)	0.84	(0.22)
Earnings (loss) per share assuming dilution:				
Continuing operations	0.25	(0.22)	0.78	(0.18)
Net income (loss)	0.24	(0.18)	0.83	(0.22)
Dividends declared per share	0.08	0.08	0.08	0.08

During the fourth quarter of 2008, it was determined that the Corporation s entertainment development and production joint venture no longer met all of the criteria necessary to be classified as held for sale in accordance with SFAS 144. As a result, this business unit has been reclassified into continuing operations for all periods presented.

The first quarter included a pre-tax charge of $4,963 for the consent payment and other fees associated with the repurchase of substantially all the Corporation s $300,000 6.10% senior notes and pre-tax income of $2,390 for the net gain recognized on the interest rate derivative entered into and settled during the first quarter. The second quarter included a tax benefit of $2,120, recorded in discontinued operations, related to the sale of the Corporation s South African business unit. The third quarter included a pre-tax severance charge of $3,806 and a $20,004 gain as a result of retailer consolidations, wherein, multiple long-term supply agreements were terminated and a new agreement was negotiated with a new legal entity with substantially different terms and sales commitments. The Corporation also recorded a pre-tax gain of $5,100, recorded in discontinued operations, based on the final closing balance sheet adjustments for the sale of Magnivision. The fourth quarter included a pre-tax charge of $6,567 related to the closure of 60 stores in the Retail Operations segment, a pre-tax fixed asset impairment charge of $1,760 in the Retail Operations segment, a pre-tax severance charge of $6,033 and a pre-tax loss of $15,969 from the sale of the candle product lines. Within discontinued operations, the fourth quarter included a pre-tax charge of $4,220 associated with impairments at Learning Horizons, which were primarily recorded as a result of the intent to sell the business.

Quarterly earnings per share amounts do not add to the full year primarily due to share repurchases during the periods, the conversion and settlement of certain debt securities during the period, as well as the anti-dilutive impact of potentially dilutive securities in periods in which the Corporation recorded a net loss.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no disagreements with our independent registered public accounting firm on accounting or financial disclosure matters within the three year period ended February 29, 2008, or in any period subsequent to such date.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

American Greetings maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms and that such information is accumulated and communicated to the Corporation s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

American Greetings carries out a variety of on-going procedures, under the supervision and with the participation of the Corporation s management, including its Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Corporation s disclosure controls and procedures. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of American Greetings concluded that the Corporation s disclosure controls and procedures were effective as of February 29, 2008.

Changes in Internal Controls.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Management on Internal Control Over Financial Reporting.

The management of American Greetings is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. American Greetings internal control system was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

American Greetings management assessed the effectiveness of the Corporation s internal control over financial reporting as of February 29, 2008. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management s assessment under COSO s Internal Control-Integrated Framework, management believes that as of February 29, 2008, American Greetings internal control over financial reporting is effective.

Ernst & Young LLP, independent registered public accounting firm, has issued an audit report on the effectiveness of internal control over financial reporting. This attestation report is set forth below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of

American Greetings Corporation

We have audited American Greetings Corporation s internal control over financial reporting as of February 29, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). American Greetings Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, American Greetings Corporation maintained, in all material respects, effective internal control over financial reporting as of February 29, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of American Greetings Corporation as of February 29, 2008 and February 28, 2007, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended February 29, 2008 of American Greetings Corporation and our report dated April 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Cleveland, Ohio

April 25, 2008

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

We hereby incorporate by reference the information called for by this Item 10 from the information contained in (i) our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 27, 2008 under the headings Proposal No. 1 Election of Directors, Security Ownership Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance and (ii) for information regarding executive officers, Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

We hereby incorporate by reference the information called for by this Item 11 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 27, 2008 under the headings Compensation Discussion and Analysis, Information Concerning Executive Officers, Director Compensation and Report of the Compensation and Management Development Committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We hereby incorporate by reference the information called for by this Item 12 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 27, 2008 under the heading Security Ownership.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our common shares that may be issued under our equity compensation plans as of February 29, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	5,988,300	$ 22.92	3,296,887
Equity compensation plans not approved by security holders		N/A	
Total	5,988,300	$ 22.92	3,296,887

