CSS INDUSTRIES INC
Form 10-K
June 05, 2007

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-2661

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

Delaware *(State or other jurisdiction of incorporation or organization)*	**13-1920657** *(I.R.S. Employer Identification No.)*
1845 Walnut Street, Philadelphia, PA *(Address of principal executive offices)*	**19103** *(Zip code)*

Registrant s telephone number, including area code:
(215) 569-9900

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.10 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this annual report on Form 10-K or any amendment to this annual report on Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant is $298,672,775. Such aggregate market value was computed by reference to the closing price of the common stock of the registrant on the New York Stock Exchange on September 30, 2006, being the last trading day of the registrant s most recently completed second fiscal quarter. Such calculation excludes the shares of common stock beneficially owned at such date by certain directors and officers of the registrant, by the Farber Foundation and by the Farber Family Foundation, as described under the section entitled Ownership of CSS Common Stock in the proxy statement to be filed by the registrant for its 2007 Annual Meeting of Stockholders. In making such calculation, registrant does not determine the affiliate or non-affiliate status of any holders of the shares of common stock for any other purpose.

At May 22, 2007, there were outstanding 10,889,838 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1. *Business.*

General

CSS Industries, Inc. (CSS or the Company) is a consumer products company primarily engaged in the design, manufacture, procurement, distribution and sale of seasonal and social expression products, principally to mass market retailers. These seasonal and all occasion products include gift wrap, gift bags, gift boxes, boxed greeting cards, gift tags, tissue paper, decorations, classroom exchange Valentines, decorative ribbons and bows, Halloween masks, costumes, make-up and novelties, Easter egg dyes and novelties, and craft and educational products. CSS product breadth provides its retail customers the opportunity to use a single vendor for much of their seasonal product requirements. A substantial portion of CSS products are manufactured, packaged and warehoused in thirteen facilities located in the United States, with the remainder purchased primarily from manufacturers in Asia and Mexico. The Company s products are sold to its customers by national and regional account sales managers, sales representatives, product specialists and by a network of independent manufacturers representatives. CSS maintains a purchasing office in Hong Kong to administer Asian sourcing opportunities. The Company s operating subsidiaries include Paper Magic Group, Inc. (Paper Magic), Berwick Offray LLC (Berwick Offray) and Cleo Inc (Cleo). In fiscal 2007, the Company combined the operations of its Cleo and Berwick Offray subsidiaries in order to improve profitability and efficiency through the elimination of redundant back office functions, certain senior management positions, a non-core product line and excess manufacturing capacity.

The Company s goal is to expand by developing new or complementary products, by entering new markets, by acquiring companies that are complementary with its existing operating businesses and by acquiring other businesses with leading market positions.

Principal Products CSS designs, manufactures, distributes and sells a broad range of seasonal consumer products primarily through the mass market distribution channel. Christmas products include gift wrap, gift bags, gift boxes, boxed greeting cards, gift tags, decorative tissue paper, decorations and decorative ribbons and bows. CSS Valentine product offerings include classroom exchange Valentine cards and other related Valentine products, while its Easter product offerings include Dudley ® brand of Easter egg dyes and related Easter seasonal products. For Halloween, CSS offers a full line of Halloween merchandise including make-up, costumes, masks and novelties. In addition to seasonal products, CSS also designs and markets all occasion boxed greeting cards, gift bags, tissue, decorative ribbons and bows and craft items to its mass market, craft and floral retail and wholesale distribution customers, and teachers aids and other learning oriented products to the education market through the mass market, school supply distributors and teachers stores.

CSS operates thirteen manufacturing and/or distribution facilities located in Pennsylvania, Maryland, South Carolina, Tennessee and Texas. A description of the Company s product lines and related manufacturing and/or distribution facilities is as follows:

> Boxed greeting cards, gift tags and classroom exchange Valentine products are either imported from Asian manufacturers or domestically produced and warehoused in four facilities in central and northeastern Pennsylvania. Manufacturing processes include a wide range of finishing, assembly and packaging operations.
>
> Halloween make-up and Easter egg dye products are manufactured in Asia to specific formulae by contract manufacturers who meet regulatory requirements for the formularization and packaging of such products.

These products share a distribution facility in northeastern Pennsylvania with Christmas products of the Company.

Ribbons and bows are manufactured and warehoused in seven facilities located in northeastern Pennsylvania, Maryland, South Carolina and Texas. The manufacturing process is vertically integrated. Non-woven ribbon and bow products are primarily made from polypropylene resin, a petroleum-based product, which is mixed with color pigment, melted and pressed through an extruder. Large rolls of extruded film go through various combinations of manufacturing processes before being made into bows or packaged on ribbon spools or reels as required by various markets and customers. Woven fabric ribbons are manufactured domestically and sourced from Mexico and Asia. Domestic woven products are either narrow woven or converted from bulk rolls of wide width textiles.

Gift wrap is manufactured in one facility in Memphis, Tennessee. Manufacturing includes web printing, finishing, rewinding and packaging. Finished gift wrap products are warehoused and shipped from both the production facility and a separate facility in Memphis.

Other products, designed to the specifications of CSS, are imported primarily from Asian manufacturers.

During our 2007 fiscal year, CSS experienced no material difficulties in obtaining raw materials from suppliers.

Intellectual Property Rights CSS has a number of copyrights, patents, trademarks and intellectual property licenses which are used in connection with its products. Substantially all of its designs and artwork are protected by copyright. Intellectual property license rights which CSS has obtained are viewed as especially important to the success of its Valentine products. It is CSS view that its operations are not dependent upon any individual patent, trademark, copyright or intellectual property license. The collective value of CSS intellectual property is viewed as substantial and CSS seeks to protect its rights in all patents, copyrights, trademarks and intellectual property licenses.

