

CSS INDUSTRIES INC  
Form DEF 14A  
June 22, 2004

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant  
Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**CSS Industries Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11  
(set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing party:

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(4) Date filed:

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## **CSS INDUSTRIES, INC.**

1845 Walnut Street  
Philadelphia, Pennsylvania 19103

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### **NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

Dear Stockholder:

The 2004 Annual Meeting of Stockholders of CSS Industries, Inc. will be held at The Rittenhouse, 210 West Rittenhouse Square, Philadelphia, Pennsylvania, on Wednesday, August 4, 2004, at 9:30 a.m. local time.

At our Annual Meeting, we will ask you to:

1. Elect a board of eight directors;
  2. Approve the 2004 Equity Compensation Plan;
  3. Approve an amendment to the Certificate of Incorporation of CSS Industries, Inc. to increase the number of authorized shares of common stock; and
  4. Transact any other business that may properly be presented at the Annual Meeting.
- If you were a stockholder of record at the close of business on June 8, 2004, you may vote at the Annual Meeting.

By order of the board of directors,

STEPHEN V. DUBIN  
*Executive Vice President and Secretary*

Philadelphia, Pennsylvania  
June 24, 2004

**We hope that you will attend the Annual Meeting. Whether or not you plan to attend the meeting, we invite and encourage you to complete, sign and return the enclosed proxy in the envelope provided.**

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**CSS INDUSTRIES, INC.  
1845 Walnut Street  
Philadelphia, Pennsylvania 19103**

**PROXY STATEMENT  
2004 Annual Meeting of Stockholders**

**WHY YOU RECEIVED THIS PROXY STATEMENT**

You received this proxy statement because the board of directors of CSS Industries, Inc. ("CSS") is soliciting your proxy to vote at the 2004 Annual Meeting of Stockholders ("Meeting") to be held at The Rittenhouse, 210 West Rittenhouse Square, Philadelphia, Pennsylvania on Wednesday, August 4, 2004 at 9:30 a.m. local time. This proxy statement provides information regarding the matters to be presented at the Meeting. You may vote in one of two ways: (i) in person, by attending the Meeting and casting your vote, or (ii) by proxy, by completing, signing and returning the enclosed proxy card. We are sending this proxy statement and the accompanying form of proxy to stockholders beginning on June 24, 2004.

**WHO CAN VOTE**

Stockholders of record at the close of business on June 8, 2004 may vote at the Meeting. On the record date, 11,920,813 shares of CSS common stock, par value \$.10 per share, were outstanding. Each share of common stock is entitled to one vote on any matter that is properly presented at the Meeting.

**WHO WILL PAY THE COSTS OF THIS PROXY SOLICITATION**

We are paying for this solicitation of proxies. In addition to this mailing, proxies may be solicited by telephone by officers, directors or employees of CSS and its affiliated companies, who will not receive payment specifically for these services. We reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses in forwarding solicitation material to the beneficial owners of CSS shares.

**HOW TO BE PART OF AN EFFECTIVE VOTE**

In order to have an effective vote on any matter at the Meeting, there must be a quorum. A quorum exists when the holders of a majority of the shares entitled to vote are present in person or represented by proxy. Directors will be elected by a plurality of the votes cast at the Meeting. This means that the eight nominees receiving the most votes will be elected as directors. Approval of the amendment to the CSS Certificate of Incorporation (the "Amendment") requires the affirmative vote of holders of a majority of our outstanding common stock. Approval of the 2004 Equity Compensation Plan (the "2004 Plan"), and any other matter to be voted on at the Meeting require the affirmative vote of the holders of a majority of the shares present at the meeting, in person or represented by proxy.

You may vote at the Meeting by attending in person and submitting a ballot or by completing and properly submitting the enclosed proxy. The shares represented by each properly completed proxy card will be voted at the Meeting in accordance with each stockholder's choices. For the election of directors, votes may be cast in favor or withheld. Votes that are withheld will not be counted in the vote and will have no effect, other than to determine the presence of a quorum. Abstentions may not be specified for the election of directors. An abstention on either the proposal to approve the 2004 Plan, the proposal to approve the Amendment or on any other matters to be voted on at the Meeting is counted as a vote against, and a "broker non-vote" generally is not counted on such matters, except as to the Amendment where a broker non-vote has the same effect as an abstention. A "broker non-vote" occurs when a nominee (such as a broker) does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

If you do not indicate on the proxy card how you wish to have your shares voted, the shares will be voted as recommended by the board of directors. If any additional matters are properly presented at the Meeting, the proxy holders will vote in their discretion. This authority is given to the proxy holders in the enclosed form of proxy.

**HOW YOU MAY REVOKE YOUR PROXY**

You may revoke your proxy at any time before the vote is taken at the Meeting by filing with the Secretary of CSS a written revocation or another form of proxy bearing a date later than the date of the proxy that you submitted previously. You may also revoke your proxy by attending the Meeting and voting in person. Your attendance at the Meeting will not in and of itself constitute revocation of a proxy if you do not file a written revocation, submit a later-dated proxy or vote in person.

**Your vote is important. We therefore invite and encourage you to complete, sign and return the accompanying proxy whether or not you plan to attend the Annual Meeting.**

**OUR INDEPENDENT ACCOUNTANTS, THEIR FEES AND THEIR ATTENDANCE AT THE ANNUAL MEETING**

The Audit Committee engaged KPMG LLP (KPMG) as CSS independent public accountants to audit our financial statements for our fiscal year ended March 31, 2004. A representative of KPMG is expected to attend the Meeting. This representative will have an opportunity to make a statement, if he or she desires, and will be available to respond to your questions.

The audit fees billed by KPMG for each of our fiscal years ended March 31, 2004 and March 31, 2003 and other fees billed by KPMG in those fiscal years were as follows:

| <u>Type of Fee</u> | <u>2004</u>       | <u>2003</u>       |
|--------------------|-------------------|-------------------|
| Audit Fees         | \$ 577,000        | \$ 491,000        |
| Audit-Related Fees | □                 | 47,511            |
| Tax Fees           | 69,174            | 46,000            |
| All Other Fees     | □                 | □                 |
|                    | <u>\$ 646,174</u> | <u>\$ 584,511</u> |

**Audit Fees**

Audit fees were paid for the audit of CSS annual consolidated financial statements and the reviews of CSS consolidated financial statements included in CSS Quarterly Reports on Form 10-Q.

**Audit-Related Fees**

There were no audit-related fees paid in 2004. Audit-related fees were paid in 2003 for services that included due diligence services and closing balance sheet audits related to the acquisition of Crystal Creative Products, Inc. (Crystal).

**Tax Fees**

Tax fees of \$58,400 and \$25,000 were paid for tax compliance in 2004 and 2003, respectively. Such compliance services included assistance with tax return preparation. Tax fees for tax advice and tax planning in the amount of \$10,774 and \$21,000 were paid in 2004 and 2003, respectively.

