CSS INDUSTRIES INC
Form 10-Q
August 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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)

(215) 569-9900

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

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). þ Yes o No

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.

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.) o Yes þ No

As of August 3, 2011, there were 9,741,104 shares of common stock outstanding which excludes shares which may still be issued upon exercise of stock options or upon vesting of restricted stock unit grants.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)	Three Months Ended June 30, 2011	2010
SALES	$ 55,040	$ 53,288
COSTS AND EXPENSES		
Cost of sales	43,286	39,555
Selling, general and administrative expenses	20,450	22,352
Restructuring expenses	3,060	41
Interest expense, net	43	209
Other expense, net	24	68
	66,863	62,225
LOSS BEFORE INCOME TAXES	(11,823)	(8,937)
INCOME TAX BENEFIT	(4,254)	(3,200)
NET LOSS	$ (7,569)	$ (5,737)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (.78)	$ (.59)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	9,735	9,683
CASH DIVIDENDS PER SHARE OF COMMON STOCK	$ .15	$ .15

See notes to consolidated financial statements.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)	June 30, 2011 (Unaudited)	March 31, 2011 (Audited)	June 30, 2010 (Unaudited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 4,426	$ 50,407	$ 2,811
Accounts receivable, net of allowances of $1,793, $3,050 and $3,415	46,612	42,615	47,807
Inventories	107,953	80,767	118,291
Deferred income taxes	3,787	4,051	6,153
Other current assets	21,635	14,474	20,437
Total current assets	184,413	192,314	195,499
PROPERTY, PLANT AND EQUIPMENT, NET	31,577	32,345	48,686
DEFERRED INCOME TAXES	8,575	8,854	5,184
OTHER ASSETS			
Goodwill	17,233	17,233	17,233
Intangible assets, net	30,980	31,408	32,839
Other	4,641	4,769	3,945
Total other assets	52,854	53,410	54,017
Total assets	$ 277,419	$ 286,923	$ 303,386
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Short-term debt	$	$	$ 13,000
Current portion of long-term debt		66	384
Accrued customer programs	4,409	4,726	6,939
Other current liabilities	40,195	40,626	49,101
Total current liabilities	44,604	45,418	69,424

LONG-TERM OBLIGATIONS		5,790		5,846		7,341
STOCKHOLDERS EQUITY		227,025		235,659		226,621
Total liabilities and stockholders equity	$	277,419	$	286,923	$	303,386

See notes to consolidated financial statements.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net loss	$ (7,569)	$ (5,737)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	2,057	3,012
Provision for accounts receivable allowances	547	889
Deferred tax provision	543	267
Loss on sale or disposal of assets	36	
Stock-based compensation expense	463	461
Changes in assets and liabilities:		
Increase in accounts receivable	(4,544)	(2,985)
Increase in inventory	(27,186)	(39,440)
Increase in other assets	(7,033)	(3,090)
(Decrease) increase in liabilities	(817)	11,626
Total adjustments	(35,934)	(29,260)
Net cash used for operating activities	(43,503)	(34,997)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(931)	(1,098)
Proceeds from sale of assets	45	
Net cash used for investing activities	(886)	(1,098)
Cash flows from financing activities:		
Payments on long-term debt	(66)	(163)
Borrowings on credit facilities		37,670
Repayments on credit facilities		(24,670)
Dividends paid	(1,460)	(1,453)
Proceeds from exercise of stock options	15	289
Shares withheld for minimum tax withholding on restricted stock	(54)	
Tax effect on stock awards	(27)	16
Net cash (used for) provided by financing activities	(1,592)	11,689

Effect of exchange rate changes on cash				
Net decrease in cash and cash equivalents		(45,981)		(24,406)
Cash and cash equivalents at beginning of period		50,407		27,217
Cash and cash equivalents at end of period	$	4,426	$	2,811

See notes to consolidated financial statements.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

CSS Industries, Inc. (collectively with its subsidiaries, CSS or the Company) has prepared the consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. The Company has condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States pursuant to such rules and regulations. In the opinion of management, the statements include all adjustments (which include normal recurring adjustments) required for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2011. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The Company s fiscal year ends on March 31. References to a particular fiscal year refer to the fiscal year ending in March of that year. For example, fiscal 2012 refers to the fiscal year ending March 31, 2012.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

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 decorative ribbons and bows, boxed greeting cards, gift tags, gift wrap, gift bags, gift boxes, gift card holders, decorative tissue paper, decorations, classroom exchange Valentines, 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. 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.

