

CSS INDUSTRIES INC
Form 10-K
June 02, 2009

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(Mark one)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2009
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

**Commission file number 1-2661
CSS INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

13-1920657
*(I.R.S. Employer
Identification No.)*

1845 Walnut Street, Philadelphia, PA
(Address of principal executive offices)

19103
(Zip Code)

Registrant's telephone number, including area code:
(215) 569-9900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$.10 par value

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Edgar Filing: CSS INDUSTRIES INC - Form 10-K

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. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant is \$215,116,284. Such aggregate market value was computed by reference to the closing price of the common stock of the registrant on the New York Stock Exchange on September 30, 2008, being the last trading day of the registrant's most recently completed second fiscal quarter. Such calculation excludes the shares of common stock beneficially owned at such date by certain directors and officers of the registrant, by the Farber Foundation and by the Farber Family Foundation, as described under the section entitled "Ownership of CSS Common Stock" in the proxy statement to be filed by the registrant for its 2009 Annual Meeting of Stockholders. In making such calculation, registrant does not determine the affiliate or non-affiliate status of any holders of the shares of common stock for any other purpose.

At May 21, 2009, there were outstanding 9,605,331 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

CSS INDUSTRIES, INC.

**FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2009**

INDEX

	Page
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	1
<u>Item 1A.</u> <u>Risk Factors</u>	4
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	9
<u>Item 2.</u> <u>Properties</u>	9
<u>Item 3.</u> <u>Legal Proceedings</u>	10
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	10
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
<u>Item 6.</u> <u>Selected Financial Data</u>	13
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	22
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	50
<u>Item 9A.</u> <u>Controls and Procedures</u>	50
<u>Item 9B.</u> <u>Other Information</u>	52
<u>PART III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	52
<u>Item 11.</u> <u>Executive Compensation</u>	52
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	52
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	52
<u>Item 14.</u> <u>Principal Accounting Fees and Services</u>	52
<u>PART IV</u>	
<u>Item 15.</u> <u>Exhibits, Financial Statement Schedules</u>	53
<u>Signatures</u>	58
<u>EX-23</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

PART I

Item 1. *Business.*

General

CSS Industries, Inc. (CSS or the Company) 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.

The Company's fiscal year ends on March 31. References to a particular year refer to the fiscal year ending in March of that year. For example fiscal 2009 refers to the year ended March 31, 2009.

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.

In fiscal 2009, CSS completed acquisitions of several businesses that are complementary to its existing businesses. On May 16, 2008, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of Iota™ (Iota). Iota is a leading designer, manufacturer and marketer of stationery products such as notecards, gift wrap, journals and stationery kits. 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) which is a manufacturer and supplier of pot covers, waxed tissue, paper and foil to the wholesale floral and horticultural industries. 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) which is a provider of specialty gift card holders.

The Company's goal is to expand by developing new or complementary products, by entering new markets, by acquiring companies that are complementary with its existing operating businesses and by acquiring other businesses with leading market positions.

Principal Products CSS designs, manufactures, procures, distributes and sells a broad range of seasonal consumer products primarily through the mass market distribution channel. Christmas products include gift wrap, gift bags, gift boxes, gift card holders, boxed greeting cards, gift tags, decorative tissue paper, decorations and decorative ribbons and bows. CSS' Valentine product offerings include classroom exchange Valentine cards and other related Valentine

products, while its Easter product offerings include Dudley ® brand of Easter egg dyes and related Easter seasonal products. For Halloween, CSS offers a full line of Halloween merchandise including make-up, costumes, masks and novelties. In addition to seasonal products, CSS also designs and markets all occasion boxed greeting cards, gift wrap, gift bags, gift boxes, gift card holders, decorative and waxed tissue, decorative ribbons and bows, decorative films and foils, memory books, stationery, journals, notecards, infant and wedding photo albums, scrapbooks, floral accessories and other gift and craft items to its mass market, craft,

Table of Contents

specialty and floral retail and wholesale distribution customers, and teachers aids and other learning oriented products to the education market through mass market retailers, school supply distributors and teachers stores.

Key brands include Paper Magic®, Berwick®, Offray®, Cleo®, C.R. Gibson®, Crystal®, Lion Ribbon Company®, Markings®, Creative Papers®, Tapestry®, Seastone®, Dudley®, Don Post Studios®, Eureka®, Learning Playground® and iota®.

CSS operates thirteen manufacturing and/or distribution facilities located in Pennsylvania, Maryland, New Hampshire, South Carolina, Alabama, Tennessee and Texas. A description of the Company's product lines and related manufacturing and/or distribution facilities is as follows:

Boxed greeting cards are produced by Asian manufacturers to our specifications. Domestically distributed products are warehoused in a distribution facility in Pennsylvania.

Gift tags and classroom exchange Valentine products are domestically manufactured or imported from Asian manufacturers. Manufacturing processes include a wide range of finishing, assembly and packaging operations. Domestically distributed products are warehoused in a facility in Pennsylvania.

Halloween make-up and Easter egg dye products are manufactured in Asia to specific formulae by contract manufacturers who meet regulatory requirements for the formularization and packaging of such products. Domestically distributed products are warehoused in a distribution facility in Pennsylvania.

Ribbons and bows are primarily manufactured and warehoused in seven facilities located in Pennsylvania, Maryland, South Carolina and Texas. The manufacturing process is vertically integrated. Non-woven ribbon and bow products are primarily made from polypropylene resin, a petroleum-based product, which is mixed with color pigment, melted and pressed through an extruder. Large rolls of extruded film go through various combinations of manufacturing processes before being made into bows or packaged on ribbon spools or reels as required by various markets and customers. Woven fabric ribbons are manufactured domestically or sourced from Mexico and Asia. Domestic woven products are either narrow woven or converted from bulk rolls of wide width textiles.

Gift wrap is primarily manufactured in one facility in Memphis, Tennessee. Manufacturing includes web printing, finishing, rewinding and packaging. Finished gift wrap products are warehoused and shipped from both the production facility and a separate facility in Memphis. A small portion of gift wrap products are imported from Asia.

Memory books, stationery, journals and notecards, infant and wedding photo albums, scrapbooks, and other gift items are imported from Asian manufacturers and warehoused and distributed from a distribution facility in Florence, Alabama.

Floral accessories, including pot covers, foil, waxed tissue, shred aisle runners, corsage bags and other paper and film products, are manufactured in a facility located in Milford, New Hampshire. Manufacturing includes gravure and flexo printing, waxing and converting. Products are warehoused and distributed from a separate location near the manufacturing facility.

Other products including, but not limited to, decorative tissue paper, gift bags, gift boxes, gift card holders, decorations and school products are designed to the specifications of CSS and are imported primarily from Asian manufacturers.

During our 2009 fiscal year, CSS experienced no material difficulties in obtaining raw materials from suppliers.