**All Other Fees**

There were no fees paid in 2004 or 2003 for products and services provided by KPMG other than the services referred to above.

## CSS SECURITY OWNERSHIP

The following table shows all persons who we know to beneficially own at least five percent of our common stock as of June 8, 2004, unless otherwise noted. The table also shows, as of that date, all beneficial ownership of our common stock by each of our current directors, each of the executive officers listed in the Summary Compensation Table under "Executive Compensation" below and all directors and executive officers as a group.

| <b>Beneficial Owner</b>  | <b>Number<br/>of Shares<br/>Beneficially<br/>Owned<sup>(1)</sup></b> | <b>Percent<br/>of<br/>Class<sup>(2)</sup></b> |
|--|--|---|
| Dimensional Fund Advisors Inc.   | 744,688 <sup>(3)</sup>   | 6.25%   |
| Royce & Associates, LLC  | 666,100 <sup>(4)</sup>   | 5.59%   |
| T. Rowe Price Associates, Inc. and T. Rowe Price<br>Small-Cap Value Fund, Inc.   | 1,384,450 <sup>(5)</sup>   | 11.61%  |
| Ellen B. Kurtzman  | 3,026,447 <sup>(6)</sup>   | 25.39%  |
| James H. Bromley   | 280,938 <sup>(7)</sup>   | 2.36%   |
| Stephen V. Dubin   | 528,684 <sup>(8)</sup>   | 4.43%   |
| David J. M. Erskine  | 365,890 <sup>(9)</sup>   | 3.07%   |
| Jack Farber  | 752,964 <sup>(10)</sup>  | 6.32%   |
| Leonard E. Grossman  | 162,432 <sup>(11)</sup>  | 1.36%   |
| James E. Ksansnak  | 49,849 <sup>(12)</sup>   | *   |
| Rebecca C. Matthias  | 1,000 <sup>(13)</sup>  | *   |
| Michael L. Sanyour   | 36,580 <sup>(14)</sup>   | *   |
| Steven A. Cohen  | 66,977 <sup>(15)</sup>   | *   |
| Clifford E. Pietrafitta  | 137,976 <sup>(16)</sup>  | 1.16%   |
| All directors and executive officers of CSS as a group (twelve (12)<br>persons, including the individuals named above) | 2,104,599 <sup>(17)</sup>  | 17.65%  |

\* Ownership is less than 1 percent of the class.

- (1) "Beneficial ownership" is determined in accordance with Securities and Exchange Commission ("SEC") regulations. Therefore, the table lists all shares as to which a person listed has or shares the power to vote or to direct disposition. In addition, shares issuable upon the exercise of outstanding stock options exercisable at June 8, 2004 or within 60 days thereafter are considered outstanding and to be beneficially owned by the person holding such options for the purpose of computing such person's percentage beneficial ownership, but are not deemed outstanding for the purposes of computing the percentage beneficial ownership of any other person. Unless otherwise indicated, each person has the sole power to vote and to direct disposition of the shares listed as beneficially owned by such person.
- (2) This percentage is calculated based upon a total of 11,920,813 shares of common stock outstanding at June 8, 2004.
- (3) This information is as of December 31, 2003. Dimensional Fund Advisors Inc. ("Dimensional") is located at 1299 Ocean Avenue, 11th Floor, Santa Monica, CA 90401. Dimensional has disclosed in a Schedule 13G filed with the SEC on February 6, 2004 that it is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940 and that it furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. In its role as investment advisor or manager, Dimensional possesses voting and/or investment power over these shares. For purposes of the reporting requirements of the Securities Act of 1934, Dimensional is deemed to be the beneficial owner of such shares; however, Dimensional expressly disclaims that it is the beneficial owner of such shares.
- (4) This information is as of March 31, 2004. Royce & Associates, LLC ("Royce") is located at 1414 Avenue of the Americas, New York, NY 10019. Royce disclosed in a Schedule 13G filed with the SEC on January 29, 2004 that it is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940.



- (5) This information is as of March 31, 2004 and is derived from Schedule 13F filed with the SEC on May 14, 2004 by T. Rowe Price Associates, Inc. (Price Associates) and supplemental information provided by Price Associates. Price Associates is located at 100 E. Pratt Street, Baltimore, MD 21202. Price Associates has advised us that these shares are owned by various individual and institutional investors which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the shares. Price Associates has further advised us that it has sole voting power over 423,650 of the shares listed in the table, T. Rowe Price Small-Cap Value Fund, Inc. has sole voting power over 926,300 of such shares and an institutional investor has sole voting power over the remaining 34,500 shares. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of the shares listed; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such shares.
- (6) Ms. Kurtzman, Mr. Farber's daughter, has a business address at 1105 North Market Street, Wilmington, DE 19801. She owns 215,487 shares directly. In addition, the shares shown in the table include the following: 179,278 shares held by the Farber Family Charitable Lead Annuity Trust, for which Ms. Kurtzman is the sole trustee; 965,151 shares held by a trust for the benefit of Jack Farber, for which Ms. Kurtzman is the sole trustee; 351,042 shares held by a trust for the benefit of Vivian Farber, her mother, for which Ms. Kurtzman is the sole trustee; 83,475 shares held by trusts for the benefit of two of Ms. Kurtzman's children, for which Ms. Kurtzman serves as co-trustee with her mother; 176,292 shares held by two trusts, one for the benefit of Ms. Kurtzman's son and the other for the benefit of Ms. Kurtzman's nephew, for which Ms. Kurtzman serves as co-trustee with her brother; 305,722 shares held by the Farber Family Foundation, Inc., a charitable foundation, the members, officers and directors of which are Ms. Kurtzman, her mother, her father and her brother; and 750,000 shares held by Delv, L.P. (the Partnership). Ms. Kurtzman has voting and investment power over the shares owned by the Partnership in her capacity as the sole director, President, Treasurer and Secretary of Delv, Inc. (General Partner), the general partner of the Partnership. The General Partner owns a 0.1 percent interest in the Partnership, and the remaining 99.9 percent interest in the Partnership is owned by the 2003 Farber Family Trust, of which Ms. Kurtzman is the sole trustee. As a limited partner, the 2003 Farber Family Trust does not have the power to vote or dispose of the shares owned by the Partnership and it does not otherwise have voting or investment power with respect to such shares. One half of the outstanding common stock of the General Partner is owned by each of two trusts, for which Ms. Kurtzman serves as the sole trustee. As a matter of policy, the Farber Family Foundation, Inc. will not vote the shares of common stock that it owns. Ms. Kurtzman disclaims beneficial ownership of all shares held by the Farber Family Foundation, Inc., the Partnership and by the aforementioned trusts to the extent that she does not have a pecuniary interest in them.
- (7) The shares shown in the table include options to purchase 21,000 shares of common stock.
- (8) The shares shown in the table include options to purchase 114,642 shares of common stock and 31,676 shares held by the Farber Foundation, a charitable foundation for which Messrs. Dubin, Farber and Pietrafitta are the members and, together with Mr. Erskine, the directors. As a matter of policy, the Farber Foundation, will not vote the shares of common stock that it owns. Mr. Dubin disclaims beneficial ownership of the shares held by the Farber Foundation.
- (9) The shares shown in the table include options to purchase 286,964 shares of common stock, 6,000 shares owned by Mr. Erskine's wife, 750 shares owned by a trust for the benefit of Mr. Erskine's stepson for which Mr. Erskine and his wife serve as co-trustees and 750 shares owned by a trust for the benefit of another stepson of Mr. Erskine for which Mr. Erskine's wife serves as a co-trustee with another person. The shares shown in the table also include 31,676 shares held by the Farber Foundation, a charitable foundation for which Messrs. Dubin, Erskine, Farber and Pietrafitta are the directors. As a matter of policy, the Farber Foundation will not vote the shares of common stock that it owns. Mr. Erskine disclaims beneficial ownership of all such shares owned by his spouse, by the trusts for the benefit of his stepsons and by the Farber Foundation.
- (10) Mr. Farber, who has a business address at 1845 Walnut Street, Suite 800, Philadelphia, PA 19103, owns 219,510 shares directly. In addition, among the shares beneficially owned by Mr. Farber are 158,303 shares of common stock owned by a trust for the benefit of Mr. Farber's son, for which Mr. Farber serves as

