CSS INDUSTRIES INC
Form 10-Q
January 28, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

# FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

or

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

For the transition period from to

Commission file number 1-2661

CSS INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 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. x Yes ¨ 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). x Yes ¨ 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 | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ | 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 x No

As of January 23, 2014, there were 9,294,838 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 December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Sales | $106,295 | $116,020 | $265,899 | $310,572 |
| Costs and expenses | | | | |
| Cost of sales | 70,029 | 78,407 | 178,447 | 214,930 |
| Selling, general and administrative expenses | 19,865 | 20,510 | 57,544 | 61,934 |
| Disposition of product line, net | — | — | — | 5,798 |
| Interest expense (income), net | 82 | (1) | 152 | (68) |
| Other expense (income), net | 3 | 85 | (29) | 33 |
| | 89,979 | 99,001 | 236,114 | 282,627 |
| Income from continuing operations before income taxes | 16,316 | 17,019 | 29,785 | 27,945 |
| Income tax expense | 5,328 | 5,419 | 9,618 | 10,372 |
| Income from continuing operations | 10,988 | 11,600 | 20,167 | 17,573 |
| Income from discontinued operations, net of tax | 19 | 11 | 131 | 55 |
| Net income | $11,007 | $11,611 | $20,298 | $17,628 |
| Net income per common share: | | | | |
| Basic: | | | | |
| Continuing operations | $1.18 | $1.21 | $2.14 | $1.83 |
| Discontinued operations | $— | $— | $0.01 | $0.01 |
| Total (1) | $1.18 | $1.22 | $2.15 | $1.84 |
| Net income per common share: | | | | |
| Diluted: | | | | |
| Continuing operations | $1.18 | $1.21 | $2.13 | $1.83 |
| Discontinued operations | $— | $— | $0.01 | $0.01 |
| Total (1) | $1.18 | $1.22 | $2.14 | $1.84 |
| Weighted average basic and diluted shares outstanding | | | | |
| Basic | 9,296 | 9,548 | 9,420 | 9,594 |
| Diluted | 9,341 | 9,554 | 9,467 | 9,597 |
| Cash dividends per share of common stock | $0.15 | $0.15 | $0.45 | $0.45 |

(1) Total net income per common share may not foot due to rounding.
See notes to consolidated financial statements.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

| | December 31, 2013 | March 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | $68,551 | $87,108 | $53,347 |
| Accounts receivable, net of allowances of $2,246, $2,009 and $3,408 | 88,934 | 43,133 | 94,445 |
| Inventories | 65,156 | 62,598 | 66,087 |
| Deferred income taxes | 3,873 | 4,520 | 4,834 |
| Other current assets | 12,410 | 13,073 | 13,704 |
| Current assets of discontinued operations | — | 2 | — |
| Total current assets | 238,924 | 210,434 | 232,417 |
| Property, plant and equipment, net | 27,553 | 27,956 | 28,164 |
| Deferred income taxes | 3,314 | 3,974 | 195 |
| Other assets | | | |
| Goodwill | 14,522 | 14,522 | 14,522 |
| Intangible assets, net | 26,763 | 28,004 | 28,446 |
| Other | 4,156 | 4,290 | 7,046 |
| Total other assets | 45,441 | 46,816 | 50,014 |
| Total assets | $315,232 | $289,180 | $310,790 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities | | | |
| Accrued customer programs | $6,188 | $4,015 | $7,089 |
| Other current liabilities | 44,363 | 30,718 | 45,717 |
| Current liabilities of discontinued operations | 314 | 644 | 499 |
| Total current liabilities | 50,865 | 35,377 | 53,305 |
| Long-term obligations | 4,814 | 4,825 | 5,020 |
| Stockholders' equity | 259,553 | 248,978 | 252,465 |
| Total liabilities and stockholders' equity | $315,232 | $289,180 | $310,790 |

See notes to consolidated financial statements.

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

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | $20,298 | $17,628 |
| Adjustments to reconcile net income to net cash used for operating activities: | | |
| Depreciation and amortization | 5,677 | 5,757 |
| Provision for accounts receivable allowances | 2,608 | 4,027 |
| Deferred tax provision (benefit) | 1,212 | (689) |
| Stock-based compensation expense | 1,358 | 1,314 |
| (Gain) loss on sale or disposal of assets | (6) | 157 |
| Reduction of goodwill | — | 2,711 |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | (48,409) | (53,546) |
| (Increase) decrease in inventory | (2,558) | 4,617 |
| Decrease in other assets | 797 | 411 |
| Increase in other accrued liabilities | 15,807 | 17,270 |
| Total adjustments | (23,514) | (17,971) |
| Net cash used for operating activities - continuing operations | (3,216) | (343) |
| Net cash used for operating activities - discontinued operations | (328) | (1,709) |
| Net cash used for operating activities | (3,544) | (2,052) |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (4,035) | (3,269) |
| Proceeds from disposition of product line, net | — | 1,758 |
| Proceeds from sale of fixed assets | 8 | 16 |
| Net cash used for investing activities - continuing operations | (4,027) | (1,495) |
| Cash flows from financing activities: | | |
| Dividends paid | (4,243) | (4,310) |
| Purchase of treasury stock | (6,634) | (4,864) |
| Exercise of stock options | 49 | 192 |
| Payments for tax withholding on net restricted stock settlements | (563) | (253) |
| Tax effect on stock awards | 405 | (6) |
| Net cash used for financing activities - continuing operations | (10,986) | (9,241) |
| Net decrease in cash and cash equivalents | (18,557) | (12,788) |
| Cash and cash equivalents at beginning of period | 87,108 | 66,135 |
| Cash and cash equivalents at end of period | $68,551 | $53,347 |

See notes to consolidated financial statements.

