Container Store Group, Inc.
Form DEF 14A
June 16, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

THE CONTAINER STORE GROUP, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o 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:

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

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials:

o 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:

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

(3) Filing Party:

(4) Date Filed:

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The Container Store Group, Inc.

NOTICE & PROXY STATEMENT

Annual Meeting of Shareholders

August 1, 2016
11:30 a.m. (Central Time)

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THE CONTAINER STORE GROUP, INC.
500 FREEPORT PARKWAY, COPPELL, TEXAS 75019
June 16, 2016

To Our Shareholders:

You are cordially invited to attend the 2016 Annual Meeting of Shareholders of The Container Store Group, Inc. at 11:30 a.m. Central Time, on Monday, August 1, 2016, at our principal executive offices, 500 Freeport Parkway, Coppell, Texas 75019.

The Notice of Meeting and Proxy Statement on the following pages describe the matters to be presented at the Annual Meeting.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the Annual Meeting. Therefore, I urge you to promptly vote and submit your proxy by phone, via the Internet, or, if you received paper copies of these materials, by signing, dating, and returning the enclosed proxy card in the enclosed envelope, which requires no postage if mailed in the United States. If you have previously received our Notice of Internet Availability of Proxy Materials, then instructions regarding how you can vote are contained in that notice. If you have received a proxy card, then instructions regarding how you can vote are contained on the proxy card. If you decide to attend the Annual Meeting, you will be able to vote in person, even if you have previously submitted your proxy.

Thank you for your support.

Sincerely,

William A. ("Kip") Tindell, III
Chief Executive Officer and Chairman of the Board of Directors

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Notice of Annual Meeting of Shareholders
To Be Held Monday, August 1, 2016

THE CONTAINER STORE GROUP, INC.
500 FREEPORT PARKWAY, COPPELL, TEXAS 75019

The Annual Meeting of Shareholders (the "Annual Meeting") of The Container Store Group, Inc., a Delaware corporation (the "Company"), will be held at our principal executive offices, 500 Freeport Parkway, Coppell, Texas 75019 on Monday, August 1, 2016, at 11:30 a.m. Central Time, for the following purposes:

To elect William A. ("Kip") Tindell, III, Timothy J. Flynn, Robert E. Jordan and Walter Robb as Class III Directors to serve until the 2019 Annual Meeting of Shareholders and until their respective successors shall have been duly elected and qualified;

To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending April 1, 2017; and

To transact such other business as may properly come before the Annual Meeting or any continuation, postponement, or adjournment of the Annual Meeting.

Holders of record of our Common Stock at the close of business on June 9, 2016 are entitled to notice of and to vote at the Annual Meeting, or any continuation, postponement or adjournment of the Annual Meeting. A complete list of these shareholders will be open to the examination of any shareholder at our principal executive offices at 500 Freeport Parkway, Coppell, Texas 75019 for a period of ten days prior to the Annual Meeting and on the day of the Annual Meeting. The Annual Meeting may be continued or adjourned from time to time without notice other than by announcement at the Annual Meeting.

It is important that your shares be represented regardless of the number of shares you may hold. Whether or not you plan to attend the Annual Meeting in person, we urge you to vote your shares via the toll-free telephone number or over the Internet, as described in the enclosed materials. If you received a copy of the proxy card by mail, you may sign, date and mail the proxy card in the enclosed return envelope. Promptly voting your shares will ensure the presence of a quorum at the Annual Meeting and will save us the expense of further solicitation. Submitting your proxy now will not prevent you from voting your shares at the Annual Meeting if you desire to do so, as your proxy is revocable at your option.

By Order of the Board of Directors

Jodi Taylor, Secretary

Coppell, Texas
June 16, 2016

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Proxy Statement

THE CONTAINER STORE GROUP, INC.
500 FREEPORT PARKWAY, COPPELL, TEXAS 75019

This proxy statement is furnished in connection with the solicitation by the Board of Directors of The Container Store Group, Inc. of proxies to be voted at our Annual Meeting of Shareholders to be held on Monday, August 1, 2016 (the "Annual Meeting"), at our principal executive offices, 500 Freeport Parkway, Coppell, Texas 75019 at 11:30 a.m. Central Time, and at any continuation, postponement, or adjournment of the Annual Meeting. Holders of record of shares of Common Stock, $0.01 par value ("Common Stock"), at the close of business on June 9, 2016 (the "Record Date"), will be entitled to notice of and to vote at the Annual Meeting and any continuation, postponement, or adjournment of the Annual Meeting. As of the Record Date, there were approximately 47,986,975 shares of Common Stock issued and outstanding and entitled to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote on any matter presented to shareholders at the Annual Meeting.

This proxy statement and the Company's Annual Report to Shareholders for the fiscal year ended February 27, 2016 (the "2015 Annual Report") will be released on or about June 16, 2016 to our shareholders on the Record Date.

In this proxy statement, ""we," "us," "our" and "The Container Store" refer to The Container Store Group, Inc. and "The Container Store, Inc." refers to The Container Store, Inc., a Texas corporation and our wholly-owned subsidiary.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MONDAY, AUGUST 1, 2016

This Proxy Statement and our 2015 Annual Report to Shareholders are available at http://www.proxyvote.com/

DIRECTIONS TO THE ANNUAL MEETING

Directions to the Annual Meeting from the Dallas/Fort Worth International Airport are as follows:

From the rental car area, take the north exit out of the airport

Take the Bass Pro Dr. exit Go 0.4 miles

Turn right at Bass Pro Dr. Go 0.3 miles

Continue on W. Bethel Rd. Go 1.2 miles

Turn left at Freeport Parkway Go 0.6 miles

Our principal executive offices are on the South East corner of Ruby Road and Freeport Parkway

The above directions are also listed on our website located at www.containerstore.com. Directions from other points are available by calling (972) 538-6000.

