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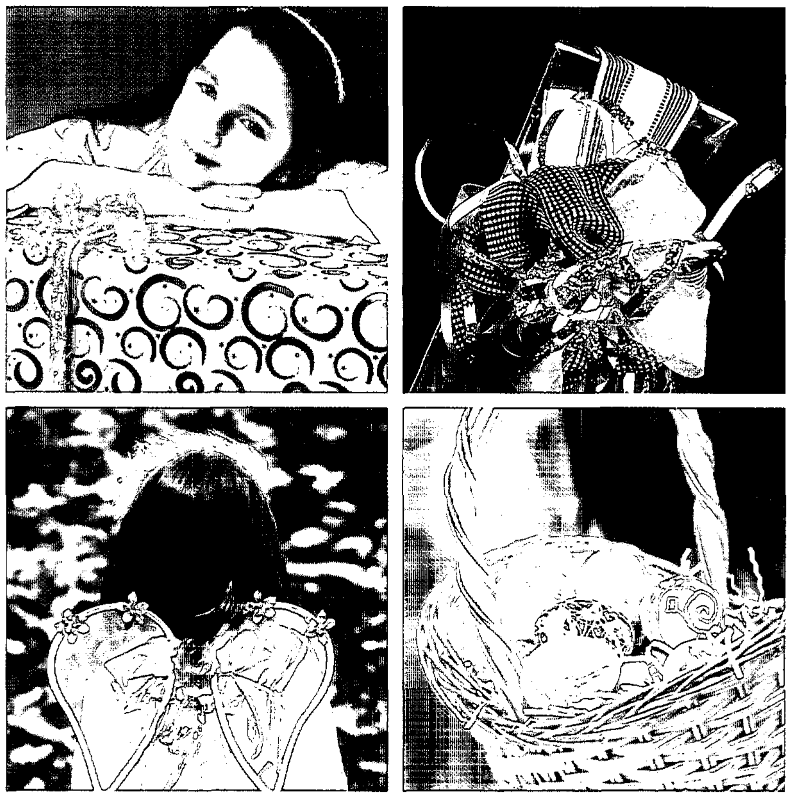
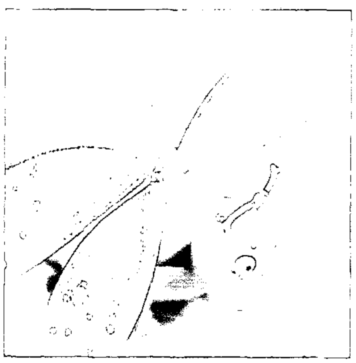
# CSS Industries, Inc. Annual Report 2004



always in season






Fashions and fads may come and go, but excellence is always in season at CSS Industries, Inc.

Whether researching the most contemporary international trends for leading retailers or finding the perfect expression of a classic theme, we never lose sight of the values and traditions that are at the heart of our business.

**Exceeding expectations**
Our customers include mass merchandisers, warehouse shopping clubs, chain drug stores, supermarket chains, specialty stores, party shops, distributors, craft retail stores and office superstores.

Regardless of the size or focus of each customer's business, it is of paramount importance that we exceed expectations in every way. We consistently bring superior market awareness and product development expertise to the timely design, development and delivery of high-quality, attractive products.

**Quality people, products and programs**
Reaching higher is part of the culture at CSS. It is our aim to identify and retain the most gifted employees for our business, while perfecting the information systems and communication networks that keep them productive and responsive to customer needs.

Sourcing opportunities and manufacturing methods are always under review. We are constantly crafting innovative, cost-effective strategies that help keep our customers successful in a competitive environment.

**Taking personal responsibility**
Each year, CSS products touch millions of lives. At Christmas, spirits are brightened by our boxed greeting cards, gift tags, gift wrap, tissue paper, gift bags, ribbons and bows. In February, hundreds of millions of our children's Valentine cards change hands under the guidance of teachers. Spring brings the blooming colors of our Easter baskets, egg coloring kits, grass, fillable artificial eggs, novelties and cheerful decorations. Autumn leaves fall as children enjoy our Halloween costumes, masks and makeup. All through the year, our popular Learning Playground® and Eureka® products help teachers, parents and students pursue their educational goals.

