STONERIDGE INC
Form 10-Q
August 03, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2015

Commission file number: 001-13337

STONERIDGE, INC.

(Exact name of registrant as specified in its charter)

Ohio *(State or other jurisdiction of incorporation or organization)*	**34-1598949** *(I.R.S. Employer Identification No.)*
9400 East Market Street, Warren, Ohio *(Address of principal executive offices)*	**44484** *(Zip Code)*

(330) 856-2443
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

xYes ¨No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

xYes ¨No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨Yes xNo

The number of Common Shares, without par value, outstanding as of July 24, 2015 was 27,913,194.

STONERIDGE, INC. AND SUBSIDIARIES

INDEX **Page**

EX – 31.1
EX – 31.2
EX – 32.1
EX – 32.2

101	**XBRL Exhibits**:
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

1

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,860	$ 43,021
Accounts receivable, less reserves of $1,464 and $2,017, respectively	114,456	105,102
Inventories, net	82,117	71,253
Prepaid expenses and other current assets	26,924	26,135
Total current assets	246,357	245,511
Long-term assets:		
Property, plant and equipment, net	86,930	85,311
Other assets:		
Intangible assets, net	46,697	56,637
Goodwill	1,003	1,078
Investments and other long-term assets, net	10,511	10,214
Total long-term assets	145,141	153,240
Total assets	$ 391,498	$ 398,751
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	$ 20,618	$ 19,655
Accounts payable	66,682	58,593
Accrued expenses and other current liabilities	39,832	42,066
Total current liabilities	127,132	120,314
Long-term liabilities:		
Revolving credit facility	100,000	100,000
Long-term debt, net	7,014	10,651
Deferred income taxes	45,157	50,006
Other long-term liabilities	3,741	3,974
Total long-term liabilities	155,912	164,631
Shareholders' equity:		
Preferred Shares, without par value, 5,000 shares authorized, none issued	-	-

Common Shares, without par value, 60,000 shares authorized, 28,900 and 28,853 shares issued and 27,913 and 28,221 shares outstanding at June 30, 2015 and December 31, 2014, respectively, with no stated value	-	-
Additional paid-in capital	197,042	192,892
Common Shares held in treasury, 987 and 632 shares at June 30, 2015 and December 31, 2014, respectively, at cost	(4,134)	(1,284)
Accumulated deficit	(45,556)	(54,879)
Accumulated other comprehensive loss	(57,251)	(45,473)
Total Stoneridge Inc. shareholders' equity	90,101	91,256
Noncontrolling interest	18,353	22,550
Total shareholders' equity	108,454	113,806
Total liabilities and shareholders' equity	$ 391,498	$ 398,751

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	2015	2014	2015	2014
Net sales	$165,289	$162,099	$328,114	$323,430
Costs and expenses:				
Cost of goods sold	119,343	113,814	238,520	227,007
Selling, general and administrative	28,482	31,617	59,224	62,383
Design and development	10,049	10,589	19,829	21,527
Goodwill impairment	-	29,300	-	29,300
Operating income (loss)	7,415	(23,221)	10,541	(16,787)
Interest expense, net	1,658	5,072	2,936	10,001
Equity in earnings of investee	(143)	(144)	(332)	(382)
Other (income) expense, net	(47)	330	(260)	2,246
Income (loss) before income taxes from continuing operations	5,947	(28,479)	8,197	(28,652)
Provision (benefit) for income taxes from continuing operations	(381)	90	(234)	385
Income (loss) from continuing operations	6,328	(28,569)	8,431	(29,037)
Discontinued operations:				
Income from discontinued operations, net of tax	-	594	-	1,647
Gain (loss) on disposal, net of tax	55	(1,138)	(113)	(1,233)
Income (loss) from discontinued operations	55	(544)	(113)	414
Net income (loss)	6,383	(29,113)	8,318	(28,623)
Net loss attributable to noncontrolling interest	(596)	(7,221)	(1,005)	(8,199)
Net income (loss) attributable to Stoneridge, Inc.	$6,979	$(21,892)	$9,323	$(20,424)
Earnings (loss) per share from continuing operations attributable to Stoneridge, Inc.:				
Basic	$0.26	$(0.79)	$0.35	$(0.78)
Diluted	$0.25	$(0.79)	$0.34	$(0.78)
Earnings (loss) per share attributable to discontinued operations:				

Basic	$0.00	$(0.02)	$0.00	$0.02
Diluted	$0.00	$(0.02)	$0.00	$0.02
Earnings (loss) per share attributable to Stoneridge, Inc.:				
Basic	$0.26	$(0.81)	$0.35	$(0.76)
Diluted	$0.25	$(0.81)	$0.34	$(0.76)
Weighted-average shares outstanding:				
Basic	27,308	26,934	27,227	26,894
Diluted	27,945	26,934	27,863	26,894

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Net income (loss)	$6,383	$(29,113)	$8,318	$(28,623)
Less: Loss attributable to noncontrolling interest	(596)	(7,221)	(1,005)	(8,199)
Net income (loss) attributable to Stoneridge, Inc.	6,979	(21,892)	9,323	(20,424)
Other comprehensive income (loss), net of tax attributable to Stoneridge, Inc.:				
Foreign currency translation	3,022	2,186	(11,940)	6,364
Benefit plan liability adjustment	-	-	(45)	-
Unrealized gain (loss) on derivatives	(728)	238	207	95
Other comprehensive income (loss), net of tax attributable to Stoneridge, Inc.	2,294	2,424	(11,778)	6,459
Comprehensive income (loss) attributable to Stoneridge, Inc.	$9,273	$(19,468)	$(2,455)	$(13,965)

The Company has combined comprehensive income (loss) from continuing operations and comprehensive income (loss) from discontinued operations herein.

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six months ended June 30	2015	2014
OPERATING ACTIVITIES:		
Net income (loss)	$8,318	$(28,623)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation	9,998	13,322
Amortization, including accretion of debt discount	2,101	2,958
Deferred income taxes	(1,355)	572
Earnings of equity method investee	(332)	(382)
Loss on sale of fixed assets	59	18
Share-based compensation expense	4,482	2,300
Goodwill impairment	-	29,300
Loss on disposal of Wiring business	113	-
Wiring business asset group write-down	-	1,000
Changes in operating assets and liabilities, net of effect of business acquisition:		
Accounts receivable, net	(14,637)	(10,626)
Inventories, net	(16,920)	(15,253)
Prepaid expenses and other	(2,920)	(3,433)
Accounts payable	12,935	3,931
Accrued expenses and other	(210)	(2,143)
Net cash provided by (used for) operating activities	1,632	(7,059)
INVESTING ACTIVITIES:		
Capital expenditures	(15,229)	(12,605)
Proceeds from sale of fixed assets	36	73
Payment for working capital adjustment related to Wiring sale	(1,230)	-
Business acquisitions	(469)	(1,022)
Net cash used for investing activities	(16,892)	(13,554)
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	12,088	13,067
Repayments of debt	(14,206)	(7,465)
Noncontrolling interest shareholder distribution	-	(1,083)
Other financing costs	(49)	-
Repurchase of Common Shares to satisfy employee tax withholding	(1,181)	(664)
Net cash (used for) provided by financing activities	(3,348)	3,855
Effect of exchange rate changes on cash and cash equivalents	(1,553)	(310)
Net change in cash and cash equivalents	(20,161)	(17,068)
Cash and cash equivalents at beginning of period	43,021	62,825

Cash and cash equivalents at end of period	$22,860	$45,757
Supplemental disclosure of cash flow information:		
Cash paid for interest	$2,867	$9,656
Cash paid for income taxes, net	$1,185	$1,123
Supplemental disclosure of non-cash operating and financing activities:		
Change in fair value of interest rate swap	$-	$106
Bank payment of vendor payables under short-term debt obligations	$2,955	$-

The Company has combined cash flows from continuing operations and cash flows from discontinued operations within the operating, investing and financing categories.

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by Stoneridge, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the SEC's rules and regulations. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year.

While the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's 2014 Form 10-K.

The Company entered into an asset purchase agreement to divest its Wiring business including substantially all of its assets and liabilities during the second quarter of 2014. The sale was completed on August 1, 2014. The Wiring business has been classified as discontinued operations for all periods presented in the condensed consolidated financial statements. Accordingly, the Wiring business is excluded from both continuing operations and segment results for all periods presented. The Wiring business designed and manufactured wiring harness products and assembled instruments panels for sale principally to the commercial, agricultural and off-highway vehicle markets.

(2) Recently Issued Accounting Standards

Accounting Standards Not Yet Adopted

In April 2015, the Financial Accounting Standards Board ("FASB") issued accounting standards update ("ASU") 2015 – 03, "Simplifying the Presentation of Debt Issuance Costs," which amends the current presentation of debt issuance costs in the balance sheet. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of as an asset. The recognition and measurement of debt issuance costs are not affected by the amendments in this ASU. The amendment is to be applied retrospectively and is effective for public companies for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. As the Company currently presents deferred financing costs, which had a balance of $1,622 at June 30, 2015, within long-term assets, the adoption of the new guidance is expected to result in the reclassification of debt issuance costs into long-term debt in the Company's condensed consolidated balance sheets.

In January 2015, the FASB issued ASU 2015 – 01 "Income Statement – Extraordinary and Unusual Items," that eliminates the concept of extraordinary items and their segregation from the results of ordinary operations and expands presentation and disclosure guidance to include items that are both unusual in nature and occur infrequently. The new accounting standard is effective for fiscal years beginning after December 15, 2015. The Company will adopt this standard as of January 1, 2016 which is not expected to have a material impact on the Company's condensed consolidated financial statements or disclosures.

In June 2014, the FASB issued ASU 2014 – 12 "Stock Compensation - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period," that requires performance targets that could be achieved after the requisite service period be treated as performance conditions that affect the vesting of the award. The new accounting standard is effective for fiscal years beginning after December 15, 2015. The Company will adopt this standard as of January 1, 2016 which is not expected to have an impact on its condensed consolidated financial statements or financial statement disclosures.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers,” which is the new comprehensive revenue recognition standard that will supersede existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. To achieve this principle, an entity identifies the contract with a customer, identifies the separate performance obligations in the contract, determines the transaction price, allocates the transaction price to the separate performance obligations and recognizes revenue when each separate performance obligation is satisfied. This ASU allows for both retrospective and prospective methods of adoption. In July 2015, the FASB approved a one-year deferral of the effective date of the standard. As such, the new standard will become effective for annual and interim periods beginning after December 15, 2017 with early adoption on the original effective date permitted. The Company is currently evaluating the impact of adopting this standard on its condensed consolidated financial statements.

Accounting Standards Adopted

In April 2014, the FASB issued ASU No. 2014-08 “Presentation of Financial Statements and Property, Plant, and Equipment,” which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The new standard changes the definition of a discontinued operation and requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity’s operations or financial results. This ASU was effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption was permitted. The Company adopted this ASU in May 2014 and applied it prospectively to new disposals and new classifications of disposal groups as held for sale including the sale of the Wiring business.

(3) Discontinued Operations

Wiring Business

On May 26, 2014, the Company entered into an asset purchase agreement to sell substantially all of the assets and liabilities of the former Wiring segment to Motherson Sumi Systems Ltd., an India-based manufacturer of diversified products for the global automotive industry and a limited company incorporated under the laws of the Republic of India, and MSSL (GB) LIMITED, a limited company incorporated under the laws of the United Kingdom (collectively, "Motherson"), for $65,700 in cash and the assumption of certain related liabilities of the Wiring business.

On August 1, 2014, the Company completed the sale of substantially all of the assets and liabilities of its Wiring business to Motherson for $71,386 in cash that consisted of the stated purchase price and estimated working capital on the closing date. The final purchase price was subject to post-closing working capital and other adjustments. Upon the final resolution of the working capital and other adjustments in the second quarter of 2015, the Company returned $1,230 in cash to Motherson.