Reclassification

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

Foreign Currency Translation and Transactions

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

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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 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 and long-lived assets, income tax accounting, the valuation of share-based awards and resolution of litigation and other proceedings. Actual results could differ from these estimates.

Management estimates full year incentive compensation expense primarily based on projected financial performance as compared to the incentive compensation plan targets. In fiscal year 2011, the Company allocated expected annual incentive compensation expense on a straight-line basis. Beginning in the first quarter of fiscal 2012, in order to better align the incentive compensation expense to the seasonal nature of its business, the Company began to charge incentive compensation expense to the periods in which profits are generated. As a result of this change in estimate, there was no incentive compensation expense recorded in the first quarter of fiscal 2012 compared to $1,473,000 in the first quarter of fiscal 2011.

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

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 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. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each reporting unit. 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. Long-lived assets (including property, plant and equipment), except for goodwill and indefinite lived intangible assets, are reviewed for impairment when circumstances indicate the carrying value of an asset group may not be recoverable. If such asset group is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

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. Inventories consisted of the following (in thousands):

	June 30, 2011	March 31, 2011	June 30, 2010
Raw material	$ 10,671	$ 12,232	$ 15,652
Work-in-process	24,837	20,127	24,783
Finished goods	72,445	48,408	77,856
	$ 107,953	$ 80,767	$ 118,291

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Property, Plant and Equipment

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

	June 30, 2011	March 31, 2011	June 30, 2010
Land	$ 2,508	$ 2,508	$ 2,508
Buildings, leasehold interests and improvements	44,224	44,127	46,320
Machinery, equipment and other	120,222	119,784	146,624
	166,954	166,419	195,452
Less Accumulated depreciation and amortization	(135,377)	(134,074)	(146,766)
Net property, plant and equipment	$ 31,577	$ 32,345	$ 48,686

In connection with the Company s review of the recoverability of its long-lived assets as it prepared its financial statements for the fiscal year ended March 31, 2011, the Company evaluated the recoverability of the long-lived asset group primarily related to the Cleo gift wrap manufacturing and distribution facility. As a result of this analysis, it was determined that the fair value of the Cleo asset group was less than the carrying value. This resulted in an impairment charge of $11,051,000, which was recorded in the fourth quarter of fiscal 2011. See further discussion regarding Cleo restructuring in Note 5 and Note 8.

In addition, during the fourth quarter of fiscal 2011, the Company identified and wrote off certain property, plant and equipment that was fully depreciated and no longer in use. The net effect was to decrease gross cost and accumulated depreciation by $23,951,000. There was no effect on net property, plant and equipment.

Depreciation expense was $1,618,000 and $1,942,000 during the three months ended June 30, 2011 and 2010, respectively.

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.

Net Loss Per Common Share

Due to the Company s net losses, potentially dilutive securities of 938,000 shares and 1,175,000 shares as of June 30, 2011 and 2010, respectively, consisting of outstanding stock options and non-vested restricted stock units, were excluded from the diluted loss per share calculation due to their antidilutive effect.

(2) STOCK-BASED COMPENSATION

2004 Equity Compensation Plan

Under the terms of the Company s 2004 Equity Compensation Plan (2004 Plan), the Human Resources Committee (Committee) of the Board of Directors (Board) 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. During the first quarter of fiscal 2012, the Company granted performance-based stock options and performance-based restricted stock units (RSUs) which vest providing that certain performance metrics have been met during the performance period. All options outstanding as of June 30, 2011 become exercisable at the rate of 25% per year commencing one year after the date of grant; in some cases, however, exercisability is further conditioned upon satisfaction of performance-based vesting criteria. Outstanding RSUs generally vest (subject to limited exceptions) 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; in some cases, however, vesting is further conditioned upon satisfaction of performance-based vesting criteria. At June 30, 2011, 780,779 shares were available for grant under the 2004 Plan.

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On May 24, 2011, the Board approved an amendment to the 2004 Plan to reduce the number of shares of the Company s common stock authorized for issuance under the 2004 Plan by 500,000 shares. As a result of this reduction, the 2004 Plan now provides that 1,500,000 shares of the Company s common stock may be issued as grants under the 2004 Plan. Prior to this amendment, the 2004 Plan provided that 2,000,000 shares of the Company s common stock could be issued as grants under the 2004 Plan.