co-trustee with his son; 83,475 shares owned by trusts for the benefit of two of Mr. Farber's grandchildren, for which Mr. Farber's wife serves as co-trustee with his daughter, Ellen B. Kurtzman; 260,000 shares held by the Farber Family Foundation, Inc., a charitable foundation for which the members, directors and officers are Mr. Farber, his wife, his daughter and his son; and 31,676 shares held by the Farber Foundation, a charitable foundation for which Messrs. Farber, Dubin and Pietrafitta are the members and, together with Mr. Erskine, the directors. Not included in the number of shares beneficially owned by Mr. Farber are an additional 45,722 shares held by the Farber Family Foundation, Inc. as to which Mr. Farber's daughter, Ellen B. Kurtzman, has sole voting and investment power. As a matter of policy, the Farber Foundation and the Farber Family Foundation, Inc. will not vote the shares of common stock that they own. Mr. Farber disclaims beneficial ownership of all shares owned directly or beneficially by the Farber Foundation, the Farber Family Foundation, Inc. and the trusts for the benefit of his family members.

- (11) The shares shown in the table include options to purchase 33,000 shares of common stock.
- (12) The shares shown in the table include 16,849 shares owned by a trust for the benefit of Mr. Ksanskak and options to purchase 33,000 shares of common stock.
- (13) Ms. Matthias owns these shares jointly with her spouse.
- (14) The shares shown in the table reflect options to purchase 33,000 shares of common stock.
- (15) The shares shown in the table include options to purchase 61,389 shares of common stock.
- (16) The shares shown in the table include options to purchase 84,150 shares of common stock and 31,676 shares held by the Farber Foundation, a charitable foundation for which Messrs. Dubin, Farber and Pietrafitta are the members and, together with Mr. Erskine, the directors. As a matter of policy, the Farber Foundation will not vote the shares of common stock owned by it. Mr. Pietrafitta disclaims beneficial ownership of the shares held by the Farber Foundation.
- (17) The shares shown in the table include options to purchase a total of 723,915 shares of common stock.

#### **ELECTION OF DIRECTORS**

Our board of directors currently has eight members. Directors who are elected will hold office until the 2005 annual meeting of stockholders and until the election and qualification of their respective successors. The board of directors, upon the recommendation of its Nominating and Governance Committee, has nominated for election as directors the persons whose names are listed below, all of whom are presently directors of CSS. The board of directors believes all of these persons will be able to serve as directors. However, if this should not be the case, the proxies may be voted for one or more substitute nominees, to be designated by the board of directors, or the board of directors may decide to reduce the number of directors, in each instance after consideration of the recommendation of its Nominating and Governance Committee.

**The board of directors recommends a vote FOR the election of all the nominees listed below.**

Please review the following information about the nominees for election to our board of directors.

**James H. Bromley**

Mr. Bromley, 65, has been an independent consultant since September 1996. From September 1996 to December 1997, he served as Chairman of our former Direct Mail Business Products Group and Vice Chairman of Rapidforms, Inc., formerly a subsidiary of CSS. He has served as one of our directors since 1989.

**Stephen V. Dubin**

Mr. Dubin, 66, has been our Executive Vice President since June 1999. From May 1996 to June 1999, he served as Senior Vice President of Law and Human Resources. Mr. Dubin has also been our Secretary and General Counsel since 1978. From 1978 to May 1996, he also served as a Vice President of CSS. He has served as one of our directors since November 1995.



- David J. M. Erskine** Mr. Erskine, 57, has been our President and Chief Executive Officer since June 1999. From August 1996 to May 1999, he served as President and from February 1997 to May 1999, he also served as Chief Executive Officer of Scott Paper Limited, a manufacturer and distributor of tissue products, located in Ontario, Canada. He has served as one of our directors since July 1999.
- Jack Farber** Mr. Farber, 71, has been our Chairman since 1979. From 1979 to May 1999, he was also our President and Chief Executive Officer. Mr. Farber has served as one of our directors since 1978.
- Leonard E. Grossman** Mr. Grossman, 69, has been a private investor since 1989. Mr. Grossman has served as one of our directors since 1982.
- James E. Ksansnak** Mr. Ksansnak, 64, has been Chairman of the Board and a Director of Tasty Baking Company since May 2003. He served as Vice Chairman of ARAMARK Corporation from May 1997 to February 2001 and currently serves on its Board of Directors. Mr. Ksansnak has served as one of our directors since 1988.
- Rebecca C. Matthias** Ms. Matthias, 51, has been President and a director of Mothers Work, Inc. since 1982. She also has served as Chief Operating Officer of Mothers Work, Inc. since January 1993. Ms. Matthias has served as one of our directors since 2003.
- Michael L. Sanyour** Mr. Sanyour, 73, has been a Principal of CMS Companies, a financial services and insurance concern, since 1987. He has served as one of our directors since 1980.

#### **CORPORATE GOVERNANCE**

##### **Corporate Governance Principles and Other Corporate Governance Documents**

Our Corporate Governance Principles, including guidelines for the determination of director independence, the operations, structure and meetings of the Board of Directors (the "Board"), the committees of the Board and other matters relating to our corporate governance, are available on the Investors page of the CSS website. Also available on the Investors page are other corporate governance documents, including the Code of Ethics and Internal Disclosure Procedures, the Code of Business Conduct, the Charter of the Audit Committee, the Charter of the Nominating and Governance Committee and the Charter of the Human Resources Committee. You may access these documents at [www.cssindustries.com/investors](http://www.cssindustries.com/investors).