The Company also entered into short-term transition services agreements with Motherson substantially all of which concluded in the second quarter of 2015 associated with information systems, accounting, administrative, occupancy and support services as well as contract manufacturing and production support in Estonia.

The Company had post-disposition sales to the Wiring business acquired by Motherson of $7,047 and $14,275 for the three and six months ended June 30, 2015, respectively. Post-disposition purchases by the Company from the Wiring business acquired by Motherson were $173 and $341 for the three and six months ended June 30, 2015, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

The following tables display summarized activity in our condensed consolidated statements of operations for discontinued operations related to the Wiring business:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net sales	$ -	$ 71,234	$ -	$ 146,293
Cost of goods sold [B]	-	64,711	-	133,118
Selling, general and administrative [B]	-	5,228	-	10,597
Interest expense, net	-	15	-	26
Other expense, net	-	58	-	89
Income from operations of discontinued operations before income taxes [A] [B]	-	1,222	-	2,463
Income tax provision on discontinued operations	-	(628)	-	(816)
Income from discontinued operations, net of tax [C]	-	594	-	1,647
Gain (loss) on disposal [C]	67	(1,750)	(112)	(1,897)
Income tax (provision) benefit on gain (loss) on disposal	(12)	612	(1)	664
Gain (loss) on disposal, net of tax	55	(1,138)	(113)	(1,233)
Income (loss) from discontinued operations	$ 55	$ (544)	$ (113)	$ 414

(A) The operations of the Wiring business were included only for the three and six months ended June 30, 2014 as the sale was completed on August 1, 2014.

(B) The assets and liabilities of the Wiring business were reclassified to held for sale effective May 26, 2014. Accordingly, depreciation and amortization for the Wiring assets were not recorded after that date.

(C) Included in gain (loss) on disposal for the three months ended June 30, 2015 and 2014 were transaction costs of $51 and $750, respectively, and $98 and $897 for the six months ended June 30, 2015 and 2014, respectively. The gain (loss) on disposal also includes a working capital and other adjustments of $(118) and $14 for the three and six months ended June 30, 2015, respectively, as well as a $1,000 charge to adjust the carrying value of the Wiring assets to their estimated fair value less cost to sell for the three and six months ended June 30, 2014.

Three months Six months

	ended June 30, 2014	ended June 30, 2014
Depreciation and amortization	$ 856	$ 2,111
Capital expenditures	362	841

Intercompany sales to the Wiring business were $7,510 and $15,290 for the three and six months ended June 30, 2014, respectively.

Intercompany purchases from the Wiring business were $1,669 and $3,544 for the three and six months ended June 30, 2014, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

(4) Goodwill

The Company conducts its annual goodwill impairment test for its majority owned subsidiary, PST Eletrônica Ltda. (“PST”) on October 1. During the second quarter of 2014, however, indicators of potential impairment required the Company to conduct an interim impairment test. Those indicators included a decline in recent operating results and lower growth expectations primarily due to the weakening of the Brazilian economy and automotive market.

In accordance with ASC 350, the Company completed “step one” of the impairment analysis and concluded that, as of June 30, 2014, the fair value of the PST reportable segment was below its carrying value, including goodwill. In “step one” the Company used an income approach to estimate the fair value of PST. The income approach utilized a discounted cash flow valuation technique which incorporates the Company's projected future estimates of after-tax cash flows attributable to its future growth rates, terminal value amounts and the weighted average cost of capital. As a result, “step two” of the impairment test was initiated in accordance with ASC 350. Due to its time intensive nature, the “step two” analysis was not completed until the third quarter ended September 30, 2014. In accordance with ASC 350, the Company recorded its best estimate of $29,300 as a non-cash goodwill impairment charge (of which $6,436 was attributable to noncontrolling interest) as of June 30, 2014 which was included in the Company’s condensed consolidated statements of operations.

As a result of the Company’s annual goodwill impairment testing in the fourth quarter of 2014, the remaining PST goodwill balance was written-off due to significantly lower sales and earnings growth expectations which were primarily a result of lower forecasted growth in the Brazilian economy and automotive market.

The fair value measurement of the reporting unit under the “step one” analysis and the “step two” analysis (a non-recurring fair value measure) in their entirety are classified as Level 3 inputs. The estimates and assumptions underlying the fair value calculations used in the Company's impairment test are uncertain by their nature and can vary significantly from actual results. Factors that management must estimate include, but are not limited to, industry and market conditions, sales volume and pricing, raw material costs, capital expenditures, working capital changes, cost of capital, debt-equity mix and tax rates. The estimates and assumptions that most significantly affect the fair value calculation are sales volume and the associated cash flow assumptions, market growth and weighted average cost of capital. The estimates and assumptions used in the estimate of fair value were consistent with those the Company uses in its internal planning.

The carrying amount of goodwill related to our Electronics segment decreased by $75 for the six months ended June 30, 2015 due to foreign currency translation.

The change in the carrying amount of goodwill for the six months ended June 30, 2014 was as follows:

	Electronics	PST	Total
Balance at January 1, 2014	$ 604	$53,744	$54,348
Acquisition of business	641	-	641
Goodwill impairment charge	-	(29,300)	(29,300)
Currency translation	(23)	2,985	2,962
Balance at June 30, 2014	$ 1,222	$27,429	$28,651

(5) Inventories

Inventories are valued at the lower of cost (using either the first-in, first-out ("FIFO") or average cost methods) or market. The Company evaluates and adjusts as necessary its excess and obsolescence reserve at a minimum on a quarterly basis. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. The Company has guidelines for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage and to determine what constitutes a reasonable period. Inventory cost includes material, labor and overhead. Inventories consisted of the following:

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

	June 30, 2015	December 31, 2014
Raw materials	$46,407	$ 41,767
Work-in-progress	10,335	8,779
Finished goods	25,375	20,707
Total inventories, net	$82,117	$ 71,253

Inventory valued using the FIFO method was $41,430 and $34,636 at June 30, 2015 and December 31, 2014, respectively. Inventory valued using the average cost method was $40,687 and $36,617 at June 30, 2015 and December 31, 2014, respectively.

(6) Financial Instruments and Fair Value Measurements

Financial Instruments

A financial instrument is cash or a contract that imposes an obligation to deliver, or conveys a right to receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments.

Derivative Instruments and Hedging Activities

On June 30, 2015, the Company had open foreign currency forward contracts which are used solely for hedging and not for speculative purposes. Management believes that its use of these instruments to reduce risk is in the Company's best interest. The counterparties to these financial instruments are financial institutions with investment grade credit ratings.

Foreign Currency Exchange Rate Risk

The Company conducts business internationally and therefore is exposed to foreign currency exchange rate risk. The Company uses derivative financial instruments as cash flow and fair value hedges to manage its exposure to fluctuations in foreign currency exchange rates by reducing the effect of such fluctuations on foreign currency denominated intercompany transactions, inventory purchases and other foreign currency exposures. The currencies hedged by the Company during 2015 and 2014 include the U.S. dollar, euro and Mexican peso.

These forward contracts were executed to hedge forecasted transactions and were accounted for as cash flow hedges. As such, the effective portion of the unrealized gain or loss was deferred and reported in the Company’s condensed consolidated balance sheets as a component of accumulated other comprehensive loss. The cash flow hedges were highly effective. The effectiveness of the transactions has been and will be measured on an ongoing basis using regression analysis and forecasted future purchases of the U.S. dollar and Mexican peso.

In certain instances, the foreign currency forward contracts do not qualify for hedge accounting or are not designated as hedges, and therefore are marked-to-market with gains and losses recognized in the Company's condensed consolidated statement of operations as a component of other (income) expense, net.

The Company's foreign currency forward contracts offset a portion of the gains and losses on the underlying foreign currency denominated transactions as follows:

Euro-denominated Foreign Currency Forward Contract

As of June 30, 2015 and December 31, 2014, the Company held a foreign currency forward contract with underlying notional amounts of $1,693 and $3,523, respectively, to reduce the exposure related to the Company's euro-denominated intercompany loans. This contract expires in September 2015. The euro-denominated foreign currency forward contract was not designated as a hedging instrument. The Company recognized a loss of $72 and a gain of $86 for the three months ended June 30, 2015 and 2014, respectively, in the condensed consolidated statements of operations as a component of other (income) expense, net related to the euro-denominated contracts. For the six months ended June 30, 2015 and 2014, the Company recognized a gain of $316 and $25, respectively, related to this contract.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

U.S. dollar-denominated Foreign Currency Forward Contracts – Cash Flow Hedge

The Company entered into on behalf of one of its European Electronics subsidiaries whose functional currency is the euro, U.S. dollar-denominated currency contracts with a notional amount at June 30, 2015 of $2,104 which expire ratably on a monthly basis from July 2015 through December 2015, compared to $4,266 at December 31, 2014.

The Company entered into on behalf of one of its European Electronics subsidiaries whose functional currency is the Swedish krona, U.S. dollar-denominated currency contracts with a notional amount at June 30, 2015 of $5,780 which expire ratably on a monthly basis from July 2015 through December 2015, compared to $11,718 at December 31, 2014.

Mexican peso-denominated Foreign Currency Forward Contracts – Cash Flow Hedge

The Company holds Mexican peso-denominated foreign currency forward contracts with notional amounts at June 30, 2015 of $5,438 which expire ratably on a monthly basis from July 2015 through December 2015, compared to $10,282 at December 31, 2014.

The Company evaluated the effectiveness of the Mexican peso-denominated foreign currency forward contracts as of June 30, 2014. As a result of the sale of the Wiring business, the Company forecasted that it would purchase Mexican pesos to fulfill only two of the five contracts for the period August 2014 through December 2014. As the purchase of Mexican pesos related to three of the five contracts was not probable, these three contracts attributed to the Wiring business were de-designated at June 30, 2014 and the associated unrecognized $320 gain at that date was recorded in discontinued operations in the Company’s condensed consolidated statements of operations for the three and six months ended June 30, 2014. The previous unrecognized gains on the de-designated hedge contracts have been reclassified from accumulated other comprehensive loss and recorded in discontinued operations in the Company’s condensed consolidated statements of operations in the quarter and year of de-designation.

Commodity Price Risk - Cash Flow Hedge

To mitigate the risk of future price volatility and, consequently, fluctuations in gross margins, the Company at times enters into fixed price commodity contracts with a financial institution to fix the cost of a portion of the Company's copper purchases. Copper is a raw material used in a number of the Company's products.

The Company did not have any fixed price commodity contracts at June 30, 2015 compared to an aggregate notional amount of 317 pounds at December 31, 2014.

The unrealized gain or loss for the effective portion of the hedges were deferred and reported in the Company's condensed consolidated balance sheets as a component of accumulated other comprehensive loss while the ineffective portion, if any, was reported in the condensed consolidated statements of operations. The effectiveness of the transactions is measured on an ongoing basis using regression analysis and forecasted future copper purchases.

The Company evaluated the effectiveness of the copper fixed price commodity contracts as of June 30, 2014. As a result of the sale of the Wiring business, the Company forecasted that it would not purchase the quantities of copper to fulfill the two contracts for the period August 2014 through March 2015. As the purchase of copper quantities related to these contracts was not probable, the contracts primarily associated with the Wiring segment not expected to be fulfilled were de-designated at June 30, 2014 and the associated unrecognized $77 gain at that date was recorded in discontinued operations in the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2014. The previous unrecognized gains were reclassified from accumulated other comprehensive loss and recorded in discontinued operations in the Company's condensed consolidated statements of operations in the quarter and year of de-designation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

Interest Rate Risk - Fair Value Hedge

The Company had a fixed-to-floating interest rate swap agreement (the “Swap”) with a notional amount of $45,000 to hedge its exposure to fair value fluctuations on a portion of its senior notes. The Swap was designated as a fair value hedge of the fixed interest rate obligation under the Company's $175,000 9.5% senior notes due October 15, 2017. Under the Swap, the Company paid a variable interest rate equal to the six-month London Interbank Offered Rate (“LIBOR”) plus 7.2% and it received a fixed interest rate of 9.5%. The difference between amounts received and paid under the Swap was recognized as a component of interest expense, net on the condensed consolidated statements of operations.

