CSS INDUSTRIES INC
Form 10-K
June 01, 2010

Table of Contents

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

**Form 10-K**

(Mark one)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended March 31, 2010**

**OR**

o **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** | **13-1920657** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **1845 Walnut Street, Philadelphia, PA** | **19103** |
| *(Address of principal executive offices)* | *(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** | **Name of each exchange on which registered** |
|---|---|
| Common Stock, $.10 par value | 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 o No þ

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 o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 period that the registrant was required to submit and post such files). Yes o No o

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. þ

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(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 o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant is $167,305,009. 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, 2009, 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 2010 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 19, 2010, there were outstanding 9,678,246 shares of common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s definitive proxy statement for its 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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**CSS INDUSTRIES, INC.**

**FORM 10-K**
**FOR THE FISCAL YEAR ENDED MARCH 31, 2010**

**INDEX**


| | | Page |
|---|---|---|
| | **PART I** | |
| Item 1. | Business | 1 |
| Item 1A. | Risk Factors | 4 |
| Item 1B. | Unresolved Staff Comments | 9 |
| Item 2. | Properties | 10 |
| Item 3. | Legal Proceedings | 10 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 10 |
| | **PART II** | |
| Item 5. | Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 11 |
| Item 6. | Selected Financial Data | 13 |
| Item 7. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 21 |
| Item 8. | Financial Statements and Supplementary Data | 22 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 51 |
| Item 9A. | Controls and Procedures | 51 |
| Item 9B. | Other Information | 53 |
| | **PART III** | |
| Item 10. | Directors, Executive Officers and Corporate Governance | 53 |
| Item 11. | Executive Compensation | 53 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 53 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 53 |
| Item 14. | Principal Accounting Fees and Services | 53 |
| | **PART IV** | |
| Item 15. | Exhibits, Financial Statement Schedules | 54 |
| Signatures | | 58 |
| EXHIBIT 10.16 | | |
| EXHIBIT 10.24 | | |
| EXHIBIT 10.25 | | |
| EXHIBIT 10.26 | | |
| EXHIBIT 10.27 | | |
| EXHIBIT 10.38 | | |
| EXHIBIT 10.39 | | |
| EXHIBIT 10.40 | | |

EXHIBIT 23
EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32.1
EXHIBIT 32.2

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, stickers, 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 2010 refers to the fiscal year ended March 31, 2010.

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. The Company consolidated its accounts receivable, accounts payable and payroll functions into a combined back office operation, which was substantially completed in the first quarter of fiscal 2010. Also completed in the first quarter of fiscal 2010 was the implementation of a phase of integrating the Company s enterprise resource planning systems standardization project.

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$^{tm}$ ( iota ). iota is a 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.

On May 27, 2009, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of Designer Dispatch Ribbon, Inc. ( Designer Dispatch Ribbon ). Designer Dispatch Ribbon was a manufacturer of stock and custom ribbon and bows and related products. The acquisition was accounted for as a purchase and there was no goodwill recorded in this transaction.

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

Table of Contents

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, stickers, memory books, stationery, journals, notecards, infant and wedding photo albums, scrapbooks, floral accessories and other gift and craft items to its mass market, craft, 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®, Lion Ribbon Company®, Markings®, Creative Papers®, Tapestry®, Seastone®, Dudley ®s, Don Post Studios®, Eureka®, Learning Playground®, Stickerfitti® 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 imported from Mexico and Asia. Imported woven products are either narrow woven or converted from bulk rolls of wide width textiles. Domestic woven products are narrow woven.

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 2010 fiscal year, CSS experienced no material difficulties in obtaining raw materials or finished goods 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

**Table of Contents**

especially important to the success of its classroom exchange Valentines, stickers 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.

*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 26% and 10% of total net sales, respectively, during fiscal 2010. No other customer accounted for 10% or more of the Company s net sales in fiscal 2010. Approximately 59% 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 46% 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 19, 2010, approximately 2,000 persons were employed by CSS (increasing to approximately 2,800 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 650 employees as of May 19, 2010,

Table of Contents

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 union representing the Hagerstown-based production and maintenance employees remains in effect until December 31, 2011.

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 59% 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 46% 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 26% and 10% of our sales, respectively, during our 2010 fiscal year. No other single customer accounted for 10% or more of our sales in fiscal 2010. 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 2010 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

Table of Contents

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.

***Increases in raw material and energy costs, resulting from general economic conditions, acts of nature, such as hurricanes, earthquakes or 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 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, stickers, 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 54% of our sales in fiscal 2010 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 United States and foreign laws and regulations, such as the United States Foreign Corrupt Practices Act, costs relating to the imposition or retrospective application of antidumping and countervailing duties or other trade-related sanctions 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, affects from the worldwide economic slowdown that began in our 2009 fiscal year, including reduced, delayed or foregone

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 worldwide 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

Table of Contents

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.

***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 worldwide economic slowdown that began in our 2009 fiscal year, 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 worldwide 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, procure, maintain or sell 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. In order to hire and retain qualified personnel, including our senior management team, we seek to provide competitive compensation programs. 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 650 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,

2011. 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

Table of Contents

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.

***Employee benefit costs may adversely affect our business, results of operations and financial condition.***

We seek to provide competitive employee benefit programs to our employees. Employee benefit costs, such as healthcare costs of our eligible and participating employees, may increase significantly at a rate that is difficult to forecast, in part because we are unable to determine the impact that newly enacted federal healthcare legislation may have on our employer-sponsored medical plans. Higher employee benefit costs could have an adverse effect on our business, results of operations and financial condition.

***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, antitrust issues, taxes, chemical usage, air emissions, wastewater and storm water discharges and the generation, handling, storage, transportation,

Table of Contents

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.

***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 multiple year project, a portion of which we completed in our 2010 fiscal year, 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

Table of Contents

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.

***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 statement charges, such as goodwill impairment charges, which may, in turn, have a further adverse affect on our results of operations and financial condition.***

In the fourth quarter of fiscal 2010 we recorded a non-cash pre-tax impairment charge of $44,315,000 due to a full impairment of goodwill in our BOC Design Group and C.R. Gibson reporting units, and partial impairments of trademarks used by such entities. 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 additional charges associated with reducing the carrying value on our financial statements of certain assets, such 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. We perform our required annual assessment as of our 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. We use both a market approach and an income approach to determine the fair value of our reporting units because we believe that the use of multiple valuation techniques results in a more accurate indicator of the fair value of each of our reporting units. 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 will be reported.

Other indefinite lived intangible assets, such as our tradenames, also are required to be tested annually. We calculate the fair value of our tradenames using a relief from royalty payments methodology. We also review long-lived assets, except for goodwill and indefinite lived intangible assets, for impairment when circumstances indicate the carrying value of an asset may not be recoverable. If such assets are considered to be impaired, we will recognize, for impairment purposes, an amount by which the carrying amount of the assets exceeds the fair value of the assets.

If we are required to incur any of the foregoing financial charges, our results of operations and financial condition may be further adversely affected.

**Item 1B.** ***Unresolved Staff Comments.***

None.

Table of Contents

**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 | | 521,000 |
| 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 | 2,328,000 |

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 217,000 square feet for various marketing and administrative purposes, including approximately 21,000 square feet utilized as an office and showroom in Hong Kong. The Company also owns administrative office space of approximately 6,000 square feet which has been leased to a third party. The headquarters and principal executive office of the Company are located in Philadelphia, Pennsylvania.

**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 2010 and fiscal 2009.

| **Fiscal 2010** | **High** | **Low** | **Dividends Declared** |
|---|---|---|---|
| First Quarter | $ 23.53 | $ 15.20 | $ .15 |
| Second Quarter | 27.28 | 18.25 | .15 |
| Third Quarter | 21.93 | 17.19 | .15 |
| Fourth Quarter | 21.85 | 16.09 | .15 |

| **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 |

At May 19, 2010, there were approximately 2,230 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, 2005 through March 31, 2010, with (i) the cumulative total return on the Standard and Poors 500 ( S&P 500 ) Index and (ii) a peer group, as described below (assuming the investment of $100 in our common stock, the S&P 500 Index, and the peer group on April 1, 2005 and reinvestment of all dividends).