Sales and Marketing Most of CSS products are sold in the United States and Canada by national and regional account sales managers, sales representatives, product specialists and by a network of independent manufacturers representatives. CSS maintains permanent showrooms in New York City, Memphis, Dallas, Atlanta and Hong Kong where buyers for major retail customers will typically visit for a presentation and review of the new lines. Products are also displayed and presented in showrooms maintained by various independent manufacturers representatives in major cities in the United States and Canada. Relationships are developed with key retail customers by CSS sales personnel and independent manufacturers representatives. Customers are generally mass market retailers, discount department stores, specialty chains, warehouse clubs, drug and food chains, dollar stores, independent card and floral shops and retail teachers stores. Net sales to Wal-Mart Stores, Inc. and its affiliates and Target Corporation accounted for approximately 27% and 11% of total net sales, respectively, during fiscal 2007. No other customer accounted for 10% or more of the Company s net sales in fiscal 2007. Approximately 75% of the Company s sales are attributable to seasonal (Christmas, Halloween, Valentine s Day and Easter) products, with the remainder attributable to everyday products. Approximately 65% of CSS sales relate to the Christmas season. Seasonal products are generally designed and marketed beginning up to 18 to 20 months before the holiday event and manufactured during an eight to ten month production cycle. Due to these long lead time requirements, timely communication with third party factories, retail customers and independent manufacturers representatives is critical to the timely production of seasonal products. Because the products themselves are primarily seasonal, sales terms do not generally require payment until just before or just after the holiday, in accordance with industry practice. CSS products generally are not sold under guaranteed or return privilege terms. All occasion ribbon and bow products are also sold through sales representatives or independent manufacturers representatives to wholesale distributors and independent small retailers who serve the floral, craft and retail packaging trades. The Company also sells custom products to private label customers, to other social expression companies, and to converters of the Company s ribbon products. Custom products are sold by both independent manufacturers representatives and CSS sales managers.

Competition among retailers in the sale of the Company s products to end users is intense. CSS seeks to assist retailers in developing merchandising programs designed to enable the retailers to meet their revenue objectives while appealing to their consumers tastes. These objectives are met through the development and manufacture of custom configured and designed products and merchandising programs. CSS years of experience in merchandising program development and product quality are key competitive advantages in helping retailers meet their objectives.

Competition CSS principal competitor in Christmas products is Plus Mark, Inc. (a subsidiary of American Greetings Corporation). Image Arts Inc., a subsidiary of Hallmark Cards, Inc., is also a competitor in the boxed greeting card business. CSS competes, to a limited extent, with other product offerings of Hallmark Cards, Inc. and American Greetings Corporation. These competitors are larger and have greater resources than the Company. In addition, CSS also competes with various domestic and foreign companies in each of its other product offerings.

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CSS believes its products are competitively positioned in their primary markets. Since competition is based primarily on price, timely delivery, creative design and the ability to serve major retail customers with single, combined product shipments for each holiday event, CSS focus on products combined with consistent service levels allows it to compete effectively in its core markets.

Employees

At May 22, 2007, approximately 2,700 persons were employed by CSS (increasing to approximately 3,300 as seasonal employees are added).

With the exception of the bargaining units at the gift wrap facilities in Memphis, Tennessee and the ribbon manufacturing facility in Hagerstown, Maryland, which totaled approximately 600 employees as of May 22, 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. The collective bargaining agreement with the labor union representing Cleo s production and maintenance employees at the Cleo gift wrap plant and warehouses in Memphis, Tennessee remains in effect until December 31, 2007. The collective bargaining agreement with the labor union representing the Hagerstown-based production and maintenance employees remains in effect until December 31, 2009.

The Company believes that relationships with its employees are good.

SEC Filings

The Company s Internet address is *www.cssindustries.com*. On its website, the following filings are posted as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: its annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on the Company s website are available free of charge.

Item 1A. ***Risk Factors.***

You should carefully consider each of the risk factors we describe below, as well as other factors described in this annual report on Form 10-K and elsewhere in our SEC filings.

Our results of operations fluctuate on a seasonal basis, and quarter to quarter comparisons may not be a good indicator of our performance. Seasonal demand fluctuations may adversely affect our cash flow and our ability to sell our products.

Approximately 75% of our sales are attributable to seasonal (Christmas, Halloween, Valentine s Day and Easter) products, with the remainder being attributable to everyday products. Approximately 65% of our sales relate to the Christmas season. The seasonal nature of our business results in low sales and operating losses in our first and fourth quarters, and high shipment levels and operating profits in our second and third quarters. As a result, our quarterly results of operations fluctuate during our fiscal year, and a quarter-to-quarter comparison is not a good indication of our performance or how we will perform in the future. For example, our overall results of operations in the future may fluctuate substantially based on seasonal demand for our products. Such variations in demand could have a material adverse effect on the timing of cash flow and therefore our ability to meet our obligations with respect to our debt and other financial commitments. Seasonal fluctuations also affect our inventory levels. We must carry significant amounts of inventory, especially before the Christmas retail selling period. If we are not successful in selling the inventory during the relevant period, we may have to sell the inventory at significantly reduced prices, or we may not be able to sell the inventory at all.

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We rely on a few mass market retailers, warehouse clubs and national drug store chains for a significant portion of our sales. The loss of sales, or a significant reduction of sales, to one or more of our large customers may adversely affect our business, results of operations and financial condition. Past and future consolidation within the retail sector also may lead to reduced profit margins, which may adversely affect our business, results of operations and financial condition.