In connection with the Company’s notice of redemption issued on September 15, 2014 to redeem all remaining outstanding senior notes, the interest rate fair value hedge was de-designated on that date. On October 23, 2014, the Company terminated the interest rate swap.

The Swap reduced interest expense by $206 and $431 for the three and six months ended June 30, 2014, respectively.

The notional amounts and fair values of derivative instruments in the condensed consolidated balance sheets were as follows:

	Amounts (A)	Notional	Prepaid expenses and other current assets / other long-term assets		Accrued expenses and other current liabilities	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments						
Cash Flow Hedges:						
Forward currency contracts	$13,322	$ 26,266	$ 730	$ 479	$ 522	$ 478

Derivatives not designated as hedging instruments						
Forward currency contracts	$1,693	$ 3,523	-	-	$ 4	$ 13
Fixed price commodity contracts	-	317	-	-	-	$ 69

(A) Notional amounts represent the gross contract / notional amount of the derivatives outstanding. The fixed price commodity contract notional amounts are in pounds.

Amounts recorded for the cash flow hedges in other comprehensive income (loss) and in net income (loss) for the three months ended June 30 are as follows:

	Gain (loss) recorded in other comprehensive income (loss)		Gain (loss) reclassified from other comprehensive income (loss) into net income	
	2015	2014	2015	2014
Derivatives designated as cash flow hedges:				
Forward currency contracts	$ (900)	$ 416	$ (172)	$ 423
Fixed price commodity contracts	-	154	-	(91)
Total derivatives designated as cash flow hedges	$ (900)	$ 570	$ (172)	$ 332

12

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data, unless otherwise indicated)

(Unaudited)

Amounts recorded for the cash flow hedges in other comprehensive income (loss) and in net income (loss) for the six months ended June 30 are as follows:

	Gain (loss) recorded in other comprehensive income (loss)		Gain (loss) reclassified from other comprehensive income (loss) into net income	
	2015	2014	2015	2014
Derivatives designated as cash flow hedges:				
Forward currency contracts	$ (103)	$ 534	$ (310)	$ 242
Fixed price commodity contracts	-	(318)	-	(121)
Total derivatives designated as cash flow hedges	$ (103)	$ 216	$ (310)	$ 121

Gains and losses reclassified from other comprehensive income (loss) into net income (loss) were recognized in cost of goods sold in the Company's condensed consolidated statements of operations.

The net deferred gain of $208 on the cash flow hedge derivatives will be reclassified from other comprehensive income (loss) to the condensed consolidated statements of operations in 2015. The Company has measured the ineffectiveness of the forward currency and commodity contracts and any amounts recognized in the condensed consolidated financial statements were immaterial for the three and six months ended June 30, 2015 and 2014.

Fair Value Measurements

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the three levels of the fair value hierarchy based on the reliability of the inputs used.

	June 30, 2015				December 31, 2014
	Fair values estimated using				
		Level 1	Level 2	Level 3	

	Fair value	**inputs** (A)	**inputs** (B)	**inputs** (C)	Fair value
Financial assets carried at fair value:					
Interest rate swap contract	$ -	$ -	$ -	$ -	$ -
Forward currency contracts	$ 730	$ -	$ 730	$ -	$ 479
Total financial assets carried at fair value	$ 730	$ -	$ 730	$ -	$ 479

63,893

LONG-TERM DEBT, NET OF CURRENT PORTION	485	10,192
OTHER LONG-TERM OBLIGATIONS	4,376	6,121
DEFERRED INCOME TAXES	4,208	2,482
COMMITMENTS AND CONTINGENCIES (Notes 10 and 12)		
STOCKHOLDERS EQUITY		
Preferred stock, Class 2, $.01 par, 1,000,000 shares authorized, no shares issued		
Common stock, $.10 par, 25,000,000 shares authorized, 14,703,084 shares issued at March 31, 2009 and 2008	1,470	1,470
Additional paid-in capital	46,813	44,150
Retained earnings	352,674	342,688
Accumulated other comprehensive loss, net of tax	(81)	(90)
Common stock in treasury, 5,097,753 and 4,437,325 shares, at cost	(141,622)	(125,865)
Total stockholders equity	259,254	262,353
Total liabilities and stockholders equity	$ 322,259	$ 345,041

See accompanying notes to consolidated financial statements.

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the Years Ended March 31, 2009	2008	2007
	(In thousands, except per share amounts)		
NET SALES	$ 482,424	$ 498,253	$ 530,686
COSTS AND EXPENSES			
Cost of sales	356,115	360,708	394,045
Selling, general and administrative expenses	96,723	96,703	96,125
Restructuring expenses, net	1,138	1,717	2,327
Interest expense, net of interest income of $137, $1,163 and $1,295	2,551	974	2,285
Other expense (income), net	7	(682)	(900)
	456,534	459,420	493,882
INCOME BEFORE INCOME TAXES	25,890	38,833	36,804
INCOME TAX PROVISION	8,904	13,475	12,915
NET INCOME	$ 16,986	$ 25,358	$ 23,889
NET INCOME PER COMMON SHARE			
Basic	$ 1.71	$ 2.36	$ 2.25
Diluted	$ 1.70	$ 2.31	$ 2.19
COMPREHENSIVE INCOME			
Net income	$ 16,986	$ 25,358	$ 23,889
Foreign currency translation adjustment	3	2	1
Postretirement medical plan, net of tax	6	(91)	
Comprehensive income	$ 16,995	$ 25,269	$ 23,890

See accompanying notes to consolidated financial statements.

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended March 31,		
	2009	2008	2007
	(In thousands)		
Cash flows from operating activities:			
Net income	$ 16,986	$ 25,358	$ 23,889
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,195	13,218	14,335
Provision for doubtful accounts	525	5	26
Asset impairments		1,222	422
Deferred tax provision (benefit)	3,244	2,622	(3,621)
Gain on sale or disposal of assets	(925)	(386)	(418)
Share-based compensation expense	2,632	2,830	2,825
Changes in assets and liabilities, net of effects of acquisitions:			
(Increase) decrease in accounts receivable	(4,012)	9,204	(1,613)
Decrease (increase) in inventories	9,127	(10,737)	21,632
Decrease (increase) in other assets	537	(1,274)	4,575
Decrease in accounts payable	(3,943)	(196)	(2,282)
(Decrease) increase in accrued income taxes	(1,968)	3,493	(3,466)
Decrease in accrued expenses and other long-term obligations	(7,477)	(3,665)	(957)
Net cash provided by operating activities	27,921	41,694	55,347
Cash flows from investing activities:			
Purchase of businesses, net of cash received of $2 in 2008	(11,164)	(71,145)	
Final payment of purchase price for a business previously acquired	(2,700)		
Purchase of property, plant and equipment	(14,143)	(8,330)	(5,289)
Proceeds from sale of assets	3,227	3,092	732
Net cash used for investing activities	(24,780)	(76,383)	(4,557)
Cash flows from financing activities:			
Payments on long-term debt obligations	(10,417)	(10,149)	(10,241)
Borrowings on notes payable	545,385	186,900	172,360
Payments on notes payable	(541,235)	(186,900)	(172,360)
Payment of financing transaction costs	(621)		
Dividends paid	(5,939)	(5,983)	(5,100)
Purchase of treasury stock	(16,687)	(25,449)	(323)
Proceeds from exercise of stock options	435	3,936	5,486
Tax benefit realized for stock options exercised	5	350	1,822
Net cash used for financing activities	(29,074)	(37,295)	(8,356)

Effect of exchange rate changes on cash and cash equivalents		3		2		1
Net (decrease) increase in cash and cash equivalents		(25,930)		(71,982)		42,435
Cash and cash equivalents at beginning of period		28,109		100,091		57,656
Cash and cash equivalents at end of period	$	2,179	$	28,109	$	100,091

See accompanying notes to consolidated financial statements.

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Preferred Stock		Common Stock		Additional		Accumulated Other	Common Stock in Treasury		
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Loss	Shares	Amount	Total
	(In thousands, except share and per share amounts)									
ALANCE, PRIL 1, 2006		$	14,703,084	$ 1,470	$ 36,033	$ 313,879	$ (2)	(4,216,584)	$ (118,870)	$ 232,510
ax benefit ssociated with xercise of tock options					1,822					1,822
hare-based ompensation xpense					2,825					2,825
ssuance of ommon stock pon exercise f stock ptions						(7,422)		368,813	12,908	5,486
ncrease in reasury shares								(9,800)	(323)	(323
oreign urrency ranslation djustment							1			1
ash dividends $.48 per ommon hare)						(5,100)				(5,100
et income						23,889				23,889
ALANCE, ARCH 31, 007			14,703,084	1,470	40,680	325,246	(1)	(3,857,571)	(106,285)	261,110
ax benefit ssociated with xercise of tock options					640					640
hare-based ompensation xpense					2,830					2,830

ssuance of ommon stock pon exercise f stock ptions				(1,933)		167,670	5,869	3,936
ncrease in reasury shares						(747,424)	(25,449)	(25,449
oreign urrency ranslation djustment					2			2
ash dividends $.56 per ommon hare)				(5,983)				(5,983
ostretirement nedical plan, et of tax					(91)			(91
let income				25,358				25,358
ALANCE, MARCH 31, 008	14,703,084	$ 1,470	44,150	342,688	(90)	(4,437,325)	(125,865)	262,353
umulative ffect of doption of ITF 06-10				(566)				(566
ax benefit ssociated with xercise of tock options			31					31
hare-based ompensation xpense			2,632					2,632
ssuance of ommon stock pon exercise f stock ptions				(495)		26,572	930	435
ncrease in reasury shares						(687,000)	(16,687)	(16,687
oreign urrency ranslation djustment					3			3
ash dividends $.60 per ommon hare)				(5,939)				(5,939
					6			6

ostretirement nedical plan, et of tax															
let income								16,986							16,986
ALANCE, MARCH 31, 009	$	14,703,084	$	1,470	$	46,813	$	352,674	$	(81)	(5,097,753)	$	(141,622)	$	259,254

See accompanying notes to consolidated financial statements.

27

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of CSS Industries, Inc. (CSS or the Company) and all of its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Foreign Currency Translation and Transactions

Translation adjustments are charged or credited to a separate component of stockholders equity. Gains and losses on foreign currency transactions are not material and are included in other expense (income), net in the consolidated statements of operations.

Nature of Business

CSS is a consumer products company primarily engaged in the design, manufacture, procurement, distribution and sale of seasonal and all occasion social expression products, principally to mass market retailers. These seasonal and all occasion products include gift wrap, gift bags, gift boxes, gift card holders, boxed greeting cards, gift tags, decorative tissue paper, decorations, classroom exchange Valentines, decorative ribbons and bows, floral accessories, Halloween masks, costumes, make-up and novelties, Easter egg dyes and novelties, craft and educational products, memory books, stationery, journals, notecards, infant and wedding photo albums, scrapbooks, and other gift items that commemorate life s celebrations. CSS product breadth provides its retail customers the opportunity to use a single vendor for much of their seasonal product requirements. A substantial portion of CSS products are manufactured, packaged and/or warehoused in thirteen facilities located in the United States, with the remainder purchased primarily from manufacturers in Asia and Mexico. The Company s products are sold to its customers by national and regional account sales managers, sales representatives, product specialists and by a network of independent manufacturers representatives. CSS maintains a purchasing office in Hong Kong to administer Asian sourcing opportunities.