2011 Stock Option Plan for Non-Employee Directors

On May 24, 2011, the Board of the Company adopted the CSS Industries, Inc. 2011 Stock Option Plan for Non-Employee Directors (2011 Plan), subject to stockholder approval which was received on August 2, 2011. Under the 2011 Plan, non-qualified stock options to purchase up to 150,000 shares of common stock are available for grant to non-employee directors at exercise prices of not less than fair market value of the underlying common stock on the date of grant. 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 2011 to 2015. Each option will expire five years after the date the option is granted and options may be exercised at the rate of 25% per year commencing one year after the date of grant.

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

	For the Three Months Ended June 30,	
	2011	2010
Expected dividend yield at time of grant	3.29%	3.11%
Expected stock price volatility	54%	55%
Risk-free interest rate	2.39%	2.63%
Expected life of option (in years)	5.1	4.7

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

The weighted average fair value of stock options granted during the three months ended June 30, 2011 and 2010 was $6.88 and $6.99, respectively. The weighted average fair value of restricted stock units granted during the three months ended June 30, 2011 and 2010 was $16.25 and $16.94, respectively.

As of June 30, 2011, there was $2,722,000 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 2.7 years. As of June 30, 2011, there was $1,881,000 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 2.9 years.

Compensation cost related to stock options and RSUs recognized in operating results (included in selling, general and administrative expenses) was $463,000 and $461,000 in the quarters ended June 30, 2011 and 2010, respectively.

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(3) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into foreign currency forward contracts in order to reduce the impact of certain foreign currency fluctuations on sales denominated in a foreign currency. Derivatives are not used for trading or speculative activities. Firmly committed transactions and the related receivables may be hedged with forward exchange contracts. Gains and losses arising from foreign currency forward contracts are recorded in other expense, net as offsets of gains and losses resulting from the underlying hedged transactions. As of June 30, 2011 and 2010, the notional amount of open foreign currency forward contracts was $2,522,000 and $6,098,000, respectively. The related unrealized gain was $1,000 and $236,000 at June 30, 2011 and 2010, respectively. There were no open foreign currency forward contracts as of March 31, 2011. We believe we do not have significant counterparty credit risks as of June 30, 2011.

The following table shows the fair value of the foreign currency forward contracts designated as hedging instruments and included in the Company s condensed consolidated balance sheet as of June 30, 2011 and 2010 (in thousands):

	Fair Value of Derivative Instruments		
		Fair Value	
	Balance Sheet Location	June 30, 2011	June 30, 2010
Foreign currency forward contracts	Other current assets	$ 1	$ 236

(4) GOODWILL AND INTANGIBLES

The Company performs an annual impairment test of the carrying amount of goodwill and indefinite-lived intangible assets in the fourth quarter of its fiscal year. Additionally, the Company would perform its impairment testing at an interim date if events or circumstances indicate that goodwill or intangibles might be impaired. During the three months ended June 30, 2011, there have not been any such events.

The gross carrying amount and accumulated amortization of other intangible assets is as follows (in thousands):

	June 30, 2011		March 31, 2011		June 30, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Amortization Amortization
Tradenames and trademarks	$ 12,793	$	$ 12,793	$	$ 12,793	$
Customer relationships	22,057	5,233	22,057	4,858	22,057	3,733
Non-compete	200	180	200	167	200	129
Trademarks	403	190	403	183	403	160
Patents	1,337	207	1,337	174	1,492	84
	$ 36,790	$ 5,810	$ 36,790	$ 5,382	$ 36,945	$ 4,106

Amortization expense related to intangible assets was $428,000 and $430,000 for the three months ended June 30, 2011 and 2010, respectively. Based on the current composition of intangibles, amortization expense for the remainder of fiscal 2012 and each of the succeeding four years is projected to be as follows (in thousands):

Fiscal 2012	$ 1,266
Fiscal 2013	1,661
Fiscal 2014	1,661
Fiscal 2015	1,642
Fiscal 2016	1,641