CSS INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013
(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, 2013. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

On September 9, 2011, the Company and its Cleo Inc (“Cleo”) subsidiary sold the Christmas gift wrap portion of Cleo’s business and certain assets relating to such business, including certain equipment, contract rights, customer lists, intellectual property and other intangible assets to Impact Innovations, Inc. (“Impact”). Cleo’s remaining assets, including accounts receivable and inventory, were excluded from the sale. The assets, liabilities and cash flows related to the Christmas gift wrap business are presented as current assets and liabilities of discontinued operations. The results of operations for the three- and nine months ended December 31, 2013 and 2012, as well as the accompanying notes, reflect the historical operations of Cleo’s Christmas gift wrap business as discontinued operations. The discussions in this quarterly report are presented on the basis of continuing operations, unless otherwise noted.

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 2014” refers to the fiscal year ending March 31, 2014.

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 all occasion and seasonal social expression products, principally to mass market retailers. These all occasion and seasonal 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, 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.

On December 3, 2013, the Company announced that, effective immediately, it combined the operations of its C.R. Gibson, LLC business with the operations of its Berwick Offray LLC and Paper Magic Group, Inc. ("Paper Magic") businesses which were previously combined on March 27, 2012.

On September 5, 2012, the Company and its Paper Magic subsidiary sold the Halloween portion of Paper Magic’s business and certain Paper Magic assets relating to such business, including certain tangible and intangible assets associated with Paper Magic’s Halloween business, to Gemmy Industries (HK) Limited (“Gemmy”). Paper Magic’s remaining Halloween assets, including accounts receivable and inventory, were excluded from the sale. Paper Magic retained the right and obligation to fulfill all customer orders for Paper Magic Halloween products (such as Halloween masks, costumes, make-up and novelties) for the Halloween 2012 season. The sale price of $2,281,000 was paid to

Paper Magic at closing. The Company incurred $523,000 of transaction costs (included within disposition of product

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line further discussed in Note 4 to the consolidated financial statements), yielding net proceeds of $1,758,000. The Company is liquidating the remaining assets and satisfying the liabilities through December 2015.

Foreign Currency Translation and Transactions

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

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 revenue recognition, 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 stock-based awards and resolution of litigation and other proceedings. Actual results could differ from these estimates.

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

The Financial Accounting Standards Board ("FASB") issued updated authoritative guidance in September 2011 to amend previous guidance on the annual and interim testing of goodwill for impairment. The guidance became effective for the Company at the beginning of its 2013 fiscal year. The guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined, on the basis of the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two step impairment test would still be required. 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. Annual impairment tests are performed by the Company in the fourth quarter of each year. The adoption of this updated authoritative guidance had no impact on the Company's Consolidated Financial Statements. See Note 7 for further information on goodwill and other intangible assets.

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):

| | December 31, 2013 | March 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Raw material | $10,821 | $8,116 | $9,665 |
| Work-in-process | 11,393 | 14,687 | 11,351 |
| Finished goods | 42,942 | 39,795 | 45,071 |
| | $65,156 | $62,598 | $66,087 |

Property, Plant and Equipment

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

| | December 31, 2013 | March 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Land | $2,508 | $2,508 | $2,508 |
| Buildings, leasehold interests and improvements | 37,202 | 37,007 | 37,185 |
| Machinery, equipment and other | 101,507 | 101,916 | 101,172 |
| | 141,217 | 141,431 | 140,865 |
| Less - Accumulated depreciation and amortization | (113,664) | (113,475) | (112,701) |
| Net property, plant and equipment | $27,553 | $27,956 | $28,164 |

During the nine months ended December 31, 2013, 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 $4,237,000. There was no effect on net property, plant and equipment.

Depreciation expense was $1,390,000 and $1,464,000 for the quarters ended December 31, 2013 and 2012, respectively, and was $4,436,000 and $4,514,000 for the nine months ended December 31, 2013 and 2012, respectively.

Income Tax Valuation Allowance

During the quarter ended December 31, 2012, the Company released valuation allowances of $775,000 related to state net operating loss carryforwards which resulted in a tax benefit for the period. There was no such reversal of valuation allowances in the three- and nine months ended December 31, 2013.

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 Income Per Common Share

The following table sets forth the computation of basic and diluted net income per common share for the three- and nine months ended December 31, 2013 and 2012 (in thousands, except per share data):

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| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Numerator: | | | | |
| Income from continuing operations | $10,988 | $11,600 | $20,167 | $17,573 |
| Gain from discontinued operations, net of tax | 19 | 11 | 131 | 55 |
| Net income | $11,007 | $11,611 | $20,298 | $17,628 |
| Denominator: | | | | |
| Weighted average shares outstanding for basic income per common share | 9,296 | 9,548 | 9,420 | 9,594 |
| Effect of dilutive stock options | 45 | 6 | 47 | 3 |
| Adjusted weighted average share outstanding for diluted income per common share | 9,341 | 9,554 | 9,467 | 9,597 |
| Basic: | | | | |
| Continuing operations | $1.18 | $1.21 | $2.14 | $1.83 |
| Discontinued operations | $— | $— | $0.01 | $0.01 |
| Total (1) | $1.18 | $1.22 | $2.15 | $1.84 |
| Diluted: | | | | |
| Continuing operations | $1.18 | $1.21 | $2.13 | $1.83 |
| Discontinued operations | $— | $— | $0.01 | $0.01 |
| Total (1) | $1.18 | $1.22 | $2.14 | $1.84 |

(1) Total net income per share for certain periods does not foot due to rounding.

Stock options on 151,000 shares of common stock were not included in computing diluted net income per common share for the three- and nine months ended December 31, 2013, respectively, because their effects were antidilutive. Stock options on 151,000 shares of common stock were not included in computing diluted net income per common share for the three- and nine months ended December 31, 2012, respectively, because their effects were antidilutive.