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PROPOSALS

At the Annual Meeting, our shareholders will be asked:

- To elect William A. ("Kip") Tindell, III, Timothy J. Flynn, Robert E. Jordan and Walter Robb as Class III Directors to serve until the 2019 Annual Meeting of Shareholders and until their respective successors shall have been duly elected and qualified;
- To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending April 1, 2017; and
- To transact such other business as may properly come before the Annual Meeting or any continuation, postponement, or adjournment of the Annual Meeting.

We know of no other business that will be presented at the Annual Meeting. If any other matter properly comes before the shareholders for a vote at the Annual Meeting, however, the proxy holders named on the Company's proxy card will vote your shares in accordance with their best judgment.

RECOMMENDATIONS OF THE BOARD

The Board of Directors, or Board, recommends that you vote your shares as indicated below. If you return a properly completed proxy card, or vote your shares by telephone or Internet, your shares of Common Stock will be voted on your behalf as you direct. If not otherwise specified, the shares of Common Stock represented by the proxies will be voted, and the Board of Directors recommends that you vote:

- FOR the election of William A. ("Kip") Tindell, III, Timothy J. Flynn, Robert E. Jordan and Walter Robb as Class III Directors; and
- FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending April 1, 2017.

INFORMATION ABOUT THIS PROXY STATEMENT

Why you received this proxy statement. You are viewing or have received these proxy materials because The Container Store's Board of Directors is soliciting your proxy to vote your shares at the Annual Meeting. This proxy statement includes information that we are required to provide to you under the rules of the Securities and Exchange Commission ("SEC") and that is designed to assist you in voting your shares.

Notice of Internet Availability of Proxy Materials. As permitted by SEC rules, The Container Store is making this proxy statement and its 2015 Annual Report available to its shareholders electronically via the Internet. On or about June 16, 2016, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the "Internet Notice") containing instructions on how to access this proxy statement and our 2015 Annual Report and vote online. If you received an Internet Notice by mail, you will not receive a printed copy of the proxy materials in the mail unless you specifically request them. Instead, the Internet Notice instructs you on how to access and review all of the important information contained in the proxy statement and 2015 Annual Report. The Internet Notice also instructs you on how you may submit your proxy over the Internet. If you received an Internet Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials contained on the Internet Notice.

Printed Copies of Our Proxy Materials. If you received printed copies of our proxy materials, then instructions regarding how you can vote are contained on the proxy card included in the materials.

Householding. The SEC's rules permit us to deliver a single Internet Notice or set of proxy materials to one address shared by two or more of our shareholders. This delivery method is referred to as "householding" and can result in significant cost savings. To take advantage of this opportunity, we have delivered only one Internet Notice or one set of proxy materials to multiple shareholders who share an address, unless we received contrary instructions from the impacted shareholders prior to the mailing date. We agree to deliver promptly, upon written or oral request, a

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separate copy of the Internet Notice or proxy materials, as requested, to any shareholder at the shared address to which a single copy of those documents was delivered. If you prefer to receive separate copies of the Internet Notice or proxy materials, contact Broadridge Financial Solutions, Inc. at (800) 542-1061 or in writing at Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

If you are currently a shareholder sharing an address with another shareholder and wish to receive only one copy of future Internet Notices or proxy materials for your household, please contact Broadridge at the above phone number or address.

Questions and Answers about the 2016 Annual Meeting of Shareholders

WHO IS ENTITLED TO VOTE AT THE ANNUAL MEETING?

The Record Date for the Annual Meeting is June 9, 2016. You are entitled to vote at the Annual Meeting only if you were a shareholder of record at the close of business on that date, or if you hold a valid proxy for the Annual Meeting. Each outstanding share of Common Stock is entitled to one vote for all matters before the Annual Meeting. At the close of business on the Record Date, there were 47,986,975 shares of Common Stock issued and outstanding and entitled to vote at the Annual Meeting.

WHAT IS THE DIFFERENCE BETWEEN BEING A "RECORD HOLDER" AND HOLDING SHARES IN "STREET NAME"?

A record holder holds shares in his or her name. Shares held in "street name" means shares that are held in the name of a bank or broker on a person's behalf.

AM I ENTITLED TO VOTE IF MY SHARES ARE HELD IN "STREET NAME"?

Yes. If your shares are held by a bank or a brokerage firm, you are considered the "beneficial owner" of those shares held in "street name." If your shares are held in street name, these proxy materials are being provided to you by your bank or brokerage firm, along with a voting instruction card if you received printed copies of our proxy materials. As the beneficial owner, you have the right to direct your bank or brokerage firm how to vote your shares, and the bank or brokerage firm is required to vote your shares in accordance with your instructions. If your shares are held in street name, you may not vote your shares in person at the Annual Meeting unless you obtain a legal proxy from your bank or brokerage firm.

HOW MANY SHARES MUST BE PRESENT TO HOLD THE ANNUAL MEETING?

A quorum must be present at the Annual Meeting for any business to be conducted. The presence at the Annual Meeting, in person or by proxy, of the holders of a majority in voting power of the Common Stock issued and outstanding and entitled to vote on the Record Date will constitute a quorum.

WHO CAN ATTEND THE 2016 ANNUAL MEETING OF SHAREHOLDERS?

You may attend the Annual Meeting only if you are a The Container Store shareholder who is entitled to vote at the Annual Meeting, or if you hold a valid proxy for the Annual Meeting. If you plan to attend the Annual Meeting, you must RSVP by checking the appropriate box on www.proxyvote.com, if you vote over the Internet, or on the proxy card, if you vote by mail. If you vote by telephone, you must follow the prompt to RSVP. In order to be admitted into the Annual Meeting, your name must appear on the attendance list and you must present government-issued photo identification (such as a driver's license).

WHAT IF A QUORUM IS NOT PRESENT AT THE ANNUAL MEETING?