(5) BUSINESS RESTRUCTURING

On May 24, 2011, the Company approved a plan to close its Cleo manufacturing facility located in Memphis, Tennessee, with an exit to be completed no later than December 31, 2011. As part of such closing, the Company plans to transition the sourcing of all gift wrap products to foreign suppliers. The Company uses the Memphis, Tennessee facility primarily for the manufacture and distribution of gift wrap products. The Company continually evaluates the efficiency and productivity of its production and distribution facilities to maintain its competitiveness and believes that it will experience better operational efficiencies as a result of this action. In connection with the restructuring plan, the Company estimates that during fiscal 2012 it will incur pre-tax expenses of up to $10,300,000 (reduced by $825,000 related to the sale of certain tangible fixed assets as further described in Note 8) associated with the approved plan, which costs primarily relate to cash expenditures for facility and staff costs (approximately $7,100,000) and non-cash asset write-downs (approximately $3,200,000). Additionally, the Company expects to incur $1,300,000 in cash spending during fiscal 2012 relating to this plan which was expensed previously. The Company expects to complete the restructuring plan by March 31, 2012. During the three months ended June 30, 2011, staff termination costs of $3,042,000 are included in restructuring expenses and $2,498,000 related to the write down of inventory to net realizable value is included in cost of sales. In connection with this restructuring plan, as of June 30, 2011, the Company recorded a restructuring reserve of $3,015,000, including severance related to 573 employees, which was classified as a current liability in the accompanying consolidated balance sheet and will be paid in fiscal 2012. See further discussion in Note 8.

(6) 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.

(7) FAIR VALUE MEASUREMENTS

The Company uses certain derivative financial instruments as part of its risk management strategy to reduce foreign currency risk. The Company recorded all derivatives on the consolidated condensed balance sheet at fair value based on quotes obtained from financial institutions as of June 30, 2011.

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 condensed balance sheets. The fair value of the investments is based on the market price of the mutual funds as of June 30, 2011.

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 condensed balance sheets and is based on quotes obtained from the insurance company as of June 30, 2011.

To increase consistency and comparability in fair value measurements, the 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.

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The Company s recurring assets and liabilities recorded on the consolidated condensed 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 include quoted prices for identical or similar assets or liabilities in non-active markets and pricing models whose inputs are observable for substantially the full term of the asset or liability.

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

The following table presents the Company s fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis in its consolidated condensed balance sheet as of June 30, 2011 (in thousands):

		Fair Value Measurements at June 30, 2011 Using		
	June 30, 2011	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Marketable securities	$ 662	$ 662	$	$
Cash surrender value of life insurance policies	896		896	
Foreign exchange contracts	1		1	
Total assets	$ 1,559	$ 662	$ 897	$
Liabilities				
Deferred compensation plans	$ 662	$ 662	$	$
Total liabilities	$ 662	$ 662	$	$

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

(8) SUBSEQUENT EVENT

On August 2, 2011, the Company entered into an agreement to sell certain tangible fixed assets in its Cleo manufacturing facility located in Memphis, Tennessee. The Company expects to receive $825,000 related to the sale of these assets during the second quarter of fiscal 2012, of which $618,750 was received on August 2, 2011 as a deposit. Such proceeds are expected to reduce the previously disclosed estimate of up to $10,300,000 of pre-tax expenses associated with the approved Cleo restructuring plan as further discussed in Note 5.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

STRATEGIC OVERVIEW

Approximately 59% of the Company s prior year sales were attributable to seasonal (Christmas, Valentine s Day, Easter and Halloween) products, with the remainder 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, ribbon and bow, gift tissue and gift bag lines.

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 allowed it to compete effectively in this competitive market. In addition, the Company is 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 that it can continue to provide unique added value to its customers. In addition, CSS maintains an office and showroom in Hong Kong to be able to provide alternatively sourced products at competitive prices. CSS continually evaluates the efficiency and productivity of its North American production and distribution facilities and of its back office operations to maintain its competitiveness. In the last seven fiscal years, the Company has closed five manufacturing plants and seven warehouses totaling 1,674,000 square feet. In May 2011, the Company announced that its Memphis, Tennessee manufacturing facility will be closed, with an exit to be completed by no later than December 31, 2011. 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 the Company s enterprise resource planning systems standardization project.

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 rates. 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.

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

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements 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. Actual results could differ from those estimates.

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The significant accounting policies of the Company are described in the notes to the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended March 31, 2011. Judgments and estimates of uncertainties are required in applying the Company s accounting policies in many areas. Following are some of the areas requiring significant judgments and estimates: revenue; cash flow and valuation assumptions in performing asset impairment tests of long-lived assets and goodwill; valuation reserves for inventory and accounts receivable; income tax accounting and the valuation of stock-based awards. There have been no material changes to the critical accounting policies affecting the application of those accounting policies as noted in the Company s annual report on Form 10-K for the fiscal year ended March 31, 2011.

RESULTS OF OPERATIONS

Seasonality

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.