(1) Column (a) includes 4,930,779 Class A common shares and 824,520 Class B common shares that may be issued in connection with the exercise of outstanding stock options. The amount in column (a) also includes 59,864 Class B common shares that may be issued upon the settlement of outstanding performance shares that have been awarded under the Corporation s equity compensation plans, assuming the maximum performance or other criteria have been achieved. The amount in column (a) also includes 173,137 Class B common shares representing share equivalents that have been credited to the account of certain officers or

directors who have deferred receipt of shares earned and vested under our 1997 Equity and Performance Incentive Plan or our 2007 Omnibus Incentive Compensation Plan or that were to be paid in lieu of cash directors fees under the 1995 Director Stock Plan, which will be issued under these plans upon the expiration of the deferral period.

Column (b) is the weighted-average exercise price of outstanding stock options; excludes restricted stock, performance shares and deferred compensation share equivalents.

Column (c) includes 2,745,948 Class A common shares and 550,939 Class B common shares, which shares may generally be issued under the Corporation s equity compensation plans upon the exercise of stock options or stock appreciation rights and/or awards of deferred shares, performance shares or restricted stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence

We hereby incorporate by reference the information called for by this Item 13 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 27, 2008 under the headings Certain Relationships and Related Transactions and Corporate Governance.

Item 14. Principal Accounting Fees and Services

We hereby incorporate by reference the information called for by this Item 14 from the information contained in our Proxy Statement in connection with our Annual Meeting of Shareholders to be held on June 27, 2008 under the heading Independent Registered Public Accounting Firm.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K

1. Financial Statements

2. Financial Statement Schedules

3. Exhibits required by Item 601 of Regulation S-K

Item	Description
3	Articles of Incorporation and By-laws.
	(i) Amended Articles of Incorporation of the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 1999, and is incorporated herein by reference.
	(ii) Amendment to Amended Articles of Incorporation of the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.
	(iii) Amended Code of Regulations of the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 1999, and is incorporated herein by reference.
4	Instruments Defining the Rights of Security Holders, including indentures.
	(i) Trust Indenture, dated as of July 27, 1998.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 1999, and is incorporated herein by reference.

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Item		Description
	(ii)	First Supplemental Indenture, dated May 25, 2006, to the Indenture dated July 27, 1998, with respect to the Corporation s 6.10% Senior Notes due April 1, 2028, between the Corporation, as issuer, and JP Morgan Trust Company, National Association, as Trustee.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated May 26, 2006, and is incorporated herein by reference.
	(iii)	Form of Trust Indenture between the Corporation, as Issuer, and The Bank of Nova Scotia Trust Company of New York, as Trustee, with respect to the Corporation s 7 3/8% Senior Notes due 2016.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated May 22, 2006, and is incorporated herein by reference.
	(iv)	Form of Global Note for the 7 3/8% Senior Notes due 2016.
		This Exhibit is included in the Form of Trust Indenture between the Corporation, as Issuer, and The Bank of Nova Scotia Trust Company of New York, as Trustee, which has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated May 22, 2006, and is incorporated herein by reference.
10	Material Contracts.	
	(i)	Credit Agreement, dated April 4, 2006, among the Corporation, various lending institutions party thereto, National City Bank, as the global agent, joint lead arranger, joint bookrunner, Swing Line Lender, LC Issuer and collateral agent, UBS Securities LLC, as joint lead arranger, joint bookrunner and syndication agent, and KeyBank National Association, JPMorgan Chase Bank, N.A., and LaSalle Bank National Association, as documentation agents (the Credit Agreement).
		This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated April 4, 2006, and is incorporated herein by reference.
	(ii)	Amendment No. 1 to Credit Agreement, dated as of July 3, 2006.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
	(iii)	Amendment No. 2 to Credit Agreement, dated as of February 26, 2007.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
	(iv)	Amendment No. 3 to Credit Agreement, dated as of April 16, 2007.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
	(v)	Amendment No. 4 to Credit Agreement, dated as of March 28, 2008.
		This Exhibit is filed herewith.
	(vi)	Pledge and Security Agreement, dated as of April 4, 2006, by and among, the Corporation, each of the domestic subsidiaries of American Greetings Corporation identified therein and National City Bank, as collateral agent.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated April 4, 2006, and is incorporated herein by reference.