If a quorum is not present at the scheduled time of the Annual Meeting, (i) the chairperson of the Annual Meeting or (ii) a majority in voting power of the shareholders entitled to vote at the Annual Meeting, present in person or represented by proxy, may adjourn the Annual Meeting.

QUESTIONS AND ANSWERS ABOUT THE 2016 ANNUAL MEETING OF SHAREHOLDERS

WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE INTERNET NOTICE OR MORE THAN ONE SET OF PROXY MATERIALS?

It means that your shares are held in more than one account at the transfer agent and/or with banks or brokers. Please vote all of your shares. To ensure that all of your shares are voted, for each Internet Notice or set of proxy materials, please submit your proxy by phone, via the Internet, or, if you received printed copies of the proxy materials, by signing, dating and returning the enclosed proxy card in the enclosed envelope.

HOW DO I VOTE?

We recommend that shareholders vote by proxy even if they plan to attend the Annual Meeting and vote in person. If you are a shareholder of record, there are three ways to vote by proxy:

- by Internet You can vote over the Internet at www.proxyvote.com by following the instructions on the Internet Notice or proxy card;
- by Telephone You can vote by telephone by calling 1-800-690-6903 and following the instructions on the proxy card; or
- by Mail You can vote by mail by signing, dating and mailing the proxy card, which you may have received by mail.

Internet and telephone voting facilities for shareholders of record will be available 24 hours a day and will close at 11:59 p.m., Eastern time, on July 31, 2016.

If your shares are held in street name through a bank or broker, you will receive instructions on how to vote from the bank or broker. You must follow their instructions in order for your shares to be voted. Internet and telephone voting also may be offered to shareholders owning shares through certain banks and brokers. If your shares are not registered in your own name and you would like to vote your shares in person at the Annual Meeting, you should contact your bank or broker to obtain a legal proxy and bring it to the Annual Meeting in order to vote.

CAN I CHANGE MY VOTE AFTER I SUBMIT MY PROXY?

Yes.

If you are a registered shareholder, you may revoke your proxy and change your vote:

- by submitting a duly executed proxy bearing a later date;
- by granting a subsequent proxy through the Internet or telephone;
- by giving written notice of revocation to the Secretary of The Container Store prior to or at the Annual Meeting; or
- by voting in person at the Annual Meeting.

Your most recent proxy card or Internet or telephone proxy is the one that is counted. Your attendance at the Annual Meeting by itself will not revoke your proxy unless you give written notice of revocation to the Secretary before your proxy is voted or you vote in person at the Annual Meeting.

If your shares are held in street name, you may change or revoke your voting instructions by following the specific directions provided to you by your bank or broker, or you may vote in person at the Annual Meeting by obtaining a legal proxy from your bank or broker and submitting the legal proxy along with your ballot.

WHO WILL COUNT THE VOTES?

A representative of Broadridge Financial Solutions, Inc., our inspector of election, will tabulate and certify the votes.

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QUESTIONS AND ANSWERS ABOUT THE 2016 ANNUAL MEETING OF SHAREHOLDERS

WHAT IF I DO NOT SPECIFY HOW MY SHARES ARE TO BE VOTED?

If you submit a proxy but do not indicate any voting instructions, the persons named as proxies will vote in accordance with the recommendations of the Board of Directors. The Board of Directors' recommendations are indicated on page 2 of this proxy statement, as well as with the description of each proposal in this proxy statement.

WILL ANY OTHER BUSINESS BE CONDUCTED AT THE ANNUAL MEETING?

We know of no other business that will be presented at the Annual Meeting. If any other matter properly comes before the shareholders for a vote at the Annual Meeting, however, the proxy holders named on the Company's proxy card will vote your shares in accordance with their best judgment.

HOW MANY VOTES ARE REQUIRED FOR THE APPROVAL OF THE PROPOSALS TO BE VOTED UPON AND HOW WILL ABSTENTIONS AND BROKER NON-VOTES BE TREATED?

Proposal	**Votes required**	**Effect of Votes Withheld / Abstentions and Broker Non-Votes**
Proposal 1: Election of Directors	The plurality of the votes cast. This means that the four nominees receiving the highest number of affirmative "FOR" votes will be elected as Class III Directors.	Votes withheld and broker non-votes will have no effect.
Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm	The affirmative vote of the holders of a majority in voting power of the shares of Common Stock of the Company which are present in person or by proxy and entitled to vote on the proposal.	Abstentions will have the same effect as votes against the proposal. We do not expect any broker non-votes on this proposal.

WHAT IS AN ABSTENTION AND HOW WILL VOTES WITHHELD AND ABSTENTIONS BE TREATED?

A "vote withheld," in the case of the proposal regarding the election of directors, or an "abstention," in the case of the proposal regarding the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm, represents a shareholder's affirmative choice to decline to vote on a proposal. Votes withheld and abstentions are counted as present and entitled to vote for purposes of determining a quorum. Votes withheld have no effect on the election of directors. Abstentions have the same effect as votes against on the ratification of the appointment of Ernst & Young LLP.

WHAT ARE BROKER NON-VOTES AND DO THEY COUNT FOR DETERMINING A QUORUM?

Generally, broker non-votes occur when shares held by a broker in "street name" for a beneficial owner are not voted with respect to a particular proposal because the broker (1) has not received voting instructions from the beneficial owner and (2) lacks discretionary voting power to vote those shares. A broker is entitled to vote shares held for a beneficial owner on routine matters, such as the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm, without instructions from the beneficial owner of those shares. On the other hand, absent instructions from the beneficial owner of such shares, a broker is not entitled to vote shares held for a beneficial owner on non-routine matters, such as the election of directors. Broker non-votes count for purposes of determining whether a quorum is present.

WHERE CAN I FIND THE VOTING RESULTS OF THE 2016 ANNUAL MEETING OF SHAREHOLDERS?