##### **Board Independence**

The Board has affirmatively determined that each of James H. Bromley, Leonard E. Grossman, James E. Ksansnak, Rebecca C. Matthias and Michael L. Sanyour has no material relationship with CSS (either directly or as a partner, stockholder or officer of an organization that has a relationship with CSS) and is an independent director within the meaning of the New York Stock Exchange ("NYSE") rules.

The Board has further determined that each of the members of the Audit Committee, the Human Resources Committee and the Nominating and Governance Committee are independent within the meaning of the NYSE rules.

To assist the Board in making determinations of independence, the Board has adopted the following categorical standards:

- (i) A director will not be independent, if within the preceding three years: (A) the director was employed by CSS; (B) an immediate family member of the director was employed by CSS as an executive officer; (C) the director was employed by or affiliated with CSS as present or former external or internal auditor; (D) an immediate family member of the director was employed by or affiliated with CSS as present or

former external or internal auditor in a professional capacity; (E) the director, or an immediate family member of the director, was employed as an executive officer of another entity, as to which any of CSS's executive officers served on the compensation committee of such other entity; (F) the director, or an immediate family member of the director, received more than \$100,000 per year in direct compensation from CSS, other than director-related fees; or (G) the director was an executive officer or otherwise employed by an entity, or an immediate family member of the director was employed by an entity, that made payments to, or received payments from, CSS for property or services in an amount which in any of CSS's fiscal years exceeded the greater of \$1 million or two percent of the other entity's gross revenues.

- (ii) Service by a CSS director as an executive officer of a charitable organization as to which the charitable contributions made by CSS and the Farber Foundation to such charitable organization are less than the greater of two percent of that organization's total annual charitable receipts or \$1 million per annum, shall not be considered a material relationship that would impair a director's independence.

All independent directors satisfied these categorical standards.

#### **Executive Sessions of Non-Management Directors**

James H. Bromley, Chairman of the Nominating and Governance Committee, has been chosen to preside at the regularly scheduled executive sessions of non-management directors. Each session has been scheduled to be held immediately following each regularly scheduled meeting of the Board. Stockholders or other interested persons wishing to communicate with members of the Board should send such communications to Mr. Bromley c/o CSS Industries, Inc. at 1845 Walnut Street, Suite 800, Philadelphia, PA 19103. Mr. Bromley will forward these communications to specified individual directors, or, if applicable, to all the members of the Board as he deems appropriate.

#### **The Board and Board Committees**

The Board held eight meetings and acted once by unanimous consent during our past fiscal year. The Board does not have a formal policy concerning attendance at its Annual Meeting of Stockholders but encourages all directors to attend. All of the Board members attended the 2003 Annual Meeting of Stockholders.

CSS has an Executive Committee, an Audit Committee, a Human Resources Committee, and a Nominating and Governance Committee, as well as two committees that respectively administer CSS's 1995 Stock Option Plan for Non-Employee Directors and CSS's 2000 Stock Option Plan for Non-Employee Directors. The Human Resources Committee performs the functions typically performed by a compensation committee.

#### **Executive Committee**

The members of the Executive Committee are Messrs. Bromley, Farber (Chairman) and Sanyour. The Executive Committee may exercise all the authority of the Board in our business and affairs, to the extent permitted by law, at a time when action of the entire Board is not feasible. On February 26, 2004, Mr. Erskine resigned as a member of the Executive Committee and was replaced by Mr. Bromley. This action was taken to assure that a majority of the members of the Executive Committee are independent directors.

The Executive Committee did not hold any meetings, but acted twice by unanimous consent during our past fiscal year.

#### **Audit Committee**

The members of the Audit Committee are Messrs. Bromley, Grossman (Chairman) and Ksansnak. The Audit Committee oversees the integrity of CSS's financial statements, has sole authority to retain, compensate, terminate, oversee and evaluate the independent auditors, and reviews and approves in advance all audit and lawfully permitted non-audit services performed by the independent auditors, subject to the pre-approval policy described below. In addition, the Audit Committee reviews and discusses with management and the independent auditors the annual audited financial statements and quarterly financial statements included in CSS's filings with the Securities and Exchange Commission; oversees CSS's compliance with legal and regulatory requirements;

oversees the performance of the persons performing CSS's internal audit function; and meets separately with the independent auditors and CSS's own internal auditors as often as deemed necessary or appropriate by the Committee. The Audit Committee also oversees CSS's internal controls and periodically discusses with management the Company's major risk exposures and steps that management has taken to monitor and control such exposures.

You may contact CSS's Audit Committee to report complaints about CSS's accounting, internal accounting controls or auditing matters by writing to the following address: Audit Committee, c/o CSS Industries, Inc., 1845 Walnut Street, Suite 800, Philadelphia, PA 19103. You can report your concerns to the Audit Committee anonymously or confidentially.

The Board has determined that Messrs. Bromley, Grossman and Ksansnak each meet the criteria of an "audit committee financial expert" as that term is defined in Securities and Exchange Commission regulations.

The annual audit services engagement terms and estimated fees are subject to specific pre-approval of the Audit Committee. The Audit Committee has adopted a pre-approval policy relating to non-audit services that may be performed by our independent auditors. The services can be pre-approved by the Audit Committee or by any member or members of the Audit Committee, provided that no member has authority to approve any non-audit service that is expected to result in fees during any fiscal year of over \$50,000 for such service and no two members have authority to approve any non-audit service that is expected to result in fees during any fiscal year of over \$100,000 for such service. Any approvals by a member are reported to the Audit Committee, for informational purposes, at its next regular meeting following such approval.

In addition, the Audit Committee may pre-approve, on an annual basis, non-audit services that are described in sufficient detail so that the Committee knows precisely what services it is being asked to pre-approve and can make a well-reasoned assessment of the impact of those services on CSS's outside auditor's independence.

The Audit Committee's Charter may be reviewed on the CSS website at [www.cssindustries.com/investors](http://www.cssindustries.com/investors).

The Audit Committee met six times and acted twice by unanimous consent during our past fiscal year.

#### **Human Resources Committee**

The members of the Human Resources Committee are Ms. Matthias and Messrs. Bromley, Ksansnak (Chairman) and Sanyour. The Human Resources Committee oversees the development and implementation of CSS's compensation and benefit policies, plans and programs. In addition, the Human Resources Committee annually evaluates the compensation of the Chief Executive Officer and other executive officers of CSS and its subsidiaries with a base salary over \$150,000; determines the amounts and individual elements of compensation for the Chief Executive Officer and (after evaluation in conjunction with the Chief Executive Officer) other executive officers of CSS and its subsidiaries with a base salary over \$150,000; evaluates the terms and administration of CSS's annual and long term incentive compensation plans; evaluates and makes recommendations to the Board with respect to the terms and administration of CSS's equity-based plans; approves revisions to CSS's executive salary range structure and salary increase guidelines; and periodically evaluates CSS's employee benefit programs. If the proposed 2004 Plan is approved by the stockholders, the Human Resources Committee would have the power to make grants and would have general administration authority under the 2004 Plan.