Everything we do at CSS is consistent with our mission to "Earn the Right to Own the Seasons." We are confident that the pursuit of excellence in every area of our business is a commitment that will never go out of season.

| (In thousands, except per share amounts) | Years Ended March 31, | | | Three Month Periods Ended March 31, | | Years Ended December 31, | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 | 2000 | 1999 |
| **Statement of Operations Data:** | | | | | (Unaudited) | | |
| Net sales | $539,349 | $532,815 | $424,309 | $ 26,987 | $ 24,589 | $421,084 | $408,867 |
| Income (loss) before income taxes | 46,297 | 40,010 | 33,455 | (9,194) | (9,604) | 28,406 | 28,442 |
| Income (loss) before cumulative effect of change in accounting principle | 29,850 | 25,846 | 21,501 | (6,080) | (6,147) | 18,231 | 18,061 |
| Cumulative effect of change in accounting principle | — | (8,813) | — | — | — | — | — |
| Net income (loss) | 29,850 | 17,033 | 21,501 | (6,080) | (6,147) | 18,231 | 18,061 |
| Basic net income (loss) per common share: | | | | | | | |
| Before cumulative effect of accounting change | $ 2.54 | $ 2.19 | $ 1.63 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| Cumulative effect of accounting change | — | (.74) | — | — | — | — | — |
| Basic net income (loss) per common share | $ 2.54 | $ 1.45 | $ 1.63 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| Diluted net income (loss) per common share: | | | | | | | |
| Before cumulative effect of accounting change | $ 2.42 | $ 2.09 | $ 1.60 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| Cumulative effect of accounting change | — | (.71) | — | — | — | — | — |
| Diluted net income (loss) per common share | $ 2.42 | $ 1.38 | $ 1.60 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| **Balance Sheet Data:** | | | | | | | |
| Working capital | $187,813 | $155,112 | $125,398 | $124,171 | $120,402 | $133,397 | $130,889 |
| Total assets | 370,397 | 349,563 | 309,503 | 275,316 | 257,763 | 366,597 | 360,689 |
| Short-term debt | 335 | 109 | 200 | 312 | 424 | 62,961 | 63,488 |
| Long-term debt | 50,251 | 50,063 | 165 | 193 | 434 | 252 | 537 |
| Stockholders' equity | 249,152 | 220,863 | 234,845 | 220,945 | 209,575 | 227,091 | 219,477 |
| **Cash dividends declared per common share** | $ .307 | $ .067 | — | — | — | — | — |

We are pleased to report that your company has completed another successful year with significant gains in our key measures of earnings per share (EPS), return on investment (ROI) and market price per share.

The graphs on the facing page portray these accomplishments. These strong results served as the basis for the Board of Directors to increase the quarterly dividend twice, a total of 50%, since it was reinstated in May of 2003.

Earnings per share increased almost 16% to $2.42 from $2.09 last year. The increase is principally due to planned increased profitability of businesses acquired within the last several years, improvement in the Halloween product lines as well as the reduction in bad debt expense. ROI, another key measure, increased from 14.8% to 16.8% due to increased earnings and our continuing focus on effective management of capital employed. It is gratifying to note that the increase of our stock's value has again significantly outpaced that of the S&P 500.

David J.M. Erskine, President and Chief Executive Officer

Jack Farber Chairman of the Board

**New financing**

During the first quarter of fiscal year 2005, the Company renewed its revolving credit and accounts receivable securitization facilities for five years. These debt facilities, along with the existing long-term senior notes, provide a diversified, cost-effective source of funds with which to finance future growth.

**The world is changing**

Our customers are primarily discount department stores, drug stores, warehouse clubs, dollar stores, supermarkets and specialty retail stores. The intense competition among them puts increasing pressure on suppliers such as CSS to provide better products and service at lower prices. We are meeting this challenge with a combination of continuous cost reduction from process improvements and facilities consolidation and through increasing our investment in capabilities to more effectively provide higher value-added products and services. Following are some examples.