We plan to announce preliminary voting results at the Annual Meeting and we will report the final results in a Current Report on Form 8-K, which we intend to file with the SEC shortly after the Annual Meeting.

Net sales
$231,006 $277,477 $479,793 $526,864
Net income
20,777 23,892 30,070 30,485
Income per common share:

Basic
$1.93 $2.25 $2.78 $2.89
Diluted
$1.88 $2.19 $2.71 $2.81

Pro forma adjustments included in the above reflect the effect of purchase accounting adjustments on interest, depreciation and tax expense. Included in the above pro forma results are approximately $582,000 and $802,000 for the three months ended December 31, 2007 and 2006, respectively, and approximately $2,261,000 and $2,421,000 for the nine months ended December 31, 2007 and 2006, respectively, of intercompany charges from C.R. Gibsons s previous parent company that the Company does not expect to incur in the future.

(5) BUSINESS RESTRUCTURING:

On November 27, 2006, the Board of Directors of the Company approved a restructuring plan to combine the operations of its Cleo Inc (Cleo) and Berwick Offray LLC (Berwick Offray) subsidiaries, to close Cleo s Maysville, Kentucky production facility and to exit a non-material, non-core business. This restructuring was undertaken in order to improve profitability and efficiency through the elimination of 1) redundant back office functions, 2) certain senior management positions and 3) excess manufacturing capacity, and was substantially completed by December 31, 2007. As part of the restructuring plan, the Company recorded a restructuring reserve of $1,323,000, including severance related to 29 employees. Also, in connection with the restructuring plan, the Company recorded an impairment of property, plant and equipment at the affected facilities of $422,000. Additionally, during fiscal 2007, there was an increase in the restructuring reserve in the amount of $582,000 primarily related to the ratable recognition of retention bonuses for employees providing service until their termination date. In the first nine months of fiscal 2008, there was a reduction in the restructuring accrual of $66,000 primarily for costs related to severance that were less than originally estimated. During the quarter and nine months ended December 31, 2007, the Company made payments of $319,000 and $1,126,000, respectively, primarily related to severance. As of December 31, 2007, the remaining liability of $264,000 was classified as a current liability in the accompanying condensed consolidated balance sheet and will be paid during the remainder of fiscal 2008. The Company expects to incur additional charges related to this restructuring plan of approximately $20,000 during the remainder of fiscal 2008 and approximately $123,000 during fiscal 2009.

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

	Termination Costs	Other Costs	Total
Restructuring reserve as of March 31, 2007	$ 1,353	$ 103	$ 1,456
Cash paid fiscal 2008	(990)	(136)	(1,126)
Non cash adjustments fiscal 2008	(112)	46	(66)
Restructuring reserve as of December 31, 2007	$ 251	$ 13	$ 264

(6) GOODWILL AND INTANGIBLES:

The change in the carrying amount of goodwill for the nine months ended December 31, 2007 is as follows (in thousands):

Balance as of March 31, 2007	$ 30,952
Acquisition of C.R. Gibson	17,482
Balance as of December 31, 2007	$ 48,434

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The Company performs the required annual impairment test of the carrying amount of goodwill and indefinite-lived intangible assets in the fourth quarter of its fiscal year.

With the acquisition of C.R. Gibson and subject to the finalization of the purchase price, the Company recorded intangible assets relating to tradenames that are not subject to amortization in the amount of $19,500,000. Additionally, the Company recorded $18,900,000 relating to customer lists which are being amortized over 15 years and $200,000 relating to a covenant not to compete that is being amortized over four years.

Included in intangible assets, net in the accompanying condensed consolidated balance sheets are the following acquired intangible assets (in thousands):

	December 31, 2007	March 31, 2007
Tradenames	$ 23,790	$ 4,290
Customer relationships, net	18,795	
Non-compete, net	196	38
	$ 42,781	$ 4,328

Amortization expense related to intangible assets was $117,000 and $24,000 for the quarters ended December 31, 2007 and 2006, respectively, and was $147,000 and $71,000 for the nine months ended December 31, 2007 and 2006, respectively. Based on the current composition of intangibles, amortization expense for the remainder of fiscal 2008 and each of the succeeding four years is projected to be as follows (in thousands):

Fiscal 2008	$ 328
Fiscal 2009	1,310
Fiscal 2010	1,310
Fiscal 2011	1,310
Fiscal 2012	1,293
Total	$ 5,551

(7) COMMITMENTS AND CONTINGENCIES:

CSS and its subsidiaries are also 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 lawsuits and claims will not materially affect the consolidated financial position of the Company or its results of operations or cash flows.

(8) ACCOUNTING PRONOUNCEMENTS:

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141 (revised 2007), Business Combinations, which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for fiscal year beginning after December 15, 2008 (fiscal 2010 for the Company) and will apply prospectively to business combinations completed on or after April 1, 2009.

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In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51. SFAS No. 160 requires all entities to report noncontrolling interests in subsidiaries as a separate component of equity in the consolidated financial statements and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 (fiscal 2010 for the Company) and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company does not believe that the adoption of SFAS No. 160 will have a significant effect on its financial position or results of operations.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company will adopt EITF 06-10 on April 1, 2008 and the net reduction to equity is expected to be less than $300,000.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Companies are not allowed to adopt SFAS No. 159 on a retrospective basis unless they choose early adoption. The Company intends to adopt SFAS No. 159 at the beginning of fiscal 2009 and does not believe that the adoption of SFAS No. 159 will have a significant effect on its consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 (fiscal 2009 for the Company). The Company does not believe that the adoption of SFAS No. 157 will have a significant effect on its financial position or results of operations.