The peer group utilized consists of American Greetings Corporation, Blyth, Inc., Kid Brands, Inc. (formerly known as Russ Berrie and Company, Inc.), JAKKS Pacific, Inc. and Lifetime Brands, Inc. (the Peer Group ). 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.

Table of Contents

**Item 6.** ***Selected Financial Data.***

| | Years Ended March 31, | | | | |
|---|---|---|---|---|---|
| | **2010(a)** | **2009** | **2008** | **2007** | **2006** |
| | **(In thousands, except per share amounts)** | | | | |
| **Statement of Operations Data:** | | | | | |
| Net sales | $ 448,450 | $ 482,424 | $ 498,253 | $ 530,686 | $ 525,494 |
| (Loss) income before income taxes | (30,987) | 25,890 | 38,833 | 36,804 | 32,716 |
| Net (loss) income | (23,739) | 16,986 | 25,358 | 23,889 | 21,841 |
| Net (loss) income per common share: | | | | | |
| Basic | $ (2.46) | $ 1.71 | $ 2.36 | $ 2.25 | $ 2.08 |
| Diluted | $ (2.46) | $ 1.70 | $ 2.31 | $ 2.19 | $ 2.00 |
| **Balance Sheet Data:** | | | | | |
| Working capital | $ 130,897 | $ 114,371 | $ 136,000 | $ 188,309 | $ 161,482 |
| Total assets | 281,762 | 322,259 | 345,041 | 343,070 | 334,149 |
| Current portion of long-term debt | 481 | 10,479 | 10,246 | 10,195 | 10,169 |
| Long-term debt | 66 | 485 | 10,192 | 20,392 | 30,518 |
| Stockholders equity | 233,045 | 259,254 | 262,353 | 261,110 | 232,510 |
| **Cash dividends declared per common share** | $ .60 | $ .60 | $ .56 | $ .48 | $ .48 |

(a) In the fourth quarter of fiscal 2010, the Company recorded a non-cash pre-tax impairment charge of $44,315,000 due to a full impairment of goodwill in two of its reporting units, C.R. Gibson, LLC and BOC Design Group (consisting of Berwick Offray LLC and Cleo Inc), and partial impairments of tradenames used by such entities. The foregoing impairment charge was partially offset by an $11,692,000 tax benefit.

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

**Overview**

Approximately 59% 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 growth and in some cases have declined 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, boxed greeting card, ribbons and bow, gift tissue and gift bag lines. In addition, both seasonal and all occasion sales declines were further exacerbated as the current economic downturn deepened in the fall of calendar 2008 and continued through the current fiscal year as we experienced slowness or reductions in order patterns by our customers. In the fourth quarter of fiscal 2010, the Company recorded a non-cash pre-tax impairment charge of $44,315,000 due to a full impairment of goodwill in the Company s BOC Design Group and C.R. Gibson reporting units, and partial impairments of trademarks used by such entities. See Note 3 to the consolidated financial statements.

The Company has taken several measures to respond to sales volume, cost and price pressures. The Company believes it continues to have strong core Christmas product offerings which has helped us to maintain market share in this competitive market. In addition, we are aggressively 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

Table of Contents

North American production and distribution facilities and of its back office operations to maintain its competitiveness. In the last six 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. The Company consolidated its human resources, accounts receivable, accounts payable and payroll functions into a combined back office operation, which was substantially completed in the first quarter of fiscal 2010. Also completed in the first quarter of fiscal 2010 was the implementation of a phase of integrating the Company s enterprise resource planning systems standardization project.

In recent months, our domestically-manufactured narrow woven ribbon product lines have experienced significant price pressure and the prospect of reduced future sales volume due to competition from low-priced imports from Taiwan and China. Based on its belief that these competitor products may be imported from Taiwan and China at less-than-fair-value and that the imports of these products from China may benefit from governmental subsidies, our Berwick Offray company filed a petition in July 2009 with the U.S. International Trade Commission ( ITC ) and the U.S. Department of Commerce ( Commerce Department ) seeking the imposition of antidumping duties on narrow woven ribbon imported from Taiwan and China, and seeking the imposition of countervailing duties on narrow woven ribbon imported from China. We expect that the proceedings before the ITC and Commerce Department will conclude by not later than August 2010. If the petition is successful, duties potentially may be imposed on import shipments that arrived in the U.S. from and after as early as September 15, 2009 for countervailing duties, and from and after as early as approximately mid-December 2009 for antidumping duties. The potential impact of these proceedings is not determinable at this time, but management believes that any impact will not have a material affect on the Company s consolidated results of operations or financial condition.

The Company s all occasion craft, gift card holder, stickers, 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, stickers, 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 revenue growth at CSS has come through acquisitions. Management anticipates that it will continue to utilize acquisitions to stimulate further growth.

On May 27, 2009, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of Designer Dispatch Ribbon for $225,000 in cash. Designer Dispatch Ribbon was a manufacturer of stock and custom ribbon and bows and related products. The acquisition was accounted for as a purchase and there was no goodwill recorded in this transaction.

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. The acquisition was accounted for as a purchase and was included in the BOC Design Group reporting unit. The excess of cost over fair market value of the net tangible and identifiable intangible assets acquired of $897,000 was recorded as goodwill as of March 31, 2009. This goodwill was subsequently written off as a result of the Company s annual impairment testing performed in fiscal 2010 as further described in Note 3 to the consolidated financial statements.

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

Table of Contents

purchase price is subject to adjustment, based on future sales volume through fiscal 2014, up to a maximum of $2,000,000. The amount recorded through March 31, 2010 was immaterial. 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 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. 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 as of March 31, 2009. This goodwill and certain identifiable intangible assets were subsequently written off as a result of the Company s annual impairment testing performed in fiscal 2010 as further described in Note 3 to the consolidated financial statements.

**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 2010 Compared to Fiscal 2009***

Consolidated net sales for fiscal 2010 decreased 7% to $448,450,000 from $482,424,000 in fiscal 2009. The decrease in net sales was primarily due to reduced customer purchases following weak retail sales in the preceding Christmas selling season. Sales of all occasion products in the current fiscal year have also been negatively impacted by the current economic downturn as retailers replenishment rates were lower than expected. Partially offsetting these declines were sales of businesses acquired since the beginning of last fiscal year and growth in our baby memory products business. Excluding sales of businesses acquired since the beginning of last fiscal year, sales declined 9%.

Cost of sales, as a percentage of net sales, increased to 75% in fiscal 2010 from 74% in fiscal 2009. The increase in cost of sales was primarily due to lower gross margins on domestically produced Christmas products resulting from competitive pricing pressures and manufacturing inefficiencies, some of which were compounded by difficulties encountered from the implementation of a phase of our enterprise resource planning systems standardization project, partially offset by improved margins on imported seasonal products.

Selling, general and administrative ( SG&A ) expenses decreased to $95,667,000 in fiscal 2010 from $96,723,000 in fiscal 2009. The decrease in SG&A expenses is primarily due to lower compensation expense and incentives in fiscal 2010 compared to the prior year.

An impairment of goodwill and intangible assets of $44,315,000 was recorded in fiscal 2010 as a result of the full impairment of goodwill in two of the Company s reporting units, C.R. Gibson and BOC Design Group, and partial impairments of tradenames used by such entities. See further discussion in Note 3 to the consolidated financial statements. There was no impairment of goodwill and intangible assets in fiscal 2009.

Restructuring expenses were $207,000 in fiscal 2010 and $1,138,000 in fiscal 2009. The decrease in restructuring expenses was due to the absence of costs in the current year related to a reduction in workforce that was announced in the prior year. See Note 4 to the consolidated financial statements for further discussion.

Interest expense, net decreased to $1,885,000 in fiscal 2010 from $2,551,000 in fiscal 2009. The decrease in interest expense, net was primarily due to lower average borrowing levels as a result of cash generated from

Table of Contents

operations in fiscal 2010 compared to the prior year as acquisitions and stock repurchases required higher average borrowing levels during fiscal 2009.

The loss before income taxes was $30,987,000, or 7% of net sales, in fiscal 2010 compared to income before income taxes of $25,890,000, or 5% of net sales, in fiscal 2009. Excluding the charge related to the impairment of goodwill and intangible assets in fiscal 2010, income before income taxes decreased 49% to $13,328,000 in fiscal 2010 from $25,890,000 in fiscal 2009.