Intellectual Property Rights CSS has a number of copyrights, patents, tradenames, trademarks and intellectual property licenses which are used in connection with its products. Substantially all of its designs and artwork are protected by copyright. Intellectual property license rights which CSS has obtained are viewed as especially important to the success of its classroom exchange Valentines and juvenile gift wrap. It is CSS' view that its operations are not dependent upon any individual patent, tradename, trademark, copyright or intellectual property license. The collective value of CSS' intellectual property is viewed as substantial and CSS seeks to protect its rights in all patents, copyrights, tradenames, trademarks and intellectual property licenses.

Table of Contents

Sales and Marketing Most of CSS products are sold in the United States and Canada by national and regional account sales managers, sales representatives, product specialists and by a network of independent manufacturers representatives. CSS maintains permanent showrooms in New York City, Memphis, Dallas, Atlanta, Las Vegas and Hong Kong where buyers for major retail customers will typically visit for a presentation and review of the new lines. Products are also displayed and presented in showrooms maintained by various independent manufacturers representatives in major cities in the United States and Canada. Relationships are developed with key retail customers by CSS sales personnel and independent manufacturers representatives. Customers are generally mass market retailers, discount department stores, specialty chains, warehouse clubs, drug and food chains, dollar stores, independent card, gift and floral shops and retail teachers stores. Net sales to Wal-Mart Stores, Inc. and its affiliates and Target Corporation accounted for approximately 27% and 10% of total net sales, respectively, during fiscal 2009. No other customer accounted for 10% or more of the Company's net sales in fiscal 2009. Approximately 63% of the Company's sales are attributable to seasonal (Christmas, Halloween, Valentine's Day and Easter) products, with the remainder attributable to all occasion products. Approximately 50% of CSS sales relate to the Christmas season. Seasonal products are generally designed and marketed beginning up to 18 to 20 months before the holiday event and manufactured during an eight to ten month production cycle. Due to these long lead time requirements, timely communication with third party factories, retail customers and independent manufacturers representatives is critical to the timely production of seasonal products. Because the products themselves are primarily seasonal, sales terms do not generally require payment until just before or just after the holiday, in accordance with industry practice. C.R. Gibson's social stationery products are sold by a national organization of sales representatives that specialize in the gift and card shop channel, as well as by C.R. Gibson's sales representatives. The Company also sells custom products to private label customers, to other social expression companies, and to converters of the Company's ribbon products. Custom products are sold by both independent manufacturers representatives and CSS sales managers. CSS products, with some customer specific exceptions, are not sold under guaranteed or return privilege terms. All occasion ribbon and bow products are also sold through sales representatives or independent manufacturers representatives to wholesale distributors and independent small retailers who serve the floral, craft and retail packaging trades.

Competition among retailers in the sale of the Company's products to end users is intense. CSS seeks to assist retailers in developing merchandising programs designed to enable the retailers to meet their revenue objectives while appealing to their consumers' tastes. These objectives are met through the development and manufacture of custom configured and designed products and merchandising programs. CSS' years of experience in merchandising program development and product quality are key competitive advantages in helping retailers meet their objectives.

Competition CSS' principal competitor in Christmas products is American Greetings Corporation. Image Arts, Inc., a subsidiary of Hallmark Cards, Incorporated (Hallmark), is also a competitor in the boxed greeting card business. CSS competes, to a limited extent, with other product offerings of Hallmark and American Greetings Corporation. These competitors are larger and have greater resources than the Company. In addition, CSS also competes with various domestic and foreign companies in each of its other product offerings.

CSS believes its products are competitively positioned in their primary markets. Since competition is based primarily on category knowledge, timely delivery, creative design, price and, with respect to seasonal products, the ability to serve major retail customers with single, combined product shipments for each holiday event, CSS' focus on products combined with consistent service levels allows it to compete effectively in its core markets.

Employees

At May 21, 2009, approximately 2,100 persons were employed by CSS (increasing to approximately 3,000 as seasonal employees are added).

With the exception of the bargaining units at the gift wrap facilities in Memphis, Tennessee and the ribbon manufacturing facility in Hagerstown, Maryland, which totaled approximately 700 employees as of May 21, 2009, CSS employees are not represented by labor unions. Because of the seasonal nature of certain of its businesses, the number of production employees fluctuates during the year. The collective bargaining agreement with the labor union representing Cleo's production and maintenance employees at the Cleo gift wrap plant and warehouses in Memphis, Tennessee remains in effect until December 31, 2010. The collective bargaining agreement with the labor

Table of Contents

union representing the Hagerstown-based production and maintenance employees remains in effect until December 31, 2009.

The Company believes that relationships with its employees are good.

SEC Filings

The Company's Internet address is www.cssindustries.com. Through its website, the following filings are made available free of charge as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: its annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

Item 1A. Risk Factors.

You should carefully consider each of the risk factors we describe below, as well as other factors described in this annual report on Form 10-K and elsewhere in our SEC filings.

Our results of operations fluctuate on a seasonal basis, and quarter to quarter comparisons may not be a good indicator of our performance. Seasonal demand fluctuations may adversely affect our cash flow and our ability to sell our products.

Approximately 63% of our sales are attributable to seasonal (Christmas, Halloween, Valentine's Day and Easter) products, with the remainder being attributable to all occasion products. Approximately 50% of our sales relate to the Christmas season. The seasonal nature of our business has historically resulted in lower sales levels and operating losses in our first and fourth quarters, and higher sales levels and operating profits in our second and third quarters. As a result, our quarterly results of operations fluctuate during our fiscal year, and a quarter to quarter comparison is not a good indication of our performance or how we will perform in the future. For example, our overall results of operations in the future may fluctuate substantially based on seasonal demand for our products. Such variations in demand could have a material adverse effect on the timing of cash flow and therefore our ability to meet our obligations with respect to our debt and other financial commitments. Seasonal fluctuations also affect our inventory levels. We must carry significant amounts of inventory, especially before the Christmas retail selling period. If we are not successful in selling the inventory during the relevant period, we may have to sell the inventory at significantly reduced prices, or we may not be able to sell the inventory at all.

We rely on a few mass market retailers, warehouse clubs and national drug store chains for a significant portion of our sales. The loss of sales, or a significant reduction of sales, to one or more of our large customers may adversely affect our business, results of operations and financial condition. Past and future consolidation within the retail sector also may lead to reduced profit margins, which may adversely affect our business, results of operations and financial condition.

A few of our customers are material to our business and operations. Our sales to Wal-Mart Stores, Inc. and its affiliates and Target Corporation accounted for approximately 27% and 10% of our sales, respectively, during our 2009 fiscal year. No other single customer accounted for 10% or more of our sales in fiscal 2009. Our ten largest customers, which include mass market retailers, warehouse clubs and national drug store chains, accounted for approximately 60% of our sales in our 2009 fiscal year. Our business depends, in part, on our ability to identify and define product and market trends, and to anticipate, understand and react to changing consumer demands in a timely manner. There can be no assurance that our large customers will continue to purchase our products in the same quantities that they have in the past. The loss of sales, or a significant reduction of sales, to one or more of our large

customers may adversely affect our business, results of operations and financial condition. Further, in recent years there has been consolidation among our retail customer base. As the retail sector consolidates, our customers become larger, and command increased leverage in negotiating prices and other terms of sale of our products, including credits, discounts, allowances and other incentive considerations to these customers. Past and future consolidation may lead to reduced profit margins, which may adversely affect our business, results of operations and financial condition.