(9) INCOME TAXES:

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the Company recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based solely on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The Company adopted the provisions of FIN 48 on April 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was $2,900,000. The implementation of FIN 48 did not result in an adjustment to the Company s April 1, 2007 balance of retained earnings. The implementation resulted in a reclassification to increase both deferred tax assets and long term obligations in the amount of approximately $700,000. In addition, the Company reclassified $2,100,000 from other current liabilities to long term obligations related to unrecognized tax benefits which are not expected to be settled within 12 months of April 1, 2007.

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Included in the balance of unrecognized tax benefits at April 1, 2007 and December 31, 2007 were $2,000,000 and $2,100,000, respectively, of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at April 1, 2007 and December 31, 2007 were $900,000 and $1,000,000, respectively, of tax benefits that, if recognized, would result in an adjustment to deferred taxes.

Consistent with the Company s historical financial reporting, the Company recognizes potential accrued interest and/or penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of operations. The Company had accrued $700,000 for the estimated payment of interest and penalties at March 31, 2007. The implementation of FIN 48 did not result in an adjustment to its accrual for interest and penalties which is included as a component of the unrecognized tax benefits noted above. During the nine months ended December 31, 2007, the Company accrued an additional $96,000 in potential interest and penalties associated with uncertain tax positions.

The Company is subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. The statute of limitations for the Company s federal tax return has expired for all years through March 31, 2004. The Company s March 31, 2005 federal tax return is currently under examination by the Internal Revenue Service. Several of the Company s subsidiaries are currently under examination by the State of New York for the tax periods ended March 31, 2004 through March 31, 2006. A subsidiary of the Company is currently under examination by Hong Kong Inland Revenue for the March 31, 2006 period.

The Company anticipates that total unrecognized tax benefits will decrease by approximately $300,000 over the next 12 months due to the expiration of certain state statute of limitations. The Company has classified this amount as short term income taxes payable on its balance sheet as of December 31, 2007.

(10) SUBSEQUENT EVENT:

On January 4, 2008 the Company announced that its Board of Directors approved a restructuring plan, effective immediately, to close its Elysburg, Pennsylvania production facility and its Troy, Pennsylvania distribution center. Under the restructuring plan, both facilities are expected to be closed on or before May 1, 2008. The Company believes that these actions are appropriate as its business has increasingly shifted from domestically manufactured to foreign sourced boxed greeting cards and gift tags. Annual recurring pre-tax savings from these initiatives, once fully implemented, are expected to approximate $4,400,000, or $.25 per diluted share, primarily as a result of personnel cost savings and reduced facility costs.

The restructuring plan includes pre-tax expenses of approximately $6,500,000, primarily related to severance, asset write-downs and facility carrying costs. The restructuring costs include approximately $4,700,000 of cash expenses and $1,800,000 of non-cash charges. Approximately $4,100,000, or $.23 per diluted share, of these costs will be recorded in the last quarter of fiscal 2008. Approximately $1,800,000, or $.10 per diluted share, is expected to be recognized in fiscal 2009 with the balance of $600,000, or $.04 per diluted share, reflected in fiscal 2010. Proceeds on the sale of equipment and facilities are expected to generate approximately $4,000,000 of cash as the related assets are sold over the next few years.

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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

On December 3, 2007, the Company completed the acquisition of substantially all of the business and assets of C.R. Gibson, which is a designer, marketer and distributor of memory books, stationery, journals and notecards, infant and wedding photo albums and scrapbooks, and other gift items that commemorate life s celebrations. In consideration, the Company paid approximately $68,000,000 in cash plus the assumption of liabilities of approximately $4,943,000 and transaction costs of approximately $200,000. A portion of the purchase price is being held in escrow for certain post closing adjustments and indemnification obligations. The acquisition was accounted for as a purchase and the preliminary estimated excess of cost over the fair market value of the net tangible and identifiable intangible assets acquired of $17,482,000 was recorded as goodwill in the accompanying condensed consolidated balance sheet.

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

Prior to the Company s acquisition of substantially all of the business and assets of C.R. Gibson approximately 75% of the Company s sales were attributable to seasonal (Christmas, Valentine s Day, Easter and Halloween) products, with the remainder being attributable to everyday products. Seasonal products are sold primarily to mass market retailers, and the Company has relatively high market shares in many of these categories. Most of these markets have shown little or no growth in recent years, and the Company continues to confront significant cost 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 cost and price pressures. CSS continually invests in product and packaging design and product knowledge to assure it can continue to provide unique added value to its customers. In addition, CSS maintains an office and showroom in Hong Kong to better meet customers buying needs and to be able to provide alternatively sourced products at competitive prices. CSS continually evaluates its efficiency and productivity in its North American production and distribution facilities and in its back office operations to maintain its competitiveness domestically. In the last four fiscal years, the Company has closed three manufacturing plants and five warehouses totaling 800,000 square feet. On January 4, 2008, the Company announced that it will close its Elysburg, Pennsylvania production facility and its Troy, Pennsylvania distribution facility by approximately May 1, 2008. The Company believes that these actions are appropriate as its business has increasingly shifted from domestically manufactured to foreign sourced boxed greeting cards and gift tags. Additionally, in fiscal 2007 the Company combined the management and back office support for its Memphis, Tennessee based Cleo gift wrap operation into its Berwick Offray ribbon and bow operation. This action enhanced administrative efficiencies and is expected to provide incremental penetration of gift packaging products into broader everyday channels of distribution.

The Company s everyday craft and stationery product lines have higher inherent growth potential due to higher market growth rate. Further, the Company s everyday craft, trim-a-package, stationery and floral product lines have higher inherent growth potential due to CSS relatively low current market share. The Company has established project teams to pursue top line sales growth in these and other areas.