A few of our customers are material to our business and operations. Our sales to Wal-Mart Stores, Inc. and its affiliates and Target Corporation accounted for approximately 27% and 11% of our sales, respectively, during our 2007 fiscal year. No other single customer accounted for 10% or more of our sales in fiscal 2007. Our ten largest customers, which include mass market retailers, warehouse clubs and national drug store chains, accounted for approximately 62% of our sales in our 2007 fiscal year. Our business depends, in part, on our ability to identify and define product and market trends, and to anticipate, understand and react to changing consumer demands in a timely manner. There can be no assurance that our large customers will continue to purchase our products in the same quantities that they have in the past. The loss of sales, or a significant reduction of sales, to one or more of our large customers may adversely affect our business, results of operations and financial condition. Further, in recent years there has been a great amount of consolidation among our retail customer base. As the retail sector consolidates, our customers become larger, and command increased leverage in negotiating prices and other terms of the sales of our products. Past and future consolidation may lead to reduced profit margins, which may adversely affect our business, results of operations and financial condition.

Increases in raw material and energy costs, resulting from acts of nature, such as hurricanes, earthquakes or influenza pandemics, or other factors, may raise our cost of goods sold and adversely affect our business, results of operations and financial condition.

Paper and petroleum-based materials are essential in the manufacture of our products, and the cost of such materials is significant to our cost of goods sold. Energy costs, especially fuel costs, also are significant expenses in the production and delivery of our products. Increased costs of raw materials or energy resulting from acts of nature, such as hurricanes, earthquakes or influenza pandemics, or other factors, may result in declining margins and operating results if market conditions prevent us from passing these increased costs on to our customers through timely price increases on our products.

Risks associated with our use of foreign suppliers may adversely affect our business, results of operations and financial condition.

For some of our product lines, particularly our Halloween, Easter, Christmas boxed greeting cards, gift bags, gift tags and tissue paper product lines, we use foreign suppliers to manufacture a significant portion of our products. Approximately 40% of our sales in fiscal 2007 are related to products sourced from foreign suppliers. Our use of foreign suppliers exposes us to risks inherent in doing business outside of the United States, including risks associated with foreign currency fluctuations, transportation costs and delays, difficulties in maintaining and monitoring quality control, compliance with foreign laws and regulations, costs relating to the imposition or retrospective application of duties on imported products, economic or political instability, international public health issues, and restrictions on the repatriation of profits and assets.

Increased overseas sourcing by our competitors and our customers may reduce our market share and profit margins, adversely affecting our business, results of operations and financial condition.

We have relatively high market shares in many of our seasonal product categories. Most of our product markets have shown little or no growth in recent years, and we continue to confront significant cost pressure as our competitors source certain products from overseas and certain customers increase direct sourcing from overseas factories. Increased overseas sourcing by our competitors and certain customers may result in a reduction of our market share and profit margins, adversely affecting our business, results of operations and financial condition.

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Bankruptcy of our key customers may increase our exposure to losses from bad debts, and may adversely affect our business, results of operations and financial condition.

Many of our largest customers are mass market retailers. The mass market retail channel in the United States has experienced significant shifts in market share among competitors in recent years, causing large retailers to experience liquidity problems and file for bankruptcy protection. There is a risk that these key customers will not pay us, or that payment may be delayed because of bankruptcy or other factors beyond our control, which could increase our exposure to losses from bad debts. Additionally, our business, results of operations and financial condition may be adversely affected if these mass market retailers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate.

Our business, results of operations and financial condition may be adversely affected by volatility in the demand for our products.

Our success depends on the sustained demand for our products. Many factors affect the level of consumer spending on our products, including, among other things, general business conditions, interest rates, the availability of consumer credit, taxation, the effects of war, terrorism or threats of war or terrorism, fuel prices and consumer confidence in future economic conditions. Our business, and that of most of our customers, may experience periodic downturns in direct relation to downturns in the general economy. A general slowdown in the economies in which we sell our products, or even an uncertain economic outlook, could adversely affect consumer spending on discretionary items, such as our products, and, in turn, could adversely affect our sales, results of operations and financial condition.

Our business, results of operations and financial condition may be adversely affected if we are unable to hire and retain sufficient qualified personnel.

Our success depends, to a substantial extent, on the ability, experience and performance of our senior management. Our inability to retain our senior management team, or our inability to attract and retain qualified replacement personnel, may adversely affect us. We also regularly hire a large number of seasonal employees. Any difficulty we may encounter in hiring seasonal employees may result in significant increases in labor costs, which may have an adverse effect on our business, results of operations and financial condition.

Our business, results of operations and financial condition may be adversely affected if we fail to extend or renegotiate our collective bargaining contracts with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike, or other work stoppage.

Approximately 600 of our employees at our ribbon manufacturing facility in Hagerstown, Maryland and at our gift wrap facilities in Memphis, Tennessee are represented by labor unions. The collective bargaining agreement with the labor union representing the Hagerstown-based production and maintenance employees will expire on December 31, 2009. The collective bargaining agreement with the labor union representing Cleo s production and maintenance employees at the Cleo gift wrap plant and warehouses in Memphis, Tennessee will expire on December 31, 2007. Although we believe our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or other work related stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have an adverse effect on our business, results of operations and financial condition.

Our acquisition strategy involves risks, and difficulties in integrating potential acquisitions may adversely affect our business, results of operations and financial condition.

We regularly evaluate potential acquisition opportunities to support and strengthen our business. We cannot be sure that we will be able to locate suitable acquisition candidates, acquire possible acquisition candidates, acquire such candidates on commercially reasonable terms, or integrate acquired businesses successfully. Future acquisitions may require us to incur additional debt and contingent liabilities, which may adversely affect our business,

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results of operations and financial condition. The process of integrating acquired businesses into our existing operations may result in operating, contract and supply chain difficulties, such as the failure to retain clients or management personnel. Also, prior to our completion of any acquisition, we could fail to discover liabilities of the acquired business for which we may be responsible as a successor owner or operator in spite of any investigation we may make prior to the acquisition. Such difficulties may divert significant financial, operational and managerial resources from our existing operations, and make it more difficult to achieve our operating and strategic objectives. The diversion of management attention, particularly in a difficult operating environment, may adversely affect our business, results of operations and financial condition.