Income taxes, as a percentage of income before taxes, were 23% in fiscal 2010 and 34% in fiscal 2009. The decrease in fiscal 2010 was primarily attributable to a portion of the goodwill impairment being non-deductible for tax purposes.

The net loss for the year ended March 31, 2010 was $23,739,000 compared to net income of $16,986,000 in fiscal 2009. Excluding the charge related to the impairment of goodwill and intangible assets in fiscal 2010, net income decreased 48% to $8,884,000 in fiscal 2010 from $16,986,000 in fiscal 2009 and diluted earnings per share decreased 46% to $0.92 in fiscal 2010 compared to prior year diluted earnings per share of $1.70. This decline in net income was primarily attributable to lower Christmas sales volume and lower margins due to competitive pricing pressures and Christmas product manufacturing inefficiencies combined with difficulties encountered from the implementation of a phase of our enterprise resource planning systems standardization project. Partially offsetting these negative factors were reduced SG&A expenses, lower restructuring expenses, reduced interest expense and an increase in other income.

**Reconciliation of Certain Non-GAAP Measures**

Management believes that presentation of results of operations adjusted for the affects of non-recurring charges related to the impairment of goodwill and intangible assets provides useful information to investors because it enhances comparability between the reporting periods.

| | Year Ended March 31, 2010 | | |
|---|---|---|---|
| | (Loss) Income Before Income Taxes | Net (Loss) Income | Diluted (Loss) Earnings per Share |
| | (In thousands, except per share amounts) | | |
| As Reported | $ (30,987) | $ (23,739) | $ (2.46) |
| Impairment of goodwill and intangible assets | 44,315 | 32,623 | 3.37 |
| Non-GAAP Measurement | $ 13,328 | $ 8,884 | $ .92 |

Diluted earnings per share does not add due to rounding.

***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.

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.

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

Table of Contents

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.

**Liquidity and Capital Resources**

At March 31, 2010, the Company had working capital of $130,897,000 and stockholders equity of $233,045,000. Operating activities provided net cash of $48,676,000 in fiscal 2010 compared to $27,921,000 in fiscal 2009. The net loss of $23,739,000 in fiscal 2010 was offset by a non-cash impairment charge of $44,315,000 related to goodwill and intangibles, depreciation and amortization of $12,560,000, a reduction in inventory of $21,245,000, primarily due to improved inventory management, and an increase in accounts payable of $5,263,000. Net cash provided by operating activities in fiscal 2009 consisted primarily of net income of $16,986,000, depreciation and amortization of $13,195,000, a decrease in inventories of $9,127,000, offset by a decrease of $7,477,000 in accrued expenses and other long-term obligations.

Our investing activities used net cash of $3,920,000 in fiscal 2010, as compared to $24,780,000 in fiscal 2009, consisting primarily of capital expenditures of $4,447,000. In fiscal 2009, our investing activities consisted primarily of cash paid of $11,164,000 for the acquisitions of businesses during fiscal 2009 and the final payment of a purchase price for a business acquired in fiscal 2008 in the amount of $2,700,000, as well as capital expenditures of $14,143,000, which included non-recurring costs associated with the enterprise resource planning system integration project.

Our financing activities used net cash of $19,718,000 in fiscal 2010, consisting primarily of a $10,000,000 principal repayment on our Senior Notes, repayments of $4,150,000 on our short term credit facilities and payments of cash dividends of $5,784,000. In fiscal 2009, financing activities used net cash of $29,074,000, consisting primarily of cash paid for the repurchase of our common stock. 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 there were no repurchases of the Company s common stock by the Company during fiscal 2010. As of March 31, 2010, the Company had 313,000 shares remaining available for repurchase under the Board s authorization. Also in fiscal 2009, the Company used net cash for a $10,000,000 principal repayment on our Senior Notes and payments of cash dividends of $5,939,000, which was partially offset by borrowings under our short term credit facilities of $4,150,000.

Table of Contents

The Company relies primarily on cash generated from its operations and seasonal borrowings to meet its liquidity requirements throughout the year. 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 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. Reflecting the seasonality of the Company s business, this facility had a funding limit of $75,000,000 from May 2009 until January 2010, and it has had a funding limit of $25,000,000 since February 2010. This facility is due to expire on July 6, 2010. 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. The Company made its final repayment of 4.48% senior notes in December 2009. At March 31, 2010, there were no borrowings 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 $496,000 of capital leases outstanding at March 31, 2010.

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, 2010, 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 | $ | $ | $ | $ | $ |
| Note payable to seller | 51 | | | | 51 |
| Capital lease obligations | 430 | 66 | | | 496 |
| Operating leases | 8,461 | 8,500 | 4,628 | 2,397 | 23,986 |
| Other long-term obligations(1) | 45 | 463 | 362 | 2,120 | 2,990 |
| | $ 8,987 | $ 9,029 | $ 4,990 | $ 4,517 | $ 27,523 |

(1) 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.

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, 2010, 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 | $ 3,336 | $ | $ | $ 3,336 |

The Company has a reimbursement obligation with respect to stand-by letters of credit that guarantee the funding of workers compensation claims and guarantee the funding of obligations to a certain vendor. 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.

**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

Table of Contents

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***

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

Table of Contents

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. Changes to our judgments regarding assumptions and estimates could result in a significantly different estimate of the fair market value of the reporting units, which could result in an impairment of goodwill.

In the fourth quarter of fiscal 2010, the Company recorded a non-cash pre-tax impairment charge of $44,315,000 due to a full impairment of goodwill in two of its reporting units, C.R. Gibson and BOC Design Group, and partial impairments of tradenames used by such entities. See Note 3 to the consolidated financial statements for further discussion.

***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 or benefit (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***

The Company accounts for its share-based compensation using a fair-value based recognition method. 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.

**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

Table of Contents

expected future impact of legal proceedings and changes in accounting principles; the anticipated effects of measures taken by the Company to respond to sales volume, cost and price pressures; 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 (including competition from foreign products which may be imported at less than fair value and from foreign products which may benefit from foreign governmental subsidies); 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 realization of intangible assets and recoverability of long-lived assets, and 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 enterprise resource planning 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 to 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 $40,889,000 for the year ended March 31, 2010, a 1% increase or decrease in floating interest rates would have increased or decreased annual interest expense by approximately $409,000. Based on an average cash balance of $7,766,000 for the year ended March 31, 2010, a 1% increase or decrease in interest rates would have increased or decreased annual interest income by approximately $78,000.

***Foreign Currency Risk***

Approximately 2% of the Company s sales in fiscal 2010 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.

Table of Contents

**Item 8.** ***Financial Statements and Supplementary Data.***

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**INDEX**


| | Page |
|---|---|
| Report of Independent Registered Public Accounting Firm | 23 |
| Consolidated Balance Sheets March 31, 2010 and 2009 | 24 |
| Consolidated Statements of Operations and Comprehensive (Loss) Income for the years ended March 31, 2010, 2009 and 2008 | 25 |
| Consolidated Statements of Cash Flows for the years ended March 31, 2010, 2009 and 2008 | 26 |
| Consolidated Statements of Stockholders Equity for the years ended March 31, 2010, 2009 and 2008 | 27 |
| Notes to Consolidated Financial Statements | 28-50 |
| Financial Statement Schedule: | |
| Schedule II. Valuation and Qualifying Accounts | 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, 2010 and 2009, and the related consolidated statements of operations and comprehensive (loss) income, stockholders equity and cash flows for each of the years in the three-year period ended March 31, 2010. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2010, 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 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* (incorporated into Accounting Standards Codification (ASC) Topic 715, Compensation Retirement Benefits ).