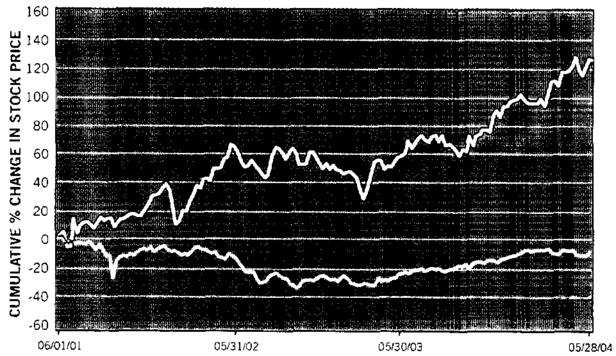
We have combined the several product line divisions of the Paper Magic Group into a single operating unit under the proven leadership of Frank Macero, President of the Paper Magic Group. This move provides strong leadership and significant efficiencies for all of Paper Magic and, in addition, will provide economies of scale in many areas.

We have consolidated domestic manufacturing of Paper Magic into one facility which will increase productivity and which reflects the transfer of some product to outside sourcing. We closed a distribution facility as part of this consolidation. Significant realignments also continue in personnel, facilities and operations relating to acquisitions made throughout the last several years.

During the past year we hired three senior executives at subsidiaries to improve our bench strength and succession planning options. We have a strong management team and will continue to improve it through selective new hires as well as training and development.

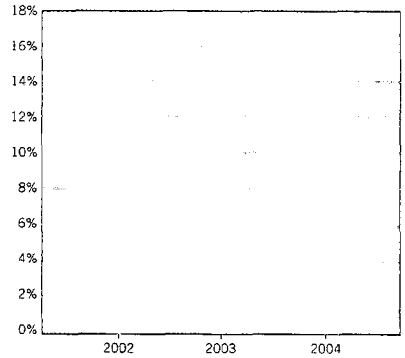
A major undertaking in 2004 was the opening of

CUMULATIVE PERCENTAGE CHANGE IN STOCK PRICE
CSS INDUSTRIES VERSUS S&P 500
JUNE 1, 2001 THROUGH MAY 28, 2004

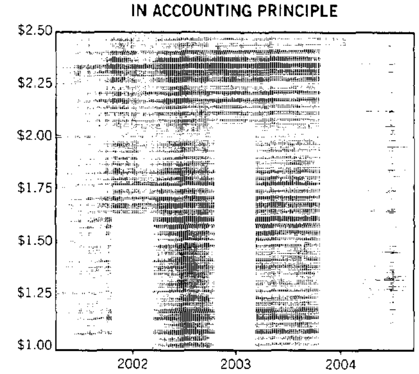



☐ CSS Industries ☐ S&P 500

RETURN ON INVESTMENT




DILUTED EARNINGS PER SHARE
BEFORE CUMULATIVE EFFECT OF CHANGE
IN ACCOUNTING PRINCIPLE




a new CSS office and showrooms in Hong Kong. Our customers are increasingly making their purchase decisions in Hong Kong and we must have a significant presence there to participate. In addition, this office will allow us to source and ship more effectively from the Pacific Rim. We will cover some of the costs of this new facility this year and expect it to be a profit contributor next fiscal year. We are very pleased to welcome Bart Seliger to CSS as Managing Director of our Hong Kong operation. Bart's terrific experience from around the Pacific Rim has already proven valuable in many ways.

Many companies, including CSS, are facing challenges associated with the rise in raw material costs. We have cost price pressures because we must quote our selling prices before we can lock in all of our own costs. Plastic resins, paper and transportation are important cost factors for CSS and we anticipate significant market price increases during this year. We do, however, manage our contracts in a way to minimize our exposure and have incorporated our best estimate in our outlook for 2005.

**Outlook for fiscal year 2005**

CSS has invested and continues to invest in the future. The acquisitions and capital projects undertaken in recent years continue to produce good returns. We will maintain our successful, historical approach to growth through carefully chosen acquisitions. We expect only modest growth from our principal products due to low market growth and our relatively high existing market shares. We are also increasing our investment in new products and markets but do not expect a material impact on sales this year.