(2) DISCONTINUED OPERATIONS

On September 9, 2011, the Company sold the Cleo Christmas gift wrap business and certain of its assets to Impact. Impact acquired the Christmas gift wrap portion of Cleo’s business and certain of its assets relating to such business, including certain equipment, contract rights, customer lists, intellectual property and other intangible assets. Cleo’s remaining assets, including accounts receivable and inventory, were excluded from the sale. Cleo retained the right and obligation to fulfill all customer orders for Cleo Christmas gift wrap products for Christmas 2011. The purchase price was $7,500,000, of which $2,000,000 was paid in cash at closing. The remainder of the purchase price was paid through the issuance by Impact of an unsecured subordinated promissory note, which provides for quarterly payments of interest at 7% and principal payments as follows: $500,000 on March 1, 2012; $2,500,000 on March 1, 2013; and all remaining principal and interest on March 1, 2014. All interest and principal payments due through December 31, 2013 were paid timely. Additionally, in the fourth quarter of fiscal 2013, the Company received a $2,000,000 principal payment in advance of the March 1, 2014 due date. As of December 31, 2013, the note balance of $500,000 was recorded in other current assets in the accompanying condensed consolidated balance sheet.

As a result of the sale of its Christmas gift wrap business, the Company has reported these operations as discontinued operations, as shown in the following table (in thousands):

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| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Operating (loss) income | $(35) | $22 | $83 | $(8) |
| Reversal of reserves | 64 | — | 118 | 92 |
| Discontinued operations, before income taxes | 29 | 22 | 201 | 84 |
| Income tax expense | 10 | 11 | 70 | 29 |
| Discontinued operations, net of tax | $19 | $11 | $131 | $55 |

The following table presents the carrying values of the major accounts of discontinued operations that are included in the condensed consolidated balance sheet (in thousands):

| | December 31, 2013 | March 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Accounts receivable, net | $— | $2 | $— |
| Total current assets | $— | $2 | $— |
| Total assets attributable to discontinued operations | $— | $2 | $— |
| Customer programs | $10 | $162 | $179 |
| Restructuring reserve | — | — | 45 |
| Other current liabilities | 304 | 482 | 275 |
| Total current liabilities | $314 | $644 | $499 |
| Total liabilities associated with discontinued operations | $314 | $644 | $499 |

(3) BUSINESS RESTRUCTURING

On March 27, 2012, the Company combined the operations of its Berwick Offray and Paper Magic subsidiaries in order to drive sales growth by providing stronger management oversight and by reallocating sales and marketing resources in a more strategic manner. Involuntary termination benefits were offered to terminated employees under the Company’s pre-existing severance program. The Company recorded approximately $706,000 in employee severance charges during fiscal 2012 and made payments of $523,000 and $116,000 in the fiscal years ended March 31, 2013 and 2012, respectively. The final restructuring payment of $13,000 was paid in April 2013. During the fiscal year ended March 31, 2013, there was a reduction in the restructuring accrual of $54,000 related to severance costs that were less than originally estimated as certain employees under the plan did not receive the expected amount of severance. The charges associated with this restructuring plan are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(4) DISPOSITION OF PRODUCT LINE

On September 5, 2012, the Company and its Paper Magic subsidiary sold the Halloween portion of Paper Magic’s business and certain Paper Magic assets relating to such business, including certain tangible and intangible assets associated with the Halloween portion of Paper Magic’s business, to Gemmy. Paper Magic’s remaining Halloween assets, including accounts receivable and inventory, were excluded from the sale. Paper Magic retained the right and obligation to fulfill all customer orders for Paper Magic Halloween products (such as Halloween masks, costumes, make-up and novelties) for the Halloween 2012 season. The inventory remaining after the Halloween 2012 season was reduced to its estimated net realizable value. The sale price of $2,281,000 was paid to Paper Magic at closing. In connection with the sale, the Company recorded charges of $5,368,000 during the second quarter of fiscal 2013, consisting of severance of 49 employees of $1,282,000, facility closure costs of $1,375,000, professional fees and other costs of $1,341,000 ($523,000 were costs of the transaction) and a non-cash write-down of assets of $1,370,000. Additionally, a portion of the goodwill associated with the Paper Magic reporting unit was allocated to the business being sold. Such allocation was made on the basis of the fair value of the assets being sold relative to the overall fair value of the Paper Magic reporting unit. This resulted in the Company recording a reduction of goodwill in the amount of $2,711,000 for the Paper Magic reporting unit. There was also a non-cash charge of $1,266,000 related to the write-down of inventory to net realizable value which was recorded in cost of sales.

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During the year ended March 31, 2013, the Company made payments related to the restructuring of $1,901,000. Additionally, the Company reduced the restructuring reserve by $210,000 during fiscal 2013, primarily due to sub-lease income that was greater than originally estimated. During the three- and nine months ended December 31, 2013, the Company made payments of $227,000 and $1,164,000, respectively, primarily related to facility costs and severance. During the nine months ended December 31, 2013, there was a reduction in the restructuring accrual of $396,000 related to costs that were less than originally estimated. As of December 31, 2013, $229,000 of the remaining liability was classified in other current liabilities and $98,000 was classified in long-term obligations in the accompanying condensed consolidated balance sheet and will be paid through December 2015. The Company is liquidating the remaining assets and satisfying the liabilities through December 2015.