The Company s principal operating subsidiaries include Paper Magic Group, Inc. (Paper Magic), BOC Design Group (consisting of Berwick Offray LLC (Berwick Offray) and Cleo Inc (Cleo)) and C.R. Gibson, LLC (C.R. Gibson). The C.R. Gibson business was acquired on December 3, 2007. In fiscal 2007, the Company combined the operations of its Cleo and Berwick Offray subsidiaries in order to improve profitability and efficiency through the elimination of redundant back office functions and certain management positions. In fiscal 2009, the Company initiated the consolidation of its accounts receivable, accounts payable and payroll functions into a combined back office operation. Approximately 700 of its 2,100 employees (increasing to approximately 3,000 as seasonal employees are added) are represented by labor unions. The collective bargaining agreement with the labor union representing the production and maintenance employees in Memphis, Tennessee remains in effect until December 31, 2010. The collective bargaining agreement with the labor union representing the production and maintenance employees in Hagerstown, Maryland remains in effect until December 31, 2009.

Reclassification

Certain prior period amounts have been reclassified to conform with the current year classification.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Judgments and assessments of uncertainties

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

are required in applying the Company s accounting policies in many areas. Such estimates pertain to the valuation of inventory and accounts receivable, the assessment of the recoverability of goodwill and other intangible assets, income tax accounting, the valuation of share-based awards and resolution of litigation and other proceedings. Actual results could differ from these estimates.

Accounts Receivable

The Company offers seasonal dating programs related to certain seasonal product offerings pursuant to which customers that qualify for such programs are offered extended payment terms. With some exceptions, customers do not have the right to return product except for reasons the Company believes are typical of our industry, including damaged goods, shipping errors or similar occurrences. The Company generally is not required to repurchase products from its customers, nor does the Company have any regular practice of doing so. In addition, the Company mitigates its exposure to bad debts by evaluating the creditworthiness of its major customers utilizing established credit limits and purchasing credit insurance when appropriate and available. Bad debt and returns and allowances reserves are recorded as an offset to accounts receivable while reserves for customer programs are recorded as accrued liabilities. The Company evaluates accounts receivable related reserves and accruals monthly by specifically reviewing customers creditworthiness, historical recovery percentages and outstanding customer deductions and program arrangements.

Inventories

The Company records inventory when title is transferred, which occurs upon receipt or prior to receipt dependent on supplier shipping terms. The Company adjusts unsaleable and slow-moving inventory to its estimated net realizable value. Substantially all of the Company s inventories are stated at the lower of first-in, first-out (FIFO) cost or market. The remaining portion of the inventory is valued at the lower of last-in, first-out (LIFO) cost or market, which was $711,000 and $838,000 at March 31, 2009 and 2008, respectively. Had all inventories been valued at the lower of FIFO cost or market, inventories would have been greater by $851,000 and $761,000 at March 31, 2009 and 2008, respectively. Inventories consisted of the following (in thousands):

	March 31, 2009	March 31, 2008
Raw material	$ 17,533	$ 22,836
Work-in-process	25,437	29,827
Finished goods	57,001	52,869
	$ 99,971	$ 105,532

Assets Held for Sale

Assets held for sale in the amount of $1,363,000 at March 31, 2009 represents a former manufacturing facility which the Company is in the process of selling. The Company expects to sell this facility within the next 12 months for an amount greater than the current carrying value. The Company ceased depreciating this facility at the time it was classified as held for sale. Assets held for sale in the amount of $3,590,000 as of March 31, 2008 also included a former manufacturing facility and a distribution facility which the Company sold in the third quarter of fiscal 2009 resulting in a pre-tax gain of approximately $761,000, which is included in restructuring expenses, net in the accompanying consolidated statements of operations.

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost and include the following (in thousands):

	March 31, 2009	March 31, 2008
Land	$ 2,608	$ 2,619
Buildings, leasehold interests and improvements	44,803	42,920
Machinery, equipment and other	149,410	137,296
	196,821	182,835
Less Accumulated depreciation	(141,879)	(132,203)
Net property, plant and equipment	$ 54,942	$ 50,632

During fiscal 2009, the Company corrected certain fiscal 2008 amounts of gross cost of assets and accumulated depreciation. The net effect was to increase gross cost and accumulated depreciation by $6,177,000. There was no net effect on property, plant and equipment.

Depreciation is provided generally on the straight-line method and is based on estimated useful lives or terms of leases as follows:

Buildings, leasehold interests and improvements	Lease term to 45 years
Machinery, equipment and other	3 to 15 years

When property is retired or otherwise disposed of, the related cost and accumulated depreciation and amortization are eliminated from the consolidated balance sheet. Any gain or loss from the disposition of property, plant and equipment is included in other expense (income), net with the exception of a gain of $761,000 recorded in fiscal 2009 related to the sale of two facilities associated with a restructuring program (see Note 4). Maintenance and repairs are expensed as incurred while improvements are capitalized and depreciated over their estimated useful lives.

The Company leased $853,000 of computer equipment and $122,000 of trucks, net of accumulated amortization of $239,000, under capital leases as of March 31, 2009. As of March 31, 2008, the Company leased $461,000 of computer equipment, net of accumulated amortization of $473,000. The amortization of capitalized assets is included in depreciation expense. Depreciation expense was $10,936,000, $12,604,000 and $14,101,000 for the years ended March 31, 2009, 2008 and 2007, respectively.

Impairment of Long-Lived Assets including Goodwill and Other Intangible Assets

When a company is acquired, the difference between the fair value of its net assets, including intangibles, and the purchase price is recorded as goodwill. Goodwill is subject to an assessment for impairment using a two-step fair value-based test, the first step of which must be performed at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. The Company performs its required annual assessment as of the fiscal year end. The first step of the test compares the fair value of a reporting unit to its carrying amount, including goodwill, as of the date of the test. The Company uses a dual approach to determine the fair value of its reporting units including both a market approach and an income approach. The market approach computes fair value using a multiple of earnings before interest, income taxes, depreciation and amortization which was developed considering both the multiples of recent transactions as well as trading multiples of consumer products companies. The income approach is based on the present value of discounted cash flows and a terminal value projected for each reporting unit. The income approach requires significant judgments including the Company s projected net cash flows, the weighted average cost of capital (WACC) used to discount the cash flows and terminal value assumptions. The projected net cash flows are derived using the most recent available estimate for each reporting unit. The WACC rate is based on an average of the capital structure, cost of capital and inherent

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

business risk profiles of the Company and peer consumer products companies. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each reporting unit.

The Company then corroborates the reasonableness of the total fair value of the reporting units by reconciling the aggregate fair values of the reporting units to the Company s total market capitalization adjusted to include an estimated control premium. The estimated control premium is derived from reviewing observable transactions involving the purchase of controlling interests in comparable companies. The market capitalization is calculated using the relevant shares outstanding and an average closing stock price which considers volatility around the test date. The exercise of reconciling the market capitalization to the computed fair value further supports the Company s conclusion on the fair value. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the implied fair value of the goodwill. If the implied fair value of the goodwill is less than the carrying amount of the goodwill, an impairment loss would be reported.

Other indefinite lived intangible assets consist primarily of tradenames which are also required to be tested annually. The fair value of the Company s tradenames is calculated using a relief from royalty payments methodology. This approach involves first estimating reasonable royalty rates for each trademark then applying these royalty rates to a net sales stream and discounting the resulting cash flows to determine the fair value. The royalty rate is estimated using both a market and income approach. The market approach relies on the existence of identifiable transactions in the marketplace involving the licensing of tradenames similar to those owned by the Company. The income approach uses a projected pretax profitability rate relevant to the licensed income stream. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each tradename. This fair value is then compared with the carrying value of each tradename.

Long-lived assets, except for goodwill and indefinite lived intangible assets, are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows estimated by the Company to be generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are recorded at the lower of their carrying value or estimated net realizable value.

In the fourth quarter of fiscal 2009, 2008 and 2007, the Company performed the required annual impairment test of the carrying amount of goodwill and indefinite lived intangible assets and determined that no impairment existed.

Derivative Financial Instruments

The Company uses certain derivative financial instruments as part of its risk management strategy to reduce foreign currency risk. Derivatives are not used for trading or speculative activities.

The Company recognizes all derivatives on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, the Company generally designates the derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Changes in the fair value of a derivative that is designated as, and meets all the required criteria for, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings. Changes in the fair value of a derivative that is designated as, and meets all the required criteria for, a cash flow hedge are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged item affects earnings. The portion of the change in fair value of a derivative associated with hedge ineffectiveness or the component of a derivative instrument excluded from the assessment of hedge effectiveness is recorded currently in earnings. Also, changes in the entire fair value of a derivative that is not designated as a hedge are recorded immediately in earnings. The Company formally

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes relating all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions.

The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively.

The Company enters into foreign currency forward contracts in order to reduce the impact of certain foreign currency fluctuations. Firmly committed transactions and the related receivables and payables may be hedged with forward exchange contracts. Gains and losses arising from foreign currency forward contracts are recognized in income or expense as offsets of gains and losses resulting from the underlying hedged transactions. There were no open forward exchange contracts as of March 31, 2009 and 2008.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Effective April 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertain tax positions. FIN 48 requires that the Company recognize in its consolidated financial statements the impact of a tax position if that position is more likely than not of being sustained on the technical merits of the position. See Note 8 for further discussion.

Revenue Recognition

The Company recognizes revenue from product sales when the goods are shipped, title and risk of loss have been transferred to the customer and collection is reasonably assured. Provisions for returns, allowances, rebates to customers and other adjustments are provided in the same period that the related sales are recorded.

Product Development Costs

Product development costs consist of purchases of outside artwork, printing plates, cylinders, catalogs and samples. For seasonal products, the Company typically begins to incur product development costs approximately 18 to 20 months before the applicable holiday event and amortizes the costs monthly over the selling season, which is generally within two to four months of the holiday event. Development costs related to all occasion products are incurred within a period beginning six to nine months prior to the applicable sales period and are generally amortized over a six to twelve month selling period. The expense of certain product development costs that are related to the manufacturing process are recorded in cost of sales while the portion that relates to creative and selling efforts are recorded in selling, general and administrative expenses.

Product development costs capitalized as of March 31, 2009 and 2008 were $7,368,000 and $6,316,000, respectively, and are included in other current assets in the consolidated financial statements. Product development expense of $9,809,000, $9,194,000 and $7,887,000 was recognized in the years ended March 31, 2009, 2008 and 2007, respectively.

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Shipping and Handling Costs

Shipping and handling costs are reported in cost of sales in the consolidated statements of operations.

Share-Based Compensation

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, using the modified prospective transition method, and began accounting for its share-based compensation using a fair-value based recognition method. Under the provisions of SFAS No. 123R, share-based compensation cost is estimated at the grant date based on a fair-value model. Calculating the fair value of share-based awards at the grant date requires considerable judgment, including estimating stock price volatility and expected option life.

The Company uses the Black-Scholes option valuation model to value employee stock options. The Company estimates stock price volatility based on historical volatility of its common stock. Estimated option life assumptions are also derived from historical data. Had the Company used alternative valuation methodologies and assumptions, compensation cost for share-based payments could be significantly different. The Company recognizes compensation expense using the straight-line amortization method for share-based compensation awards with graded vesting.

Net Income Per Common Share

The following table sets forth the computation of basic net income per common share and diluted net income per common share for the years ended March 31, 2009, 2008 and 2007.