Table of Contents

Increases in raw material and energy costs, resulting from general economic conditions, acts of nature, such as hurricanes, earthquakes or influenza pandemics, or other factors, may raise our cost of goods sold and adversely affect our business, results of operations and financial condition.

Paper and petroleum-based materials are essential in the manufacture of our products, and the cost of such materials is significant to our cost of goods sold. Energy costs, especially fuel costs, also are significant expenses in the production and delivery of our products. Increased costs of raw materials or energy resulting from general economic conditions, acts of nature, such as hurricanes, earthquakes or influenza pandemics, or other factors, may result in declining margins and operating results if market conditions prevent us from passing these increased costs on to our customers through timely price increases on our products.

Risks associated with our use of foreign suppliers may adversely affect our business, results of operations and financial condition.

For a large portion of our product lines, particularly our Halloween, Easter, Christmas boxed greeting cards, gift bags, gift tags, gift boxes, gift card holders, decorative tissue paper, classroom exchange Valentines, craft and educational products, memory books, stationery, journals, notecards, infant and wedding photo albums and scrapbook product lines, we use foreign suppliers to manufacture a significant portion of our products. Approximately 53% of our sales in fiscal 2009 were related to products sourced from foreign suppliers. Our use of foreign suppliers exposes us to risks inherent in doing business outside of the United States, including risks associated with foreign currency fluctuations, transportation costs and delays, difficulties in maintaining and monitoring quality control, enforceability of agreed upon contract terms, compliance with foreign laws and regulations, costs relating to the imposition or retrospective application of duties on imported products, economic or political instability, international public health issues, and restrictions on the repatriation of profits and assets.

Increased overseas sourcing by our competitors and our customers may reduce our market share and profit margins, adversely affecting our business, results of operations and financial condition.

We have relatively high market share in many of our seasonal product categories. Most of our product markets have shown little or no growth, and some of our product markets have declined, in recent years, and we continue to confront significant cost pressure as our competitors source certain products from overseas and certain customers increase direct sourcing from overseas factories. Increased overseas sourcing by our competitors and certain customers may result in a reduction of our market share and profit margins, adversely affecting our business, results of operations and financial condition.

Difficulties encountered by our key customers may cause them to reduce their purchases from us and/or increase our exposure to losses from bad debts, and adversely affect our business, results of operations and financial condition.

Many of our largest customers are national and regional retail chains. The retail channel in the United States has experienced significant shifts in market share among competitors in recent years. In addition, leveraged buyouts of certain large retailers in recent years have left these companies with significant levels of debt. Furthermore, the current economic slowdown, including reduced consumer spending and increased difficulty and costs associated with obtaining the financing and capital needed by retailers to operate their businesses, has adversely affected retailers in general, including our key customers. A continuation or worsening of the current economic slowdown, or even an uncertain economic outlook, could further adversely affect our key customers. Our business, results of operations and financial condition may be adversely affected if, as a result of these factors, our customers file for bankruptcy protection and/or cease doing business, significantly reduce the number of stores they operate, significantly reduce their purchases from us, do not pay us for their purchases, or if their payments to us are delayed because of bankruptcy

or other factors beyond our control.

Table of Contents

Our business, results of operations and financial condition may be adversely affected by volatility in the demand for our products.

Our success depends on the sustained demand for our products. Many factors affect the level of consumer spending on our products, including, among other things, general business conditions, interest rates, the availability of consumer credit, taxation, the effects of war, terrorism or threats of war, fuel prices, consumer demand for our products based upon, among other things, consumer trends and the availability of alternative products, and consumer confidence in future economic conditions. The current economic slowdown, in addition to adversely affecting our customers, has adversely affected consumer spending on discretionary items, including our products, which, in turn, has adversely affected our business, results of operations and financial condition. A continuation or worsening of the current economic slowdown, or even an uncertain economic outlook, could further adversely affect consumer spending on discretionary items, including our products, which, in turn, could further adversely affect our business, results of operations and financial condition. We also routinely utilize new artwork, designs or licensed intellectual property in connection with our products, and our inability to design, select or procure consumer-desired artwork, designs or licensed intellectual property could adversely affect the demand for our products, which could adversely affect our business, results of operations and financial condition.

Our business, results of operations and financial condition may be adversely affected if we are unable to compete successfully against our competitors.

Our success depends in part on our ability to compete against our competitors in our highly competitive markets. Our competitors, including large domestic corporations, such as Hallmark and American Greetings Corporation, foreign manufacturers who market directly to our customer base, importers of products produced overseas and small privately owned businesses, may be able to offer similar products with more favorable pricing and/or terms of sale or may be able to provide products that more readily meet customer requirements or consumer preferences. Our inability to successfully compete against our competitors could adversely affect our business, results of operations and financial condition.

Our business, results of operations and financial condition may be adversely affected if we are unable to hire and retain sufficient qualified personnel.

Our success depends, to a substantial extent, on the ability, experience and performance of our senior management. Our inability to retain our senior management team, or our inability to attract and retain qualified replacement personnel, may adversely affect us. We also regularly hire a large number of seasonal employees. Any difficulty we may encounter in hiring seasonal employees may result in significant increases in labor costs, which may have an adverse effect on our business, results of operations and financial condition.

Our business, results of operations and financial condition may be adversely affected if we fail to extend or renegotiate our collective bargaining contracts with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike, or other work stoppage.

Approximately 700 of our employees at our ribbon manufacturing facility in Hagerstown, Maryland and at our gift wrap facilities in Memphis, Tennessee are represented by labor unions. The collective bargaining agreement with the labor union representing the Hagerstown-based production and maintenance employees will expire on December 31, 2009. The collective bargaining agreement with the labor union representing Cleo's production and maintenance employees at the Cleo gift wrap plant and warehouses in Memphis, Tennessee will expire on December 31, 2010. Although we believe our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized

workers engage in a strike or other work related stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have an adverse effect on our business, results of operations and financial condition.

Table of Contents

Our acquisition strategy involves risks, and difficulties in integrating potential acquisitions may adversely affect our business, results of operations and financial condition.

We regularly evaluate potential acquisition opportunities to support, strengthen and grow our business. We cannot be sure that we will be able to locate suitable acquisition candidates, acquire possible acquisition candidates, acquire such candidates on commercially reasonable terms, or integrate acquired businesses successfully. Future acquisitions may require us to incur additional debt and contingent liabilities, which may adversely affect our business, results of operations and financial condition. The process of integrating acquired businesses into our existing operations may result in operating, contract and supply chain difficulties, such as the failure to retain customers or management personnel. Also, prior to our completion of any acquisition, we could fail to discover liabilities of the acquired business for which we may be responsible as a successor owner or operator in spite of any investigation we may make prior to the acquisition. Such difficulties may divert significant financial, operational and managerial resources from our existing operations, and make it more difficult to achieve our operating and strategic objectives. The diversion of management attention, particularly in a difficult operating environment, may adversely affect our business, results of operations and financial condition.