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LITIGATION

On October 10, 2007, the United States Department of Commerce (DOC) issued its final determination in the first administrative review of the antidumping duty order covering certain tissue paper products from China. This determination set the duty rates applicable to tissue paper products imported from China during the period September 21, 2004 through February 28, 2006. The Company s Cleo subsidiary imported tissue paper products from China between September 21, 2004 and March 31, 2005. As a result of the DOC s final determination, Cleo s liability for duties relating to its importation of Chinese tissue paper during this period was fixed at approximately $2,009,000, which is approximately $294,000 less than the amount previously recognized as an expense for these duties in the Company s 2005 fiscal year. Given that the actual duties are less than the amount previously expensed, the Company recognized income of approximately $294,000 in the third quarter of its 2008 fiscal year.

CSS and its subsidiaries are also 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 lawsuits and claims will not materially affect the consolidated financial position of the Company or its results of operations or cash flows.

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, 2007. Judgments and estimates of uncertainties are required in applying the Company s accounting policies in many areas. Following are some of the areas requiring significant judgments and estimates: revenue; cash flow and valuation assumptions in performing asset impairment tests of long-lived assets and goodwill; valuation reserves for inventory and accounts receivable; income tax accounting; the valuation of share-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, 2007.

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, 2007 Compared to Nine Months Ended December 31, 2006

Sales for the nine months ended December 31, 2007 decreased 9% to $441,854,000 from $485,428,000 in 2006 primarily due to expected lower sales of Christmas items to warehouse clubs and lower sales of Christmas gift wrap, tissue and gift bags and educational products, partially offset by incremental sales of C.R. Gibson (less than 1% of year to date sales), which was acquired on December 3, 2007 with a December 1, 2007 effective date.

Cost of sales, as a percentage of sales, was 73% in 2007 and 74% in 2006. The decrease in cost of sales was primarily due to efficiencies in the gift wrap, gift bag and tissue product lines resulting from the restructuring program announced in November 2006 and higher margins achieved on certain Christmas product lines.

Selling, general and administrative (SG&A) expenses decreased $2,424,000, or 3%, over the prior year period. The decrease was primarily due to reduced expenses as a result of the restructuring program announced in November 2006.

Restructuring expenses were $(2,000) in 2007 and $1,745,000 in 2006. The decrease in restructuring expenses was due to the establishment of a restructuring program in the prior year to combine the operations of the Cleo and Berwick Offray subsidiaries, to close Cleo s Maysville, Kentucky production facility and to exit a non-material, non-core business. See Note 5 to the consolidated financial statements for further discussion.

Interest expense, net was $720,000 in 2007 and $2,663,000 in 2006. The decrease in interest expense was primarily due to lower average borrowing levels during the nine months compared to the same period in the prior year as a result of cash generated from operations, net of cash utilized to purchase C.R. Gibson and a lower rate of return on invested cash resulting from the Company s investment in a tax exempt municipal fund in the current year.

Income taxes, as a percentage of income before taxes, were 35% in 2007 and 37% in 2006. The decrease in the effective tax rate was primarily due to the Company s investment in a municipal fund during fiscal 2008 that is tax exempt for federal purposes, a decrease in the Company s state effective tax rate and an increase in the Company s deductible stock option expense.

Net income for the nine months ended December 31, 2007 was $31,962,000, or $2.88 per diluted share compared to $29,486,000, or $2.71 per diluted share in 2006. The increase in net income was primarily related to current year savings and the absence of prior year costs associated with a restructuring program implemented in November 2006 in which the Company combined the operations of its Berwick Offray LLC and Cleo Inc subsidiaries, closed a production facility and exited a non-material, non-core business. Improved gross margins in certain Christmas product lines and reduced interest expense also added to the increase in earnings for the year, while reduced sales volume offset a large portion of the earnings improvement.

Three Months Ended December 31, 2007 Compared to Three Months Ended December 31, 2006

Sales for the three months ended December 31, 2007 decreased 16% to $222,170,000 from $264,065,000 in 2006 primarily due to earlier timing of Christmas shipments in the second quarter compared to a year ago and lower sales of Christmas tissue and gift bags and educational products. The sales decline was partially offset by incremental sales of newly acquired C.R. Gibson (less than 2% of sales in the quarter).

Cost of sales, as a percentage of sales, was 72% in 2007 and 75% in 2006. The decrease in cost of sales was primarily due to efficiencies in the gift wrap, gift bag and tissue product lines resulting from the restructuring program announced in November 2006 and higher margins achieved on certain Christmas product lines.

SG&A expenses decreased $879,000, or 3%, over the prior year period. This decrease was primarily due to savings achieved from the restructuring program implemented in fiscal 2007.

Restructuring expenses were $105,000 in 2007 and $1,745,000 in 2006. The decrease in restructuring expenses was due to the establishment of a restructuring program in the prior year to combine the operations of the Cleo and Berwick Offray subsidiaries, to close Cleo s Maysville, Kentucky production facility and to exit a non-material, non-core business. See Note 5 to the consolidated financial statements for further discussion.

Interest expense, net of $810,000 in 2007 improved over interest expense, net of $1,446,000 in 2006 due to lower average borrowing levels during the quarter compared to the same quarter in the prior year as a result of cash generated from operations, net of cash utilized to purchase C.R. Gibson and a lower rate of return on invested cash resulting from the Company s investment in a tax exempt municipal fund in the current year.

Income taxes, as a percentage of income before taxes, were 35% in 2007 and 37% in 2006. The decrease in the effective tax rate was primarily due to the Company s investment in a municipal fund during fiscal 2008 that is tax exempt for federal purposes, a decrease in the Company s state effective tax rate and an increase in the Company s deductible stock option expense.