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

| | Employee Termination Costs | Facility Costs | Professional Fees and Other Costs | Total |
|---|---|---|---|---|
| Restructuring reserve as of March 31, 2013 | $589 | $815 | $483 | $1,887 |
| Cash paid, net of sublease income | (500) | (551) | (113) | (1,164) |
| Non-cash adjustments | (63) | (91) | (242) | (396) |
| Restructuring reserve as of December 31, 2013 | $26 | $173 | $128 | $327 |

(5) STOCK-BASED COMPENSATION

2013 Equity Compensation Plan

On July 30, 2013, the Company’s stockholders approved the CSS Industries, Inc. 2013 Equity Compensation Plan (“2013 Plan”). Under the terms of the Company’s 2013 Plan, the Human Resources Committee (the “Human Resources Committee”) of the Company’s Board of Directors (“Board”), or other committee appointed by the Board (collectively with the Human Resources Committee, the “2013 Equity Plan Committee”), may grant incentive stock options, non-qualified stock options, stock units, restricted stock grants, stock appreciation rights, stock bonus awards and dividend equivalents to officers and other employees. Grants under the 2013 Plan may be made through July 29, 2023. The term of each grant is at the discretion of the 2013 Equity Plan Committee, but in no event greater than ten years from the date of grant. The 2013 Equity Plan Committee has discretion to determine the date or dates on which granted options become exercisable. At December 31, 2013, there were 1,131,550 shares available for grant. There are no awards outstanding under the 2013 Plan.

2004 Equity Compensation Plan

Under the terms of the Company’s 2004 Equity Compensation Plan (“2004 Plan”), which expired on July 30, 2013 upon approval of the 2013 Plan, the Human Resources Committee could grant incentive stock options, non-qualified stock options, restricted stock grants, stock appreciation rights, stock bonuses and other awards to officers and other employees. Service-based options outstanding as of December 31, 2013 become exercisable at the rate of 25% per year commencing one year after the date of grant. Market-based stock options outstanding as of such date will become exercisable only if certain market conditions and service requirements are satisfied, and the date(s) on which they become exercisable will depend on the period in which such market conditions and service requirements are met, if at all. Market-based restricted stock units (“RSUs”) outstanding at December 31, 2013 will vest only if certain market conditions and service requirements have been met, and the date(s) on which they vest will depend on the period in which such market conditions and service requirements are met, if at all. Subject to limited exceptions, service-based RSUs outstanding as of December 31, 2013 vest at the rate of 50% of the shares underlying the grant on each of the third and fourth anniversaries of the grant date. Given that the 2004 Plan is now expired, no further grants may be made under such plan.

2011 Stock Option Plan for Non-Employee Directors

Under the terms of the Company’s 2011 Stock Option Plan for Non-Employee Directors (“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. Under the 2011 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 of each year 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

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25% per year commencing one year after the date of grant. At December 31, 2013, 101,000 shares were available for grant under the 2011 Plan.

The fair value of each market-based stock option and each market-based RSU granted under the above plans was estimated on the date of grant using either a Black-Scholes option pricing model (service-based awards) or a Monte Carlo simulation model (performance-based awards) with the following average assumptions:

| | Stock Options Nine Months Ended December 31, | | RSUs Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Risk-free interest rate | 0.94 % | 0.72 % | 0.66 % | 0.58 % |
| Volatility | 52.02 % | 54.75 % | 40.47 % | 57.90 % |
| Dividend yield | 2.02 % | 3.15 % | 2.04 % | 3.15 % |

The weighted average fair value of stock options granted during the nine months ended December 31, 2013 and 2012 was $11.19 and $7.30, respectively. The weighted average fair value of restricted stock units granted during the nine months ended December 31, 2013 and 2012 was $20.51 and $14.78, respectively.

As of December 31, 2013, there was $1,480,000 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. As of December 31, 2013, there was $1,442,000 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 2.2 years.

Compensation cost related to stock options and RSUs recognized in operating results (included in selling, general and administrative expenses) was $350,000 and $400,000 in the quarters ended December 31, 2013 and 2012, respectively, and $1,358,000 and $1,314,000 in the nine months ended December 31, 2013 and 2012, respectively.

(6) 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 income, net as offsets of gains and losses resulting from the underlying hedged transactions. A realized gain of $68,000 and $59,000 was recorded in the three- and nine months ended December 31, 2013, respectively. A realized loss of $50,000 and $56,000 was recorded in the three- and nine months ended December 31, 2012, respectively. As of December 31, 2013 and 2012, the notional amount of open foreign currency forward contracts was $3,401,000 and $5,230,000, respectively. The related unrealized gain was $11,000 as of December 31, 2013 and the related unrealized loss was $13,000 at December 31, 2012. We believe we do not have significant counterparty credit risks as of December 31, 2013.

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 (in thousands):

| | | Fair Value of Derivative Instruments Fair Value | | |
|---|---|---|---|---|
| | Balance Sheet Location | December 31, 2013 | March 31, 2013 | December 31, 2012 |
| Foreign currency forward contracts | Other current assets | $11 | $— | $— |
| Foreign currency forward contracts | Other current liabilities | $— | $17 | $13 |

(7) 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. In connection with the

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sale of the Halloween portion of Paper Magic's business on September 5, 2012, a portion of the goodwill associated with the Paper Magic reporting unit was allocated to the business being sold. Such allocation was made on the basis of the fair value of the assets being sold relative to the overall fair value of the Paper Magic reporting unit. This resulted in the Company recording a reduction of goodwill in the amount of $2,711,000 for the Paper Magic reporting unit in the second quarter of fiscal 2013. As the sale of the Halloween portion of Paper Magic's business was a triggering event, the Company performed an interim impairment test on the goodwill remaining in the Paper Magic reporting unit after the reduction in goodwill associated with the sale of the Halloween portion of Paper Magic's business was recorded. The Company determined that no impairment existed for the remainder of the goodwill of the Paper Magic reporting unit.