Our inability to protect our intellectual property rights, or infringement claims asserted against us by others, may adversely affect our business, results of operations and financial condition.

We have a number of copyrights, patents, tradenames, trademarks and intellectual property licenses which are used in connection with our products. While our operations are not dependent upon any individual copyright, patent, tradename, trademark or intellectual property license, we believe that the collective value of our intellectual property is substantial. We rely upon copyright and trademark laws in the United States and other jurisdictions and on confidentiality agreements with some of our employees and others to protect our proprietary rights. If our proprietary rights were infringed, our business could be adversely affected. In addition, our activities could infringe upon the proprietary rights of others, who could assert infringement claims against us. We could face costly litigation if we are forced to defend these claims. If we are unsuccessful in defending such claims, our business, results of operations and financial condition could be adversely affected.

We seek to register our trademarks in the United States and elsewhere. These registrations could be challenged by others or invalidated through administrative process or litigation. In addition, our confidentiality agreements with some employees or others may not provide adequate protection in the event of unauthorized use or disclosure of our proprietary information, or if our proprietary information otherwise becomes known, or is independently developed by competitors.

Various laws and governmental regulations applicable to a manufacturer or distributor of consumer products may adversely affect our business, results of operations and financial condition.

Our business is subject to numerous federal, state, provincial, local and foreign laws and regulations, including laws and regulations with respect to labor and employment, product safety, including regulations enforced by the United States Consumer Products Safety Commission, import and export activities, taxes, chemical usage, air emissions, wastewater and storm water discharges and the generation, handling, storage, transportation, treatment and disposal of waste materials, including hazardous materials. Although we believe that we are in substantial compliance with all applicable laws and regulations, because legal requirements frequently change and are subject to interpretation, we are unable to predict the ultimate cost of compliance or the consequences of non-compliance with these requirements, or the affect on our operations, any of which may be significant. If we fail to comply with applicable laws and regulations, we may be subject to criminal sanctions or civil remedies, including fines, injunctions, or prohibitions on importing or exporting. A failure to comply with applicable laws and regulations, or concerns about product safety, also may lead to a recall or post-manufacture repair of selected products. There is risk that any claims or liabilities,

including product liability claims, relating to such noncompliance may exceed, or fall outside the scope of, our insurance coverage. We cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations, will not have an adverse effect on our business, results of operations and financial condition.

Table of Contents

Our business, results of operations and financial condition may be adversely affected by national or global changes in economic or political conditions.

Our business, results of operations and financial condition may be adversely affected by national or global changes in economic or political conditions, including foreign currency fluctuations and fluctuations in inflation and interest rates, a national or international economic downturn, and any future terrorist attacks, and the national and global military, diplomatic and financial exposure to such attacks or other threats.

Our business, results of operations and financial condition may be adversely affected by our ability to successfully implement our enterprise resource planning systems standardization project.

We are in the process of standardizing our enterprise resource planning systems, master data and business processes across all of our businesses. We believe that this project, which is expected to be implemented in phases over a multiple year period, will provide a sound, cost effective foundation for our future growth, as well as provide the systems and business process infrastructure for future acquisitions and operating efficiencies. Such an implementation carries substantial operations risk, including loss of data or information, unanticipated increases in costs, disruption of operations or business interruption. Further, we may not be successful in implementing new systems or any new system may not perform as expected. Our inability to successfully implement this project could adversely affect our business, results of operations and financial condition.

We are subject to a number of restrictive covenants under our borrowing and accounts receivable securitization financing arrangements, including customary operating restrictions and customary financial covenants. Our business, results of operations and financial condition may be adversely affected if we are unable to maintain compliance with such covenants.

Our borrowing arrangements contain a number of restrictive covenants, including customary operating restrictions that limit our ability to engage in such activities as borrowing and making investments, capital expenditures, dividends and other distributions on our capital stock, and engaging in mergers, acquisitions, asset sales and repurchases of our capital stock. Under such arrangements, we are also subject to customary financial covenants, including covenants requiring us to maintain our capital expenditures and leverage ratio below certain maximum levels and to keep our fixed charge coverage ratio and consolidated net worth at or above certain minimum levels. Under our accounts receivable securitization facility, our accounts receivable pool that forms the basis for the funding provided by this facility is required to comply with covenants setting maximum permissible levels for default, dilution and delinquency ratios for the receivables pool as a whole, and setting a maximum permissible level for the current days sales outstanding for a portion of the receivables pool. Compliance with the financial covenants contained in our borrowing arrangements is based on financial measures derived from our operating results, and compliance with the financial covenants under our accounts receivable securitization facility is based on the performance of our accounts receivable pool forming the basis for funding under that facility.

If our business, results of operations or financial condition or our accounts receivable pool forming the basis for funding under our accounts receivable securitization facility is adversely affected by one or more of the risk factors described above, or other factors described in this annual report on Form 10-K or elsewhere in our filings with the SEC, we may be unable to maintain compliance with these financial covenants. If we fail to comply with such covenants, our lenders under our borrowing arrangements and the providers of funds under our accounts receivable securitization facility could stop advancing funds to us under these arrangements and/or demand immediate payment of amounts outstanding under such arrangements. Under such circumstances, we would need to seek alternate financing sources to fund our ongoing operations and to repay amounts outstanding and satisfy our other obligations under our existing borrowing and financing arrangements. Such financing may not be available on favorable terms, if at all. Consequently, we may be restricted in how we fund ongoing operations and strategic initiatives and deploy

capital, and in our ability to make acquisitions and to pay dividends. As a result, our business, results of operations and financial condition may be further adversely affected if we are unable to maintain compliance with the covenants under our borrowing arrangements and accounts receivable securitization facility.

Table of Contents

If our business, results of operations or financial condition is adversely affected as a result of any of the risk factors described above or elsewhere in this annual report on Form 10-K or our other SEC filings, we may be required to incur financial charges, such as goodwill impairment charges, which may, in turn, have a further adverse affect on our results of operations and financial condition.

If our business, results of operations or financial condition are adversely affected by one or more circumstances, such as any one or more of the risk factors above or other factors described in this annual report on Form 10-K and elsewhere in our SEC filings, we then may be required under applicable accounting rules to incur charges associated with reducing the carrying value on our financial statements of certain assets, such as goodwill. If we are required to incur such charges, our results of operations and financial condition may be further adversely affected.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The following table sets forth the location and approximate square footage of the Company's manufacturing and distribution facilities:

Location	Use	Approximate Square Feet	
		Owned	Leased
Danville, PA	Distribution	133,000	
Berwick, PA	Manufacturing and distribution	213,000	
Berwick, PA	Manufacturing and distribution	220,000	
Berwick, PA	Distribution	226,000	
Berwick, PA	Distribution		547,000
Memphis, TN	Manufacturing and distribution		1,006,000
Memphis, TN	Distribution		404,000
Hagerstown, MD	Manufacturing and distribution	284,000	
Hartwell, SC	Manufacturing	229,000	
El Paso, TX	Distribution		100,000
Florence, AL	Distribution		180,000
Milford, NH	Manufacturing		56,000
Milford, NH	Distribution		61,000
Total		1,305,000	2,354,000

The Company also owns a former manufacturing facility aggregating approximately 253,000 square feet which it is in the process of selling, and utilizes owned and leased space aggregating approximately 177,000 square feet for various marketing and administrative purposes, including approximately 21,000 square feet utilized as an office and showroom in Hong Kong. The headquarters and principal executive office of the Company are located in Philadelphia, Pennsylvania.