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Sales for the three months ended June 30, 2011 increased 3% to $55,040,000 from $53,288,000 in the three months ended June 30, 2010 primarily due to higher sales of all occasion products, partially offset by lower Halloween sales.

Cost of sales, as a percentage of sales, increased to 79% in 2011 compared to 74% in 2010 primarily due to the charge of $2,498,000 related to the write down of inventory to net realizable value. Such inventory consisted of gift wrap raw materials and finished goods. In May 2011, the Company approved a plan to close its Cleo manufacturing facility located in Memphis, Tennessee and plans to transition the sourcing of all gift wrap products to foreign suppliers.

Selling, general and administrative (SG&A) expenses of $20,450,000 in the three months ended June 30, 2011 decreased from $22,352,000 in the three months ended June 30, 2010 primarily due to lower incentive compensation expenses. Management estimates full year incentive compensation expense primarily based on projected financial performance as compared to the incentive compensation plan targets. In fiscal year 2011, the Company allocated expected annual incentive compensation expense on a straight-line basis. Beginning in the first quarter of fiscal 2012, in order to better align the incentive compensation expense to the seasonal nature of its business, the Company began to charge incentive compensation expense to the periods in which profits are generated. As a result of this change in estimate, there was no incentive compensation expense recorded in the first quarter of fiscal 2012 compared to $1,473,000 in the first quarter of fiscal 2011.

Restructuring expenses were $3,060,000 in the three months ended June 30, 2011 compared to $41,000 in the three months ended June 30, 2010. In May 2011, the Company approved a plan to close its Cleo manufacturing facility located in Memphis, Tennessee, with an exit to be completed no later than December 31, 2011. As part of such closing, the Company plans to transition the sourcing of all gift wrap products to foreign suppliers. The Company uses the Memphis, Tennessee facility primarily for the manufacture and distribution of gift wrap products. The Company continually evaluates the efficiency and productivity of its production and distribution facilities to maintain its competitiveness and believes that it will experience better operational efficiencies as a result of this action. In connection with the restructuring plan, the Company estimates that during fiscal 2012 it will incur pre-tax expenses of up to $10,300,000 (reduced by $825,000 related to the sale of certain tangible fixed assets as further described in Note 8) associated with the approved plan. The Company expects to complete the restructuring plan by March 31, 2012. During the three months ended June 30, 2011, staff termination costs of $3,042,000 were included in restructuring expenses and $2,498,000 related to the write down of inventory to net realizable value was included in cost of sales as noted above.

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Interest expense, net of $43,000 in 2011 decreased from interest expense, net of $209,000 in 2010 due to lower borrowing levels during the three months ended June 30, 2011 compared to the same period in the prior year.

Income taxes, as a percentage of income before taxes, were 36% in 2011 and 2010.

The net loss for the three months ended June 30, 2011 was $7,569,000, or $.78 per share compared to $5,737,000, or $.59 per share in 2010. The increase in the net loss for the three months ended June 30, 2011 was primarily due to costs related to the planned closure of the manufacturing facility located in Memphis, Tennessee, including pre-tax costs of $3,042,000 related to staff costs and $2,498,000 related to the write down of inventory to net realizable value, partially offset by the impact of higher sales volume and lower incentive compensation expense and lower interest expense.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2011, the Company had working capital of $139,809,000 and stockholders equity of $227,025,000. The increase in inventories from March 31, 2011 was primarily a result of the normal seasonal inventory build necessary for the fiscal 2012 shipping season. Inventory levels decreased compared to the same period in the prior year as a result of improved inventory management. The decrease in stockholders equity from March 31, 2011 was primarily attributable to the first quarter net loss and payments of cash dividends.

The Company relies primarily on cash generated from its operations and seasonal borrowings to meet its liquidity requirements. Historically, a significant portion of the Company s revenues have been seasonal with approximately 75% 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 revolving credit facility with two banks. Reflecting the seasonality of the Company s business, the maximum credit available at any one time under the credit facility (Commitment Level) adjusts to $50,000,000 from February to June (Low Commitment Period), $100,000,000 from July to October (Medium Commitment Period) and $150,000,000 from November to January (High Commitment Period) in each respective year over the term of the agreement. The Company has the option to increase the Commitment Level during part of any Low Commitment Period from $50,000,000 to an amount not less than $62,500,000 and not in excess of $125,000,000; provided, however, that the Commitment Level must remain at $50,000,000 for at least three consecutive months during each Low Commitment Period. The Company has the option to increase the Commitment Level during all or part of any Medium Commitment Period from $100,000,000 to an amount not in excess $125,000,000. Fifteen days prior written notice is required for the Company to exercise an option to increase the Commitment Level with respect to a particular Low Commitment Period or Medium Commitment Period. The Company may exercise an option to increase the Commitment Level no more than three times each calendar year. This facility is due to expire on March 17, 2016. This financing facility is available to fund the Company s seasonal borrowing needs and to provide the Company with sources of capital for general corporate purposes, including acquisitions as permitted under the revolving credit facility. At June 30, 2011, there were no borrowings outstanding under the Company s revolving credit facility. Based on its current operating plan, the Company believes its sources of available capital are adequate to meet its future cash needs for at least the next 12 months.