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

| | December 31, 2013 | | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Tradenames and trademarks | $12,793 | $— | $12,793 | $— | $12,793 | $— |
| Customer relationships | 22,057 | 8,984 | 22,057 | 7,859 | 22,057 | 7,484 |
| Trademarks | 403 | 265 | 403 | 243 | 403 | 235 |
| Patents | 1,262 | 503 | 1,262 | 409 | 1,301 | 389 |
| | $36,515 | $9,752 | $36,515 | $8,511 | $36,554 | $8,108 |

Amortization expense related to intangible assets was $414,000 and $414,000 for the quarters ended December 31, 2013 and 2012, respectively, and was $1,241,000 and $1,243,000 for the nine months ended December 31, 2013 and 2012, respectively. Based on the current composition of intangibles, amortization expense for the remainder of fiscal 2014 and each of the succeeding four years is projected to be as follows (in thousands):

| | |
|---|---|
| Remainder of fiscal 2014 | $413 |
| Fiscal 2015 | 1,635 |
| Fiscal 2016 | 1,634 |
| Fiscal 2017 | 1,634 |
| Fiscal 2018 | 1,634 |

(8) TREASURY STOCK TRANSACTIONS

On December 11, 2012, the Company purchased, under the Company's stock repurchase program, an aggregate 80,000 shares of its common stock from a trust established by a director of the Company. The terms of the purchase were negotiated on behalf of the Company by a Special Committee of the Board of Directors consisting of four independent, disinterested directors. The price of $20.00 per share was less than the fair market value of a share of the Company's common stock on the date of the transaction. The Special Committee unanimously authorized the purchase. The total amount of this transaction was $1,600,000.

Under a stock repurchase program authorized by the Company's Board, the Company repurchased 272,655 shares of the Company's common stock for $6,634,000 during the nine months ended December 31, 2013. The Company repurchased 251,180 shares (inclusive of the 80,000 shares described above) of the Company's common stock for $4,864,000 during the nine months ended December 31, 2012. On July 31, 2012, the Company announced that its Board had authorized the repurchase of up to an additional 500,000 shares of the Company's common stock. As of December 31, 2013, the Company had 200,955 shares remaining available for repurchase under the Board's authorization.

(9) 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

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proceedings will not materially affect the consolidated financial position of the Company or its results of operations or cash flows.

(10) FAIR VALUE MEASUREMENTS

Recurring 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 condensed consolidated balance sheet at fair value based on quotes obtained from financial institutions as of December 31, 2013.

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 condensed consolidated balance sheets. The fair value of the investments is based on the market price of the mutual funds as of December 31, 2013.

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 condensed consolidated balance sheets and is based on quotes obtained from the insurance company as of December 31, 2013.

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.

The Company’s recurring assets and liabilities recorded on the condensed 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 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.

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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 condensed consolidated balance sheet as of December 31, 2013 and March 31, 2013 (in thousands):

| | December 31, 2013 | Fair Value Measurements at December 31, 2013 Using Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets | | | | |
| Marketable securities | $769 | $769 | $— | $— |
| Cash surrender value of life insurance policies | 1,060 | — | 1,060 | — |
| Foreign exchange contracts | 11 | — | 11 | $— |
| Total assets | $1,840 | $769 | $1,071 | $— |
| Liabilities | | | | |
| Deferred compensation plans | $769 | $769 | $— | $— |
| Total liabilities | $769 | $769 | $— | $— |

| | March 31, 2013 | Fair Value Measurements at March 31, 2013 Using Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets | | | | |
| Marketable securities | $678 | $678 | $— | $— |
| Cash surrender value of life insurance policies | 1,040 | — | 1,040 | — |
| Total assets | $1,718 | $678 | $1,040 | $— |
| Liabilities | | | | |
| Deferred compensation plans | $678 | $678 | $— | $— |
| Foreign exchange contract | 17 | — | $17 | $— |
| Total liabilities | $695 | $678 | $17 | $— |

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

Nonrecurring Fair Value Measurements

The Company's nonfinancial assets which are measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill, intangible assets and certain other assets. These assets are not measured at fair value on a recurring basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence that impairment may exist. In making the assessment of impairment, recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset group to future net cash flows estimated by the Company to be generated by such assets. 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. Assets to be disposed of are recorded at the lower of their carrying value or estimated net realizable value.

Goodwill and indefinite-lived intangibles are subject to impairment testing on an annual basis, or sooner if circumstances indicate a condition of impairment may exist. The valuations use assumptions such as interest and discount rates, growth projections and other assumptions of future business conditions. These valuation methods require a significant degree of management judgment concerning the use of internal and external data. In the event these methods indicate that fair value is less than the carrying value, the asset is recorded at fair value as determined by the valuation models. Accordingly, these fair value measurements fall in Level 3 of the fair value hierarchy described above. As of December 31, 2013, there were no indications or circumstances indicating that an impairment might exist.

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(11) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued ASU 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment” (“ASU 2012-02”), which amends existing guidance by giving an entity the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If this is the case, a more detailed fair value calculation will need to be performed which is used to identify potential impairments and to measure the amount of impairment losses to be recognized, if any. To perform a qualitative assessment, an entity must identify and evaluate changes in economic, industry and entity-specific events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. ASU 2012-02 is effective for annual and interim impairment tests performed by the Company for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material impact on the Company’s future indefinite-lived intangibles impairment tests.

In January 2013, the FASB issued ASU 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (“ASU 2013-01”). This update is intended to improve the comparability of statements of financial position prepared in accordance with U.S. GAAP and International Financial Reporting Standards, requiring both gross and net presentation of offsetting assets and liabilities. The new requirements are effective for fiscal years beginning on or after January 1, 2013, and for interim periods within those fiscal years. As this guidance only affects disclosures, the adoption of this standard did not have an impact on the Company’s financial condition, results of operations and cash flows.