Our strong balance sheet, cost-effective financing and annual cash flow give us the flexibility to invest in our current businesses, to continue to look for acquisitions that would enhance our position as the leading seasonal supplier to many of our customers, as well as to consider future dividend increases and stock repurchases.

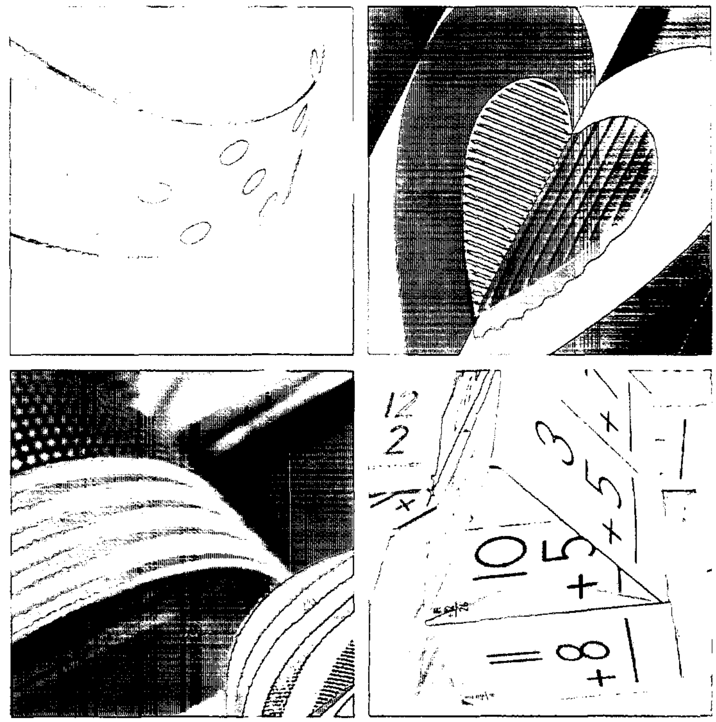
Barring a significant acquisition, we expect sales growth to be modest and earnings per share to increase approximately 10%. Incorporated in this outlook are net costs of the new Hong Kong office, raw material cost increases, new product and market development investment, and costs related to restructuring Paper Magic. We expect that these added costs will be more than offset by improved costs and efficiencies in our base businesses.

**Board of Directors**

CSS has always had a strong Board of Directors with a majority of independent Directors. We are proud of our approach to corporate governance. Our Audit, Human Resources and Nominating and Governance Committee members are all independent and highly qualified. All three members of the Audit Committee qualify as financial experts. The Governance Committee also serves as our Nominating Committee. The Executive Committee of the Board has a majority of independent Directors. As you know, the roles of Chairman of the Board and of Chief Executive Officer are held by different people. The guidance and constructive challenge that management receives from our Board is invaluable.

We appreciate the support of you, our stockholders, and assure you that we will continue to pursue profitable growth in a responsible manner.


creativity



There is nothing so refreshing as the charm of the new. Whether we are creating exciting new designs for our products, inventing a revolutionary approach to a manufacturing process or developing an innovative program for a customer, imagination is an essential ingredient of everything we do.

**The rewards of creativity**

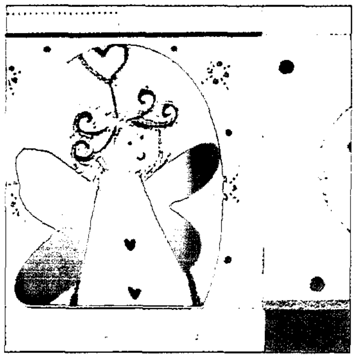
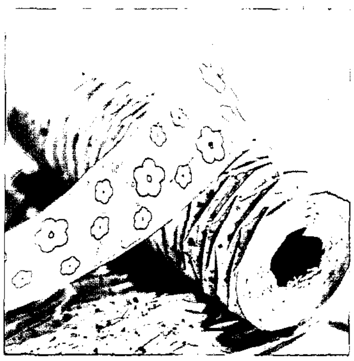
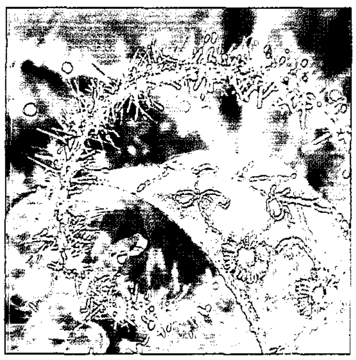
CSS marketing and design professionals source and develop dozens of new formats and thousands of new designs for the company's products each year. Recent introductions cut across all product lines and seasons. They include hand-made cards, all-occasion cards, card kits, tag kits, ribbon craft projects and scrap-booking supplies. We also introduced printed and woven fabric appliqués, exciting new formats for our wrapping paper and gift bags and a line of Spanish-language holiday greeting cards called *Celebremos!*