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, 2010, 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 May 28, 2010 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

May 28, 2010
Philadelphia, PA

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands, except share and per share amounts) | |
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 27,217 | $ 2,179 |
| Accounts receivable, net of allowances of $4,742 and $5,166 | 45,711 | 43,741 |
| Inventories | 78,851 | 99,971 |
| Deferred income taxes | 6,165 | 5,758 |
| Assets held for sale | 1,363 | 1,363 |
| Other current assets | 15,986 | 15,295 |
| Total current assets | 175,293 | 168,307 |
| NET PROPERTY, PLANT AND EQUIPMENT | 47,786 | 54,942 |
| DEFERRED INCOME TAXES | 5,439 | |
| OTHER ASSETS | | |
| Goodwill | 17,233 | 49,258 |
| Intangible assets, net of accumulated amortization of $3,676 and $2,383 | 32,027 | 45,649 |
| Other | 3,984 | 4,103 |
| Total other assets | 53,244 | 99,010 |
| Total assets | $ 281,762 | $ 322,259 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES | | |
| Notes payable | $ | $ 4,150 |
| Current portion of long-term debt | 481 | 10,479 |
| Accounts payable | 19,595 | 14,332 |
| Accrued income taxes | 555 | 72 |
| Accrued payroll and other compensation | 7,691 | 5,677 |
| Accrued customer programs | 8,380 | 9,909 |
| Accrued other expenses | 7,694 | 9,317 |
| Total current liabilities | 44,396 | 53,936 |
| LONG-TERM DEBT, NET OF CURRENT PORTION | 66 | 485 |

| | | |
|---|---|---|
| OTHER LONG-TERM OBLIGATIONS | 4,255 | 4,376 |
| DEFERRED INCOME TAXES | | 4,208 |
| 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, 2010 and 2009 | 1,470 | 1,470 |
| Additional paid-in capital | 49,295 | 46,813 |
| Retained earnings | 321,510 | 352,674 |
| Accumulated other comprehensive loss, net of tax | (74) | (81) |
| Common stock in treasury, 5,027,306 and 5,097,753 shares, at cost | (139,156) | (141,622) |
| Total stockholders equity | 233,045 | 259,254 |
| Total liabilities and stockholders equity | $ 281,762 | $ 322,259 |

See accompanying notes to consolidated financial statements.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands, except per share amounts) | | |
| NET SALES | $ 448,450 | $ 482,424 | $ 498,253 |
| COSTS AND EXPENSES | | | |
| Cost of sales | 337,852 | 356,115 | 360,708 |
| Selling, general and administrative expenses | 95,667 | 96,723 | 96,703 |
| Impairment of goodwill and intangible assets | 44,315 | | |
| Restructuring expenses, net | 207 | 1,138 | 1,717 |
| Interest expense, net of interest income of $14, $137 and $1,163 | 1,885 | 2,551 | 974 |
| Other (income) expense, net | (489) | 7 | (682) |
| | 479,437 | 456,534 | 459,420 |
| (LOSS) INCOME BEFORE INCOME TAXES | (30,987) | 25,890 | 38,833 |
| INCOME TAX (BENEFIT) EXPENSE | (7,248) | 8,904 | 13,475 |
| NET (LOSS) INCOME | $ (23,739) | $ 16,986 | $ 25,358 |
| NET (LOSS) INCOME PER COMMON SHARE | | | |
| Basic | $ (2.46) | $ 1.71 | $ 2.36 |
| Diluted | $ (2.46) | $ 1.70 | $ 2.31 |
| COMPREHENSIVE (LOSS) INCOME | | | |
| Net (loss) income | $ (23,739) | $ 16,986 | $ 25,358 |
| Foreign currency translation adjustment | | 3 | 2 |
| Postretirement medical plan, net of tax | 7 | 6 | (91) |
| Comprehensive (loss) income | $ (23,732) | $ 16,995 | $ 25,269 |

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, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net (loss) income | $ (23,739) | $ 16,986 | $ 25,358 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 12,560 | 13,195 | 13,218 |
| Impairment of goodwill and intangible assets | 44,315 | | |
| Provision for doubtful accounts | 110 | 525 | 5 |
| Asset impairments | | | 1,222 |
| Deferred tax (benefit) provision | (10,054) | 3,244 | 2,622 |
| Gain on sale or disposal of assets | (20) | (925) | (386) |
| Share-based compensation expense | 2,323 | 2,632 | 2,830 |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| (Increase) decrease in accounts receivable | (2,080) | (4,012) | 9,204 |
| Decrease (increase) in inventories | 21,245 | 9,127 | (10,737) |
| (Increase) decrease in other assets | (738) | 537 | (1,274) |
| Increase (decrease) in accounts payable | 5,263 | (3,943) | (196) |
| Increase (decrease) in accrued income taxes | 370 | (1,968) | 3,493 |
| Decrease in accrued expenses and other long-term obligations | (879) | (7,477) | (3,665) |
| Net cash provided by operating activities | 48,676 | 27,921 | 41,694 |
| Cash flows from investing activities: | | | |
| Purchase of businesses, net of cash received of $2 in 2008 | (225) | (11,164) | (71,145) |
| Final payment of purchase price for a business previously acquired | | (2,700) | |
| Purchase of property, plant and equipment | (4,447) | (14,143) | (8,330) |
| Proceeds from sale of assets | 752 | 3,227 | 3,092 |
| Net cash used for investing activities | (3,920) | (24,780) | (76,383) |
| Cash flows from financing activities: | | | |
| Payments on long-term debt obligations | (10,609) | (10,417) | (10,149) |
| Borrowings on notes payable | 346,405 | 545,385 | 186,900 |
| Payments on notes payable | (350,555) | (541,235) | (186,900) |
| Payment of financing transaction costs | | (621) | |
| Dividends paid | (5,784) | (5,939) | (5,983) |
| Purchase of treasury stock | | (16,687) | (25,449) |
| Proceeds from exercise of stock options | 825 | 435 | 3,936 |
| Tax benefit realized for stock options exercised | | 5 | 350 |
| Net cash used for financing activities | (19,718) | (29,074) | (37,295) |

| | | | |
|---|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | | 3 | 2 |
| Net increase (decrease) in cash and cash equivalents | 25,038 | (25,930) | (71,982) |
| Cash and cash equivalents at beginning of period | 2,179 | 28,109 | 100,091 |
| Cash and cash equivalents at end of period | $ 27,217 | $ 2,179 | $ 28,109 |

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 Paid-in | Retained | Accumulated Other Comprehensive | Common Stock in Treasury | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Earnings | Loss | Shares | Amount | Total |
| | (In thousands, except share and per share amounts) | | | | | | | | | |
| BALANCE, APRIL 1, 2007 | $ | 14,703,084 | $ 1,470 | $ 40,680 | $ 325,246 | $ (1) | (3,857,571) | $ (106,285) | $ 261,110 | |
| Tax benefit associated with exercise of stock options | | | | 640 | | | | | 640 | |
| Share-based compensation expense | | | | 2,830 | | | | | 2,830 | |
| Issuance of common stock upon exercise of stock options | | | | | (1,933) | | 167,670 | 5,869 | 3,936 | |
| Increase in treasury shares | | | | | | | (747,424) | (25,449) | (25,449) | |
| Foreign currency translation adjustment | | | | | | 2 | | | 2 | |
| Cash dividends ($.56 per common share) | | | | | (5,983) | | | | (5,983) | |
| Postretirement medical plan, net of tax | | | | | | (91) | | | (91) | |
| Net income | | | | | 25,358 | | | | 25,358 | |
| BALANCE, MARCH 31, 2008 | | 14,703,084 | 1,470 | 44,150 | 342,688 | (90) | (4,437,325) | (125,865) | 262,353 | |
| Cumulative effect of adoption of EITF 06-10 | | | | | (566) | | | | (566) | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Tax benefit associated with exercise of stock options | | | 31 | | | | | 31 |
| Share-based compensation expense | | | 2,632 | | | | | 2,632 |
| Issuance of common stock upon exercise of stock options | | | | (495) | | 26,572 | 930 | 435 |
| Increase in treasury shares | | | | | | (687,000) | (16,687) | (16,687) |
| Foreign currency translation adjustment | | | | | 3 | | | 3 |
| Cash dividends ($.60 per common share) | | | | (5,939) | | | | (5,939) |
| Postretirement medical plan, net of tax | | | | | 6 | | | 6 |
| Net income | | | | 16,986 | | | | 16,986 |
| BALANCE, MARCH 31, 2009 | 14,703,084 | 1,470 | 46,813 | 352,674 | (81) | (5,097,753) | (141,622) | 259,254 |
| Tax benefit associated with exercise of stock options | | | 159 | | | | | 159 |
| Share-based compensation expense | | | 2,323 | | | | | 2,323 |
| Issuance of common stock upon exercise of stock options | | | | (1,641) | | 70,447 | 2,466 | 825 |
| Cash dividends ($.60 per common share) | | | | (5,784) | | | | (5,784) |
| Postretirement medical plan, net of tax | | | | | 7 | | | 7 |
| Net loss | | | | (23,739) | | | | (23,739) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| BALANCE, MARCH 31, 2010 | $ 14,703,084 | $ 1,470 | $ 49,295 | $ 321,510 | $ (74) | (5,027,306) | $ (139,156) | $ 233,045 |

See accompanying notes to consolidated financial statements.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2010**

## (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 (income) expense, 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, stickers, 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. The Company consolidated its human resources, accounts receivable, accounts payable and payroll functions into a combined back office operation, which was substantially completed in the first quarter of fiscal 2010. Also completed in the first quarter of fiscal 2010 was the implementation of a phase of integrating the Company s enterprise resource planning systems standardization project.