Our inability to protect our intellectual property rights, or infringement claims asserted against us by others, may adversely affect our business, results of operations and financial condition.

We have a number of copyrights, patents, trademarks and intellectual property licenses which are used in connection with our products. While our operations are not dependent upon any individual copyright, patent, trademark or intellectual property license, we believe that the collective value of our intellectual property is substantial. We rely upon copyright and trademark laws in the United States and other jurisdictions and on confidentiality agreements with some of our employees and others to protect our proprietary rights. If our proprietary rights were infringed, our business could be adversely affected. In addition, our activities could infringe upon the proprietary rights of others, who could assert infringement claims against us. We could face costly litigation if we are forced to defend these claims. If we are unsuccessful in defending such claims, our business, results of operations and financial condition could be adversely affected.

We seek to register our trademarks in the United States and elsewhere. These registrations could be challenged by others or invalidated through administrative process or litigation. In addition, our confidentiality agreements with some employees or others may not provide adequate protection in the event of unauthorized use or disclosure of our proprietary information, or if our proprietary information otherwise becomes known, or is independently developed by competitors.

Various laws and governmental regulations applicable to a manufacturer or distributor of consumer products may adversely affect our business, results of operations and financial condition.

Our business is subject to numerous federal, state, provincial, local and foreign laws and regulations, including laws and regulations with respect to labor and employment, import and export activities, taxes, chemical usage, air emissions, wastewater and storm water discharges and the generation, handling, storage, transportation, treatment and disposal of waste materials, including hazardous materials. Although we believe that we are in substantial compliance with all applicable laws and regulations, because legal requirements frequently change and are subject to interpretation, we are unable to predict the ultimate cost of compliance or the consequences of non-compliance with these requirements, or the effect on our operations, any of which may be significant. If we fail to comply with applicable laws and regulations, we may be subject to criminal sanctions or civil remedies, including fines, injunctions, or prohibitions on importing or exporting. We cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations, will not have an adverse effect on our business, results of operations and financial condition.

Our business, results of operations and financial condition may be adversely affected by national or global changes in economic or political conditions.

Our business, results of operations and financial condition may be adversely affected by national or global changes in economic or political conditions, including foreign currency fluctuations and fluctuations in inflation and interest rates, a national or international economic downturn, and any future terrorist attacks, and the national and global military, diplomatic and financial exposure to such attacks or other threats.

Item 1B. *Unresolved Staff Comments.*

None.

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Item 2. ***Properties.***

The following table sets forth the location and approximate square footage of the Company s manufacturing and distribution facilities:

Location	Use	Approximate Square Feet Owned	Approximate Square Feet Leased
Elysburg, PA	Manufacturing and distribution	253,000	
Elysburg, PA	Manufacturing	68,000	
Danville, PA	Distribution	133,000	
Troy, PA	Distribution	223,000	
Berwick, PA	Manufacturing and distribution	213,000	
Berwick, PA	Manufacturing and distribution	220,000	
Berwick, PA	Distribution	226,000	
Berwick, PA	Distribution		547,000
Memphis, TN	Manufacturing and distribution		1,006,000
Memphis, TN	Distribution		404,000
Hagerstown, MD	Manufacturing and distribution	284,000	
Hartwell, SC	Manufacturing	229,000	
El Paso, TX	Distribution		100,000
Total		1,849,000	2,057,000

The Company also owns two former manufacturing facilities aggregating 210,000 square feet which it is in the process of selling, and utilizes owned and leased space aggregating 151,000 square feet for various marketing and administrative purposes, including 21,000 square feet utilized as an office and showroom in Hong Kong. The headquarters and principal executive office of the Company are located in Philadelphia, Pennsylvania.

The Company is the lessee of approximately 14,000 square feet of space (which was used in former operations), portions of which have been subleased by the Company, as sublessor, to various sublessees. The Company also owns a distribution facility (approximately 135,000 square feet) which has been leased to a third party.

Item 3. ***Legal Proceedings.***

On February 17, 2004, a group of six domestic producers of tissue paper and a labor union jointly filed an antidumping duty petition with the International Trade Administration of the U.S. Department of Commerce (Commerce Department) and the U.S. International Trade Commission (ITC), in which the petitioners sought the imposition of duties on certain tissue paper products imported from China. The Company, as an importer from China of certain products that were the subject of these investigations, contested the imposition of these duties in proceedings before the ITC and the Commerce Department.

In February 2005, the Commerce Department issued its final determination in which it found that certain tissue paper products are being sold into the United States from China at less than fair value. In March 2005, the ITC issued its final determination in which it found that an industry in the United States is materially injured by reason of imports from China of certain tissue paper products. As a result of these determinations, certain tissue paper products imported from China are now subject to the imposition of tissue duties. On May 25, 2005, the Company filed an appeal of the ITC s final determination which was subsequently denied on August 31, 2006 by the United States Court of International Trade. The Company is now contesting the final determination of the ITC in proceedings before the United States Court of Appeals for the Federal Circuit, which proceedings were initiated by the Company on October 27, 2006.

In the fiscal year ended March 31, 2005, the Company recognized an expense of approximately $2,300,000 for these duties, reflecting the maximum liability of the Company s Cleo subsidiary for duties relating to subject tissue paper products imported from China during the 2005 fiscal year based on the applicable deposit rates established by the Commerce Department. The amount of Cleo s actual liability for tissue duties pertaining to the fiscal year ended March 31, 2005, which liability is capped at the deposit rates in effect with respect to the period of time that the subject products were imported by Cleo, will be determined at the time of liquidation of the applicable entries by the United States Customs & Border Protection. Liquidation of the applicable entries has been enjoined pending the outcome of the Company s appeal.