	For the Years Ended March 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Numerator:			
Net income	$ 16,986	$ 25,358	$ 23,889
Denominator:			
Weighted average shares outstanding for basic income per common share	9,909	10,732	10,622
Effect of dilutive stock options	81	261	297
Adjusted weighted average shares outstanding for diluted income per common share	9,990	10,993	10,919
Basic net income per common share	$ 1.71	$ 2.36	$ 2.25
Diluted net income per common share	$ 1.70	$ 2.31	$ 2.19

Options on 1,434,000 shares, 232,000 shares and 58,000 shares of common stock were not included in computing diluted net income per common share for the years ended March 31, 2009, 2008 and 2007, respectively, because their effects were antidilutive.

Statements of Cash Flows

For purposes of the consolidated statements of cash flows, the Company considers all holdings of highly liquid debt instruments with a maturity at time of purchase of three months or less to be cash equivalents.

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Supplemental Schedule of Cash Flow Information

	For the Years Ended March 31,		
	2009	2008	2007
		(In thousands)	
Cash paid during the year for:			
Interest	$ 2,896	$ 2,413	$ 3,780
Income taxes	$ 7,741	$ 8,445	$ 17,874
Details of acquisitions:			
Fair value of assets acquired	$ 11,560	$ 82,442	$
Liabilities assumed	296	8,595	
Net assets acquired	11,264	73,847	
Amount due seller	100	2,700	
Cash paid	11,164	71,147	
Less cash acquired		2	
Net cash paid for acquisitions	$ 11,164	$ 71,145	$

(2) BUSINESS ACQUISITIONS

On February 20, 2009, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of Seastone L.C. (Seastone) for $1,139,000 in cash. The purchase price is subject to adjustment, equal to 5% of net sales of certain products sold, through fiscal 2014. Seastone is a provider of specialty gift card holders. The acquisition was accounted for as a purchase and there was no goodwill recorded in this transaction.

On August 5, 2008, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of Hampshire Paper Corp. (Hampshire Paper) for approximately $9,725,000 in cash, including transaction costs of approximately $49,000. Hampshire Paper is a manufacturer and supplier of pot covers, waxed tissue, paper and foil to the wholesale floral and horticultural industries. As of March 31, 2009, a portion of the purchase price is being held in escrow for certain indemnification obligations. The acquisition was accounted for as a purchase and the excess of cost over fair market value of the net tangible and identifiable intangible assets acquired of $897,000 was recorded as goodwill in the accompanying consolidated balance sheet. For tax purposes, goodwill resulting from this acquisition is deductible.

On May 16, 2008, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of iota^{tm} (iota) for approximately $300,000 in cash and a note payable to the seller in the amount of $100,000. The purchase price is subject to adjustment, based on future sales volume through fiscal 2014, up to a maximum of

$2,000,000. In addition, the seller retains a 50% interest in royalty income associated with the sale by third parties of licensed iota products through the fifth anniversary of the closing date. iota is a leading designer, manufacturer and marketer of stationery products such as notecards, gift wrap, journals, and stationery kits. The acquisition was accounted for as a purchase and there was no goodwill recorded in this transaction.

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Currents assets	$ 5,418
Property, plant and equipment	593
Intangible assets	4,652
Goodwill	897
Total assets acquired	11,560
Current liabilities	205
Other long-term obligations	91
Total liabilities assumed	296
Net assets acquired	$ 11,264

The financial results of the fiscal 2009 acquisitions are included in the Company 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.

On December 3, 2007, the Company completed the acquisition of substantially all of the business and assets of C.R. Gibson, Inc. (C.R. Gibson), through a newly-formed subsidiary, C.R. Gibson, LLC, for approximately $73,847,000 in cash, including transaction costs of approximately $200,000. In the first quarter of fiscal 2009, $2,700,000 of the purchase price was paid as settlement of an obligation assumed as contemplated in the Asset Purchase Agreement. C.R. Gibson, headquartered in Nashville, Tennessee, is a designer, marketer and distributor of memory books, stationery, journals, notecards, infant and wedding photo albums, scrapbooks, and other gift items that commemorate life s celebrations. At March 31, 2009, a portion of the purchase price is being held in escrow for certain indemnification obligations. The acquisition was accounted for as a purchase and the excess of cost over the fair market value of the net tangible and identifiable intangible assets acquired of $17,409,000 was recorded as goodwill in the accompanying consolidated balance sheet. For tax purposes, goodwill resulting from this acquisition is deductible.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	$ 25,470
Property, plant and equipment	963
Intangible assets	38,600
Goodwill	17,409
Total assets acquired	82,442

Current liabilities	8,595
Total liabilities assumed	8,595
Net assets acquired	$ 73,847

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) GOODWILL AND OTHER INTANGIBLE ASSETS

The change in the carrying amount of goodwill and indefinite lived intangible assets for the year ended March 31, 2009 is as follows (in thousands):

	Goodwill	Tradenames and Trademarks
Balance as of March 31, 2008	$ 48,361	$ 23,790
Acquisition of iota		275
Acquisition of Hampshire Paper	897	500
Acquisition of Seastone		518
Balance as of March 31, 2009	$ 49,258	$ 25,083

The change in the gross carrying amount of other intangible assets, including amortizable trademarks, for the year ended March 31, 2009 is as follows (in thousands):

	Customer Relationships	Trademarks	Patents	Non-compete
Balance as of March 31, 2008	$ 18,957	$ 103	$ 29	$ 500
Acquisition of Hampshire Paper	2,500	300	60	
Acquisition of Seastone	500			
Balance as of March 31, 2009	$ 21,957	$ 403	$ 89	$ 500

The weighted-average amortization period of customer relationships, trademarks and patents are 7 years, 10 years and 10 years, respectively.

The gross carrying amount and accumulated amortization of other intangible assets as of March 31, 2009 and 2008 is as follows (in thousands):

	March 31, 2009		March 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Tradenames and trademarks	$ 25,083	$	$ 23,790	$

Customer relationships		21,957		1,860		18,957		477
Non-compete		500		367		500		316
Trademarks		403		123		103		103
Patents		89		33		29		29
	$	48,032	$	2,383	$	43,379	$	925

Amortization expense was $1,458,000 for fiscal 2009, $474,000 for fiscal 2008 and $94,000 for fiscal 2007. The estimated amortization expense for the next five fiscal years is as follows (in thousands):

Fiscal 2010	$	1,566
Fiscal 2011		1,566
Fiscal 2012		1,550
Fiscal 2013		1,516
Fiscal 2014		1,505

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) BUSINESS RESTRUCTURING

During fiscal 2009, the Company reduced its workforce to improve efficiency and to a lesser extent as a result of the consolidation of various back office operations among its subsidiaries. Involuntary termination benefits offered to terminated employees were under the Company s pre-existing severance program. The Company recorded approximately $1,321,000 in employee severance charges during fiscal 2009 and the remaining liability of $1,015,000 is classified as a current liability in the accompanying consolidated balance sheet as of March 31, 2009 and will be paid in fiscal 2010.

On January 4, 2008, the Company announced a restructuring plan to close the Company s Elysburg, Pennsylvania production facilities and its Troy, Pennsylvania distribution facility. This restructuring was undertaken as the Company has increasingly shifted from domestically manufactured to foreign sourced boxed greeting cards and gift tags. Under the restructuring plan, both facilities were closed as of March 31, 2008. As part of the restructuring plan, the Company recorded a restructuring reserve of $628,000, including severance related to 75 employees. Also, in connection with the restructuring plan, the Company recorded an impairment of property, plant and equipment at the affected facilities of $1,222,000, which was included in restructuring expenses in the fourth quarter of fiscal 2008. During the quarter ended December 31, 2008, the Company sold two facilities associated with this restructuring program and recognized a gain of $761,000 related to this sale of assets. During fiscal 2009, there was an increase in the restructuring reserve in the amount of $426,000 primarily related to the ratable recognition of retention bonuses for employees providing service until their termination date. During the year ended March 31, 2009, the Company made payments of $690,000 primarily for costs related to severance. As of March 31, 2009, the remaining liability of $55,000 was classified as a current liability in the accompanying consolidated balance sheet and will be paid through the first quarter of fiscal 2010. The Company expects to incur additional period expenses related to this restructuring program of approximately $240,000 during fiscal 2010.

Selected information relating to the fiscal 2008 restructuring follows (in thousands):

	Termination Costs	Other Costs	Total
Initial accrual	$ 355	$ 273	$ 628
Cash paid fiscal 2008	(46)	(263)	(309)
Restructuring reserve as of March 31, 2008	309	10	319
Cash paid fiscal 2009	(690)		(690)
Charges to expense fiscal 2009	436	(10)	426
Restructuring reserve as of March 31, 2009	$ 55	$	$ 55

(5) TREASURY STOCK TRANSACTIONS

Under stock repurchase programs authorized by the Company s Board of Directors, the Company repurchased 687,000 shares of the Company s common stock for $16,687,000 in fiscal 2009, 747,424 shares of the Company s common stock for $25,449,000 in fiscal 2008 and 9,800 shares of the Company s common stock for $323,000 in fiscal 2007. As of March 31, 2009, the Company had 313,000 shares remaining available for repurchase under the Board s authorization.

(6) SHARE-BASED PLANS

Under the terms of the 2004 Equity Compensation Plan (2004 Plan), the Human Resources Committee (Committee) of the Board of Directors may grant incentive stock options, non-qualified stock options, restricted stock grants, stock appreciation rights, stock bonuses and other awards to officers and other employees. Grants under the 2004 Plan may be made through August 3, 2014. The term of each grant is at the discretion of the Committee, but in no event greater than ten years from the date of grant. The Committee has discretion to determine

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the date or dates on which granted options become exercisable. All options outstanding as of March 31, 2009 become exercisable at the rate of 25% per year commencing one year after the date of grant. Outstanding performance-vested restricted stock units (RSUs) vest on the third anniversary of the date on which the award was granted, provided that certain performance metrics have been met during the performance period, and outstanding time-vested RSUs vest at the rate of 50% of the shares underlying the grant on each of the third and fourth anniversaries of the date on which the award was granted. At March 31, 2009, 1,137,700 shares were available for grant under the 2004 Plan.

Under the terms of the CSS Industries, Inc. 2006 Stock Option Plan for Non-Employee Directors (2006 Plan), non-qualified stock options to purchase up to 200,000 shares of common stock are available for grant to non-employee directors at exercise prices of not less than the fair market value of the underlying common stock on the date of grant. Under the 2006 Plan, options to purchase 4,000 shares of the Company s common stock are granted automatically to each non-employee director on the last day that the Company s common stock is traded in November from 2006 to 2010. Each option will expire five years after the date the option is granted and commencing one year after the date of grant, options begin vesting and are excisable at the rate of 25% per year. At March 31, 2009, 132,000 shares were available for grant under the 2006 Plan.

Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment, using the modified prospective transition method. Under that transition method, stock compensation cost recognized in fiscal 2009, 2008 and 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, (b) compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and (c) compensation cost for all share-based payments modified, repurchased, or cancelled subsequent to April 1, 2006. Compensation cost is recognized on a straight-line basis over the vesting period during which employees perform related services.

Stock Options

Compensation cost related to stock options recognized in operating results (included in selling, general and administrative expenses) was $2,460,000, $2,830,000 and $2,825,000 in the years ended March 31, 2009, 2008 and 2007, respectively, and the associated future income tax benefit recognized was $843,000, $775,000 and $666,000 in the years ended March 31, 2009, 2008 and 2007, respectively.

The Company issues treasury shares for stock option exercises. The cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those share awards (referred to as excess tax benefits) were presented as financing cash flows in the consolidated statements of cash flows.