Approximately 650 of its 2,000 employees (increasing to approximately 2,800 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, 2011.

***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

Table of Contents

**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 $996,000 and $711,000 at March 31, 2010 and 2009, respectively. Had all inventories been valued at the lower of FIFO cost or market, inventories would have been greater by $854,000 and $851,000 at March 31, 2010 and 2009, respectively. Inventories consisted of the following (in thousands):

| | March 31, | |
|---|---|---|
| | **2010** | **2009** |
| Raw material | $ 12,696 | $ 17,533 |
| Work-in-process | 20,881 | 25,437 |
| Finished goods | 45,274 | 57,001 |
| | $ 78,851 | $ 99,971 |

***Assets Held for Sale***

Assets held for sale in the amount of $1,363,000 at March 31, 2010 and 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.

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, 2010 | March 31, 2009 |
|---|---|---|
| Land | $ 2,508 | $ 2,608 |
| Buildings, leasehold interests and improvements | 45,165 | 44,803 |
| Machinery, equipment and other | 147,305 | 149,410 |
| | 194,978 | 196,821 |
| Less Accumulated depreciation | (147,192) | (141,879) |
| Net property, plant and equipment | $ 47,786 | $ 54,942 |

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 (income) expense, 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 $1,125,000 of computer equipment and $184,000 of trucks (which had total accumulated amortization of $712,000) under capital leases as of March 31, 2010. As of March 31, 2009, the Company leased $1,031,000 of computer equipment and $183,000 of trucks (which had total accumulated amortization of $239,000) under capital leases as of March 31, 2009. The amortization of capitalized assets is included in depreciation expense. Depreciation expense was $10,967,000, $10,936,000 and $12,604,000 for the years ended March 31, 2010, 2009 and 2008, 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 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.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 2010, 2009 and 2008, the Company performed the required annual impairment test of the carrying amount of goodwill and indefinite lived intangible assets. Refer to Note 3 for the results of the annual impairment testing performed in fiscal 2010. The Company determined that no impairment existed in fiscal 2009 and 2008.

***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 (loss) 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 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

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 2010 and 2009.

***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.

Uncertain tax positions are recognized and measured under provisions in ASC 740. These provisions require 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 audit, based solely 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. Historically, these costs have been amortized 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. Historically, these costs generally have been amortized over a six to twelve month selling period. During fiscal 2010, the Company revised the period to two years over which certain product development costs are amortized to better align with the period over which the Company expects to utilize these assets. 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, 2010 and 2009 were $6,747,000 and $7,368,000, respectively, and are included in other current assets in the consolidated financial statements. Product development expense of $10,009,000, $9,809,000 and $9,194,000 was recognized in the years ended March 31, 2010, 2009 and 2008, respectively.

Table of Contents

**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 used the modified prospective transition method, and began accounting for its share-based compensation using a fair-value based recognition method. 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 (Loss) Income Per Common Share***

The following table sets forth the computation of basic net (loss) income per common share and diluted net (loss) income per common share for the years ended March 31, 2010, 2009 and 2008.

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands, except per share amounts) | | |
| Numerator: | | | |
| Net (loss) income | $ (23,739) | $ 16,986 | $ 25,358 |
| Denominator: | | | |
| Weighted average shares outstanding for basic (loss) income per common share | 9,637 | 9,909 | 10,732 |
| Effect of dilutive stock options | | 81 | 261 |
| Adjusted weighted average shares outstanding for diluted (loss) income per common share | 9,637 | 9,990 | 10,993 |
| Basic net (loss) income per common share | $ (2.46) | $ 1.71 | $ 2.36 |
| Diluted net (loss) income per common share | $ (2.46) | $ 1.70 | $ 2.31 |

Options on 942,000 shares, 1,434,000 shares and 232,000 shares of common stock were not included in computing diluted net (loss) income per common share for the years ended March 31, 2010, 2009 and 2008, 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.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Supplemental Schedule of Cash Flow Information**

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| Cash paid during the year for: | | | |
| Interest | $ 1,892 | $ 2,896 | $ 2,413 |
| Income taxes | $ 3,036 | $ 7,741 | $ 8,445 |
| Details of acquisitions: | | | |
| Fair value of assets acquired | $ 225 | $ 11,560 | $ 82,442 |
| Liabilities assumed | | 296 | 8,595 |
| Net assets acquired | 225 | 11,264 | 73,847 |
| Amount due seller | | 100 | 2,700 |
| Cash paid | 225 | 11,164 | 71,147 |
| Less cash acquired | | | 2 |
| Net cash paid for acquisitions | $ 225 | $ 11,164 | $ 71,145 |

**(2) BUSINESS ACQUISITIONS**

On May 27, 2009, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of Designer Dispatch Ribbon, Inc. ( Designer Dispatch Ribbon ) for $225,000 in cash. Designer Dispatch Ribbon was a manufacturer of stock and custom ribbon and bows and related products. The acquisition was accounted for as a purchase and there was no goodwill recorded in this transaction.

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. The acquisition was accounted for as a purchase and was included in the BOC Design Group reporting unit. 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 as of March 31, 2009. This goodwill was subsequently written off as a result of the Company s annual impairment testing performed in fiscal 2010 as further described in Note 3.

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. The amount recorded through March 31, 2010 was immaterial. 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 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.

Table of Contents

**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 acquisitions in fiscal 2009 (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 |

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. 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 as of March 31, 2009. This goodwill was subsequently written off as a result of the Company s annual impairment testing performed in fiscal 2010 as further described in Note 3.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition in fiscal 2008 (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 |

**(3) GOODWILL AND OTHER INTANGIBLE ASSETS**

The Company performs its annual review of goodwill and indefinite lived intangibles in the fourth quarter of each fiscal year. However, in the third quarter of fiscal 2010, the Company determined that, due to the decline in fiscal 2010 earnings, a triggering event occurred which required testing for impairment of goodwill in that fiscal quarter. The results of testing indicated that the C.R. Gibson reporting unit, acquired in fiscal 2008, passed the first step of the test and, therefore, no impairment of the goodwill associated with the reporting unit was recognized. However, the testing results also indicated that the fair value of the reporting unit as of the testing date was not substantially in excess of the carrying value. The Company disclosed in its quarterly report on Form 10-Q for the third quarter of fiscal 2010 that if the financial results of this reporting unit decline, or if there are changes in certain

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

economic factors that impact the assumptions in our valuation models change, such as market valuation multiples, borrowing costs and equity risk factors, an impairment of the goodwill associated with the C.R. Gibson reporting unit could be required in the future.

Upon performing our annual impairment test in the fourth quarter of fiscal 2010, we determined that the C.R. Gibson reporting unit, as well as the BOC Design Group reporting unit, had a fair market value which was less than the carrying value and, therefore, failed step one of the test. The factors that led to failing step one of the test included a deterioration of the financial performance in these reporting units during the fourth quarter of fiscal 2010 as well as a decline in the outlook for future periods. There were no major changes in key assumptions between the third and fourth quarter tests that impacted the valuation models other than earnings results for the current year and forecasted earnings. The second step of the test resulted in the Company recording a non-cash pre-tax goodwill impairment charge of $17,409,000 for the C.R. Gibson reporting unit and $14,616,000 for the BOC Design Group reporting unit.