The Company is the lessee of approximately 14,000 square feet of space (which was used in former operations), portions of which have been subleased by the Company, as sublessor, to various sublessees. The Company also owns

a distribution facility (approximately 135,000 square feet) and administrative office space of approximately 6,000 square feet which has been leased to a third party.

Table of Contents

Item 3. *Legal Proceedings.*

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.

Item 4. *Submission of Matters to a Vote of Security Holders.*

Not applicable.

Table of Contents**PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The common stock of the Company is listed for trading on the New York Stock Exchange. The following table sets forth the high and low sales prices per share of that stock, and the dividends declared per share, for each of the quarters during fiscal 2009 and fiscal 2008.

Fiscal 2009	High	Low	Dividends Declared
First Quarter	\$ 36.83	\$ 23.71	\$.15
Second Quarter	30.83	23.30	.15
Third Quarter	25.98	15.15	.15
Fourth Quarter	18.94	10.02	.15

Fiscal 2008	High	Low	Dividends Declared
First Quarter	\$ 42.29	\$ 35.18	\$.14
Second Quarter	42.48	29.23	.14
Third Quarter	42.16	35.00	.14
Fourth Quarter	38.40	27.47	.14

At May 21, 2009, there were approximately 1,740 holders of the Company's common stock and there were no shares of preferred stock outstanding.

The ability of the Company to pay any cash dividends on its common stock is dependent on the Company's earnings and cash requirements and is further limited by maintaining compliance with financial covenants contained in the Company's credit facilities. The Company anticipates that quarterly cash dividends will continue to be paid in the future.

Table of Contents

Performance Graph

The graph below compares the cumulative total stockholders' return on the Company's common stock for the period from April 1, 2004 through March 31, 2009, with (i) the cumulative total return on the Standard and Poors 500 (S&P 500) Index and (ii) two peer groups, as described below (assuming the investment of \$100 in our common stock, the S&P 500 Index, and the peer groups on April 1, 2004 and reinvestment of all dividends).

The peer group utilized consists of American Greetings Corporation, Blyth, Inc., Russ Berrie and Company, Inc., JAKKS Pacific, Inc. and Lifetime Brands, Inc. (the Peer Group). The Peer Group selected by the Company was revised this year to exclude Lenox Group Inc. because it no longer is a publicly-traded company, and to include Lifetime Brands, Inc. The Company selected this group as its Peer Group because they are engaged in businesses that are sometimes categorized with the Company's business. However, management believes that a comparison of the Company's performance to this Peer Group will be flawed, because the businesses of the Peer Group companies are in large part different from the Company's business. In this regard, the Company competes with only certain smaller product lines of American Greetings; Blyth is principally focused on fragranced candle products and related candle accessories, competing only with some of the Company's products; Lifetime Brands is principally focused on food preparation, tabletop and home décor, competing only with some of the Company's products; and the other companies principally sell toy and/or juvenile products. The peer group previously used by the Company, which consisted of American Greetings Corporation, Blyth, Inc., Lenox Group Inc., Russ Berrie and Company, Inc. and JAKKS Pacific, Inc. (the Old Peer Group), is shown in the chart above for comparative purposes.

Table of Contents**Item 6. Selected Financial Data.**

	Years Ended March 31,				
	2009	2008	2007	2006	2005
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Net sales	\$ 482,424	\$ 498,253	\$ 530,686	\$ 525,494	\$ 536,362
Income before income taxes	25,890	38,833	36,804	32,716	47,118
Net income	16,986	25,358	23,889	21,841	30,692
Net income per common share:					
Basic	\$ 1.71	\$ 2.36	\$ 2.25	\$ 2.08	\$ 2.58
Diluted	\$ 1.70	\$ 2.31	\$ 2.19	\$ 2.00	\$ 2.45
Balance Sheet Data:					
Working capital	\$ 114,371	\$ 136,000	\$ 188,309	\$ 161,482	\$ 151,878
Total assets	322,259	345,041	343,070	334,149	333,906
Current portion of long-term debt	10,479	10,246	10,195	10,169	10,442
Long-term debt	485	10,192	20,392	30,518	40,000
Stockholders' equity	259,254	262,353	261,110	232,510	216,489
Cash dividends declared per common share	\$.60	\$.56	\$.48	\$.48	\$.40

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

Approximately 63% of the Company's sales are attributable to seasonal (Christmas, Valentine's Day, Easter and Halloween) products, with the remainder being attributable to all occasion products. Seasonal products are sold primarily to mass market retailers, and the Company has relatively high market share in many of these categories. Most of these markets have shown little or no growth in recent years, and the Company continues to confront significant price pressure as its competitors source certain products from overseas and its customers increase direct sourcing from overseas factories. Increasing customer concentration has augmented their bargaining power, which has also contributed to price pressure. In recent fiscal years, the Company experienced lower sales in its gift wrap, gift tissue and gift bag lines. In addition, many of our mass market customers reduced purchases for Christmas 2008 due to poor sales of seasonal products at store level in the prior calendar year. Both seasonal and all occasion sales declines were further exacerbated as the current economic downturn deepened in the fall of calendar 2008.

The Company has taken several measures to respond to sales volume, cost and price pressures. The Company believes it has strengthened its core Christmas product offerings for the upcoming 2009 Christmas selling season with new and innovative designs and licenses. In addition, we are pursuing new product initiatives related to seasonal, craft and all occasion products, including new licensed and non-licensed product offerings. CSS continually invests in product and packaging design and product knowledge to assure it can continue to provide unique added value to its customers. In addition, CSS maintains an office and showroom in Hong Kong to be able to provide alternatively sourced products at competitive prices. CSS continually evaluates the efficiency and productivity of its North American production and distribution facilities and of its back office operations to maintain its competitiveness. In the last five fiscal years, the Company has closed five manufacturing plants and five warehouses totaling 1,209,000 square feet. Additionally, in

fiscal 2007 the Company combined the management and back office support for its Memphis, Tennessee based Cleo gift wrap operation into its Berwick Offray ribbon and bow subsidiary. In fiscal 2009, the Company initiated the consolidation of its accounts receivable, accounts payable and payroll functions into a combined back office operation.