In recognition of the artistry and originality of our greeting card designs, a record number of our cards were selected as finalists in the 2003 LOUIE awards, the annual competition of the Greeting Card Association. The competition drew more than 1,350 entries from 181 companies worldwide. CSS received eight nominations, and was ultimately awarded a LOUIE for six different cards, in the categories of Christmas boxed, general birthday, children's birthday, wedding, new baby and blank cards.

CSS' superior products, performance and customer service were acknowledged by the company's customers, who once again honored CSS and its product groups with a number of "Vendor of the Year" designations. Furthermore, CSS was also awarded three prestigious SPARC awards (Supplier Performance Awards by Retail Category) by *DSN Retailing Today* in the 2003 seasonal category. SPARC recipients are selected through votes from the mass market retailing industry.

**Creating new opportunities**

In seeking to enhance responsiveness to the needs of our customers, CSS recently opened an attractive new office and showrooms in a prime location in Hong Kong. Convenient for our customers and trading partners, the new facilities will enhance our capacity for marketing and customer service, while providing an expanded base for sourcing and manufacturing oversight.

CSS helps consumers celebrate their most important traditions by embracing the world's most modern technologies and business strategies.

Our constant goal is to provide superior value and modern convenience, while preserving all that we cherish most about traditions of home and holiday.

**A calendar filled with happy traditions**

For many, Christmas Day is one of the year's greatest festivals, and our boxed greeting cards, wrapping paper, ribbons and bows are tangible symbols of that celebration. Our designs honor the season with religious iconography, folk art and gilded images of days gone by. Whether the view outside the window is a snowscape or a skyscraper, today's busy lifestyles are recognized and facilitated with a wide range of convenient consumer products.

At Valentine's Day, childhood's classroom Valentine exchange is celebrated in a new way, as licensed characters like Scooby-Doo, Finding Nemo and Disney's Winnie-the-Pooh help spread good wishes among school friends.

At Easter, the age-old tradition of decorating eggs gets a contemporary twist with our coloring kits, coloring cups and stickers. Traditional baskets are trimmed in fashion's freshest colors and filled with glossy pastel novelties and sparkling artificial grass.

At Halloween, as the year winds down in city and town, the fun is just getting started. Spooky faces decorate classroom windows, while grandparents, moms and dads, teens and little kids alike celebrate with our vibrant costumes, masks, accessories, novelties, make-up kits and party décor.