The Charter of the Human Resources Committee may be reviewed on the CSS website at [www.cssindustries.com/investors](http://www.cssindustries.com/investors).

The Human Resources Committee met three times and acted eleven times by unanimous consent during our past fiscal year.

#### **Nominating and Governance Committee**

The members of the Nominating and Governance Committee are Ms. Matthias and Messrs. Bromley (chairperson) and Sanyour. The Nominating and Governance Committee is responsible for identifying qualified individuals for board membership and recommending individuals for nomination to the Board and its committees. In addition, the Nominating and Governance Committee reviews and makes recommendations to the Board as to changes in Board structure, the range of qualifications that should be represented on the Board and



eligibility criteria for individual Board membership. The Nominating and Governance Committee is also responsible for developing and recommending corporate governance principles to the Board and overseeing the evaluation of the Board and management.

The Charter for the Nominating and Governance Committee may be reviewed on the CSS website at [www.cssindustries.com/investors](http://www.cssindustries.com/investors).

The Nominating and Governance Committee met once during our past fiscal year.

### **Consideration of Director Candidates**

The Nominating and Governance Committee considers candidates for Board membership. Our Corporate Governance Principles provide that directors are expected to possess the highest personal and professional ethics, integrity and values and relevant experience. They are also expected to be committed to the long-term interests of the Company's stockholders, and to have an inquisitive and objective perspective, practical wisdom and mature judgment. In addition, directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively. In this regard, our Corporate Governance Principles provide that directors should not serve on more than three other public company boards (two other public company boards if the director serves as chief executive officer of another entity, or in an equivalent position). The charter of the Nominating and Governance Committee provides that in evaluating nominees, the Nominating and Governance Committee shall consider attributes set forth above, and such other factors as it deems appropriate, which may include judgment, skill, experience with businesses and other organizations comparable to CSS, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and its committees. Pursuant to the By-Laws of the Company, directors will not be nominated for election in the calendar year in which they reach their 75th birthday.

Stockholders can recommend candidates for nomination by writing to Mr. Bromley, c/o CSS Industries, Inc., 1845 Walnut Street, Suite 800, Philadelphia, PA 19103. In order to enable consideration of the candidate in connection with our 2005 Annual Meeting of Stockholders, a stockholder must submit the following information by 120 days before the one-year anniversary of the date of mailing of CSS's proxy materials for the 2004 Annual Meeting of Stockholders: (1) the name of the candidate and information about the candidate that would be required to be included in a proxy statement under the rules of the Securities and Exchange Commission; (2) information about the relationship between the candidate and the recommending stockholder; (3) the consent of the candidate to serve as a director; and (4) proof of the number of shares of CSS's common stock that the recommending stockholder owns and the length of time the shares have been owned. In considering any candidate proposed by a stockholder, the Nominating and Governance Committee will reach a conclusion based on the criteria described above. The Nominating and Governance Committee may seek additional information regarding the candidate. The manner in which the Nominating and Governance Committee evaluates the potential directors will be the same for candidates recommended by stockholders as for candidates recommended by others. After full consideration, the stockholder proponent will be notified of the decision of the Nominating and Governance Committee.

### **1995 Plan and 2000 Plan Committees**

The members of both the Stock Option Committee under the CSS 1995 Stock Option Plan for Non-Employee Directors (the "1995 Plan") and the Stock Option Committee under the CSS 2000 Stock Option Plan for Non-Employee Directors (the "2000 Plan") are Messrs. Farber, Erskine and Dubin. The committees administer the 1995 Plan and the 2000 Plan, respectively.

The 1995 Plan and 2000 Plan Committees acted once by unanimous consent during our last fiscal year.

### **Code of Ethics and Internal Disclosure Procedures (Employees) and Code of Business Conduct and Ethics (Board)**

CSS has a Code of Ethics and Internal Disclosure Procedures applicable to all employees, including officers, which contain specific provisions relating to the chief executive officer and senior financial employees of CSS. This document is available on the CSS website at [www.cssindustries.com/investors](http://www.cssindustries.com/investors). Among other things, the

Code of Ethics and Internal Disclosure Procedures are designed to deter wrongdoing and to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; to promote full, fair, accurate, timely and understandable disclosures in reports and documents required to be filed by CSS with the Securities and Exchange Commission and in other public communications made by CSS; and to promote compliance with applicable governmental laws, rules and regulations. The Code of Ethics and Internal Disclosure Procedures provide for the prompt internal reporting of violations and contain provisions regarding accountability for adherence to its provisions. The Board also has adopted a Code of Business Conduct and Ethics applicable to the Board. This document is available on the Investors page of the CSS website at [www.cssindustries.com/investors](http://www.cssindustries.com/investors). We intend to satisfy the disclosure requirements regarding any amendment to, or waiver from, a provision of our Code of Ethics and Internal Disclosure Procedures and our Code of Business Conduct and Ethics by making disclosures concerning such matters available on the Investors page of our website.

### **Compensation of Directors**

Each of our directors who is not a full time employee of CSS or its subsidiaries receives an annual fee of \$20,000, as well as \$850 for attendance at each meeting of the Board or its committees or for each consultation with management relating to his or her duties as a director, and is entitled to participate in the 2000 Plan. In addition, each chairperson of the Audit Committee, the Human Resources Committee and the Nominating and Governance Committee receives an additional annual fee of \$4,000. The 2000 Plan currently provides for the automatic grant to each non-employee director of nonqualified stock options on the last business day of November, annually through 2005, to purchase 6,000 shares of our common stock, at an exercise price equivalent to the closing price per share of our common stock on the last trading date preceding the date the options are granted. Accordingly, each non-employee director received an automatic grant of options to purchase 6,000 shares of common stock on November 28, 2003 at an exercise price of \$29.71 per share. The options vest at the rate of 25 percent per year over four years on each annual anniversary of the grant, and expire ten years following the initial grant date.

## **APPROVAL OF 2004 EQUITY COMPENSATION PLAN**

### **The Proposal**

At the Meeting, there will be presented to the stockholders a proposal to approve the adoption of the 2004 Plan. The 2004 Plan was adopted by the Board upon the recommendation of the Human Resources Committee on February 26, 2004, as amended on June 7, 2004, subject to stockholder approval, and will terminate on August 3, 2014.

The 2004 Plan provides for the grant of incentive stock options (["ISOs"]), nonqualified stock options (["NQSOs"]), stock appreciation rights (["SARs"]), restricted stock grants, stock bonuses and other awards to officers and other employees of CSS and its subsidiaries at the discretion of the Human Resources Committee. The Board adopted the 2004 Plan to promote the interests of CSS by providing incentives to designated officers and employees of CSS and its subsidiaries, to encourage them to contribute materially to the growth of CSS and to align their economic interests with those of CSS stockholders.

The Board adopted the 2004 Plan as a replacement for CSS's existing 1994 Plan. The 1994 Plan was adopted in 1994 and will expire on November 4, 2004.