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Net income for the three months ended December 31, 2007 was $22,854,000, or $2.07 per diluted share, compared to $23,290,000, or $2.13 per diluted share in 2006. The decrease in net income was primarily attributable to reduced sales volume, partially offset by improved margins on certain Christmas product lines, lower interest expense and savings and the absence of costs in the prior year quarter associated with the restructuring program implemented in fiscal 2007.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, the Company had working capital of $153,985,000 and stockholders equity of $284,132,000. The increase in accounts receivable from March 31, 2007 reflected seasonal billings of current year Christmas accounts receivables and the acquisition of C.R. Gibson accounts receivable, net of improved collections in the current year. The increase in inventories was primarily a result of the acquisition of C.R. Gibson effective December 1, 2007 and advanced purchases of raw materials in anticipation of the impact of scheduled commodity price increases, partially offset by the normal seasonal shipments during the fiscal 2008 shipping season. The increase in goodwill and intangible assets, net was also attributable to the acquisition of C.R. Gibson as more fully described in Note 4. The decrease in accrued restructuring expenses is due to the establishment of a restructuring program in the prior year to combine the operations of the Cleo and Berwick Offray subsidiaries, to close Cleo s Maysville, Kentucky production facility and to exit a non-material, non-core business. The increase in other current liabilities was due to increased accruals for income taxes, sales commissions and royalties as well as to the acquisition of C.R. Gibson. The increase in long-term obligations was due to the reclassification of unrecognized tax benefits associated with the adoption of FIN 48 and more fully described in Note 9. The increase in stockholders equity was primarily attributable to year-to-date net income and capital contributed upon exercise of employee stock options, partially offset by treasury share repurchases and payments of cash dividends.

On September 21, 2007, the Board of Directors of the Company approved a systems integration project designed to standardize the enterprise resource planning (ERP) systems, master data and business processes across all CSS businesses. The Company believes this project, which is expected to be implemented in phases over two and one-half years, will provide a sound, cost effective foundation to support the future growth of CSS, as well as provide the systems and business process infrastructure for future acquisitions and operating efficiencies. The incremental cash outlay for this initiative over a two and one-half year period is projected to be $8,100,000. During fiscal 2008, the Company expects the cash outlay to be $4,500,000 and does not anticipate a material impact on the income statement.

The Company relies primarily on cash generated from its operations and seasonal borrowings to meet its liquidity requirements. Historically, a significant portion of the Company s revenues have been seasonal with approximately 80% of sales recognized in the second and third quarters. As payment for sales of Christmas related products is usually not received until just before or just after the holiday selling season in accordance with general industry practice, short-term borrowing needs increase throughout the second and third quarters, peaking prior to Christmas and dropping thereafter. Seasonal financing requirements are met under a $50,000,000 revolving credit facility with five banks and an accounts receivable securitization facility with an issuer of receivables-backed commercial paper. This facility has a funding limit of $100,000,000 during peak seasonal periods and $25,000,000 during off-peak seasonal periods. In addition, the Company has outstanding $20,000,000 of 4.48% senior notes due ratably in annual $10,000,000 installments through December 2009. These financing facilities are available to fund the Company s seasonal borrowing needs and to provide the Company with sources of capital for general corporate purposes, including acquisitions as permitted under the revolving credit facility. At December 31, 2007, there was $20,000,000 of long-term borrowings outstanding related to the senior notes and $50,000,000 outstanding under the Company s short-term credit facilities. In addition, the Company has a minor amount of capital leases outstanding. 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, 2007, the Company s letter of credit commitments are as follows (in thousands):

	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Letters of credit	$ 3,883	$	$	$	$ 3,883

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The Company has letters of credit that guarantee funding of workers compensation claims. The Company has no financial guarantees or other arrangements with any third parties or related parties other than its subsidiaries.

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

LABOR RELATIONS

With the exception of the bargaining units at the gift wrap facilities in Memphis, Tennessee and the ribbon manufacturing facilities in Hagerstown, Maryland, which totaled approximately 760 employees as of December 31, 2007, 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. In January 2008, Cleo reached an agreement with the labor union representing its production and maintenance employees at its gift wrap plant and warehouses in Memphis concerning the provisions of a new collective bargaining agreement to replace the prior agreement, which expired on December 31, 2007. The term of the new agreement extends until December 31, 2010. The collective bargaining agreement with the labor union representing the Hagerstown-based production and maintenance employees remains in effect until December 31, 2009.

ACCOUNTING PRONOUNCEMENTS

See Note 8 and Note 9 to the Condensed 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 expected future benefits and costs from the Company s restructuring plan involving the closure of its facilities in Elysburg, Pennsylvania and Troy, Pennsylvania; continued use of acquisitions to stimulate further growth; the Company s expected ultimate liabilities from lawsuits and claims; the expected future impact of changes in accounting principles; the anticipated effects of measures taken by the Company to respond to cost and price pressures; and expected future benefits and costs associated with the project relating to the standardization of the Company s ERP systems. 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 conditions; increased competition; increased operating costs, including labor-related and energy costs and costs relating to the imposition or retrospective application of duties on imported products; currency risks and other risks associated with international markets; risks associated with acquisitions, including acquisition integration costs; risks associated with the restructuring plan to close the Company s facilities in Elysburg, Pennsylvania and Troy, Pennsylvania, including the risk that the restructuring related savings and/or costs may exceed the presently expected amounts and the risk that the closures will adversely affect the Company s ability to fulfill its customer s orders on time; risks associated with the Company s ERP systems standardization project, including the risk that the cost of the project will exceed expectations, the risk that the expected benefits of the project will not be realized and the risk that implementation of the project will interfere with and adversely affect the Company s operations and financial performance; the risk that customers may become insolvent; costs of compliance with governmental regulations and government investigations; liability associated with non-compliance with governmental regulations, including regulations pertaining to the environment, Federal and state employment laws, and import and export controls and customs laws; and other factors described in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007 and elsewhere in the Company s SEC filings. As a result of these factors, readers are cautioned not to place undue reliance on any forward-looking statements included herein or that may be made elsewhere from time to time by, or on behalf of, the Company.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of interest rate changes and manages this exposure through the use of variable-rate and fixed-rate debt. The Company is also exposed to foreign currency fluctuations which it manages by entering into foreign currency forward contracts to hedge the majority of firmly committed transactions and related receivables that are denominated in a foreign currency. The Company does not enter into contracts for trading purposes and does not use leveraged instruments. The market risks associated with debt obligations and other significant instruments as of December 31, 2007 have not materially changed from March 31, 2007 (see Item 7A of the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007).