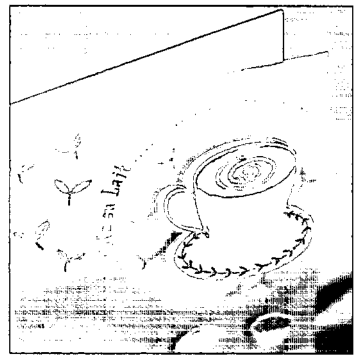
**Creating new traditions**

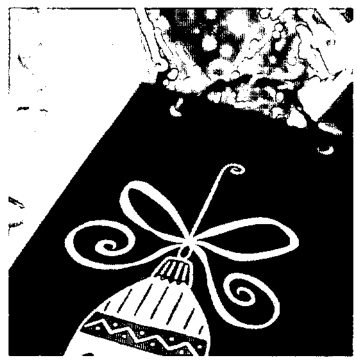
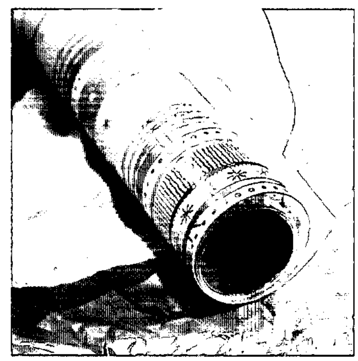
No matter how traditional the holiday, it is celebrated afresh each year. Our customers trust us to help them create holiday programs filled with all the most attractive new embellishments and brightest new designs. Recent introductions in our gift packaging program include new wrapping paper delivered on elongated "fabric bolts" for a richer, more luxurious presentation, as well as high-end coordinated tissue paper and hot-stamped vellum gift bags.

**A tradition of excellence**

At CSS we work to innovate, improve and grow as a company, while never losing sight of our central goal, to sustain and strengthen the cherished traditions at the core of our happiest moments.

# value



Creating value for stockholders, customers and consumers is one of our most important goals, and one that we keep in sight at all times.

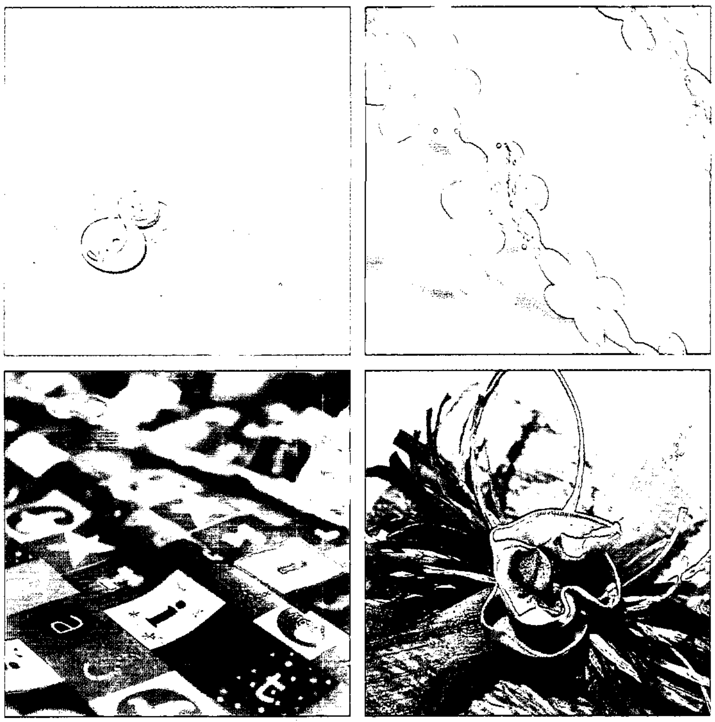
**Essential values**
For our stockholders, we uphold our tradition of strong corporate governance and sound financial health. For our customers, we renew our product lines and stay ahead of changing needs and traditions in the social expressions marketplace.

Ensuring the company's growth by making appropriate acquisitions as opportunities arise is also part of our strategy for increasing corporate value. The successful acquisition and integration of the C.M. Offray business and its well-known brand names resulted in a stronger, more energized line of ribbons and bows, while the acquisition and integration of Crystal Creative Products, Inc., a manufacturer of gift bags and tissues, has resulted in a broader, more diversified product offering.

**Adding value in important relationships**
Because we offer perennial product lines, strongly linked to traditional, recurring holiday celebrations, it is important that we continue to differentiate our business through creative ideas and exciting product offerings. Our customers also seek points of differentiation in a competitive retail environment. They count on us to leverage our expertise as we help them to develop appropriate marketing strategies and product introductions. As a result, our customers continue to enjoy strong sales of CSS products.

**A constant commitment to value**
Typically, consumers define "value" as a quality product delivered at a favorable price. At CSS, we work hard every day to ensure that our products present exceptional value to our customers and, in turn, their customers.

In order to meet this goal, we continually review our product designs, packaging, manufacturing, sourcing and productivity. By finding the most economical solutions, we ensure that our products remain competitive, our customers remain profitable, and our consumers are satisfied by generous value at an affordable price.