**The Board unanimously recommends a vote FOR the proposal.**

### **Description of the 2004 Plan.**

*General.* Subject to adjustment in certain circumstances as discussed below, the 2004 Plan authorizes the issuance of up to 2,000,000 shares of common stock of CSS. To the extent options granted under the 2004 Plan terminate, expire or are canceled without being exercised, or if any shares of restricted stock are forfeited, the shares subject to such option or award will again become available for purposes of the 2004 Plan.

*Administration of the 2004 Plan.* The 2004 Plan provides that it is to be administered and interpreted by the Human Resources Committee of the Board, which consists of not less than three persons appointed by the Board from among its members, all of whom must be "outside directors" as defined under Section 162 (m) of the Internal Revenue Code of 1986, as amended (the "Code") and related Treasury regulations, "non-employee directors" as defined by Rule 16b-3 under the Securities Exchange Act of 1934 and "independent directors" in accordance with the NYSE Rules relating to corporate governance. The Human Resources Committee has the sole authority to determine (i) the individuals to whom stock options and/or SARs and/or restricted stock grants (collectively, "Grants") are to be awarded under the 2004 Plan, (ii) the type, size and terms of each Grant, (iii) the time when the Grants are to be made and the duration of the exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) the amendment of the terms of any previously issued Grant; and (v) any other matters arising under the 2004 Plan. The Human Resources Committee has full power and authority to make factual determinations and to adopt or amend any rules, agreements and/or instruments in order to implement the 2004 Plan.

*Grants.* All Grants are subject to the terms and conditions set forth in the 2004 Plan and to such other terms and conditions consistent with the 2004 Plan as the Human Resources Committee deems appropriate and as are specified in a writing (the "Grant Instrument") by the Human Resources Committee to the designated individual. The Human Resources Committee may approve the form and provisions of each Grant Instrument to an individual or delegate such authority to one or more of the executive officers of CSS (to the extent permitted by law or corporate governance rules of the NYSE). Grants under the 2004 Plan need not be uniform among the designated individuals receiving the same type of Grant.

*Eligibility for Participation.* Officers and other employees of CSS and its subsidiaries are eligible to participate in the 2004 Plan. The Human Resources Committee shall, in its discretion, select the persons to receive Grants (the "Grantees") and determine the number of shares of common stock subject to a particular Grant. The number of Grantees may vary from year to year. It is not possible to state in advance the exact number or identity of the Grantees or the amounts of the Grants. As of June 8, 2004, approximately 86 employees would be eligible for grants under the 2004 Plan, if the 2004 Plan is approved by stockholders.

*Stock Options.* The Human Resources Committee may grant options intended to qualify as ISOs within the meaning of Section 422 of the Internal Revenue Code, or NQSOs that are not intended to so qualify or any combination of ISOs or NQSOs (collectively, "Stock Options"), in accordance with the terms and conditions set forth in the 2004 Plan.

The option price per share of an ISO is determined by the Human Resources Committee, but must be equal to or greater than the fair market value of a share of common stock on the date of Grant. However, if the Grantee of an ISO is a person who holds more than 10 percent of the combined voting power of all classes of outstanding stock of CSS, the option price per share underlying an ISO must be at least 110 percent of the fair market value of a share of common stock on the date of Grant. To the extent that the aggregate fair market value of shares of common stock, determined on the date of Grant, with respect to which ISOs are exercisable for the first time by a Grantee during any calendar year exceeds \$100,000, such ISOs will be treated as NQSOs. The option price per share of a NQSO is determined by the Human Resources Committee at its discretion and may be equal to, greater than, or less than the fair market value of a share of common stock on the date of Grant. Subject to certain exceptions as determined by the Human Resources Committee, Stock Options granted to those employees who are treated as non-exempt under the Fair Labor Standards Act of 1938, as amended, may not have an exercise price per share that is less than 85 percent of the fair market value per share of CSS common stock as of the date of the grant and may not be exercised for at least six months after the date of the grant. The measure for fair market value is the closing price of the common stock on the NYSE on the last trading date immediately preceding the date of Grant. The fair market value of a share of CSS common stock on June 8, 2004 was \$34.09 per share.

The Human Resources Committee determines the term of each Stock Option; provided, however, that the term may not exceed 10 years from the date of Grant, or, if the Grantee of an ISO is a person who holds more than 10 percent of the combined voting power of all classes of outstanding stock of the Company, the term may not exceed five years from the date of Grant. The vesting period for Stock Options commences on the date of Grant and ends on such date as is determined by the Human Resources Committee, in its sole discretion, which is

specified in the Grant Instrument. A Grantee may exercise a Stock Option by delivering notice of exercise to CSS with accompanying payment of the Stock Option price. The Grantee may pay the Stock Option price either (i) in cash; (ii) by delivering shares of common stock already owned by the Grantee, held for the requisite period of time to avoid adverse accounting consequences for CSS (subject to such other restrictions as the Human Resources Committee deems appropriate) and having a fair market value on the date of exercise equal to the option price, or with a combination of cash and shares of common stock; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board or (iv) by such other method as the Human Resources Committee may approve. The Human Resources Committee, in its sole discretion, may authorize loans by CSS to Grantees in connection with an option exercise to the extent permitted by applicable laws. In addition, the amount of any federal, state or local withholding tax due in connection with such Stock Option exercise must be paid by the Grantee. Unless prohibited by the Human Resources Committee, withholding obligations may be satisfied by the Company's withholding of shares of common stock purchased in connection with the exercise of a Stock Option.

*Termination of Stock Options as a Result of Termination of Employment, Disability or Death.* If a Grantee ceases to serve as an employee of CSS for any reason other than death, voluntary termination by the employee or termination for cause, such person's Stock Options will terminate 90 days following the date on which he or she ceases to be employed. In the event of the death of an employee, such employee's personal representative may exercise the Stock Options within 180 days from the date on which the Grantee ceases to be employed. If the Grantee is terminated for cause or voluntarily terminates employment, any Stock Options held by the Grantee will terminate as of the date the employee ceases employment. In such a case, the Grantee will also forfeit all shares underlying any Stock Option that has been exercised but for which CSS has not yet delivered share certificates. In each case described above, the Human Resources Committee may specify a different termination date, but in any event no later than the date of expiration of the Grant.

*Restricted Stock Grants.* The Human Resources Committee may issue or transfer shares of CSS common stock to employees under a restricted stock grant for consideration or no consideration, and subject to restrictions or no restrictions, as determined by the Human Resources Committee. The Committee may establish conditions under which restrictions will lapse over a period of time or according to such other criteria as the Committee deems appropriate. The period of time that the Grant remains subject to restrictions, including restrictions on transferability, will be designated in the Grant Instrument as the "Restriction Period". During the Restriction Period, the Grantee will not have the right to vote shares subject to a restricted stock grant or receive any dividends or other distributions paid on such shares; nor may a Grantee sell, assign, transfer, pledge or otherwise dispose of the shares of common stock, except as described below in *Limited Transferability of Grants*. Subject to these limited exceptions, if a Grantee's employment terminates during the Restriction Period, or if other specified conditions are not met, the restricted stock grant terminates with respect to all shares covered by the Grant as to which the restrictions have not lapsed; however, the Committee may provide complete or partial exceptions to this requirement as it deems appropriate. All restrictions imposed under the restricted stock grant lapse upon the expiration of the applicable Restriction Period. The Human Resources Committee may determine as to any or all restricted stock grants that the restrictions will lapse without regard to the Restriction Period.