The Company's all occasion craft, gift card holder, stationery and memory product lines have higher inherent growth potential due to higher market growth rate. Further, the Company's all occasion craft, gift card holder,

Table of Contents

stationery and floral product lines have higher inherent growth potential due to CSS' relatively low current market share. The Company continues to pursue sales growth in these and other areas.

The seasonal nature of CSS' business has historically resulted in lower sales levels 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, which ends March 31, thereby causing significant fluctuations in the quarterly results of operations of the Company.

Historically, significant growth at CSS has come through acquisitions. Management anticipates that it will continue to utilize acquisitions to stimulate further growth.

On February 20, 2009, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of 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 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. 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.

On May 16, 2008, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of 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.

On December 3, 2007, the Company completed the acquisition of substantially all of the business and assets of C.R. Gibson, which is a designer, marketer and distributor of memory books, stationery, journals and notecards, infant and wedding photo albums, scrapbooks, and other gift items that commemorate life's celebrations. In consideration, the Company paid approximately \$73,847,000 in cash, including transaction costs of approximately \$200,000. 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.

Litigation

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.

Results of Operations

Fiscal 2009 Compared to Fiscal 2008

Consolidated net sales for fiscal 2009 decreased 3% to \$482,424,000 from \$498,253,000 in fiscal 2008. Excluding net sales of businesses acquired over the last two fiscal years, sales declined 12%. Our fiscal 2009 Christmas business was negatively impacted by reduced sales of Christmas gift wrap, gift bags and decorative tissue paper and generally reduced purchases by many of our retailer customers in response to poor retail sales during the calendar 2007 Christmas (fiscal 2008) selling season. The weakening economy in the second half of fiscal 2009 further impacted our sales of all occasion and Christmas products, as some of our customers canceled or delayed purchases and, in certain cases, returned products in the face of the poor retail environment.

Table of Contents

Cost of sales, as a percentage of net sales, increased to 74% in fiscal 2009 from 72% in fiscal 2008. The increase in the percentage of cost of goods sold to net sales is primarily due to increased material costs and increased fixed manufacturing overhead costs per unit due to reduced production volume.

Selling, general and administrative (SG&A) expenses of \$96,723,000 in fiscal 2009 remained relatively unchanged from \$96,703,000 in fiscal 2008. SG&A expenses, as a percentage of net sales, increased to 20% in fiscal 2009 from 19% in fiscal 2008. The increase, as a percentage of net sales, is primarily due to a full year of C.R. Gibson activity and the lower sales base in fiscal 2009. C.R. Gibson, acquired on December 3, 2007, maintains a higher level of SG&A expenses, relative to its sales, than our other businesses. Partially offsetting this increase was lower incentive compensation expense compared to the prior year.

Restructuring expenses were \$1,138,000 in fiscal 2009 and \$1,717,000 in fiscal 2008. The decline in restructuring expenses represents lower costs recorded in fiscal 2009 compared to fiscal 2008 related to the closure of two production facilities and a distribution center and a net gain of \$761,000 recorded in fiscal 2009 related to the sale of two buildings that were previously classified as available for sale. Partially offsetting this decline were severance costs recorded in fiscal 2009 associated with permanent workforce reductions and the consolidation of certain back office operations.

Interest expense, net increased to \$2,551,000 in fiscal 2009 from \$974,000 in fiscal 2008. The increase in interest expense, net was primarily due to higher average borrowing levels primarily as a result of acquisitions and stock repurchases during fiscal 2009 compared to the prior year. The impact of higher average borrowings was partially offset by a lower average interest rate compared to the prior year.

Income before income taxes was \$25,890,000, or 5% of sales, in fiscal 2009 and \$38,833,000, or 8% of sales, in fiscal 2008.

Income taxes, as a percentage of income before taxes, were 34% in fiscal 2009 and 35% in fiscal 2008. The decrease in fiscal 2009 was primarily due to the reduction of tax reserves, partially offset by a reduction in tax exempt interest income and higher state taxes.

Net income for the year ended March 31, 2009 decreased 33% to \$16,986,000 from \$25,358,000 in fiscal 2008. The decrease in net income was primarily attributable to reduced sales volume, higher material costs, plant inefficiencies resulting from lower production volume and higher interest expense, partially offset by lower incentive compensation.

Fiscal 2008 Compared to Fiscal 2007

Consolidated net sales for fiscal 2008 decreased 6% to \$498,253,000 from \$530,686,000 in fiscal 2007. The decrease in net sales was primarily due to lower sales of products sold to warehouse clubs and lower sales of Christmas gift wrap, decorative tissue paper and gift bags and educational products. These sales reductions were partially offset by C.R. Gibson sales since its acquisition on December 3, 2007. Excluding sales from C.R. Gibson, net sales declined 9% from prior year.

Cost of sales, as a percentage of net sales, decreased to 72% in fiscal 2008 from 74% in fiscal 2007. The decrease in cost of sales was primarily due to improved efficiencies in the gift wrap, gift bag and tissue product lines resulting from the restructuring program announced in November 2006.

SG&A expenses, as a percentage of net sales, increased to 19% in fiscal 2008 from 18% in fiscal 2007. The increase in SG&A expenses, as a percentage of net sales, is primarily attributable to the mix of expenses compared to the prior year resulting from the acquisition of the C.R. Gibson business on December 3, 2007.

Restructuring expenses were \$1,717,000 in fiscal 2008 and \$2,327,000 in fiscal 2007. The decrease in restructuring expenses was due to the absence of costs related to a restructuring program in the prior year to combine the operations of the Cleo and Berwick Offray subsidiaries, to close Cleo's Maysville, Kentucky production facility and to exit a non-material, non-core business which was partially offset by costs related to a restructuring program announced on January 4, 2008 to close the Company's two production facilities in Elysburg, Pennsylvania and a distribution center in Troy, Pennsylvania. See Note 4 to the consolidated financial statements for further discussion.

Table of Contents

Interest expense, net decreased to \$974,000 in fiscal 2008 from \$2,285,000 in fiscal 2007. The decrease in interest expense, net was primarily due to lower average borrowing levels during fiscal 2008 compared to the prior year as a result of cash generated from operations, offset by the impact of cash utilized to purchase the C.R. Gibson business and to repurchase the Company's common stock and the impact of a lower rate of return on invested cash resulting from the Company's investment in a tax exempt municipal fund in the current year.

Income before income taxes was \$38,833,000, or 8% of net sales, in fiscal 2008 and \$36,804,000, or 7% of net sales, in fiscal 2007.

Income taxes, as a percentage of income before taxes, were 35% in fiscal 2008 and fiscal 2007. Reductions in the Company's effective tax rate from the Company's investment during fiscal 2008 in a federal tax exempt municipal fund and from a decrease in the Company's state effective tax rate were substantially offset by the non-recurrence of tax benefits recorded in fiscal 2007 related to decreases in foreign and state valuation allowances and state tax reserves.

Net income for the year ended March 31, 2008 increased 6% to \$25,358,000 from \$23,889,000 in fiscal 2007. The increase in net income was primarily attributable to current fiscal year cost savings and lower implementation expense associated with restructuring plans implemented in November 2006 and January 2008, incremental earnings contributed by the recently acquired C.R. Gibson business and reduced interest expense, net of the impact of reduced sales volume.