Item		Description
	(vii)	Amended and Restated Receivables Purchase Agreement, dated as of October 24, 2006, among AGC Funding Corporation, the Corporation, as Servicer, members of the various Purchaser Groups from time to time party thereto and PNC Bank, National Association, as Administrator and as issuer of Letters of Credit (Receivables Purchase Agreement).
		This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated October 26, 2006, and is incorporated herein by reference.
	(viii)	First Amendment to Receivables Purchase Agreement, dated January 12, 2007.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
	(ix)	Omnibus Amendment to Receivables Sale Agreement, Sale and Contribution Agreement and Receivables Purchase Agreement, dated as of February 28, 2007, among AGC Funding Corporation, the Corporation, Gibson Greetings, Inc., Plus Mark, Inc., members of the various Purchaser Groups from time to time party thereto, and PNC Bank, National Association, as Administrator and as issuer of Letters of Credit.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
	(x)	Third Amendment to Receivables Purchase Agreement, dated March 28, 2008.
		This Exhibit is filed herewith.
	*(xi)	Form of Employment Contract with Specified Officers.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
	*(xii)	American Greetings Corporation Executive Deferred Compensation Plan.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xiii)	Amendment One to American Greetings Corporation Executive Deferred Compensation Plan.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xiv)	Amendment Two to American Greetings Corporation Executive Deferred Compensation Plan.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xv)	Amendment Number Three to American Greetings Corporation Executive Deferred Compensation Plan American Greetings Corporation Executive Third Party Option Plan.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(xvi)	Amendment Number Four to American Greetings Corporation Executive Deferred Compensation Plan and Amendment Number One to the American Greetings Corporation Executive Third Party Option Plan.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated December 14, 2005, and is incorporated herein by reference.

Item	Description
*(xvii)	Forms of Agreement for Deferred Compensation Benefits (Officer form). This Exhibit is filed herewith.
*(xviii)	Form of Agreement under American Greetings Corporation Executive Deferred Compensation Plan Executive Third Party Option Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
*(xix)	American Greetings Corporation Outside Directors Deferred Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated December 14, 2005, and is incorporated herein by reference.
*(xx)	Form of Deferral Agreement under the American Greetings Corporation Outside Directors Deferred Compensation Plan. This Exhibit is filed herewith.
*(xxi)	1992 Stock Option Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 33-58582), dated February 22, 1993, and is incorporated herein by reference.
*(xxii)	1995 Director Stock Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 33-61037), dated July 14, 1995, and is incorporated herein by reference.
*(xxiii)	1996 Employee Stock Option Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 333-08123), dated July 15, 1996, and is incorporated herein by reference.
*(xxiv)	1997 Equity and Performance Incentive Plan (as amended on June 25, 2004). This Exhibit has been previously filed as an Exhibit to the Corporation s Registration Statement on Form S-8 (Registration No. 333-121982), dated January 12, 2005, and is incorporated herein by reference.
(xxv)	2007 Omnibus Incentive Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated June 22, 2007, and is incorporated herein by reference.
*(xxvi)	CEO and Named Executive Officers Compensation Plan. This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2001, and is incorporated herein by reference.
*(xxvii)	Description of Compensation Payable to Non-Employee Directors. This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated July 14, 2006, and is incorporated herein by reference.
*(xxviii)	American Greetings Corporation Second Amended and Restated Supplemental Executive Retirement Plan (Effective October 31, 2007).