During the fourth quarter annual impairment test of indefinite-lived tradenames performed in fiscal 2010, the Company determined that the carrying value of the C.R. Gibson tradename exceeded its fair value. The decline in the fair value of the C.R. Gibson tradename was due to the same circumstances as those that caused the goodwill impairment for the C.R. Gibson reporting unit. The Company recorded a non-cash pre-tax tradename impairment charge of $8,000,000 related to the C.R. Gibson tradename.

Additionally, the Company determined that it would discontinue the use of the indefinite-lived tradename related to the Crystal branded bag and tissue products. The Company s determination to discontinue the tradename is part of a strategic decision made by management to streamline the use of product branding within the Company s portfolio of products. In the future, the bag and tissue products will use the Berwick tradename. As a result, the Company recorded a non-cash pre-tax charge of $4,290,000 related to the Crystal tradename.

The change in the carrying amount of goodwill and indefinite lived intangible assets for the year ended March 31, 2010 is as follows (in thousands):

| | Goodwill | Tradenames and Trademarks |
|---|---|---|
| Balance as of March 31, 2009 | $ 49,258 | $ 25,083 |
| Impairment charge | (32,025) | (12,290) |
| Balance as of March 31, 2010 | $ 17,233 | $ 12,793 |

The change in the gross carrying amount of other intangible assets for the year ended March 31, 2010 is as follows (in thousands):

| | Customer Relationships | Patents |
|---|---|---|

| | | |
|---|---|---|
| Balance as of March 31, 2009 | $ 21,957 | $ 89 |
| Acquisition of Designer Dispatch Ribbon | 100 | |
| Seastone royalty earn-out | | 161 |
| Balance as of March 31, 2010 | $ 22,057 | $ 250 |

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The gross carrying amount and accumulated amortization of other intangible assets as of March 31, 2010 and 2009 is as follows (in thousands):

| | March 31, 2010 | | March 31, 2009 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Tradenames and trademarks | $ 12,793 | $ | $ 25,083 | $ |
| Customer relationships | 22,057 | 3,358 | 21,957 | 1,860 |
| Non-compete | 200 | 117 | 500 | 367 |
| Trademarks | 403 | 153 | 403 | 123 |
| Patents | 250 | 48 | 89 | 33 |
| | $ 35,703 | $ 3,676 | $ 48,032 | $ 2,383 |

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

Amortization expense was $1,593,000 for fiscal 2010, $1,458,000 for fiscal 2009 and $474,000 for fiscal 2008. The estimated amortization expense for the next five fiscal years is as follows (in thousands):

| | |
|---|---|
| Fiscal 2011 | $ 1,609 |
| Fiscal 2012 | 1,593 |
| Fiscal 2013 | 1,559 |
| Fiscal 2014 | 1,559 |
| Fiscal 2015 | 1,541 |

The Company assesses the impairment of long-lived assets, including identifiable intangible assets subject to amortization and property and plant and equipment, whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors the Company considers important that could trigger an impairment review include significant changes in the use of any assets, changes in historical trends in operating performance, changes in projected operating performance, stock price, loss of a major customer, failure to pass step one of the goodwill impairment test and significant negative economic trends. The Company performed a recoverability test during the fourth quarter of fiscal 2010, 2009 and 2008 using an undiscounted cash flow approach on certain long lived assets that yielded no impairment.

**(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 was classified as a current liability in the accompanying consolidated balance sheet as of March 31, 2009. During the year ended March 31, 2010, the Company made payments of $971,000 for costs related to severance. During fiscal 2010, there was a reduction in the restructuring accrual of $44,000 for costs that were less than originally estimated.

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,

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 2010, the Company made payments of $55,000 for costs related to severance.

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

| | Termination Costs | Other Costs | Total |
|---|---|---|---|
| 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 |
| Cash paid fiscal 2010 | (55) | | (55) |
| Restructuring reserve as of March 31, 2010 | $ | $ | $ |

**(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 and 747,424 shares of the Company s common stock for $25,449,000 in fiscal 2008. There were no repurchases of the Company s common stock by the Company during fiscal 2010. As of March 31, 2010, 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 the date or dates on which granted options become exercisable. All options outstanding as of March 31, 2010 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, 2010, 1,118,669 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, 2010, 108,000 shares were available for grant under the 2006 Plan.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company uses the modified prospective transition method to account for its share-based compensation. Under that transition method, stock compensation cost recognized in fiscal 2010, 2009 and 2008 includes: (a) compensation cost for all share-based payments granted prior to, but not vested as of April 1, 2006, based on the estimated grant date fair value (b) compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant date fair value, 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 $1,797,000, $2,460,000 and $2,830,000 in the years ended March 31, 2010, 2009 and 2008, respectively, and the associated future income tax benefit recognized was $653,000, $843,000 and $775,000 in the years ended March 31, 2010, 2009 and 2008, 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.

Activity and related information pertaining to stock options for the years ended March 31, 2010, 2009 and 2008 was as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at April 1, 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 | | |
| Granted | 96,210 | 20.15 | | |
| Exercised | (123,783) | 15.55 | | |
| Forfeited/cancelled | (296,962) | 31.77 | | |
| Outstanding at March 31, 2010 | 1,121,663 | $ 27.96 | 2.2 years | $ 772,000 |

| | | | | | |
|---|---|---|---|---|---|
| Exercisable at March 31, 2010 | 819,283 | $ 28.27 | 1.7 years | $ | 649,000 |

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.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Expected dividend yield at time of grant | 2.98% | 2.64% | 1.64% |
| Expected stock price volatility | 54% | 38% | 30% |
| Risk-free interest rate | 2.92% | 2.96% | 4.20% |
| Expected life of option (in years) | 4.2 | 4.3 | 4.3 |

The weighted average fair value of options granted during fiscal 2010, 2009 and 2008 was $7.40, $6.77, and $9.30 per share, respectively. The total intrinsic value of options exercised during the years ended March 31, 2010, 2009 and 2008 was $611,000, $252,000, and $2,512,000, respectively.

As of March 31, 2010, there was $1,755,000 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 2.2 years.

***Restricted Stock Units***

Compensation cost related to time-vested RSUs recognized in operating results (included in selling, general and administrative expenses) was $526,000 and $172,000 in the years ended March 31, 2010 and 2009, respectively, and the associated future income tax benefit recognized was $191,000 and $60,000 in the years ended March 31, 2010 and 2009, respectively. For the performance-based RSUs that were issued in the first quarter of fiscal 2009, 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 performance-based RSUs prior to fiscal 2009 and none were issued in fiscal 2010. All RSUs granted during fiscal 2010 were subject solely to service-based vesting conditions.

Activity and related information pertaining to RSUs for the years ended March 31, 2010 and 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 | |

| | | | | |
|---|---|---|---|---|
| Granted | 98,760 | | 16.70 | |
| Exercised | | | | |
| Forfeited/cancelled | (18,940) | | 20.41 | |
| Outstanding at March 31, 2010 | 128,170 | $ | 19.52 | 4.7 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.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of March 31, 2010, there was $1,397,000 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 2.5 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, 2010. 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, 2010, 2009 and 2008 was $112,000, $128,000 and $2,884,000, 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):

| | 2010 | 2009 |
|---|---|---|
| Benefit obligation at beginning of year | $ 1,022 | $ 1,037 |
| Interest cost | 62 | 60 |
| Actuarial gain | (8) | (7) |
| Benefits paid | (80) | (68) |
| Benefit obligation recognized in the consolidated balance sheet | $ 996 | $ 1,022 |

The net loss recognized in accumulated other comprehensive loss at March 31, 2010 was $78,000, net of tax, and the actuarial loss expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost during fiscal 2011 is approximately $2,000.

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, 2010, 2009 and 2008 were a discount rate of 6% (6.25% for 2009 and 6% for 2008) and assumed health care cost trend rates of 13% (14% for 2009 and 15% for 2008) trending down to an ultimate rate of 5% in 2018.

Net periodic pension and postretirement medical costs were $62,000, $60,000 and $48,000 for the years ended March 31, 2010, 2009 and 2008, respectively.