With respect to the fiscal years ended March 31, 2007 and 2006, the Company believes that it did not import from China any tissue paper products that are subject to the imposition of tissue duties pursuant to the aforementioned final determinations of the Commerce Department and the ITC.

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.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

Not applicable.

Part II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The common stock of the Company is listed for trading on the New York Stock Exchange. The following table sets forth the high and low sales prices per share of that stock, and the dividends declared per share, for each of the quarters during fiscal 2007 and fiscal 2006.

Fiscal 2007	**High**	**Low**	**Dividends Declared**
First Quarter	$ 32.84	$ 26.60	$ .12
Second Quarter	31.86	26.35	.12
Third Quarter	35.77	28.46	.12
Fourth Quarter	37.48	32.43	.12

Fiscal 2006	**High**	**Low**	**Dividends Declared**
First Quarter	$ 35.10	$ 29.92	$ .12
Second Quarter	37.74	35.52	.12
Third Quarter	35.98	30.73	.12
Fourth Quarter	34.00	26.00	.12

At May 22, 2007, there were approximately 2,370 holders of the Company s common stock and there were no shares of preferred stock outstanding.

The ability of the Company to pay any cash dividends on its common stock is dependent on the Company s earnings and cash requirements and is further limited by maintaining compliance with financial covenants contained in the Company s credit facilities. The Company anticipates that quarterly cash dividends will continue to be paid in the future.

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Issuer Purchases of Equity Securities

A total of 600 shares were repurchased at an average price of $33.00 in the fourth quarter of fiscal 2007. As of March 31, 2007, there remained an outstanding authorization to repurchase 247,424 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(1)(2)	Maximum Number of Shares That May Yet Be Purchased Under the Program(2)
January 1 through January 31, 2007		$		248,024
February 1 through February 28, 2007				248,024
March 1 through March 31, 2007	600	33.00	600	247,424
Total Fourth Quarter	600	$ 33.00	600	247,424

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

(2) The Company s Board of Directors 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 Board of Directors 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. The aggregate number of shares repurchased by the Company pursuant to the Repurchase Program as of March 31, 2007 was 4,852,576 on a split-adjusted basis. An expiration date has not been established for the Repurchase Program.

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Performance Graph

The graph below compares the cumulative total stockholders return on the Company s common stock for the period from April 1, 2002 through March 31, 2007, with (i) the cumulative total return on the Standard and Poors 500 (S&P 500) Index and (ii) a peer group, as described below (assuming the investment of $100 in our common stock, the S&P 500 Index, and the peer group on April 1, 2002 and reinvestment of all dividends).

The peer group utilized consists of American Greetings Corporation, Blyth, Inc., Lenox Group Inc. (f/k/a Department 56, Inc.), Russ Berrie and Company, Inc. and Enesco Group, Inc. The Company selected this group as its peer group because they are engaged in businesses that are sometimes categorized with the Company s business. However, management believes that a comparison of the Company s performance to this peer group will be flawed, because the businesses of the peer group companies are in large part different from the Company s. In this regard, the Company competes with only one division of American Greetings, Blyth is principally focused on fragranced candle products and related candle accessories, competing only with some of the Company s products, and the other companies principally sell collectible and/or giftware items.

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

	Years Ended March 31, 2007	2006	2005	2004	2003
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Net sales	$ 530,686	$ 525,494	$ 536,362	$ 539,349	$ 532,815
Income before income taxes	36,804	32,716	47,118	46,297	40,010
Income before cumulative effect of change in accounting principle	23,889	21,841	30,692	29,850	25,846
Cumulative effect of change in accounting principle(1)					(8,813)
Net income	23,889	21,841	30,692	29,850	17,033
Basic net income per common share:					
Before cumulative effect of accounting change	$ 2.25	$ 2.08	$ 2.58	$ 2.54	$ 2.19
Cumulative effect of accounting change					(.74)
Basic net income per common share	$ 2.25	$ 2.08	$ 2.58	$ 2.54	$ 1.45
Diluted net income per common share:					
Before cumulative effect of accounting change	$ 2.19	$ 2.00	$ 2.45	$ 2.42	$ 2.09
Cumulative effect of accounting change					(.71)
Diluted net income per common share	$ 2.19	$ 2.00	$ 2.45	$ 2.42	$ 1.38
Balance Sheet Data:					
Working capital	$ 188,309	$ 161,482	$ 151,878	$ 187,813	$ 155,112
Total assets	343,070	334,149	333,906	370,397	349,563
Current portion of long-term debt	10,195	10,169	10,442	335	109
Long-term debt	20,392	30,518	40,000	50,251	50,063
Stockholders equity	261,110	232,510	216,489	249,152	220,863
Cash dividends declared per common share	$ .48	$ .48	$ .40	$ .307	$ .067

(1) Represents the cumulative effect of change in accounting principle to reflect the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets.

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

Overview

Approximately 75% of the Company s sales are 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 substantially expanded 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

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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. Additionally, in fiscal 2007 the Company combined the management and back office support for its Memphis, Tennessee based Cleo gift wrap operation into its Berwick Offray ribbon and bow subsidiary. 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, trim-a-package 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.

The seasonal nature of CSS business results in low sales and operating losses in the first and fourth quarters and high sales levels and operating profits in the second and third quarters of the Company s fiscal year, thereby causing significant fluctuations in the quarterly results of operations of the Company.