*Stock Appreciation Rights.* The Human Resources Committee may grant SARs to any Grantee separately or in tandem with any Stock Option, with respect to all or a portion of the applicable Stock Option. Such tandem rights may be granted either at or after the time the Stock Option is granted and while the Stock Option remains outstanding; however, in the case of an ISO, such rights may only be granted at the time the Stock Option is granted. The number of tandem SARs granted to a Grantee which are exercisable during any given period of time may not exceed the number of shares of common stock which the Grantee may purchase upon the exercise of the related Stock Option during such period of time. Upon the exercise of a Stock Option, the tandem SAR relating to common stock covered by such Stock Option will terminate; upon the exercise of a tandem SAR, the Stock Option relating to the common stock covered by such SAR will terminate.

The Human Resources Committee establishes the base amount of the SAR at the time of a Grant, which, unless determined otherwise, is equal to the fair market value of CSS common stock on the date of the SAR Grant, or, for a tandem SAR, the exercise price of the related Stock Option. Grants to non-exempt employees will not have a base amount less than 85 percent of fair market value on the date of the Grant. Upon a Grantee's exercise of SARs, the Grantee receives in settlement of such SARs an amount equal to the value of the stock





appreciation for the number of SARs exercised, payable in cash, common stock or a combination thereof, as determined by the Human Resources Committee. The stock appreciation for a SAR is the amount by which the fair market value of the underlying common stock on the date of exercise of the SAR exceeds the base amount of the SAR. A SAR is exercisable only during the period specified by the Human Resources Committee in the Grant Instrument, subject to such other restrictions as are specified in the Grant Instrument; a tandem SAR is exercisable only during the period when the Stock Option to which it relates is exercisable. Grants to non-exempt employees may not be exercisable for at least six months following the date of the Grant. The Committee may accelerate the exercisability of outstanding SARs at any time.

*Other Awards.* The Human Resources Committee may grant shares of common stock of CSS as a bonus, or may grant other awards in lieu of the obligations of CSS or its subsidiaries to pay cash or deliver property under the 2004 Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Human Resources Committee.

*Limited Transferability of Grants.* No Grant awarded under the 2004 Plan may be transferred, except by will or by the laws of descent and distribution or, for Grants other than ISOs and if specifically permitted by the Human Resources Committee, in connection with a domestic relations order or otherwise. In addition, the Human Resources Committee may provide in a Grant Instrument for the limited transfer of NQSOs to family members.

*Amendment and Termination of the 2004 Plan.* The Board may amend or terminate the 2004 Plan at any time; provided, however, the Board will not amend the Plan without stockholder approval if such approval is required to comply with the Code or other applicable laws, or to comply with applicable stock exchange requirements. The 2004 Plan will terminate on August 3, 2014, unless terminated earlier by the Board, although Stock Options and SARs granted under the 2004 Plan prior to its termination will remain outstanding until exercised or until the end of the term of such Stock Options or SARs. The termination of the 2004 Plan will not impair the power and authority of the Human Resources Committee with regard to Grants that remain outstanding after termination of the 2004 Plan.

*Amendment and Termination of Outstanding Grants.* A termination or amendment of the 2004 Plan that occurs after a Grant is made will not materially impair the rights of a Grantee unless the Grantee consents, provided, however, that the Human Resources Committee may revoke any Grant if it is contrary to applicable law or modify a Grant to bring it into compliance with any mandatory government regulation. An outstanding Grant may otherwise be amended by Agreement of CSS and the Grantee consistent with the Plan.

*Change of Control.* Upon a change of control of the Company, unless the Human Resources Committee determines otherwise, CSS will provide each Grantee holding outstanding Grants with at least ten days advance written notice of such event, all outstanding Stock Options and SARs will automatically accelerate and become fully exercisable and the restrictions and conditions on all outstanding restricted stock grants will immediately lapse. In the event of a change of control where CSS is not the surviving corporation, all outstanding Stock Options and SARs not previously exercised will be assumed by the successor company or replaced with comparable grants. In the alternative, the Committee may (i) require the surrender of outstanding Stock Options and SARs in exchange for cash or CSS common stock in an amount equal to the amount by which the fair market value of the shares of CSS common stock subject to the grants exceeds the exercise price of the Stock Options or the base amount of the SARs; or (ii) after providing the Grantee with an opportunity to exercise the Stock Options and SARs held by the Grantee, terminate any and all outstanding Stock Options and SARs.

Under the 2004 Plan, a change of control is deemed to have occurred upon the earliest of the following events: (i) the date any person, other than a person who is a stockholder on the effective date of the 2004 Plan, becomes a beneficial owner of more than 50 percent of the outstanding securities of CSS; (ii) the consummation of a merger or consolidation of CSS into another corporation after which the CSS stockholders will hold less than 50 percent of all votes in the surviving entity; (iii) the sale of substantially all the assets of CSS; or (iv) the liquidation or dissolution of CSS.

*Federal Income Tax Consequences.* There are no federal income tax consequences to Grantees or to CSS upon the grant of an NQSO under the 2004 Plan. Upon the exercise of NQSOs, Grantees will recognize ordinary compensation income in an amount equal to the excess of the fair market value of the shares at the time of exercise over the exercise price of the NQSO, and CSS generally will be entitled to a corresponding federal

income tax deduction. Upon the sale of shares of common stock acquired by exercise of an NQSO, a Grantee will have a capital gain or loss (long-term or short-term depending upon the length of time the shares were held) in an amount equal to the difference between the amount realized upon the sale and the Grantee's adjusted tax basis in the shares of common stock (the exercise price plus the amount of ordinary income recognized by the Grantee at the time of exercise of the NQSO).

A Grantee of an ISO will not recognize taxable income for purposes of the regular income tax, upon either the grant or exercise of the ISO. However, for purposes of the alternative minimum tax imposed under the Code, in the year in which an ISO is exercised, the amount by which the fair market value of the shares of common stock acquired upon exercise exceeds the exercise price of the ISO will be treated as an item of adjustment and included in the computation of the recipient's alternative minimum taxable income in the year of exercise. A Grantee will recognize long-term capital gain or loss on a disposition of the shares acquired upon exercise of an ISO, provided that the Grantee does not dispose of such shares within two years from the date the ISO was granted and within one year after such shares were transferred to the Grantee. If the Grantee satisfies the foregoing holding periods, then CSS will not be allowed a deduction by reason of the grant or exercise of the ISO. As a general rule, if a Grantee disposes of the shares acquired upon exercise of an ISO before satisfying both holding period requirements (a "disqualifying disposition"), the gain recognized on such a disposition will be taxed as ordinary income to the extent of the difference between the fair market value of such shares on the date of exercise and the option price, and CSS will be entitled to a deduction in that amount. The gain, if any, in excess of the amount recognized as ordinary income on such a disqualifying disposition will be a long-term or short-term capital gain, depending upon the length of time the Grantee held the shares prior to the disposition.