**(8) INCOME TAXES**

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

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| United States | $ (41,157) | $ 18,478 | $ 22,281 |
| Foreign | 10,170 | 7,412 | 16,552 |
| | $ (30,987) | $ 25,890 | $ 38,833 |

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Current: | | | |
| Federal | $ 1,099 | $ 4,451 | $ 8,147 |
| State | 29 | (14) | (311) |
| Foreign | 1,678 | 1,223 | 3,017 |
| | 2,806 | 5,660 | 10,853 |
| Deferred: | | | |
| Federal | (9,439) | 2,994 | 2,344 |
| State | (615) | 250 | 278 |
| | (10,054) | 3,244 | 2,622 |
| | $ (7,248) | $ 8,904 | $ 13,475 |

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

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, less federal benefit | .4 | 1.3 | .8 |
| Tax exempt interest income | | (.1) | (.7) |
| Changes in tax reserves and valuation allowance | .5 | (1.4) | .1 |
| Nondeductible goodwill | (13.6) | | |
| Other, net | 1.1 | (.4) | (.5) |
| | 23.4% | 34.4% | 34.7% |

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 $159,000 in fiscal 2010, $31,000 in fiscal 2009 and $640,000 in fiscal 2008.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 2010 and 2009 (in thousands):

| | March 31, 2010 | 2009 |
|---|---|---|
| Deferred income tax assets: | | |
| Accounts receivable | $ 229 | $ 225 |
| Inventories | 4,155 | 3,947 |
| Accrued expenses | 3,316 | 3,434 |
| State net operating loss and credit carryforwards | 5,583 | 5,217 |
| Share-based compensation | 3,746 | 2,326 |
| Intangibles | 7,061 | |
| | 24,090 | 15,149 |
| Valuation allowance | (6,325) | (5,217) |
| | 17,765 | 9,932 |
| Deferred income tax liabilities: | | |
| Property, plant and equipment | 3,257 | 2,302 |
| Intangibles | | 3,219 |
| Unremitted earnings of foreign subsidiaries | 2,538 | 2,211 |
| Other | 366 | 650 |
| | 6,161 | 8,382 |
| Net deferred income tax asset | $ 11,604 | $ 1,550 |

At March 31, 2010 and 2009, the Company had potential state income tax benefits of $6,325,000 (net of federal tax of $3,406,000) and $5,217,000 (net of federal tax of $2,809,000), respectively, from state deferred tax assets and state net operating loss carryforwards that expire in various years through 2030. These benefits were fully offset by a valuation allowance as the Company believes it is more likely than not that the deferred tax assets will not be realized through future taxable earnings or implementation of tax planning strategies.

Uncertain tax positions are recognized and measured under provisions in ASC 740. These provisions require 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 audit, based solely on the technical merits of the position. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

| | March 31, |
|---|---|

| | 2010 | 2009 |
|---|---|---|
| Gross unrecognized tax benefits at April 1 | $ 1,245 | $ 1,987 |
| Additions based on tax positions related to the current year | 205 | 119 |
| Additions for tax positions of prior years | | 85 |
| Reductions for tax positions of prior years | | (115) |
| Reductions relating to settlements with taxing authorities | (13) | (460) |
| Reductions as a result of a lapse of the applicable statute of limitations | (392) | (371) |
| Gross unrecognized tax benefits at March 31 | $ 1,045 | $ 1,245 |

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The total amount of gross unrecognized tax benefits at March 31, 2010 of $1,045,000 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 $705,000. 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 $265,000 of interest and penalties are accrued at March 31, 2010, $72,000 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, 2004 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, 2010 | March 31, 2009 |
|---|---|---|
| 4.48% Senior Notes due December 13, 2009 | $ | $ 10,000 |
| Other | 547 | 964 |
| | 547 | 10,964 |
| Less current portion | (481) | (10,479) |
| | $ 66 | $ 485 |

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 were payable ratably over five years, beginning at the end of the third year of the seven year term of the agreement. The Company made its final repayment of Senior Notes in December 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 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 0.5%, and (3) the daily LIBOR plus 1.25%. The revolving credit facility provides for commitment fees of 0.3% 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, 2010, there were no amounts outstanding under this revolving credit facility and there was $1,200,000 outstanding as of March 31, 2009. The Company is in compliance with all financial debt covenants as of March 31, 2010.

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. As of March 31, 2010, this facility had an expiration date of May 7, 2010, 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. Reflecting the seasonality of the Company s business, the facility had a funding limit of $75,000,000 from May 2009 until January 2010, and it has had a funding limit of $25,000,000 since February 1, 2010. Under this arrangement, the Company sells, on an ongoing basis and without recourse, its trade accounts receivable to a wholly-owned special purpose

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. 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. As of March 31, 2010, there were no amounts outstanding under this arrangement and $2,950,000 outstanding as of March 31, 2009.

Subsequent to year end, the Company entered into an extension of the aforementioned accounts receivable securitization facility through July 6, 2010, although it may terminate prior to such date in the event of termination of the commitments of the facility s back-up purchasers. As extended, the facility continues to have a $25,000,000 funding limit.

The weighted average interest rate under the revolving credit facilities for the years ended March 31, 2010, 2009 and 2008, was 4.12%, 4.07% and 7.43%, respectively. The average and peak borrowings were $40,889,000 and $97,140,000, respectively for the year ended March 31, 2010, and $50,372,000 and $129,230,000, respectively, for the year ended March 31, 2009. Additionally, outstanding letters of credit under the revolving credit facilities totaled $3,336,000 at March 31, 2010 and $4,100,000 at March 31, 2009. These letters of credit guarantee funding of workers compensation claims and guarantee the funding of obligations to a certain vendor.

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):

| | |
|---|---|
| 2011 | $ 436 |
| 2012 | 67 |
| Total minimum lease obligations | 503 |
| Less amount representing interest | (7) |
| Present value of future minimum lease obligations | $ 496 |

The Company also has a note payable due to the seller of an acquired business of approximately $51,000 and $100,000 at March 31, 2010 and 2009, respectively.

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

| | |
|---|---|
| 2011 | $ 481 |
| 2012 | 66 |
| Total | $ 547 |

45

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## (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):

| | |
|---|---|
| 2011 | $ 8,461 |
| 2012 | 5,125 |
| 2013 | 3,375 |
| 2014 | 2,468 |
| 2015 | 2,160 |
| Thereafter | 2,397 |
| Total | $ 23,986 |

Rent expense was $9,509,000, $10,229,000 and $8,405,000 for the years ended March 31, 2010, 2009 and 2008, 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, 2010 and 2009.

The Company maintains a Nonqualified Supplemental Executive Retirement Plan for highly compensated employees and invests assets to mirror the obligations under this Plan. The invested funds are maintained 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 investments are 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 investments is based on the market price of the mutual funds as of March 31, 2010 and 2009.

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, 2010 and 2009.

To increase consistency and comparability in fair value measurements, the Financial Accounting Standards Board ( FASB ) established a fair value hierarchy that prioritizes the inputs to valuation techniques, 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.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 2010 and 2009.

| | March 31, 2010 | 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 | $ 821 | $ 821 | $ | $ |
| Cash surrender value of life insurance policies | 863 | | 863 | |
| Total assets | $ 1,684 | $ 821 | $ 863 | $ |
| Liabilities | | | | |
| Deferred compensation plans | $ 821 | $ 821 | $ | $ |
| Total liabilities | $ 821 | $ 821 | $ | $ |

| | 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 fair value of long-term debt instruments is estimated using a discounted cash flow analysis. As of March 31, 2010, the carrying amount and estimated fair value of long-term debt was $547,000. 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.

**(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.

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## (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, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| Christmas | $ 206,641 | $ 242,127 | $ 285,848 |
| All occasion | 182,191 | 179,479 | 151,410 |
| Other seasonal | 59,618 | 60,818 | 60,995 |
| Total | $ 448,450 | $ 482,424 | $ 498,253 |

One customer accounted for sales of $115,511,000, or 26% of total sales in fiscal 2010, $127,894,000, or 27% of total sales in fiscal 2009 and $133,456,000, or 27% of total sales in fiscal 2008. One other customer accounted for sales of $46,973,000, or 10% of total sales in fiscal 2010, $47,437,000, or 10% of total sales in fiscal 2009 and $59,907,000, or 12% of total sales in fiscal 2008.