Liquidity and Capital Resources

At March 31, 2009, the Company had working capital of \$114,371,000 and stockholders' equity of \$259,254,000. The increase in accounts receivable, net of reserves, to \$43,741,000 at March 31, 2009 from \$39,144,000 at March 31, 2008 was primarily the result of receivables of businesses acquired in fiscal 2009. Inventories decreased to \$99,971,000 from \$105,532,000 primarily due to reduced inventories of raw paper at Cleo. Raw paper inventories at the end of fiscal 2008 were higher than normal as Cleo purchased a higher volume of paper in anticipation of scheduled price increases from vendors. Partially offsetting this decline were inventories of newly acquired businesses and increased all occasion products due to slowing sales in the second half of fiscal 2009. We expect that all occasion inventories will return to normal levels in the first half of fiscal 2010. The decrease in assets held for sale was attributable to the sale of a manufacturing facility and a distribution facility in the third quarter of fiscal 2009. Capital expenditures increased to \$14,143,000 in fiscal 2009 from \$8,330,000 in fiscal 2008 primarily due to the enterprise resource planning (ERP) system integration project announced in October 2007. The increase in goodwill and intangible assets, net was primarily attributable to the acquisition of Hampshire Paper and Seastone, as more fully described in Note 2 to the consolidated financial statements. Accounts payable decreased to \$14,332,000 from \$18,275,000 primarily as a result of reduced inventory purchases in response to lower demand for our products in the second half of fiscal 2009. The decrease in accrued payroll and other compensation to \$5,677,000 at March 31, 2009 from \$11,526,000 at March 31, 2008 was due to lower incentive compensation and employee benefits in fiscal 2009 compared to the prior year. Accrued other expenses decreased to \$9,317,000 from \$13,586,000 primarily due to the absence of a \$2,700,000 purchase price obligation related to the acquisition of C.R. Gibson which was included in accrued other expenses as of March 31, 2008 and was paid in the first quarter of fiscal 2009. The decrease in stockholders' equity from \$262,353,000 at March 31, 2008 to \$259,254,000 at March 31, 2009 was primarily due to repurchases of our common stock under our stock repurchase program and payments of cash dividends, partially offset by the current year net income.

Under stock repurchase programs previously 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 and 747,424 shares of the Company's common stock for \$25,449,000 in fiscal 2008. As of March 31, 2009, the Company had 313,000 shares remaining available for repurchase under the Board's authorization.

The Company relies primarily on cash generated from its operations and seasonal borrowings to meet its liquidity requirements. Historically, a significant portion of the Company's revenues have been seasonal, with approximately 80% of sales recognized in the second and third quarters. As payment for sales of Christmas related products is usually not received until just before or just after the holiday selling season in accordance with general industry practice, short-term borrowing needs increase throughout the second and third quarters, peaking prior to

Table of Contents

Christmas and dropping thereafter. Seasonal financing requirements are met under a \$110,000,000 revolving credit facility with four banks and an accounts receivable securitization facility with an issuer of receivables-backed commercial paper. This facility has a funding limit of \$75,000,000 during peak seasonal periods and \$25,000,000 during off-peak seasonal periods. In addition, the Company has outstanding \$10,000,000 of 4.48% senior notes due in December 2009. These financing facilities are available to fund the Company's seasonal borrowing needs and to provide the Company with sources of capital for general corporate purposes, including acquisitions as permitted under the revolving credit facility. At March 31, 2009, the Company's borrowings consisted of \$10,000,000 outstanding under the senior notes and \$4,150,000 outstanding under the Company's short-term credit facilities. For information concerning these credit facilities, see Note 9 to the consolidated financial statements. In addition, the Company had approximately \$864,000 of capital leases outstanding at March 31, 2009.

Based on its current operating plan, the Company believes its sources of available capital are adequate to meet its ongoing cash needs for at least the next 12 months.

As of March 31, 2009, the Company's contractual obligations and commitments are as follows (in thousands):

Contractual Obligations	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Short-term debt	\$ 4,150	\$	\$	\$	\$ 4,150
Note payable to seller	50	50			100
Capital lease obligations	429	435			864
Operating leases	8,606	7,618	1,549	421	18,194
Long-term debt(1)	10,314				10,314
Other long-term obligations(2)		427	300	2,068	2,795
Purchase obligation(3)	1,200				1,200
	\$ 24,749	\$ 8,530	\$ 1,849	\$ 2,489	\$ 37,617

- (1) Interest on long-term debt is based on amounts outstanding and on the fixed interest rate of 4.48%.
- (2) Other long-term obligations consist primarily of postretirement medical liabilities and deferred compensation arrangements. Future timing of payments for other long-term obligations is estimated by management.
- (3) The Company is committed to purchase approximately \$1,200,000 of certain paper raw material products from a vendor over a one year term. The Company believes the minimum product purchases under this agreement are well within the Company's annual product requirements.

The above table excludes any potential uncertain income tax liabilities that may become payable upon examination of the Company's income tax returns by taxing authorities. Such amounts and periods of payment cannot be reliably estimated. See Note 8 to the consolidated financial statements for further explanation of the Company's uncertain tax positions.

As of March 31, 2009, the Company's other commitments are as follows (in thousands):

	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Letter of credit	\$ 4,100	\$	\$	\$	\$ 4,100

The Company has a reimbursement obligation with respect to stand-by letters of credit that guarantee the funding of workers compensation claims. The Company has no financial guarantees or other similar arrangements with any third parties or related parties other than its subsidiaries.

In the ordinary course of business, the Company enters into arrangements with vendors to purchase merchandise in advance of expected delivery. These purchase orders do not contain any significant termination payments or other penalties if cancelled.

Table of Contents

Critical Accounting Policies

In preparing our consolidated financial statements, management is required to make estimates and assumptions that, among other things, affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are most significant where they involve levels of subjectivity and judgment necessary to account for highly uncertain matters or matters susceptible to change, and where they can have a material impact on our financial condition and operating performance. Below are the most significant estimates and related assumptions used in the preparation of our consolidated financial statements. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

Revenue

Revenue is recognized from product sales when goods are shipped, title and risk of loss have been transferred to the customer and collection is reasonably assured. The Company records estimated reductions to revenue for customer programs, which may include special pricing agreements for specific customers, volume incentives and other promotions. In limited cases, the Company may provide the right to return product as part of its customer programs with certain customers. The Company also records estimated reductions to revenue, based primarily on historical experience, for customer returns and chargebacks that may arise as a result of shipping errors, product damaged in transit or for other reasons that become known subsequent to recognizing the revenue. These provisions are recorded in the period that the related sale is recognized and are reflected as a reduction from gross sales, and the related reserves are shown as a reduction of accounts receivable, except for reserves for customer programs which are shown as a current liability. If the amount of actual customer returns and chargebacks were to increase or decrease significantly from the estimated amount, revisions to the estimated allowance would be required.