In February 2013, the FASB issued ASU 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU 2013-02”). This update requires disclosure, either on the face of the statement where income is presented or in the notes to the financial statements, of significant amounts reclassified out of accumulated other comprehensive income in their entirety. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about these amounts. ASU 2013-02 is effective for annual and interim periods beginning after December 15, 2012. As this update only requires enhanced disclosure, the adoption of ASU 2013-02 did not impact the Company’s financial condition, results of operations and cash flows.

In July 2013, the FASB issued ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)” (“ASU 2013-11”), which requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (NOL) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. ASU 2013-11 does not require new recurring disclosures. It is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption and retrospective application are permitted. The Company does not expect the adoption of ASU 2013-11 to have a material impact on the Company’s financial condition, results of operations and cash flows.

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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

During fiscal 2013, net sales of the Halloween portion of Paper Magic’s business, which was sold on September 5, 2012, were $30,914,000. Excluding Halloween sales, which will not be recurring in the future, approximately 61% of the Company’s sales are all occasion. Excluding Halloween sales, approximately 32% of our sales relate to the Christmas season and approximately 7% of our sales relate to other retail seasons.

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. The Company believes that its all occasion stationery, stickers and memory product lines have higher inherent growth potential due to higher market growth rates. The Company continues to pursue sales growth in these and other areas. 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.

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 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 a purchasing office 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 ten fiscal years, the Company has closed six manufacturing plants and seven warehouses totaling 2,680,000 square feet. Additionally, on December 3, 2013, the Company announced that, effective immediately, it combined the operations of its C.R. Gibson LLC business with the operations of its Berwick Offray LLC ("Berwick Offray") and Paper Magic Group, Inc. ("Paper Magic") businesses. In the last five fiscal years, the Company had previously combined the operations of its Berwick Offray and Paper Magic subsidiaries in order to drive sales growth by providing stronger management oversight and by reallocating sales and marketing resources in a more strategic manner; consolidated its human resources, accounts receivable, accounts payable and payroll functions into a combined back office operation; and completed the implementation of a phase of the Company’s enterprise resource planning systems standardization project.

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

On September 5, 2012, the Company and its Paper Magic subsidiary sold the Halloween portion of Paper Magic’s business and certain Paper Magic assets relating to such business, including certain tangible and intangible assets associated with Paper Magic’s Halloween business, to Gemmy Industries (HK) Limited (“Gemmy”). Paper Magic’s remaining Halloween assets, including accounts receivable and inventory, were excluded from the sale. Paper Magic retained the right and obligation to fulfill all customer orders for Paper Magic Halloween products (such as Halloween masks, costumes, make-up and novelties) for the Halloween 2012 season. The sale price of $2,281,000 was paid to Paper Magic at closing. The Company incurred $523,000 of transaction costs (included within disposition of product line further discussed in Note 4 to the consolidated financial statements), yielding net proceeds of $1,758,000. The Company is liquidating the remaining assets and satisfying the liabilities through December 2015.

On September 9, 2011, the Company and its Cleo Inc (“Cleo”) subsidiary sold the Christmas gift wrap portion of Cleo’s business and certain of its assets relating to such business, including certain equipment, contract rights, customer lists, intellectual property and other intangible assets to Impact Innovations, Inc. (“Impact”). Cleo’s remaining assets, including accounts receivable and inventory, were excluded from the sale. Cleo retained the right and obligation to fulfill all customer orders for Cleo Christmas gift wrap products for Christmas 2011. The purchase price was $7,500,000, of which $2,000,000 was paid in cash at closing. The remainder of the purchase price was paid through the issuance by Impact of an unsecured subordinated promissory note, which provides for quarterly payments of interest at 7% and principal payments as follows: $500,000 on March 1, 2012; $2,500,000 on March 1, 2013; and all remaining principal and interest on March 1, 2014. All interest and principal payments due through December 31, 2013 were paid timely. Additionally, in the fourth quarter of fiscal

2013, the Company received a $2,000,000 principal payment in advance of the March 1, 2014 due date. As of December 31, 2013, the note receivable balance of $500,000 was recorded in other current assets in the accompanying condensed consolidated balance sheet. The results of operations for the three- and nine month periods ended December 31, 2013 and 2012 reflect the historical operations of the Cleo Christmas gift wrap business as discontinued operations and the discussion herein is presented on the basis of continuing operations, unless otherwise stated.

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.

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, 2013. 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; the assessment of the recoverability of goodwill and other intangible and long-lived assets; the valuation of inventory and accounts receivable; income tax accounting; the valuation of stock-based awards and resolution of litigation and other proceedings. 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, 2013.

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.

Nine Months Ended December 31, 2013 Compared to Nine Months Ended December 31, 2012

Sales for the nine months ended December 31, 2013 decreased 14% to $265,899,000 from $310,572,000 in the nine months ended December 31, 2012 primarily due to lower sales of Halloween products of $28,063,000 as a result of our sale of the Halloween portion of Paper Magic’s business on September 5, 2012, and lower sales of all occasion stationery products, Christmas products and narrow woven ribbon compared to the prior year.

Cost of sales, as a percentage of sales, decreased to 67% in the nine months ended December 31, 2013 compared to 69% in the nine months ended December 31, 2012 primarily due to sourcing efficiencies and the absence of a write-down of inventory to net realizable value of $966,000 related to the sale of the Halloween portion of Paper Magic’s business which was recorded in the prior year.

Selling, general and administrative (“SG&A”) expenses of $57,544,000 in the nine months ended December 31, 2013 decreased from $61,934,000 in the nine months ended December 31, 2012 primarily due to reduced payroll and related costs.