As of June 30, 2011, the Company s letter of credit commitments are as follows (in thousands):

	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Letters of credit	$ 3,702				$ 3,702

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 certain vendors. The Company has no financial guarantees with any third parties or related parties other than its subsidiaries.

As of June 30, 2011, the Company is committed to purchase approximately $472,000 of electric power from a vendor over a one year term. The Company believes the minimum commodity purchases under this agreement are well within the Company s annual commodity requirements. The Company is also committed to pay a guaranteed minimum royalty attributable to sales of certain licensed products. Reference is made to contractual obligations included in the Company s annual report on Form 10-K for the fiscal year ended March 31, 2011. There have been no significant changes to contractual obligations.

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.

LABOR RELATIONS

With the exception of the bargaining units at the gift wrap facilities in Memphis, Tennessee and the ribbon manufacturing facilities in Hagerstown, Maryland, which totaled approximately 580 employees as of June 30, 2011, 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 the Hagerstown-based production and maintenance employees remains in effect until 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 remains in effect until December 31, 2011. The Company plans to close its Cleo manufacturing facility located in Memphis, Tennessee with an exit to be completed by no later than December 31, 2011. As part of such closing, the Company plans to transition the sourcing of all gift wrap products to foreign suppliers.

FORWARD-LOOKING 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 and other initiatives to stimulate further growth; the expected future impact of legal proceedings; and the anticipated effects of measures taken by the Company to respond to sales volume, cost and price pressures; the Company s belief that it will experience operational efficiencies from sourcing all of its gift wrap products from foreign suppliers; the amount of cash and noncash expenses the Company expects to incur in fiscal 2012 in connection with its plan to close the Memphis manufacturing facility; and the Company s expectation that it will complete the restructuring plan by March 31, 2012. 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 restructuring plan to close its Memphis manufacturing facility, including the risk that the cost of implementing the plan will exceed expectations, the risk that the expected benefits of the plan will not be realized and the risk that implementation of the plan will interfere with and adversely affect the Company s operations, sales 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 in the Company s annual report on Form 10-K for the fiscal year ended March 31, 2011 and elsewhere in the Company s 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of interest rate changes and manages this exposure through the use of variable-rate debt. The Company is also exposed to foreign currency fluctuations which it manages by entering 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 does not enter into contracts for trading purposes and does not use leveraged instruments. The market risks associated with debt obligations and other significant instruments as of June 30, 2011 have not materially changed from March 31, 2011 (see Item 7A of the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2011).

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this report, 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 in accordance with Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act). 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 under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

(b) *Changes in Internal Controls*. There was no change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) as promulgated by the Securities and Exchange Commission under the Exchange Act) during the first quarter of fiscal year 2012 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
PART II OTHER INFORMATION

Item 6. Exhibits

Exhibit 10.1	Amendment 2011-1 to the CSS Industries, Inc. 2004 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on May 24, 2011).
*Exhibit 10.2	Form of Non-Qualified Stock Option Grant for performance-vested grants under 2004 Equity Compensation Plan.
*Exhibit 10.3	Form of Stock Bonus Award Grant for performance-vested restricted stock unit grants under 2004 Equity Compensation Plan.
*Exhibit 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.
*Exhibit 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.
*Exhibit 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.
*Exhibit 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.
**101.INS	XBRL Instance Document.
**101.SCH	XBRL Schema Document.
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed with this Quarterly Report on Form 10-Q.

** Furnished with this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CSS INDUSTRIES, INC. (Registrant)
Date: August 4, 2011	By: /s/Christopher J. Munyan Christopher J. Munyan President and Chief Executive Officer (principal executive officer)
Date: August 4, 2011	By: /s/Vincent A. Paccapaniccia Vincent A. Paccapaniccia Vice President Finance and Chief Financial Officer (principal financial and accounting officer)