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Activity and related information pertaining to stock options for the years ended March 31, 2009, 2008 and 2007 was as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at April 1, 2006	1,737,606	$ 24.35		
Granted	399,100	30.15		
Exercised	(451,600)	17.84		
Forfeited/cancelled	(176,996)	32.00		
Outstanding at March 31, 2007	1,508,110	26.94		
Granted	234,000	34.41		
Exercised	(175,245)	24.17		
Forfeited/cancelled	(43,775)	29.14		
Outstanding at March 31, 2008	1,523,090	28.34		
Granted	98,000	24.00		
Exercised	(29,622)	18.27		
Forfeited/cancelled	(145,270)	28.82		
Outstanding at March 31, 2009	1,446,198	$ 28.20	2.4 years	$ 201,000
Exercisable at March 31, 2009	991,523	$ 27.06	2.0 years	$ 190,000

Expected volatilities are based on historical volatility of the Company s common stock. The expected life of the option is estimated using historical data pertaining to option exercises and employee terminations. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant.

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following average assumptions:

	For The Years Ended March 31,		
	2009	2008	2007
Expected dividend yield at time of grant	2.64%	1.64%	1.60%
Expected stock price volatility	38%	30%	25%

Risk-free interest rate	2.96%	4.20%	4.91%
Expected life of option (in years)	4.3	4.3	4.7

The weighted average fair value of options granted during fiscal 2009, 2008 and 2007 was $6.77, $9.30 and $7.87 per share, respectively. The total intrinsic value of options exercised during the years ended March 31, 2009, 2008 and 2007 was $252,000, $2,512,000 and $6,639,000, respectively.

As of March 31, 2009, there was $2,840,000 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company s equity incentive plans which is expected to be recognized over a weighted average period of 2.1 years.

Restricted Stock Units

Compensation cost related to time-vested RSUs recognized in operating results (included in selling, general and administrative expenses) was $172,000 and the associated future income tax benefit recognized was $60,000 in the year ended March 31, 2009. For the performance-based RSUs that were issued in the first quarter of fiscal 2009,

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

there was no compensation cost recognized in the year ended March 31, 2009 as it was subsequently determined in the third quarter of fiscal 2009 that the performance measures associated with these RSUs were improbable of achievement. There were no issuances of RSUs prior to fiscal 2009.

Activity and related information pertaining to RSUs for the year ended March 31, 2009 was as follows:

	Number of RSUs	Weighted Average Fair Value	Weighted Average Contractual Life
Outstanding at April 1, 2008		$	
Granted	58,150	25.70	
Exercised			
Forfeited/cancelled	(9,800)	26.02	
Outstanding at March 31, 2009	48,350	$ 25.63	2.8 years

The fair value of each RSU granted was estimated on the day of grant based on the closing price of the Company s common stock reduced by the present value of the expected dividend stream during the vesting period using the risk-free interest rate.

As of March 31, 2009, there was $563,000 of total unrecognized compensation cost related to non-vested RSUs granted under the Company s equity incentive plans which is expected to be recognized over a weighted average period of 2.7 years.

(7) RETIREMENT BENEFIT PLANS

Profit Sharing Plans

The Company and its subsidiaries maintain defined contribution profit sharing and 401(k) plans covering substantially all of their employees as of March 31, 2009. Annual contributions under the plans are determined by the Board of Directors of the Company or each subsidiary, as appropriate. Consolidated expense related to the plans for the years ended March 31, 2009, 2008 and 2007 was $128,000, $2,884,000 and $2,710,000, respectively.

Postretirement Medical Plan

The Company s Cleo subsidiary administers a postretirement medical plan covering certain persons who were employees or former employees of Crystal at the time of Cleo s acquisition of Crystal in October 2002. The plan is unfunded and was frozen to new participants prior to Crystal s acquisition by the Company.

The following table provides a reconciliation of the benefit obligation for the postretirement medical plan (in thousands):

	2009	2008
Benefit obligation at beginning of year	$ 1,037	$ 825
Interest cost	60	48
Actuarial (gain) loss and other adjustments	(7)	212
Benefits paid	(68)	(48)
Benefit obligation recognized in the consolidated balance sheet	$ 1,022	$ 1,037

The net loss recognized in other comprehensive income at March 31, 2009 was $85,000, net of tax, and the actuarial loss expected to be amortized from accumulated other comprehensive income into net periodic benefit cost during fiscal 2010 is approximately $3,000.

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assumptions used to develop the net periodic benefit cost and benefit obligation for the postretirement medical plan as of and for the years ended March 31, 2009, 2008 and 2007 were a discount rate of 6.25% (6% for 2008 and 2007) and assumed health care cost trend rates of 14% (15% for 2008 and 16% for 2007) trending down to an ultimate rate of 5% in 2018.

Net periodic pension and postretirement medical costs were $60,000, $48,000 and $55,000 for the years ended March 31, 2009, 2008 and 2007, respectively.

(8) INCOME TAXES

Income from operations before income tax expense was as follows (in thousands):

	For the Years Ended March 31,		
	2009	2008	2007
United States	$ 18,478	$ 22,281	$ 20,957
Foreign	7,412	16,552	15,847
	$ 25,890	$ 38,833	$ 36,804

The following table summarizes the provision for U.S. federal, state and foreign taxes on income (in thousands):

	For the Years Ended March 31,		
	2009	2008	2007
Current:			
Federal	$ 4,451	$ 8,147	$ 12,679
State	(14)	(311)	899
Foreign	1,223	3,017	2,958
	5,660	10,853	16,536
Deferred:			
Federal	2,994	2,344	(3,172)
State	250	278	(449)
	3,244	2,622	(3,621)
	$ 8,904	$ 13,475	$ 12,915

The differences between the statutory and effective federal income tax rates on income before income taxes were as follows:

	For the Years Ended March 31,		
	2009	**2008**	**2007**
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income taxes, less federal benefit	1.3	.8	1.7
Tax exempt interest income	(.1)	(.7)	
Changes in tax reserves and valuation allowance	(1.4)	.1	(1.6)
Other, net	(.4)	(.5)	
	34.4%	34.7%	35.1%

41

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company receives distributions from its foreign operations and, therefore, does not assume that the income from operations of its foreign subsidiaries will be permanently reinvested.

Income tax benefits related to the exercise of stock options reduced current taxes payable and increased additional paid-in capital by $31,000 in fiscal 2009, $640,000 in fiscal 2008 and $1,822,000 in fiscal 2007.

Deferred taxes are recorded based upon differences between the financial statement and tax bases of assets and liabilities and available net operating loss and credit carryforwards. The following temporary differences gave rise to net deferred income tax assets (liabilities) as of March 31, 2009 and 2008 (in thousands):

	March 31, 2009	March 31, 2008
Deferred income tax assets:		
Accounts receivable	$ 225	$ 324
Inventories	3,947	3,886
Accrued expenses	3,434	5,265
State net operating loss and credit carryforwards	5,217	7,489
Share-based compensation	2,326	1,433
	15,149	18,397
Valuation allowance	(5,217)	(7,356)
	9,932	11,041
Deferred income tax liabilities:		
Property, plant and equipment	2,302	1,221
Intangibles	3,219	1,607
Unremitted earnings of foreign subsidiaries	2,211	2,205
Other	650	1,214
	8,382	6,247
Net deferred income tax asset	$ 1,550	$ 4,794

At March 31, 2009 and 2008, the Company had potential state income tax benefits of $5,217,000 (net of federal tax of $2,809,000) and $7,489,000 (net of federal tax of $4,033,000), respectively, from net operating loss and credit carryforwards that expire in various years through 2029. At March 31, 2009 and 2008, the Company provided valuation allowances (net of federal tax) of $5,217,000 and $7,356,000, respectively. The valuation allowance reflects management s assessment of the portion of the deferred tax asset that more likely than not will not be realized through future taxable earnings or implementation of tax planning strategies. The decrease in state net operating losses and credit carryforwards in fiscal 2009 primarily related to the expiration of a state net operating loss carryforward that had been offset by a full valuation allowance. Due to developments during fiscal 2009, the Company increased its state valuation allowances by $133,000. The deferred tax asset and corresponding valuation allowance for state net operating loss carryforwards in fiscal 2008 is presented net of federal tax consistent with fiscal 2009. In the prior year, both were presented on a gross basis. There is no net effect on the deferred tax asset.

Effective April 1, 2007, the Company adopted the provisions of FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the Company recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based solely on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

implementation of FIN 48 did not result in an adjustment to the Company s April 1, 2007 balance of retained earnings. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

	March 31,	
	2009	**2008**
Gross unrecognized tax benefits at April 1	$ 1,987	$ 2,169
Additions based on tax positions related to the current year	119	84
Additions for tax positions of prior years	85	196
Reductions for tax positions of prior years	(115)	(403)
Reductions relating to settlements with taxing authorities	(460)	(23)
Reductions as a result of a lapse of the applicable statute of limitations	(371)	(36)
Gross unrecognized tax benefits at March 31	$ 1,245	$ 1,987

The total amount of gross unrecognized tax benefits at March 31, 2009 of $1,245,000 was classified in other long-term obligations in the accompanying consolidated balance sheet and the amount that would favorably affect the effective tax rate in future periods, if recognized, is $809,000. The Company does not anticipate any significant changes to the amount of gross unrecognized tax benefits in the next 12 months.

Consistent with the Company s historical financial reporting, the Company recognizes potential accrued interest and/or penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of operations. Approximately $335,000 of interest and penalties are accrued at March 31, 2009, $86,000 of which was recorded during the current year.

The Company is subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. The Company s March 31, 2005 through March 31, 2007 federal tax returns were examined and settled with the Internal Revenue Service after minor adjustments. State and foreign income tax returns remain open back to March 31, 2003 in major jurisdictions in which the Company operates.

(9) LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following (in thousands):

	March 31,	
	2009	**2008**
4.48% Senior Notes due December 13, 2009	$ 10,000	$ 20,000
Other	964	438
	10,964	20,438

Less current portion	(10,479)	(10,246)
	$ 485	$ 10,192

On December 13, 2002, the Company issued $50,000,000 of 4.48% Senior Notes due December 13, 2009 (the Senior Notes). The Senior Notes are payable ratably over five years, beginning at the end of the third year of the seven year term of the agreement. The note purchase agreement contains various financial covenants, the most restrictive of which pertain to net worth, the ratio of operating cash flow to fixed charges and the ratio of debt to capitalization. The Company is in compliance with all covenants as of March 31, 2009.

On November 21, 2008, the Company replaced its $50,000,000 revolving credit facility, which was due to expire on April 23, 2009, with a new $110,000,000 revolving credit facility with four banks. This facility expires on November 20, 2011. The loan agreement contains provisions to increase or reduce the interest pricing spread based

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

on a measure of the Company s leverage. At the Company s option, interest on the facility currently accrues at (a) the one-, two-, three- or six-month London Interbank Offered Rate (LIBOR) plus 1.25% or (b) the greater of (1) the prime rate (2) the federal funds open rate plus .5%, and (3) the daily LIBOR plus 1.25%. The revolving credit facility provides for commitment fees of .3% per annum on the daily average of the unused commitment, subject to adjustment based on a measure of the Company s leverage. The loan agreement also contains covenants, the most restrictive of which pertain to the ratio of operating cash flow to fixed charges, the ratio of debt to operating cash flow and limitations on capital expenditures. As of March 31, 2009, there was $1,200,000 outstanding under this revolving credit facility and no amounts outstanding as of March 31, 2008. The Company is in compliance with all financial debt covenants as of March 31, 2009.