Disposition of product line, net of $5,798,000 recorded in the nine months ended December 31, 2012, primarily relates to costs associated with the sale of the Halloween portion of Paper Magic’s business, including severance of $1,282,000, facility closure costs of $1,375,000, professional fees of $1,341,000, a write-down of assets of $1,370,000 and a reduction of goodwill of $2,711,000. These costs were offset by proceeds received from the sale of $2,281,000. The Company incurred $523,000 of transaction costs, which is included in the aforementioned professional fees, yielding net proceeds of $1,758,000. A portion of the goodwill associated with the Paper Magic reporting unit was required to be allocated to the business being sold. Such allocation was made on the basis of the fair value of the assets being sold relative to the overall fair value of the Paper Magic reporting unit. See Note 4 to the condensed consolidated financial statements for further discussion.

Interest expense, net was $152,000 in the nine months ended December 31, 2013 compared to interest income, net of $68,000 in the nine months ended December 31, 2012. This change was primarily due to interest income received during the nine months ended December 31, 2012 on the note receivable from Impact (issued by Impact as part of its purchase of the Christmas gift wrap business on September 9, 2011). The outstanding principal balance of such note receivable was reduced to $500,000 during fiscal 2013.

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Income from continuing operations before income taxes for the nine months ended December 31, 2013 was $29,785,000 compared to $27,945,000 in the nine months ended December 31, 2012. The increase in income from continuing operations before income taxes for the nine months ended December 31, 2013 was primarily due to the reduction in costs associated with the disposition of product line discussed above, favorable margins and lower payroll related expenses, partially offset by the impact of lower sales volume.

Income taxes, as a percentage of income before taxes, were 32% and 37% in the nine months ended December 31, 2013 and 2012, respectively. The decrease in income taxes, as a percentage of income before taxes, in the nine months ended December 31, 2013 was primarily attributable to a reduction to the property, plant and equipment deferred tax liability recorded in the current period. The increase in income taxes, as a percentage of income before taxes, in the nine months ended December 31, 2012 was primarily attributable to a portion of the goodwill reduction recorded related to the sale of the Halloween portion of Paper Magic's business being non-deductible for tax purposes, partially offset by the release of a valuation allowance related to state net operating loss carryforwards. Excluding discrete tax items recorded in the respective periods, the income tax rates would approximate historical levels.

Income from discontinued operations, net of tax of $131,000 for the nine months ended December 31, 2013 increased from $55,000 in 2012 primarily due to the favorable outcome of a property tax assessment. The primary operating activity of the discontinued operation ceased in December 2011.

Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012

Sales for the three months ended December 31, 2013 decreased 8% to $106,295,000 from $116,020,000 in the three months ended December 31, 2012 primarily due to lower sales of Halloween products of $1,299,000 due to our sale of the Halloween portion of Paper Magic's business on September 5, 2012, and lower sales of Christmas products and narrow woven ribbon.

Cost of sales, as a percentage of sales, decreased to 66% in the three months ended December 31, 2013 compared to 68% in the three months ended December 31, 2012 primarily due to sourcing efficiencies.

SG&A expenses of $19,865,000 in the three months ended December 31, 2013 decreased from $20,510,000 in the three months ended December 31, 2012 primarily due to reduced payroll and related costs.

Interest expense, net was $82,000 in the three months ended December 31, 2013 compared to interest income, net of $1,000 in the three months ended December 31, 2012. This change was primarily due to interest income received during the three months ended December 31, 2012 on the note receivable from Impact (issued by Impact as part of its purchase of the Christmas gift wrap business on September 9, 2011). The outstanding principal balance of such note receivable was reduced to $500,000 during fiscal 2013.

Income from continuing operations before income taxes for the three months ended December 31, 2013 was $16,316,000 compared to $17,019,000 for the three months ended December 31, 2012. The decrease in income from continuing operations before income taxes for the three months ended December 31, 2013 was primarily due to the impact of lower sales volume, partially offset by favorable margins and lower payroll related expenses.

Income taxes, as a percentage of income before taxes, were 33% and 32% in the three months ended December 31, 2013 and 2012, respectively. The increase in income taxes, as a percentage of income before income taxes, was primarily attributable to a lower benefit related to the reduction to the property, plant and equipment deferred tax liability recorded in the current period compared to the release of a valuation allowance related to state net operating loss carryforwards recorded in the quarter ended December 31, 2012. Excluding discrete tax items recorded in the respective periods, the income tax rates would approximate historical levels.

Income from discontinued operations, net of tax of $19,000 for the three months ended December 31, 2013 increased from $11,000 in 2012. The primary operating activity of the discontinued operation ceased in December 2011.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, the Company had working capital of $188,059,000 and stockholders' equity of $259,553,000. Operating activities of continuing operations used net cash of $3,216,000 during the nine months ended December 31, 2013 compared to $343,000 in the nine months ended December 31, 2012. Net cash used for operating activities from continuing operations during the nine months ended December 31, 2013 reflects our working capital requirements which resulted in an increase in accounts receivable of $48,409,000 due to the seasonal billings of current year Christmas accounts receivable, net of

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current year collections. This was offset by an increase in other accrued liabilities of $15,807,000 due to increased accounts payable and accruals for income taxes, royalties and sales commissions, partially offset by lower reserves related to the sale of the Halloween portion of PMG's business in the prior year. Included in net income for the nine months ended December 31, 2013 were non-cash charges for depreciation and amortization of $5,677,000, provision for accounts receivable allowances of $2,608,000 and share-based compensation of $1,358,000. Net cash used for operating activities from continuing operations during the nine months ended December 31, 2012 reflects our working capital requirements which resulted in an increase in accounts receivable of $53,546,000 due to seasonal billings of current year Christmas accounts receivable, net of current year collections, offset by an increase in other accrued liabilities of $17,270,000 due to increased accruals for income taxes, royalties and sales commissions. Also contributing to the increase in other current liabilities was the reserve of $2,037,000 related to the sale of the Halloween portion of PMG's business during the second quarter of fiscal 2013. Included in net income for the nine months ended December 31, 2012 were non-cash charges for depreciation and amortization of $5,757,000, provision for accounts receivable allowances of $4,027,000, a reduction in goodwill of $2,711,000 related to the sale of the Halloween portion of PMG's business, and share-based compensation of $1,314,000.