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

Litigation

As discussed in Item 3. Legal Proceedings in this annual report on Form 10-K, on May 25, 2005, the Company filed an appeal of the ITC s final determination imposing duties on certain tissue paper products imported from China, which appeal was subsequently denied on August 31, 2006 by the United States Court of International Trade. The Company is now contesting the final determination of the ITC in proceedings before the United States Court of Appeals for the Federal Circuit, which proceedings were initiated by the Company on October 27, 2006. In the fiscal year ended March 31, 2005, the Company recognized an expense of approximately $2,300,000 for these duties, reflecting the maximum liability of the Company s Cleo subsidiary for duties relating to subject tissue paper products imported from China during the 2005 fiscal year based on the applicable deposit rates established by the Commerce Department.

The amount of Cleo s actual liability for tissue duties pertaining to the fiscal year ended March 31, 2005, which liability is capped at the deposit rates in effect with respect to the period of time that the subject products were imported by Cleo, will be determined at the time of liquidation of the applicable entries by the United States Customs & Border Protection. Liquidation of the applicable entries has been enjoined pending the outcome of the Company s appeal.

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.

Results of Operations

Fiscal 2007 Compared to Fiscal 2006

Consolidated sales for fiscal 2007 increased 1% to $530,686,000 from $525,494,000 in fiscal 2006. The increase in sales was primarily due to higher sales of Christmas gift wrap and boxed greeting cards, partially offset by lower sales of tissue, gift bags and ribbons and bows.

Cost of sales, as a percentage of sales, decreased to 74% in 2007 from 76% in 2006. The improvement in cost of sales is primarily due to improved manufacturing and distribution efficiencies achieved in the gift wrap, gift bag and tissue product lines and the impact of higher sales of gift wrap and boxed greeting cards, partially offset by incremental costs of $706,000 associated with the restructuring program, which includes $660,000 related to the write-down of inventory.

Selling, general and administrative (SG&A) expenses, as a percentage of sales, increased to 18% in 2007 from 17% in 2006. The increase in SG&A expenses, as a percentage of sales, is primarily due to incremental share-based compensation expense related to the adoption of SFAS No. 123R, Share-Based Payment, increased incentive compensation expense and incremental costs of $909,000 associated with the restructuring program established in the current year.

Restructuring expenses were $2,327,000 in fiscal 2007 and $37,000 in fiscal 2006. The increase in restructuring expenses was due to the establishment of a restructuring program in the current 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 3 to the consolidated financial statements for further discussion.

Interest expense, net decreased to $2,285,000 in 2007 from $3,279,000 in 2006. The decrease in interest expense, net was primarily due to lower borrowing levels during fiscal 2007 compared to the prior year and increased cash balances.

Income before income taxes was $36,804,000, or 7% of sales, in fiscal 2007 and $32,716,000, or 6% of sales, in fiscal 2006. Excluding costs relating to the restructuring program in fiscal 2007 and including the pro forma effect of stock option expense in the prior fiscal year for the Company s adoption of SFAS No. 123R, income before income taxes increased 36% to $40,745,000 in fiscal 2007 from $30,031,000 in fiscal 2006.

Income taxes, as a percentage of income before taxes, were 35% in 2007 and 33% in 2006. The increase in the effective tax rate is primarily due to a non-recurring, one-time favorable impact of the American Jobs Creation Act of 2004 of approximately $430,000 relating to the repatriation of earnings from the Company s foreign affiliates that was recorded in the prior year. Also contributing to the increase is a portion of the share-based compensation expense recorded in the current year as a result of the adoption of SFAS No. 123R not being deductible for tax purposes.

Net income for the year ended March 31, 2007 increased 9% to $23,889,000 from $21,841,000 in 2006. Excluding costs relating to the restructuring program in fiscal 2007 and including the pro forma effect of stock option expense in the prior fiscal year for the Company s adoption of SFAS No. 123R, net income increased 35% to $26,412,000 in fiscal 2007 from $19,548,000 in fiscal 2006 and diluted earnings per share increased 33% to $2.42 in fiscal 2007 compared to prior year diluted earnings per share of $1.82.

Fiscal 2006 Compared to Fiscal 2005

Consolidated sales for fiscal 2006 decreased 2% to $525,494,000 from $536,362,000 in fiscal 2005. The decline in sales was due primarily to lower sales of Christmas gift wrap, everyday ribbons and bows and boxed greeting cards. This sales decline was partially offset by increased sales of seasonal tissue and gift bags and reduced customer program expenses.

Cost of sales, as a percentage of sales, increased to 76% in 2006 from 74% in 2005. The increase in cost of sales, as a percentage of sales, was due to a decline in the operating performance of our gift wrap and tissue product lines. This decline was primarily due to increased product and energy costs, including increased fuel costs during our peak seasonal shipping season.

SG&A expenses, as a percentage of sales, increased to 17% in 2006 from 16% in 2005. The increase in SG&A expenses, as a percentage of sales, was primarily due to incremental costs related to severance associated with a workforce reduction and recruiting and relocation costs resulting from the hiring of key managers, partially offset by decreased incentive compensation expense.

Restructuring expenses were $37,000 in fiscal 2006 and $2,537,000 in fiscal 2005. The decrease in restructuring expenses was due to limited restructuring activities occurring in fiscal 2006 compared to fiscal 2005. During fiscal

2005, the Company recorded restructuring expenses related to its administrative office located in Minneapolis, Minnesota in the amount of $1,207,000 and recorded restructuring expenses related to the closure of its plant located in Anniston, Alabama in the amount of $1,330,000.

Interest expense, net increased to $3,279,000 in 2006 from $2,374,000 in 2005 primarily due to higher average borrowing levels during the year as a result of cash expended with the March 2005 repurchase of 1,739,760 shares of common stock as a result of the Company s tender offer which expired on March 4, 2005, as well as the impact of higher interest rates.