## (14) RECENT ACCOUNTING PRONOUNCEMENTS

***Accounting Standards Codification***

In June 2009, the FASB issued authoritative guidance which replaced the previous hierarchy of Generally Accepted Accounting Principles ( GAAP ) and establishes the FASB Codification as the single source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The FASB Codification superseded all the existing non-SEC accounting and reporting standards upon its effective date, and on and after its effective date, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. This guidance was effective for the Company in the second quarter of fiscal 2010. The adoption of this guidance did not have an impact on the Company s financial position or results of operations.

***Subsequent Events***

In May 2009, the FASB issued authoritative guidance which establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This guidance was effective for the Company as of June 30, 2009. The adoption of this guidance did not have an impact on the Company s financial position or results of operations. The Company evaluated subsequent events through the date the accompanying consolidated financial statements were issued.

***Fair Value of Financial Instruments Disclosure***

In April 2009, the FASB revised the authoritative guidance which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Company adopted the updated guidance effective June 30, 2009. Other than the required disclosures (see Note 11), the adoption of the updated guidance has no impact on the Company s consolidated financial statements.

In January 2010, the FASB issued authoritative guidance which requires separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements in addition to the presentation of purchases, sales, issuances and settlements for Level 3 fair value measurements. It also clarifies existing disclosures about the level of disaggregation and inputs and valuation techniques. The new disclosure requirements are effective for

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for interim and annual periods beginning after December 15, 2010. The adoption of the updated guidance had no impact on the Company s consolidated financial statements.

***Business Combinations***

In December 2007, the FASB revised the authoritative guidance for business combinations which 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 method. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred.

In April 2009, the FASB revised the authoritative guidance related to the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. This guidance became effective for all business acquisitions occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted the updated guidance for business combinations with an acquisition date on or after April 1, 2009.

**(15) QUARTERLY FINANCIAL DATA (UNAUDITED)**

| | Quarters | | | |
|---|---|---|---|---|
| **2010** | **First** | **Second** | **Third** | **Fourth** |
| | **(In thousands, except per share amounts)** | | | |
| Net sales | $ 53,677 | $ 160,273 | $ 182,230 | $ 52,270 |
| Gross profit | $ 14,612 | $ 40,643 | $ 45,569 | $ 9,774 |
| Net (loss) income | $ (4,490) | $ 8,892 | $ 12,700 | $ (40,841) |
| Net (loss) income per common share: | | | | |
| Basic(1) | $ (.47) | $ .92 | $ 1.32 | $ (4.22) |
| Diluted(1) | $ (.47) | $ .92 | $ 1.31 | $ (4.22) |

| | Quarters | | | |
|---|---|---|---|---|
| **2009** | **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) |

Table of Contents

**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(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 of fiscal 2010 net loss included a charge of $32,623,000 related to the impairment of goodwill and other intangible assets as further described in Note 3 to the consolidated financial statements.

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

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, 2010. Management s assessment of the effectiveness of the Company s internal control over financial reporting as of March 31, 2010 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 2010 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, 2010, 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, 2010, 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, 2010 and 2009, and the related consolidated statements of operations and comprehensive (loss) income, stockholders equity and cash flows for each of the years in the three-year period ended March 31, 2010, and our report dated May 28, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

May 28, 2010

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 2010 Annual Meeting of Stockholders of the Company, which is incorporated herein by reference.

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

See Compensation Discussion and Analysis, Executive Compensation, Human Resources Committee Interlocks and Insider Participation, Director Compensation and Human Resources Committee Report in the Proxy Statement for the 2010 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 2010 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 2010 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 2010 Annual Meeting of Stockholders of the Company, which is incorporated herein by reference.

Table of Contents

## 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, 2010 and 2009

Consolidated Statements of Operations and Comprehensive (Loss) Income for the years ended March 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows for the years ended March 31, 2010, 2009 and 2008

Consolidated Statements of Stockholders Equity for the years ended March 31, 2010, 2009 and 2008

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).

Table of Contents

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| 10.5 | 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). |
| 10.6 | 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). |
| 10.7 | 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). |
| 10.8 | 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). |
| 10.9 | 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). |
| 10.10 | 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). |
| 10.11 | 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). |
| 10.12 | 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). |
| 10.13 | 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). |
| 10.14 | 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). |
| 10.15 | 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). |
| *10.16 | First Amendment to Loan Agreement dated March 23, 2010 to Second Amended and Restated Loan Agreement dated November 21, 2008. |
| 10.17 | Eighth Amendment to Receivables Purchase Agreement dated May 7, 2010 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on May 12, 2010.) |

Management Contracts, Compensatory Plans or Arrangements

| | |
|---|---|
| 10.18 | 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). |
| 10.19 | 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). |
| 10.20 | 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). |
| 10.21 | 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). |
| 10.22 | 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). |

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| 10.23 | 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). |
| *10.24 | CSS Industries, Inc. FY2010 Management Incentive Program Criteria for CSS Industries, Inc. |
| *10.25 | CSS Industries, Inc. FY2010 Management Incentive Program Criteria for BOC Design Group. |
| *10.26 | CSS Industries, Inc. FY2010 Management Incentive Program Criteria for Paper Magic Group, Inc. |

Table of Contents

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|---|---|
| *10.27 | CSS Industries, Inc. FY2010 Management Incentive Program Criteria for C.R. Gibson, LLC. |
| 10.28 | 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). |
| 10.29 | 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). |
| 10.30 | 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). |
| 10.31 | 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). |
| 10.32 | 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). |
| 10.33 | 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). |
| 10.34 | Amendment to Employment Agreement, dated as of May 27, 2009, between Paper Magic Group, Inc. and Paul Quick (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q dated August 4, 2009). |
| 10.35 | CSS Industries, Inc. Change of Control Severance Pay Plan for Executive Management effective May 27, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on June 2, 2009). |
| 10.36 | Form of Non-Qualified Stock Option Grant for grants under the CSS Industries, Inc. 2004 Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on June 2, 2009). |
| 10.37 | Form of Stock Bonus Award Grant for time-vested restricted stock units under the CSS Industries, Inc. 2004 Equity Compensation Plan (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on June 2, 2009). |
| *10.38 | Employment Agreement dated as of March 25, 2010 between CSS Industries, Inc. and Vincent A. Paccapaniccia. |
| *10.39 | Separation Agreement and Release of Claims Agreement dated as of March 30, 2010 between CSS Industries, Inc. and Clifford E. Pietrafitta. |
| *10.40 | Consulting Agreement dated as of April 15, 2010 between CSS Industries, Inc. and Clifford E. Pietrafitta. |

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. |
| *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, 2010 | | | | | |
| Accounts receivable allowances | $ 5,166 | $ 7,677 | $ | $ 8,101(a) | $ 4,742 |
| Accrued restructuring expenses | 1,070 | | | 1,070(b) | |
| Year ended March 31, 2009 | | | | | |
| Accounts receivable allowances | $ 5,291 | $ 6,178 | $ 39(c) | $ 6,342(a) | $ 5,166 |
| Accrued restructuring expenses | 319 | 1,747 | | 996(d) | 1,070 |
| Year ended March 31, 2008 | | | | | |
| Accounts receivable allowances | $ 4,850 | $ 4,542 | $ 997(e) | $ 5,098(a) | $ 5,291 |
| Accrued restructuring expenses | 1,456 | 628 | | 1,765(b) | 319 |

Notes:

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

(b) Includes payments and non cash reductions.

(c) Balance at acquisition of Hampshire Paper.

(d) Includes payments.

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

Table of Contents

**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: May 28, 2010

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: May 28, 2010

/s/ Vincent A. Paccapaniccia
Vincent A. Paccapaniccia, Vice President Finance and Chief Financial Officer
(principal financial and accounting officer)

Dated: May 28, 2010

/s/ Jack Farber
Jack Farber, Director

Dated: May 28, 2010

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

Dated: May 28, 2010

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

Dated: May 28, 2010

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

Dated: May 28, 2010

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

Dated: May 28, 2010

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

Dated: May 28, 2010

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

Dated: May 28, 2010