CSS continues to take a proactive approach to the value of information in every area of our business.

**Inspiration is 99% preparation**

At CSS we have a long tradition of doing our homework before going to market. To keep our product lines fresh and vital, we research world color trends. We carefully monitor consumer preferences. We stay ahead of the rapid pace of cultural events, noting which themes, images and characters are likely to increase in popularity. Using market research and current demographic data, we regularly re-evaluate the suitability of our products for diverse markets, create customized marketing strategies for our customers and develop individualized merchandising plans.

**Even our products are getting smarter**

From the bar code to more recent developments in microtechnology, information management capability is a core component of our products. It allows us to enhance productivity, monitor inventory of key items, eliminate underperforming products and make detailed recommendations to our retailing partners. Handheld devices enable instant identification and processing of items on the warehouse floor, while our customers find the account-specific information they need on our shipping cartons and product packaging. As new systems are developed, CSS continues to work with key customers to enhance the information technology surrounding each shipment of CSS social expressions.


always in season


vision


Although nothing could be more important than the creativity and value we offer in our products, continuing in our role as a leading vendor to our customers involves a great deal more than offering strong products at a favorable price.

CSS is a trusted partner to buyers and other retail executives throughout the year, sharing trend information, analyzing sales statistics and enhancing logistical support. The long-term health of our retail relationships, on which the strength of our business rests, depends upon our honesty, insight and commitment as we present our recommendations to our customers and respond to their needs.

**A vision of value for all**

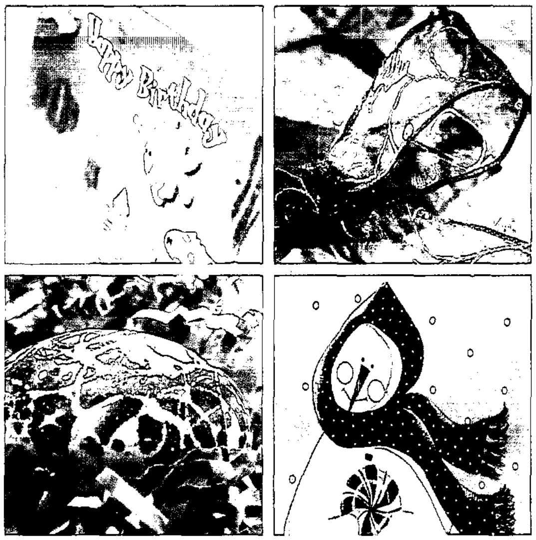
CSS is also a leading vendor of licensed products. Here, too, the continuation of long-term, valued relationships–with studios, artists and agents alike–rests on a foundation of trust and support. Our insights about our business and our customers help us to create licensing programs that are of value to all parties–the licensors, our customers, the consumers and ourselves.

**Seeing the possibilities**

Licensing is one of the most exciting and visible parts of any consumer products program, and the success of licensing initiatives depends to a large degree on foresight and good judgment.

Not every licensed property is a fit for us, no matter how suitable it may be for other types of product. However, the strength and diversity of the licensing program established and maintained by CSS Industries–which includes such successful properties as Harry Potter™, Barbie™, The Lord of the Rings™ and the Disney Princesses–are assets as we continue to seek points of differentiation for our products. At the same time, the properties that find a home in our programs – including exciting new licenses such as Bratz, Mijos and Shrek 2–significantly enhance the potential of their consumer product initiatives as part of our award-winning, respected and diverse product lines.

Whether we are working with box-office-leading films or outstanding graphic artists, CSS strives to build well-rounded licensing programs, suitable to its products and its customers, for every season of the year.



**Board of Directors**

James H. Bromley •+*◆
Independent Consultant

Stephen V. Dubin
Executive Vice President,
Secretary and General Counsel

David J.M. Erskine
President and Chief
Executive Officer

Jack Farber•
Chairman of the Board

Leonard Grossman+
Private Investor

James E. Ksansnak+*
Vice Chairman-Retired
ARAMARK Corporation
(a service management company)
and Chairman of the Board
Tasty Baking Company

Rebecca C. Matthias*◆
President and Chief
Operating Officer
Mothers Work, Inc.