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. While some customers are granted return rights as part of their sales program, customers generally 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 is generally not required to repurchase products from its customers, nor does the Company have any regular practice of doing so. In addition, the Company endeavors to mitigate its exposure to bad debts by evaluating the creditworthiness of its major customers utilizing established credit limits and purchasing credit insurance when warranted in management's judgment and available on terms that management deems appropriate. 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 customer's creditworthiness, historical recovery percentages and outstanding customer deductions and program arrangements.

Inventory Valuation

Inventories are valued at the lower of cost or market. Cost is primarily determined by the first-in, first-out method although certain inventories are valued based on the last-in, first-out method. The Company writes down its inventory for estimated obsolescence in an amount equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand, market conditions, customer planograms and sales forecasts. Additional inventory write downs could result from unanticipated additional carryover of finished goods and raw materials, or from lower proceeds offered by parties in our traditional closeout channels.

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

Table of Contents

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 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 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 at the testing date 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.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our actual current tax expense (state, federal and foreign), including the impact of permanent and temporary differences resulting from differing bases and treatment of items for tax and accounting purposes, such as the carrying value of intangibles, deductibility of expenses, depreciation of property, plant and equipment, and valuation of inventories. Temporary differences and operating loss and credit carryforwards result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if sufficient taxable income is not generated in future periods. To the extent we determine the need to establish a valuation allowance or increase such allowance in a period, we would record additional tax expense in the accompanying consolidated statements of operations. The management of the Company periodically estimates the probable tax obligations of the Company using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to or further interpretations of regulations. If such changes take place, there is a risk that the tax rate may increase or decrease in any period.

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 the fair value of the award and is expensed ratably over the requisite service period of the award. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the grant date requires considerable judgment, including estimating stock price volatility and the 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.

Table of Contents

Accounting Pronouncements

See Note 14 to the consolidated financial statements for information concerning recent accounting pronouncements and the impact of those standards.

Forward-Looking and Cautionary Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding continued use of acquisitions to stimulate further growth; the expected future impact of legal proceedings and changes in accounting principles; the anticipated effects of measures taken by the Company to respond to cost and price pressures; the expected reduction of inventory levels; strengthened product lines and new product initiatives; and the Company's anticipation that quarterly cash dividends will continue to be paid in the future. Forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management as to future events and financial performance with respect to the Company's operations. Forward-looking statements speak only as of the date made. The Company undertakes no obligation to update any forward-looking statements to reflect the events or circumstances arising after the date as of which they were made. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including without limitation, general market and economic conditions; increased competition; increased operating costs, including labor-related and energy costs and costs relating to the imposition or retrospective application of duties on imported products; currency risks and other risks associated with international markets; risks associated with acquisitions, including acquisition integration costs and the risk that the Company may not be able to integrate and derive the expected benefits from such acquisitions; risks associated with the Company's ERP systems standardization project, including the risk that the cost of the project will exceed expectations, the risk that the expected benefits of the project will not be realized and the risk that implementation of the project will interfere with and adversely affect the Company's operations and financial performance; the risk that customers may become insolvent, may delay payments or may impose deductions or penalties on amounts owed on the Company; costs of compliance with governmental regulations and government investigations; liability associated with non-compliance with governmental regulations, including regulations pertaining to the environment, Federal and state employment laws, and import and export controls and customs laws, and other factors described more fully elsewhere in this annual report on Form 10-K and in the Company's previous filings with the Securities and Exchange Commission. As a result of these factors, readers are cautioned not to place undue reliance on any forward-looking statements included herein or that may be made elsewhere from time to time by, or on behalf of, the Company.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

The Company's activities expose it to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. These financial exposures are monitored and, where considered appropriate, managed by the Company as described below.

Interest Rate Risk

The Company's primary market risk exposure with regard to financial instruments is to changes in interest rates. Pursuant to the Company's variable rate lines of credit, a change in either the lender's base rate or the London Interbank Offered Rate (LIBOR) would affect the rate at which the Company could borrow funds thereunder. Based on average borrowings under these credit facilities of \$50,372,000 for the year ended March 31, 2009, a 1% increase or decrease in floating interest rates would have increased or decreased annual interest expense by approximately \$504,000. Based on an average cash balance of \$8,597,000 for the year ended March 31, 2009, a 1% increase or decrease in interest rates would have increased or decreased annual interest income by approximately \$86,000.

Table of Contents

Foreign Currency Risk

Approximately 3% of the Company's sales in fiscal 2009 were denominated in a foreign currency. The Company considers its risk exposure with regard to foreign currency fluctuations insignificant as it enters into foreign currency forward contracts to hedge the majority of firmly committed transactions and related receivables that are denominated in a foreign currency. The Company has designated its foreign currency forward contracts as fair value hedges. The gains or losses on the fair value hedges are recognized in earnings and generally offset the transaction gains or losses on the foreign denominated assets that they are intended to hedge.

Item 8. *Financial Statements and Supplementary Data.*

CSS INDUSTRIES, INC. AND SUBSIDIARIES

INDEX

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	23
<u>Consolidated Balance Sheets March 31, 2009 and 2008</u>	24
<u>Consolidated Statements of Operations and Comprehensive Income for the years ended March 31, 2009, 2008 and 2007</u>	25
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2009, 2008 and 2007</u>	26
<u>Consolidated Statements of Stockholders Equity for the years ended March 31, 2009, 2008 and 2007</u>	27
<u>Notes to Consolidated Financial Statements</u>	28-49
Financial Statement Schedule: <u>Schedule II. Valuation and Qualifying Accounts</u>	57

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying 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. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSS Industries, Inc. and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in notes 1 and 8 to the consolidated financial statements, effective April 1, 2007, CSS Industries, Inc. adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. As discussed in note 14 to the consolidated financial statements, effective April 1, 2008, CSS Industries, Inc. adopted EITF 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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), and our report dated June 1, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

June 1, 2009
Philadelphia, PA

Table of Contents**CSS INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	March 31,	
	2009	2008
	(In thousands, except share and per share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,179	\$ 28,109
Accounts receivable, net of allowances of \$5,166 and \$5,291	43,741	39,144
Inventories	99,971	105,532
Deferred income taxes	5,758	7,276
Assets held for sale	1,363	3,590
Other current assets	15,295	16,242
Total current assets	168,307	199,893
NET PROPERTY, PLANT AND EQUIPMENT	54,942	50,632
OTHER ASSETS		
Goodwill	49,258	48,361
Intangible assets, net of accumulated amortization of \$2,383 and \$925	45,649	42,454
Other	4,103	3,701
Total other assets	99,010	94,516
Total assets	\$ 322,259	\$ 345,041
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 4,150	\$
Current portion of long-term debt	10,479	10,246
Accounts payable	14,332	18,275
Accrued income taxes	72	822
Accrued payroll and other compensation	5,677	11,526
Accrued customer programs	9,909	9,438
Accrued other expenses	9,317	13,586
Total current liabilities	53,936	