On November 21, 2008, the Company also entered into an amendment to decrease its existing $100,000,000 accounts receivable facility to $75,000,000 with an expiration of July 25, 2009, subject to earlier termination in the event of termination of the commitments of the back-up purchasers. The agreement permits the sale (and repurchase) of an undivided interest in an accounts receivable pool. The facility has a funding limit of $75,000,000 during peak seasonal periods and $25,000,000 during off-peak seasonal periods. Under this arrangement, the Company sells, on an ongoing basis and without recourse, its trade accounts receivable to a wholly-owned special purpose subsidiary (the SPS), which in turn has the option to sell, on an ongoing basis and without recourse, to a commercial paper issuer an undivided percentage interest in the pool of accounts receivable. Under the agreement, new trade receivables are automatically sold to the SPS and become a part of the receivables pool. Prior to the amendment described in the next paragraph, financing costs for amounts funded under this facility were based on a variable commercial paper rate plus 0.5%, and the Company paid commitment fees of 0.25% per annum on the daily average of the unused commitment. This arrangement is accounted for as a financing transaction. As of March 31, 2009, there was $2,950,000 outstanding under this arrangement and no amounts were outstanding as of March 31, 2008.

Subsequent to year end, the Company entered into an extension of its $75,000,000 accounts receivable securitization facility through May 7, 2010, although it may terminate prior to such date in the event of termination of the commitments of the facility s back-up purchasers. Financing costs for amounts funded under this facility are based on a variable commercial paper rate plus 1.5% and commitment fees of 0.5% per annum on the unused commitment are also payable under the facility. In addition, if the daily amount outstanding is less than 50% of the seasonally adjusted funding limit, an additional commitment fee of 0.25% per annum will also be payable under the facility.

The weighted average interest rate under the revolving credit facilities for the years ended March 31, 2009, 2008, and 2007, was 4.07%, 7.43% and 7.04%, respectively. The average and peak borrowings were $50,372,000 and $129,230,000, respectively, for the year ended March 31, 2009 and $12,323,000 and $81,000,000, respectively, for the year ended March 31, 2008. Additionally, outstanding letters of credit under the revolving credit facilities totaled $4,100,000 at March 31, 2009 and $3,883,000 at March 31, 2008. These letters of credit guarantee funding of workers compensation claims.

The Company leases certain computer equipment and trucks under capital leases. The future minimum annual lease payments, including interest, associated with the capital lease obligations are as follows (in thousands):

2010	$ 442
2011	383

2012		58
Total minimum lease obligations		883
Less amount representing interest		(19)
Present value of future minimum lease obligations	$	864

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term debt, including capital lease obligations, matures as follows (in thousands):

2010	$ 10,479
2011	427
2012	58
Total	$ 10,964

(10) OPERATING LEASES

The Company maintains various lease arrangements for property and equipment. The future minimum rental payments associated with all noncancelable lease obligations are as follows (in thousands):

2010	$ 8,606
2011	5,393
2012	2,225
2013	1,114
2014	435
Thereafter	421
Total	$ 18,194

Rent expense was $10,229,000, $8,405,000 and $8,507,000 for the years ended March 31, 2009, 2008 and 2007, respectively.

(11) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses certain derivative financial instruments as part of its risk management strategy to reduce foreign currency risk. The Company recognizes all derivatives on the consolidated balance sheet at fair value based on quotes obtained from financial institutions. There were no foreign currency contracts outstanding as of March 31, 2009 and 2008.

The Company maintains a Nonqualified Supplemental Executive Retirement Plan for highly compensated employees. The assets of the plan are held at a third party financial institution in the name of CSS and are invested in publicly traded mutual funds. The Company maintains separate accounts for each participant to reflect deferred contribution amounts and the related gains or losses on such deferred amounts. The plan assets are recorded as marketable securities and included in other current assets and the related liability is recorded as deferred compensation and included in other long-term obligations in the consolidated balance sheets. The fair value of the plan assets is based on the market price of the mutual funds as of March 31, 2009 and 2008.

The Company maintains two life insurance policies in connection with deferred compensation arrangements with two former executives. The cash surrender value of the policies is recorded in other long-term assets in the consolidated balance sheets and is based on quotes obtained from the insurance company as of March 31, 2009 and 2008.

The Company adopted the provisions of SFAS No. 157, Fair Value Measurements, on April 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are defined as buyers or sellers in the principle or most advantageous market for the asset or liability that are independent of the reporting entity, knowledgeable and able and willing to transact for the asset or liability. There was no impact to the Company s consolidated financial statements upon adoption of SFAS No. 157.

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with SFAS No. 157, the Company has categorized its financial assets and liabilities, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The Company s recurring assets and liabilities recorded on the consolidated balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Examples of Level 2 inputs included quoted prices for identical or similar assets or liabilities in non-active markets and pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents the Company s fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis in its consolidated balance sheet as of March 31, 2009.

	March 31, 2009	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In thousands)			
Assets				
Marketable securities	$ 628	$ 628	$	$
Cash surrender value of life insurance policies	837		837	
Total assets	$ 1,465	$ 628	$ 837	$
Liabilities				
Deferred compensation plans	$ 628	$ 628	$	$
Total liabilities	$ 628	$ 628	$	$

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reflected at carrying value in the consolidated balance sheets as such amounts are a reasonable estimate of their fair values due to the short-term nature of these instruments.

The carrying value of the Company s short-term borrowings is a reasonable estimate of its fair value as borrowings under the Company s credit facilities have variable rates that reflect currently available terms and conditions for similar debt.

The fair value of long-term debt instruments is estimated using a discounted cash flow analysis. As of March 31, 2009, the carrying amount of long-term debt was $10,964,000 and the fair value was estimated to be $10,950,000. As of March 31, 2008, the carrying amount of long-term debt was $20,438,000 and the fair value was estimated to be $20,557,000.

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) COMMITMENTS AND CONTINGENCIES

CSS and its subsidiaries are involved in ordinary, routine legal proceedings that are not considered by management to be material. In the opinion of Company counsel and management, the ultimate liabilities resulting from such legal proceedings will not materially affect the consolidated financial position of the Company or its results of operations or cash flows.

(13) SEGMENT DISCLOSURE

The Company operates in a single reporting segment, the design, manufacture, procurement, distribution and sale of non-durable all occasion and seasonal social expression products, primarily to mass market retailers in the United States and Canada.

The Company s detail of revenues from its various products is as follows (in thousands):

	For the Years Ended March 31,		
	2009	**2008**	**2007**
Christmas	$ 242,127	$ 285,848	$ 346,866
All occasion	179,479	151,410	127,163
Other seasonal	60,818	60,995	56,657
Total	$ 482,424	$ 498,253	$ 530,686

One customer accounted for sales of $127,894,000, or 27% of total sales in fiscal 2009, $133,456,000, or 27% of total sales in fiscal 2008 and $144,464,000, or 27% of total sales in fiscal 2007. One other customer accounted for sales of $47,437,000, or 10% of total sales in fiscal 2009, $59,907,000, or 12% of total sales in fiscal 2008 and $58,742,000, or 11% of total sales in fiscal 2007.

(14) RECENT ACCOUNTING PRONOUNCEMENTS

In April 2009, the FASB issued FASB Staff Position Financial Accounting Standard No. 107-1 and Accounting Principles Board Opinion 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1), which amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for financial statements issued for interim or annual periods ending after June 15, 2009. The Company does not expect the adoption of FSP FAS 107-1 and APB 28-1 to have a material impact on the Company s financial position or results of operations.

In April 2009, the FASB issued FASB Staff Position Financial Accounting Standard No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise From Contingencies (FSP FAS 141(R)-1), which amends the provisions in SFAS No. 141 (revised 2007), Business Combinations for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations, instead carrying forward most of the provisions in SFAS No. 141, Business Combinations for acquired contingencies. FSP FAS 141(R)-1 is effective for fiscal year beginning after December 15, 2008 (fiscal 2010 for the Company) and will apply prospectively to business combinations completed on or after April 1, 2009.

In April 2008, the FASB issued Staff Position Financial Accounting Standard No. 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, Goodwill and Other Intangible Assets. This new guidance

CSS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of FSP FAS No. 142-3 did not have a material effect on the Company s financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS No. 161 beginning in the fourth quarter of fiscal 2009. This statement only requires additional disclosure and did not have an impact on the Company s consolidated financial statements upon adoption.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R), which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for fiscal year beginning after December 15, 2008 (fiscal 2010 for the Company) and will apply prospectively to business combinations completed on or after April 1, 2009.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. As previously disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2008, the Company adopted EITF 06-10 on April 1, 2008 and recorded a cumulative effect of an accounting change which resulted in a reduction to equity of $566,000.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 was effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 on April 1, 2008 and it did not have a material effect on its consolidated financial position or results of operations.

Table of Contents

(15) QUARTERLY FINANCIAL DATA (UNAUDITED)

2009	Quarters First	Second	Third	Fourth
	(In thousands, except per share amounts)			
Net sales	$ 54,647	$ 174,161	$ 197,122	$ 56,494
Gross profit	$ 16,934	$ 44,707	$ 49,155	$ 15,513
Net (loss) income	$ (4,496)	$ 10,504	$ 16,412	$ (5,434)
Net (loss) income per common share:				
Basic(1)	$ (.44)	$ 1.05	$ 1.69	$ (.57)
Diluted(1)	$ (.44)	$ 1.03	$ 1.68	$ (.57)

2008	Quarters First	Second	Third	Fourth
	(In thousands, except per share amounts)			
Net sales	$ 46,802	$ 172,882	$ 222,170	$ 56,399
Gross profit	$ 13,283	$ 46,199	$ 61,382	$ 16,681
Net (loss) income	$ (4,427)	$ 13,535	$ 22,854	$ (6,604)
Net (loss) income per common share:				
Basic(1)	$ (.41)	$ 1.25	$ 2.12	$ (.63)
Diluted(1)	$ (.41)	$ 1.22	$ 2.07	$ (.63)

(1) Net (loss) income per common share amounts for each quarter are required to be computed independently and may not equal the amount computed for the total year.

Fourth quarter net loss of fiscal 2009 included expenses of approximately $666,000 related to a workforce reduction as further described in Note 4 to the consolidated financial statements.

Fourth quarter net loss of fiscal 2008 included expenses of approximately $2,132,000 related to a restructuring plan approved on January 4, 2008 to close the Company s Elysburg, Pennsylvania production facilities and its Troy, Pennsylvania distribution facility.

The seasonal nature of CSS business has historically resulted in comparatively lower sales and operating losses in the first and fourth quarters and comparatively higher sales levels and operating profits in the second and third quarters of the Company s fiscal year, thereby causing significant fluctuations in the quarterly results of operations of the Company.

Table of Contents

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

None.

Item 9A. ***Controls and Procedures.***

(a) Evaluation of Disclosure Controls and Procedures.

The Company s management, with the participation of the Company s President and Chief Executive Officer and Vice President Finance and Chief Financial Officer, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this report as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15. Based upon that evaluation, the President and Chief Executive Officer and Vice President Finance and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and procedures.

(b) Management s Report on Internal Control over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. 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 accounting principles generally accepted in the United States of America.

The Company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) 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.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of March 31, 2009. Management s assessment of the effectiveness of the Company s internal control over financial reporting as of March 31, 2009 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(c) Changes in Internal Control over Financial Reporting.

There was no change in the Company s internal control over financial reporting that occurred during the fourth quarter of fiscal year 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

(d) Report of Independent Registered Public Accounting Firm.

The Board of Directors and Stockholders of
CSS Industries, Inc.:

We have audited CSS Industries, Inc. s internal control over financial reporting as of March 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CSS Industries Inc. 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 Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, CSS Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CSS Industries, Inc. and subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income, stockholders equity and cash flows for each of the years in the three-year period ended March 31, 2009, and our report dated June 1, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

June 1, 2009

Philadelphia, PA

Table of Contents

Item 9B. ***Other Information.***

None.