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this report, the Company s management, with the participation of the Company s President and Chief Executive Officer and Vice President Finance and Chief Financial Officer, evaluated the effectiveness of the Company s disclosure controls and procedures in accordance with Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the President and Chief Executive Officer and Vice President Finance and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

(b) *Changes in Internal Controls*. There was no change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) as promulgated by the Securities and Exchange Commission under the Exchange Act) during the third quarter of fiscal year 2008 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

CSS INDUSTRIES, INC. AND SUBSIDIARIES

PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

On November 27, 2007, CSS issued 6,000 shares of its common stock ($.10 par value) to a member of the Board of Directors of CSS, upon such director s exercise of stock options previously granted to such director pursuant to CSS 1995 Stock Option Plan for Non-Employee Directors (the 1995 Plan). The aggregate purchase price for these 6,000 shares of CSS common stock was $132,000, which was paid in cash.

On November 30, 2007, CSS issued options to purchase 24,000 shares of its common stock ($.10 par value) to the non-employee members of the Board of Directors of CSS pursuant to CSS 2006 Stock Option Plan for Non-Employee Directors (the 2006 Plan). The 2006 Plan provides for the automatic issuance of an option to purchase 4,000 shares of CSS common stock to each non-employee director of CSS on the last trading day of November of each year from 2006 to 2010. In accordance with the automatic grant provisions of the 2006 Plan, each of the options granted on November 30, 2007: (i) has an exercise price of $39.58 per share, the closing price for shares of CSS common stock on the date of the grant; (ii) becomes exercisable in four equal installments, commencing on the first anniversary of the date of grant and annually thereafter; and (iii) expires five years after the date of grant. No consideration is required to be paid to the Company in connection with the issuance of options under the 2006 Plan, and none was received.

The options granted pursuant to the 1995 Plan and the 2006 Plan were not registered under the Securities Act of 1933, as amended (the Securities Act), and the shares of CSS common stock issued upon exercise of the aforementioned options were not registered under the Securities Act. CSS believes that the issuance of the options, and the issuance of the aforementioned shares of CSS common stock in connection with the exercise of options, was exempt from registration under (a) Section 4(2) of the Securities Act as transactions not involving any public offering and such securities having been acquired for investment and not with a view to distribution, or (b) Rule 701 under the Securities Act as transactions made pursuant to a written compensatory benefit plan or pursuant to a written contract relating to compensation. All recipients had adequate access to information about CSS. CSS did not engage an underwriter in connection with the foregoing stock option grants and stock issuances.

Share Repurchase Program

A total of 134,900 shares were repurchased at an average price of $37.73 in the third quarter of fiscal 2008. As of December 31, 2007, there remained an outstanding authorization to repurchase 452,324 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, 2007		$		87,224
November 1 through November 30, 2007	105,900	37.78	105,900	481,324
December 1 through December 31, 2007	29,000	37.65	29,000	452,324
Total Third Quarter	134,900	$ 37.73	134,900	452,324

(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) The Company s Board of Directors (Board) authorized on February 18, 1998 the repurchase of up to 1,000,000 shares of the Company s common stock (the Repurchase Program). Thereafter, the Company s Board increased the number of shares authorized to be repurchased by the Company pursuant to the Repurchase Program as follows: November 9, 1998 (500,000 additional shares); May 4, 1999 (500,000 additional shares); September 28, 1999 (500,000 additional shares); September 26,

2000 (500,000 additional shares); and February 27, 2003 (400,000 additional shares). As a result of the Company s three-for-two stock split distributed on July 10, 2003, the number of shares authorized for repurchase pursuant to the Repurchase Program was automatically increased to 5,100,000 shares. On November 12, 2007, the Company s Board authorized the repurchase of an additional 500,000 shares of the Company s common stock for a total of 5,600,000 shares. The aggregate number of shares repurchased by the Company pursuant to the Repurchase Program as of December 31, 2007 was 5,147,676 on a split-adjusted basis. An expiration date has not been established for the Repurchase Program.

Item 6. Exhibits

Exhibit 2.1 Asset Purchase Agreement dated as of October 31, 2007, among CSS Industries, Inc., Delta Acquisition, LLC, C. R. Gibson, Inc. and the shareholders of C.R. Gibson, Inc.*

Exhibit 2.2 Closing letter dated November 30, 2007 by and among Delta Acquisition, LLC, CSS Industries, Inc. and C.R. Gibson, Inc., on behalf of itself and its shareholders.*

Exhibit 10.1 Fifth Amendment to Receivables Purchase Agreement dated as of August 1, 2007.**

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.

* Incorporated by reference to Exhibits 2.1 and 2.2, respectively, to the Registrant s Current Report on Form 8-K filed on December 7, 2007.

** A description of Exhibits A and B to the Fifth Amendment to Receivables Purchase Agreement is set forth in Section 5 of the Fifth Amendment. The Company hereby undertakes to furnish to the Commission supplementally upon request a copy of such omitted Exhibits.

SIGNATURES

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

	CSS INDUSTRIES, INC. (Registrant)
Date: January 31, 2008	By: /s/ Christopher J. Munyan Christopher J. Munyan President and Chief Executive Officer (principal executive officer)
Date: January 31, 2008	By: /s/ Clifford E. Pietrafitta Clifford E. Pietrafitta Vice President Finance and Chief Financial Officer (principal financial and accounting officer)

EXHIBIT INDEX

Exhibit No.	Description
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