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Income before income taxes was $32,716,000, or 6% of sales, in fiscal 2006 and $47,118,000, or 9% of sales, in fiscal 2005.

Income taxes, as a percentage of income before taxes, were 33% in 2006 and 35% in 2005. The decrease in the effective tax rate was primarily due to a one-time favorable impact of the American Jobs Creation Act of 2004 of approximately $430,000 relating to the repatriation of earnings from the Company s foreign affiliates.

Net income for the year ended March 31, 2006 decreased 29% to $21,841,000 from $30,692,000 in 2005.

Reconciliation of Certain Non-GAAP Measures

Management believes that presentation of results of operations adjusted for the affects of non-recurring costs related to a restructuring program in fiscal 2007 and the pro forma impact of recognizing stock option expense as if the Company had adopted SFAS No. 123R, Share-Based Payment, in fiscal 2006, provides useful information to investors because it enhances comparability between the current year and prior year reporting periods.

	Year Ended March 31, 2007		
	Income Before Income Taxes	Net Income	Diluted Earnings per Share
	(In thousands, except per share amounts)		
As Reported	$ 36,804	$ 23,889	$ 2.19
Restructuring expenses	2,327	1,489	.14
Inventory write-down due to facility closure	660	423	.04
Other incremental costs related to restructuring plan	954	611	.06
Non-GAAP Measurement	$ 40,745	$ 26,412	$ 2.42

	Year Ended March 31, 2006		
	Income Before Income Taxes	Net Income	Diluted Earnings per Share
	(In thousands, except per share amounts)		
As Reported	$ 32,716	$ 21,841	$ 2.00
Restructuring expenses	37	25	
Expensing stock options SFAS No. 123R adopted 4/1/06	(2,722)	(2,318)	(.18)
Non-GAAP Measurement	$ 30,031	$ 19,548	$ 1.82

Diluted earnings per share for the year ended March 31, 2007 does not add due to rounding.

Liquidity and Capital Resources

At March 31, 2007, the Company had working capital of $188,309,000 and stockholders equity of $261,110,000. The increase in accounts receivable, net of reserves, to $37,169,000 at March 31, 2007 from $35,582,000 at March 31, 2006 was primarily the result of higher sales in the current year. Inventories decreased from $103,770,000 to $82,138,000 primarily due to improved inventory management. The decrease in other current assets from $18,906,000 to $13,665,000 is primarily due to the current year collection of an insurance claim receivable of $4,012,000 related to water damage in a manufacturing facility. Capital expenditures decreased to $5,289,000 in fiscal 2007 from $9,515,000 in fiscal 2006. The increase in stockholders equity was primarily attributed to the current year net income and capital contributed upon exercise of employee stock options, partially offset by payments of cash dividends.

The Company s Board of Directors previously authorized a buyback of the Company s common stock pursuant to prices and other terms and conditions that the Company s officers may deem appropriate. Any such buy back is subject to compliance with regulatory requirements and relevant covenants of the Company s credit facilities. As of March 31, 2007, the Company has 247,424 shares remaining available for repurchase under the

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Board s authorization. The Company repurchased 9,800 shares for $323,000 and 218,100 shares for $7,167,000 in fiscal 2007 and fiscal 2006, respectively.

The Company relies primarily on cash generated from its operations and seasonal borrowings to meet its liquidity requirements. Historically, a significant portion of CSS revenues are 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 were 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 $30,000,000 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 March 31, 2007, there were no borrowings outstanding under the revolving credit facility and there were long-term borrowings of $30,000,000 related to the senior notes. For information concerning these credit facilities, see Note 8 of the Notes to Consolidated Financial Statements.

Based on its current operating plan, the Company believes its sources of available capital are adequate to meet its ongoing cash needs for at least the next 12 months.

As of March 31, 2007, the Company s contractual obligations and commitments are as follows (in thousands):

Contractual Obligations	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Short-term debt	$	$	$	$	$
Capital lease obligations	219	410			629
Operating leases	7,244	10,920	3,667	1,311	23,142
Long-term debt(1)	11,210	21,075			32,285
Other long-term obligations(2)		357	254	2,610	3,221
	$ 18,673	$ 32,762	$ 3,921	$ 3,921	$ 59,277

(1) Interest on long-term debt is based on amounts outstanding and on the fixed interest rate of 4.48%.

(2) Other long-term obligations consist primarily of postretirement medical liabilities and deferred compensation arrangements. Future timing of payments for other long-term obligations is estimated by management.

As of March 31, 2007, the Company s other 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

The Company has a letter of credit that guarantees the 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 canceled.

Critical Accounting Policies

In preparing our consolidated financial statements, management is required to make estimates and assumptions that, among other things, affect the reported amounts of assets, revenue and expenses. These estimates and assumptions are most significant where they involve levels of subjectivity and judgment necessary to account for highly uncertain matters or matters susceptible to change, and where they can have a material impact on our financial condition and operating performance. Below are the most significant estimates and related assumptions used in the preparation of our consolidated financial statements. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

Revenue

Revenue is recognized from product sales when goods are shipped, title and risk of loss have been transferred to the customer and collection is reasonably assured. The Company records estimated reductions to revenue for customer programs, which may include special pricing agreements for specific customers, volume incentives and other promotions. The Company also records estimated reductions to revenue, based primarily on historical experience, for customer returns and chargebacks that may arise as a result of shipping errors, product damaged in transit or for other reasons that become known subsequent to recognizing the revenue. These provisions are recorded in the period that the related sale is recognized and are reflected as a reduction from gross sales and the related reserves are shown as a reduction of accounts receivable, except reserves for customer programs which are shown as a current liability. If the amount of actual customer returns and chargebacks were to increase or decrease significantly from the estimated amount, revisions to the estimated allowance would be required.