Item	Description
	This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended November 23, 2007, and is incorporated herein by reference.
*(xxix)	Employment Agreement, dated as of March 1, 2001, between William R. Mason and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated December 14, 2005, and is incorporated herein by reference.
*(xxx)	Employment Agreement, dated as of October 17, 2002, between Michael Goulder and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and is incorporated herein by reference.
*(xxxi)	Employment Agreement, dated as of May 6, 2002, between Erwin Weiss and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and is incorporated herein by reference.
*(xxxii)	Employment Agreement, dated as of September 9, 2002, between Steven Willensky and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and is incorporated herein by reference.
*(xxxiii)	Retirement Agreement, dated as of March 31, 2008, between Steven Willensky and the Corporation.
	This Exhibit is filed herewith.
*(xxxiv)	Employment Agreement, dated as of August 22, 2003, between Catherine M. Kilbane and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.
*(xxxv)	Employment Agreement, dated as of March 4, 2004, between Thomas H. Johnston and the Corporation, as amended on March 11, 2004.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xxxvi)	Employment Agreement, dated as of June 1, 1991, between Jeffrey M. Weiss and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.
*(xxxvii)	Employment Agreement, dated as of May 1, 1997, between Zev Weiss and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 29, 2004, and is incorporated herein by reference.

Item	Description
*(xxxviii)	Executive Service Contract, dated May 8, 1998, between the Corporation and John S.N. Charlton.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2006, and is incorporated herein by reference.
*(xxxvix)	Employment Agreement, dated April 14, 2003, between Stephen J. Smith and the Corporation.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
*(xl)	Employment Agreement, dated February 4, 2000, between Josef A. Mandelbaum and AG Interactive, Inc. (fka AmericanGreetings.com, Inc.).
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
*(xli)	Key Management Annual Incentive Plan (fiscal year 2008 Description).
	This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 24, 2007, and is incorporated herein by reference.
*(xlii)	Form of Employee Stock Option Agreement under 1997 Equity and Performance Incentive Plan (as amended on June 25, 2004).
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xliii)	Form of Director Stock Option Agreement under 1997 Equity and Performance Incentive Plan (as amended on June 25, 2004).
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
*(xliv)	Form of Employee Stock Option Agreement (Revised) under 1997 Equity and Performance Incentive Plan (as amended on June 25, 2004) for grants on or after May 1, 2007.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.
*(xlv)	Form of Director Stock Option Agreement (Revised) under 1997 Equity and Performance Incentive Plan (as amended on June 25, 2004) for grants on or after May 1, 2007.
	This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2007, and is incorporated herein by reference.

*(xlvi) Form of Employee Stock Option Agreement under 2007 Omnibus Incentive Compensation Plan.

This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended May 25, 2007, and is incorporated herein by reference.

Item		Description
	*(xlvii)	Form of Director Stock Option Agreement under 2007 Omnibus Incentive Compensation Plan.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 24, 2007, and is incorporated herein by reference.
	*(xlviii)	Form of Restricted Shares Grant Agreement.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Annual Report on Form 10-K for the fiscal year ended February 28, 2005, and is incorporated herein by reference.
	*(xlvix)	Performance Share Grant Agreement, dated August 2, 2005, between the Corporation and Zev Weiss.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(l)	Performance Share Grant Agreement dated August 2, 2005, between the Corporation and Jeffrey Weiss.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005, and is incorporated herein by reference.
	*(li)	Performance Share Grant Agreement, dated April 22, 2008, between the Corporation and Zev Weiss.
		This Exhibit is filed herewith.
	*(lii)	Performance Share Grant Agreement, dated April 22, 2008, between the Corporation and Jeffrey Weiss.
		This Exhibit is filed herewith.
	*(liii)	Independent Contractor Agreement, dated December 14, 2005, between American Greetings and Joseph S. Hardin, Jr.
		This Exhibit has been previously filed as an Exhibit to the Corporation s Current Report on Form 8-K, dated December 14, 2005, and is incorporated herein by reference.
21		Subsidiaries of the Corporation.
		This Exhibit is filed herewith.
23		Consent of Independent Registered Public Accounting Firm.
		This Exhibit is filed herewith.
(31)a		Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
		This Exhibit is filed herewith.
(31)b		Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
		This Exhibit is filed herewith.
32		Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
		This Exhibit is filed herewith.