Our investing activities of continuing operations used net cash of $4,027,000 in the nine months ended December 31, 2013, consisting primarily of capital expenditures of $4,035,000. In the nine months ended December 31, 2012, our investing activities consisted primarily of capital expenditures of $3,269,000, partially offset by net proceeds of $1,758,000 from the sale of the Halloween portion of PMG's business.

Our financing activities used net cash of $10,986,000 in the nine months ended December 31, 2013, consisting primarily of purchases of treasury stock of $6,634,000 and payments of dividends of $4,243,000. In the nine months ended December 31, 2012, financing activities used net cash of $9,241,000, consisting primarily of purchases of treasury stock of $4,864,000 and payments of cash dividends of $4,310,000.

The Company relies primarily on cash generated from its operations and, if needed, seasonal borrowings to meet its liquidity requirements. Historically, a significant portion of the Company’s revenues have been seasonal, primarily Christmas related, with approximately 70% 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, working capital needs increase in the second and third quarters, peaking prior to Christmas and dropping thereafter. The sale of the Halloween portion of Paper Magic’s business has reduced the Company’s seasonal working capital requirements. Financing for seasonal working capital requirements, and to provide the Company with sources of capital for general corporate purposes, including acquisitions, is available 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 facility. 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. At December 31, 2013, there were no borrowings outstanding under the Company’s revolving credit facility, and the Company did not borrow any amount under the facility during the nine months ended December 31, 2013. The Company is in compliance with all financial debt covenants as of December 31, 2013. 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 December 31, 2013, the Company’s letter of credit commitments are as follows (in thousands):

| | Less than 1 | 1-3 | 4-5 | After 5 | Total |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| | Year | Years | Years | Years | |
| Letters of credit | $1,983 | — | — | — | $1,983 |

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

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As of December 31, 2013, the Company is committed to pay guaranteed minimum royalties 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, 2013. There have been no significant changes to such 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 unit at the ribbon manufacturing facility in Hagerstown, Maryland, which totaled approximately 97 employees as of December 31, 2013, 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, 2014.

ACCOUNTING PRONOUNCEMENTS

See Note 11 to the consolidated financial statements for information concerning recent accounting pronouncements and the impact of those standards.

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 growth; aggressively pursuing new product initiatives, pursuing sales growth within certain identified product categories, driving sales growth by providing stronger management oversight and by reallocating sales and marketing resources in a more strategic manner; the expected future impact of legal proceedings; the anticipated effects of measures taken by the Company to respond to sales volume, cost and price pressures; the expected future timing for liquidation of assets and satisfaction of liabilities associated with the Company's former Halloween business; the expected amount and timing of future amortization expense and future compensation expense relating to non-vested outstanding stock options and RSUs; the expected future effect of certain accounting pronouncements; and the Company's belief that its sources of available capital are adequate to meet its future cash needs for at least the next 12 months. 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); difficulties entering new markets and/or developing new products that drive incremental sales; 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; difficulties identifying and evaluating suitable acquisition opportunities; 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 combination of the operations of the Company's operating businesses; risks associated with the Company's restructuring activities, including the risk that the cost of such activities will exceed expectations, the risk that the expected benefits of such activities will not be realized, and the risk that implementation of such activities 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, customs laws and consumer product safety regulations; and other factors described more fully in the

Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 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's activities expose it to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. The Company actively monitors these exposures and, where considered appropriate, manages these risks. The Company manages its exposure to foreign currency fluctuations 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 December 31, 2013 have not materially changed from March 31, 2013 (see Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013).

## 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 (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the President and Chief Executive Officer and Vice President – Finance and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(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 third quarter of fiscal year 2014 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 2. Unregistered Sales of Equity Securities and Use of Proceeds
Share Repurchase Program

A total of 58,086 shares were repurchased at an average price of $24.15 in the third quarter of fiscal 2014. As of December 31, 2013, there remained an outstanding authorization to repurchase 200,955 shares of outstanding CSS common stock as represented in the table below.

| | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program (2) | Maximum Number of Shares that May Yet Be Purchased Under the Program (2) |
|---|---|---|---|---|
| October 1 through October 31, 2013 | 58,086 | $24.15 | 58,086 | 200,955 |
| November 1 through November 30, 2013 | — | — | — | 200,955 |
| December 1 through December 31, 2013 | — | — | — | 200,955 |
| Total Third Quarter | 58,086 | $24.15 | 58,086 | 200,955 |

(1) All share repurchases were effected in open-market transactions and in accordance with the safe harbor provisions of Rule 10b-18 of the Exchange Act.

(2) On October 23, 2008 and July 31, 2012, the Company announced that its Board of Directors had authorized the repurchase of up to 500,000 shares and 500,000 shares, respectively, of the Company’s common stock (the “Repurchase Program”). As of December 31, 2013, the Company repurchased an aggregate of 799,045 shares pursuant to the Repurchase Program. An expiration date has not been established for the Repurchase Program.

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Item 6. Exhibits

| | |
|---|---|
| *Exhibit 10.1 | Amendment No. 1 to Credit Agreement. |
| *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. |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |

* Filed 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.<br>(Registrant) | |
| Date: January 28, 2014 | By: | /s/ Christopher J. Munyan<br>Christopher J. Munyan<br>President and Chief Executive Officer<br>(principal executive officer) |
| Date: January 28, 2014 | By: | /s/ Vincent A. Paccapaniccia<br>Vincent A. Paccapaniccia<br>Vice President – Finance and Chief Financial Officer<br>(principal financial and accounting officer) |