Part III

Item 10. ***Directors, Executive Officers and Corporate Governance.***

See Election of Directors, Our Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance, Code of Ethics and Internal Disclosure Procedures (Employees) and Code of Business Conduct and Ethics (Board), Board Committees; Committee Membership; Committee Meetings and Audit Committee in the Proxy Statement for the 2009 Annual Meeting of Stockholders of the Company, which is incorporated herein by reference.

Item 11. ***Executive Compensation.***

See Executive Compensation, Human Resources Committee Interlocks and Insider Participation, Director Compensation and Human Resources Committee Report in the Proxy Statement for the 2009 Annual Meeting of Stockholders of the Company, which is incorporated herein by reference.

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

See Ownership of CSS Common Stock and Securities Authorized for Issuance Under CSS Equity Compensation Plans in the Proxy Statement for the 2009 Annual Meeting of Stockholders of the Company, which is incorporated herein by reference.

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

See Board Independence and Related Party Transactions in the Proxy Statement for the 2009 Annual Meeting of Stockholders of the Company, which is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services.***

See Audit Committee and Our Independent Registered Public Accounting Firm, Their Fees and Their Attendance at the Annual Meeting in the Proxy Statement for the 2009 Annual Meeting of Stockholders of the Company, which is incorporated herein by reference.

Part IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) Following is a list of documents filed as part of this report:

1. Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets March 31, 2009 and 2008

Consolidated Statements of Operations and Comprehensive Income for the years ended March 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended March 31, 2009, 2008 and 2007

Consolidated Statements of Stockholders Equity for the years ended March 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

3. Exhibits required by Item 601 of Regulation S-K, Including Those Incorporated by Reference

Articles of Incorporation and By-Laws

3.1	Restated Certificate of Incorporation filed December 5, 1990 (incorporated by reference to Exhibit 3.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2006).
3.2	Amendment to Restated Certificate of Incorporation filed May 8, 1992 (incorporated by reference to Exhibit 3.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2006).
3.3	Certificate eliminating Class 2, Series A, $1.35 Preferred stock filed September 27, 1991 (incorporated by reference to Exhibit 3.3 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2006).
3.4	Certificate eliminating Class 1, Series B, Convertible Preferred Stock filed January 28, 1993 (incorporated by reference to Exhibit 3.4 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2006).
3.5	Amendment to Restated Certificate of Incorporation filed August 4, 2004 (incorporated by reference to Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
3.6	Restated Certificate of Incorporation, as amended to date (as last amended August 4, 2004) (incorporated by reference to Exhibit 3.2 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
3.7	By-laws of the Company, as amended to date (as last amended August 2, 2007) (incorporated by reference to Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q dated October 25, 2007).

Material Contracts

10.1	Receivables Purchase Agreement among CSS Funding LLC, CSS Industries, Inc., Market Street Funding Corporation and PNC Bank, National Association, dated as of April 30, 2001 (incorporated by reference to Exhibit 10.9 to the Registrant s Annual Report on Form 10-K/A for the fiscal year ended March 31, 2002).
10.2	Purchase and Sale Agreement between Various Entities Listed on Schedule I, as the Originators, CSS Industries, Inc. and CSS Funding LLC, dated as of April 30, 2001 (incorporated by reference to Exhibit 10.10 to the Registrant s Annual Report on Form 10-K/A for the fiscal year ended March 31, 2002).
10.3	First Amendment to Receivables Purchase Agreement dated as of August 24, 2001 (incorporated by reference to Exhibit 10.12 to the Registrant s Annual Report on Form 10-K/A for the fiscal year ended March 31, 2002).

10.4	First Amendment to Purchase and Sale Agreement dated as of August 24, 2001 (incorporated by reference to Exhibit 10.13 to the Registrant s Annual Report on Form 10-K/A for the fiscal year ended March 31, 2002).
10.5	$50,000,000 4.48% Senior Notes due December 13, 2009 Note Purchase Agreement dated December 12, 2002 (incorporated by reference to Exhibit 10.17 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2003).
10.6	Second Amendment to Purchase and Sale Agreement dated as of July 29, 2003 (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
10.7	Third Amendment to Purchase and Sale Agreement dated June 1, 2004 (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
10.8	Second Amendment to Receivables Purchase Agreement dated as of July 29, 2003 (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
10.9	Third Amendment to Receivables Purchase Agreement dated as of April 26, 2004 (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
10.10	Fourth Amendment to Receivables Purchase Agreement dated June 1, 2004 (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
10.11	First Amendment to Note Purchase Agreement dated October 27, 2004 (incorporated by reference to Exhibit 10.8 to the Registrant s Quarterly Report on Form 10-Q dated November 8, 2004).
10.12	Asset Purchase Agreement dated as of October 31, 2007, among CSS Industries, Inc., Delta Acquisition, LLC, C.R. Gibson, Inc. and the shareholders of C.R. Gibson, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed on December 7, 2007).
10.13	Closing letter dated November 30, 2007 by and among Delta Acquisition, LLC, CSS Industries, Inc. and C.R. Gibson, Inc., on behalf of itself and its shareholders (incorporated by reference to Exhibit 2.2 to the Registrant s Current Report on Form 8-K filed on December 7, 2007).
10.14	Fifth Amendment to Receivables Purchase Agreement dated as of August 1, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q dated January 31, 2008).
10.15	Second Amendment dated March 25, 2009 to Note Purchase Agreement dated December 12, 2002 pertaining to $50,000,000 4.48% Senior Notes due December 13, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on March 31, 2009).
10.16	Asset Purchase Agreement dated August 1, 2008 among Granite Acquisition Corp., Lion Ribbon Company, Inc., Hampshire Paper Corp. and the Shareholders of Hampshire Paper Corp. (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q dated October 3, 2008).
10.17	Second Amended and Restated Loan Agreement dated November 21, 2008 among CSS Industries, Inc., the lenders party thereto and PNC Bank, National Association, as Administrative agent for the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K dated November 21, 2008).
10.18	Sixth Amendment to Receivables Purchase Agreement dated November 21, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q dated February 5, 2009).
10.19	Seventh Amendment dated May 8, 2009 to Receivables Purchase Agreement dated April 30, 2001 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on May 14, 2009).

Management Contracts, Compensatory Plans or Arrangements

10.20	CSS Industries, Inc. 1995 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.21	CSS Industries, Inc. 2000 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.14 to the Registrant s Annual Report on Form 10-K/A for the fiscal year ended March 31,

	2002).
10.22	CSS Industries, Inc. 1994 Equity Compensation Plan (as last amended August 7, 2002) (incorporated by reference to Exhibit 10.29 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2004).

10.23	Employment Agreement dated as of May 12, 2006 between CSS Industries, Inc. and Christopher J. Munyan (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q dated August 9, 2006).
10.24	CSS Industries, Inc. 2006 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.34 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2007).
10.25	CSS Industries, Inc. Management Incentive Program (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q dated August 3, 2007).
10.26	CSS Industries, Inc. FY 2008 Management Incentive Program Criteria for CSS Industries, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q dated August 3, 2007).
10.27	CSS Industries, Inc. FY 2008 Management Incentive Program Criteria for BOC Design Group (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q dated August 3, 2007).
10.28	CSS Industries, Inc. FY 2008 Management Incentive Program Criteria for Paper Magic Group, Inc. (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q dated August 3, 2007).
10.29	CSS Industries, Inc. Management Incentive Program (as last amended June 3, 2008) (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on June 9, 2008).
10.30	CSS Industries, Inc. FY2009 Management Incentive Program Criteria for CSS Industries, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q dated August 5, 2008).
10.31	CSS Industries, Inc. FY2009 Management Incentive Program Criteria for BOC Design Group (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q dated August 5, 2008).
10.32	CSS Industries, Inc. FY2009 Management Incentive Program Criteria for Paper Magic Group, Inc. (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q dated August 5, 2008).
10.33	CSS Industries, Inc. FY2009 Management Incentive Program Criteria for C.R. Gibson, LLC (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q dated August 5, 2008).
10.34	2004 Equity Compensation Plan (as last amended July 31, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K dated July 31, 2008).
10.35	Employment Agreement dated as of July 25, 2008 between CSS Industries, Inc. and Paul Quick (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q dated October 30, 2008).
10.36	Amendment to Employment Agreement dated as of September 5, 2008 between CSS Industries, Inc. and Christopher J. Munyan (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q dated October 30, 2008).
10.37	Amendment dated December 26, 2008 to Employment Agreement between CSS Industries, Inc. and Christopher J. Munyan (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q dated February 5, 2009).
10.38	CSS Industries, Inc. Severance Pay Plan for Senior Management and Summary Plan Description (as last amended December 29, 2008) (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q dated February 5, 2009).
10.39	Nonqualified Supplemental Executive Retirement Plan Covering Officer-Employees of CSS Industries, Inc. and its Subsidiaries (Amended and Restated, Effective as of January 1, 2009) (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q dated February 5, 2009).

Other

21.	List of Significant Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to the Registrant s Annual Report on Form 10-K for the fiscal year ended March 31, 2008).
*23.	Consent of Independent Registered Public Accounting Firm.
*31.1	Certification of the Chief Executive Officer of CSS Industries, Inc. required by Rule 13a-14(a) under the Securities Exchange Act of 1934.

55

*31.2	Certification of the Chief Financial Officer of CSS Industries, Inc. required by Rule 13a-14(a) under the Securities Exchange Act of 1934.
*32.1	Certification of the Chief Executive Officer of CSS Industries, Inc. required by Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
*32.2	Certification of the Chief Financial Officer of CSS Industries, Inc. required by Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

* Filed or furnished with this Annual Report on Form 10-K.

Table of Contents

CSS INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C Additions		Column D	Column E
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
	(In thousands)				
Year ended March 31, 2009					
Accounts receivable allowances	$ 5,291	$ 6,178	$ 39(d)	$ 6,342(a)	$ 5,166
Accrued restructuring expenses	319	1,747		996(c)	1,070
Year ended March 31, 2008					
Accounts receivable allowances	$ 4,850	$ 4,542	$ 997(d)	$ 5,098(a)	$ 5,291
Accrued restructuring expenses	1,456	628		1,765(b)	319
Year ended March 31, 2007					
Accounts receivable allowances	$ 4,119	$ 4,086	$	$ 3,355(a)	$ 4,850
Accrued restructuring expenses	4	1,905		453(c)	1,456

Notes:

(a) Includes amounts written off as uncollectible, net of recoveries.

(b) Includes payments and non cash reductions.

(c) Includes payments.

(d) Balance at acquisition of C.R. Gibson.

57

SIGNATURES

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

CSS INDUSTRIES, INC.

Registrant

By /s/ Christopher J. Munyan

Christopher J. Munyan, President and
Chief Executive Officer
(principal executive officer)

Dated: June 1, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Christopher J. Munyan
Christopher J. Munyan, President and
Chief Executive Officer
(principal executive officer and a director)

Dated: June 1, 2009

/s/ Clifford E. Pietrafitta
Clifford E. Pietrafitta, Vice President Finance and
Chief Financial Officer
(principal financial and accounting officer)

Dated: June 1, 2009

/s/ Jack Farber
Jack Farber, Director

Dated: June 1, 2009

/s/ Scott A. Beaumont
Scott A. Beaumont, Director

Dated: June 1, 2009

/s/ James H. Bromley
James H. Bromley, Director

Dated: June 1, 2009

/s/ John J. Gavin
John J. Gavin, Director

Dated: June 1, 2009

/s/ Leonard E. Grossman
Leonard E. Grossman, Director

Dated: June 1, 2009

/s/ James E. Ksansnak
James E. Ksansnak, Director

Dated: June 1, 2009

/s/ Rebecca C. Matthias
Rebecca C. Matthias, Director

Dated: June 1, 2009