*

Management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to Item 601 of Regulation S-K.

(b) Exhibits listed in Item 15 (a) 3. are included herein or incorporated herein by reference.

(c) Financial Statement Schedules
The response to this portion of Item 15 is submitted below.

3. Financial Statement Schedules included in Part IV of the report:
Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable, and therefore have been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN GREETINGS CORPORATION
(Registrant)

Date: April 29, 2008

By: /s/ CATHERINE M. KILBANE
Catherine M. Kilbane,

Senior Vice President,

General Counsel and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE		DATE
/s/ MORRY WEISS	Chairman of the Board; Director	)	
Morry Weiss		)	
		)	
/s/ ZEV WEISS	Chief Executive Officer (principal	)	
Zev Weiss	executive officer); Director	)	
		)	
/s/ JEFFREY WEISS	President and Chief Operating Officer; Director	)	
Jeffrey Weiss		)	
		)	
/s/ SCOTT S. COWEN	Director	)	
Scott S. Cowen		)	
		)	
/s/ JEFFREY D. DUNN	Director	)	
Jeffrey D. Dunn		)	
		)	
/s/ JOSEPH S. HARDIN, JR.	Director	)	
Joseph S. Hardin, Jr.		)	
		)	
/s/ STEPHEN R. HARDIS	Director	)	April 29, 2008
Stephen R. Hardis		)	

		)
/s/ WILLIAM E. MACDONALD, III	Director	)
William E. MacDonald, III		)
		)
/s/ MICHAEL J. MERRIMAN, JR.	Director	)
Michael J. Merriman, Jr.		)
		)
/s/ CHARLES A. RATNER	Director	)
Charles A. Ratner		)
		)
/s/ JERRY SUE THORNTON	Director	)
Jerry Sue Thornton		)
		)
/s/ STEPHEN J. SMITH	Senior Vice President and Chief	)
Stephen J. Smith	Financial Officer (principal financial officer)	)
		)
/s/ JOSEPH B. CIPOLLONE	Vice President and Corporate Controller; Chief Accounting Officer (principal accounting officer)	)
Joseph B. Cipollone		)
		)

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

AMERICAN GREETINGS CORPORATION AND SUBSIDIARIES

(In thousands of dollars)

COLUMN A	COLUMN B	COLUMN C ADDITIONS		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged (Credited) to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
Year ended February 29, 2008:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 6,350	$ (205)	$ 271(B)	$ 2,638(C)	$ 3,778
Allowance for seasonal sales returns	$ 57,584(A)	$ 223,096	$ 1,539(B)	$ 222,593(D)	$ 59,626
Allowance for other assets	$ 28,000	$ 5,300	$	$ 3,600(E)	$ 29,700
Year ended February 28, 2007:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 8,075	$ 2,905	$ 137(B)	$ 4,767(C)	$ 6,350
Allowance for seasonal sales returns	$ 67,159(A)	$ 227,496(A)	$ 1,064(B)(A)	$ 238,135(D)(A)	$ 57,584(A)
Allowance for other assets	$ 30,600	$	$	$ 2,600(E)	$ 28,000
Year ended February 28, 2006:					
Deduction from asset account:					
Allowance for doubtful accounts	$ 16,208	$ 2,504	$ (112)(B)	$ 10,525(C)	$ 8,075
Allowance for seasonal sales returns	$ 85,369(A)	$ 252,008(A)	$ (649)(B)(A)	$ 269,569(D)(A)	$ 67,159(A)
Allowance for other assets	$ 37,500	$	$	$ 6,900(E)	$ 30,600

Note A: Amount changed from prior year due to a reclassification entry.

Note B: Translation adjustment on foreign subsidiary balances.

Note C: Accounts charged off, less recoveries.

Note D: Sales returns charged to the allowance account for actual returns.

Note E: Deferred contract costs charged to the allowance account and reduction to the account.