Accounts Receivable

The Company offers seasonal dating programs related to certain seasonal product offerings pursuant to which customers that qualify for such programs are offered extended payment terms. Customers generally do not have the right to return product except for reasons the Company believes are typical of our industry, including damaged goods, shipping errors or similar occurrences. With few exceptions, the Company is not required to repurchase products from its customers, nor does the Company have any regular practice of doing so. In addition, the Company mitigates its exposure to bad debts by evaluating the creditworthiness of its major customers utilizing established credit limits and purchasing credit insurance when appropriate and available. Bad debt and returns and allowances reserves are recorded as an offset to accounts receivable while reserves for customer programs are recorded as accrued liabilities. The Company evaluates accounts receivable related reserves and accruals monthly by specifically reviewing customer s creditworthiness, historical recovery percentages and outstanding customer program arrangements.

Inventory Valuation

Inventories are valued at the lower of cost or market. Cost is primarily determined by the first-in, first-out method although certain inventories are valued based on the last-in, first-out method. The Company writes down its inventory for estimated obsolescence in an amount equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand, market conditions, customer planograms and sales forecasts. Additional inventory write downs could result from unanticipated additional carryover of finished goods and raw materials, or from lower proceeds offered by parties in our traditional closeout channels.

Goodwill

Goodwill is subject to an assessment for impairment using a two-step fair value-based test, the first step of which must be performed at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. For each of the reporting units, the estimated fair value is determined utilizing a multiple of earnings before interest, income taxes, depreciation and amortization. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the implied fair value of the goodwill. If the implied fair value of goodwill is less than the carrying amount of the goodwill, an impairment loss would be reported.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our actual current tax expense (state, federal and foreign), including the impact of permanent and temporary differences resulting from differing bases and treatment of items for tax and accounting purposes, such as the carrying value of intangibles, deductibility of expenses, depreciation of property, plant and equipment, and valuation of inventories. Temporary differences and operating loss and credit carryforwards result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if sufficient taxable income is not generated in future periods. To the extent we determine the need to establish a valuation allowance or increase such allowance in a period, we would record additional tax expense in the accompanying consolidated statements of operations. The management of the Company periodically estimates the probable tax obligations of the Company using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to or further interpretations of regulations. If such changes take place, there is a risk that the tax rate may increase or decrease in any period.

Share-Based Compensation

Effective April 1, 2006, the Company adopted SFAS No. 123R, using the modified prospective transition method and began accounting for its share-based compensation using a fair-value based recognition method. Under the provisions of SFAS No. 123R, share-based compensation cost is estimated at the grant date based on the fair value of the award and is expensed ratably over the requisite service period of the award. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the grant date requires considerable judgment, including estimating stock price volatility, and the expected option life.

The Company uses the Black-Scholes option valuation model to value employee stock awards. The Company estimates stock price volatility based on historical volatility of its common stock. Estimated option life assumptions are also derived from historical data. The Company recognizes compensation expense using the straight-line amortization method for share-based compensation awards with graded vesting. Had the Company used alternative valuation methodologies and assumptions, compensation cost for share-based payments could be significantly different.

Accounting Pronouncements

See Note 13 to the Consolidated Financial Statements for information concerning recent accounting pronouncements and the impact of those standards.

Forward-Looking and Cautionary Statements

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the Company s expectation that it will sell facilities held for sale within the next 12 months for an amount greater than the current carrying value; improved profitability and efficiency from the Company s restructuring program to combine the operations of its Cleo and Berwick Offray subsidiaries; estimated future expenses in connection with such restructuring program; 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; and the anticipated effects of measures taken by the Company to respond to cost and price pressures. 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 the combination of the operations of the Company s Cleo and Berwick Offray subsidiaries, including restructuring costs and the risk that such costs may exceed the expected amounts described herein, the risk that customers may become insolvent, costs of compliance with governmental regulations and government investigations, liability

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associated with non-compliance with governmental regulations, including regulations pertaining to the environment, Federal and state employment laws, and import and export controls and customs laws, and other factors described more fully elsewhere in this annual report on Form 10-K and in the Company s previous filings with the Securities and Exchange Commission. As a result of these factors, readers are cautioned not to place undue reliance on any forward-looking statements included herein or that may be made elsewhere from time to time by, or on behalf of, the Company.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

The Company s activities expose it to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. These financial exposures are actively monitored and, where considered appropriate, managed by the Company as described below.

Interest Rate Risk

The Company s primary market risk exposure with regard to financial instruments is to changes in interest rates. Pursuant to the Company s variable rate lines of credit, a change in either the lender s base rate or LIBOR would affect the rate at which the Company could borrow funds thereunder. Based on average borrowings under these credit facilities of $28,547,000 for the year ended March 31, 2007, a 1% increase or decrease in floating interest rates would have increased or decreased annual interest expense by approximately $285,000. Based on an average cash balance of $32,872,000 for the year ended March 31, 2007, a 1% increase or decrease in interest rates would have increased or decreased annual interest income by approximately $329,000.

Foreign Currency Risk

Approximately 4% of the Company s sales in fiscal 2007 were denominated in a foreign currency. The Company considers its risk exposure with regard to foreign currency fluctuations insignificant as it enters into foreign currency forward contracts to hedge the majority of firmly committed transactions and related receivables that are denominated in a foreign currency. The Company has designated its foreign currency forward contracts as fair value hedges. The gains or losses on the fair value hedges are recognized in earnings and generally offset the transaction gains or losses on the foreign denominated assets that they are intended to hedge.

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

CSS INDUSTRIES, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
CSS Industries, Inc.:

We have audited the accompanying consolidated balance sheets of CSS Industries, Inc. and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive income, cash flows and stockholders equity for each of the years in the three-year period ended March 31, 2007. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule, Schedule II Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSS Industries, Inc. and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material