A Grantee normally will not recognize taxable income upon the award of a restricted stock grant, and CSS will not be entitled to a deduction, until such stock is transferable by the Grantee or no longer subject to a "substantial risk of forfeiture" for federal tax purposes, whichever occurs first. When the common stock is either transferable or is no longer subject to a "substantial risk of forfeiture", the Grantee will recognize ordinary compensation income in an amount equal to the fair market value of the common stock at that time, and CSS will be entitled to a deduction in the same amount. A Grantee may, however, elect to recognize ordinary compensation income in the year the restricted stock grant is awarded in an amount equal to the fair market value of the common stock at that time, determined without regard to the restrictions. In such event, CSS will be entitled to a deduction in the same year.

The Grantee will not recognize any income upon the grant of a SAR. Upon the exercise of a SAR, the Grantee will recognize ordinary compensation income in the amount of both the cash and the fair market value of the shares of common stock received upon such exercise, and CSS is entitled to a corresponding deduction.

*Section 162(m) of the Code.* Under Section 162(m) of the Code, CSS may be precluded from claiming a federal income tax deduction for total remuneration in excess of \$1,000,000 paid to its Chief Executive Officer or to any of the other four most highly compensated officers in any one year. Total remuneration includes amounts received by such officers upon the exercise of Stock Options and SARs and the value of shares of restricted stock at the time the Restriction Period lapses with respect to those shares. An exception does exist, however, for "performance-based compensation," including amounts received upon the exercise of Stock Options and SARs pursuant to a plan approved by stockholders that meets certain requirements. The 2004 Plan is intended to satisfy these requirements; therefore, Grants of Stock Options and SARs thereunder will generally qualify as "performance-based compensation". Restricted stock grants may qualify as "performance-based compensation" depending on the terms of the grant.

#### **APPROVAL OF AMENDMENTS TO CERTIFICATE OF INCORPORATION**

The Board has proposed amendments to the CSS Certificate of Incorporation to increase the authorized number of shares of CSS common stock from 20,000,000 to 25,000,000 shares. The additional authorized shares of common stock would be available for issuance by CSS from time to time in connection with possible public offerings, private placements, investment opportunities, acquisitions, stock dividends, a stock split or for other corporate purposes. If the proposed amendments to the Certificate of Incorporation are authorized, the Board will have the authority to issue the additional shares of authorized common stock without further action by stockholders, except as required by applicable law or regulation. The Board believes it would be advantageous to

CSS to be in a position to issue additional shares of common stock without the delay involved in seeking approval of stockholders if one or more suitable opportunities are presented.

Although the Board would only authorize the issuance of additional shares of common stock based on its judgment as to the best interests of CSS and its stockholders, the issuance of additional authorized shares could have the effect of dilution of the voting power or book value per share of the outstanding shares of common stock. At present, there are no commitments to issue additional shares of common stock, except as may be required in connection with the exercise of outstanding employee Stock Options. As of June 8, 2004, 11,920,813 shares of common stock were outstanding. In addition, 884,528 shares were reserved for issuance under the 1994 Plan, 231,000 were reserved for issuance under the 2000 Plan and 2,000,000 shares will be reserved for issuance under the terms of the 2004 Plan, if the 2004 Plan is approved by the stockholders. Each additional share of common stock authorized by the proposed amendments will have the same rights and privileges as each share of common stock currently authorized or outstanding. Stockholders will have no preemptive rights to receive or purchase any of the common stock authorized by the proposed amendments.

The amendments will become effective, if approved by the stockholders at the Meeting, upon the filing of a Certificate of Amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware, which would be expected to be accomplished promptly following stockholder approval. The adoption of these amendments to the Certificate of Incorporation will require the affirmative vote of the holders of a majority of the outstanding shares of common stock.

If the amendments to the CSS Certificate of Incorporation are approved, subparagraphs (1) and (3) of Article FOURTH will read as follows:

FOURTH: (1) The total number of shares which the Corporation shall be authorized to issue is 26,029,036. Of such shares, 1,029,036 shall be Preferred Stock and 25,000,000 shall be Common Stock, which shall have a par value of \$.10 per share.

\* \* \*

(3) Common Stock. The 25,000,000 shares of Common Stock shall have a par value of \$.10 per share, shall be entitled to one vote for each share, and shall be subject to the preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of the Preferred Stock as shall be stated and expressed by the resolution or resolutions providing for the issuance of such Preferred Stock, as may be adopted by the Board of Directors in accordance with subparagraph (2) hereof.

**The board unanimously recommends a vote FOR approval of the amendments to the Certificate of Incorporation.**

**DISCLOSURE WITH RESPECT TO CSS EQUITY COMPENSATION PLANS**

The following table shows information as of March 31, 2004 about the 1994 Plan, 1995 Plan and the 2000 Plan, which are CSS only equity compensation plans currently in effect and were approved by the stockholders of CSS.

**Equity Compensation Plan Information**

| <u>Plan Category</u>                                       | <u>Number of securities to be issued upon exercise of outstanding options<sup>(1)</sup></u> | <u>Weighted-average exercise price of outstanding options<sup>(1)</sup></u> | <u>Number of securities remaining available for future issuance under equity compensation plans<sup>(1)</sup></u> |
|--|---|---|---|
| Equity compensation plans approved by security holders     | 2,102,986   | \$ 17.92  | 1,386,528   |
| Equity compensation plans not approved by security holders | 0   | 0   | 0   |

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|       |                  |           |              |                  |
|-------|------------------|-----------|--------------|------------------|
| Total | <u>2,102,986</u> | <u>\$</u> | <u>17.92</u> | <u>1,386,528</u> |
|-------|------------------|-----------|--------------|------------------|

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(1) Adjusted as to price and amount to reflect a 3 for 2 stock split on July 10, 2003.

**OUR EXECUTIVE OFFICERS**

Please review the information in this Proxy Statement about our current executive officers. The names and biographical information of those executive officers who are not directors are set forth below. Our executive officers are elected annually by the Board to serve until their successors are elected and qualified or until their earlier resignation or removal.

**Steven A. Cohen**

Mr. Cohen, 50, has been our Vice President □ Licensing since June 1999. From October 1989 to June 1999, he served as Executive Vice President of Disguise Inc., a manufacturer and distributor of costumes, and its predecessor in interest.

**John J. Nucero**

Mr. Nucero, 45, has been our Vice President □ Internal Audit since August 2002.