Michael Sanyour•*◆
Principal, CMS Companies
(financial services and insurance)

**Directors Emeriti**

Willard M. Bright

John M. Bunting, Jr.

• Member of Executive Committee
+ Member of Audit Committee
* Member of Human Resources Committee
◆ Member of Nominating and Governance Committee

**Officers**

Jack Farber
Chairman of the Board

David J.M. Erskine
President and Chief
Executive Officer

Stephen V. Dubin
Executive Vice President,
Secretary and General Counsel

Clifford E. Pietrafitta
Vice President-Finance,
Chief Financial Officer
and Assistant Secretary

Steven A. Cohen
Vice President-Licensing

John J. Nucero
Vice President-Internal Audit

Stefanie L. Smoke
Treasurer, Corporate
Controller and Assistant
Secretary

Michael A. Santivasci
Assistant General Counsel
and Assistant Secretary

Candice B. Cohen
Assistant Secretary

**Our Family of Companies**

Corporate Headquarters
CSS Industries, Inc.
1845 Walnut Street
Suite 800
Philadelphia, PA 19103-4755

Berwick Offray LLC
2015 West Front Street
Berwick, PA 18603

Cleo Inc
4025 Viscount
Memphis, TN 38118

Paper Magic Group, Inc.
401 Adams Avenue
Scranton, PA 18510

Hong Kong Office and Showrooms
CSS Pacific Rim Limited
10th Floor, Mirror Tower
61 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended March 31, 2004

OR

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

For the transition period from ____________________ to ____________________

Commission File Number 1-2661

**CSS INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

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

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 definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes X No ___

The aggregate market value of the voting stock held by non-affiliates of the registrant is $261,624,790. 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, 2003, 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 "CSS SECURITY OWNERSHIP" in the Proxy Statement to be filed by the registrant for its 2004 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 25, 2004, there were outstanding 11,894,468 shares of Common Stock.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's Proxy Statement for its 2004 Annual Meeting of Stockholders are incorporated by reference in Part III (under Items 10, 11, 12, 13 and 14).

**CSS INDUSTRIES, INC.**
**FORM 10-K**
**FOR THE FISCAL YEAR ENDED MARCH 31, 2004**
**INDEX**

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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 and sale to mass market retailers of seasonal and social expression products, including gift wrap, gift bags, boxed greeting cards, gift tags, tissue paper, paper and vinyl decorations, classroom exchange Valentines, decorative ribbons and bows, Halloween masks, costumes, make-up and novelties, Easter egg dyes and novelties and educational products. CSS provides its retail customers the opportunity to use a single vendor for much of their seasonal product requirements. CSS' product breadth, product innovation, creative design, manufacturing and packaging flexibility, product sourcing expertise, product quality and customer service are key to sustaining the Company's market leadership position. A substantial portion of CSS' products are manufactured, packaged and warehoused in twenty North American facilities, with the remainder purchased primarily from manufacturers in the Far East. The Company's products are sold to its customers by national and regional account managers and by a network of independent manufacturers' representatives. The Company's operating subsidiaries include Paper Magic Group, Inc. ("Paper Magic"), acquired by the Company in August 1988, Berwick Offray LLC ("Berwick"), acquired in May 1993, and Cleo Inc ("Cleo"), acquired in November 1995.

In recent years, CSS has completed several acquisitions of companies that have been complementary to its existing businesses. During May 2001, the Company acquired certain assets of Tye-Sil Corporation Ltd. of Montreal, Quebec, Canada. Tye-Sil had been the leading Canadian provider of gift wrap and accessories. During March 2002, Berwick completed the acquisition of substantially all of the business and assets of the portion of C. M. Offray & Son, Inc. ("Offray") which manufactures and sells decorative ribbon products, floral accessories and narrow fabrics for apparel, craft and packaging applications. During October 2002, Cleo acquired all of the capital stock of Crystal Creative Products, Inc. ("Crystal") which is a leading designer, manufacturer and distributor of consumer convenience gift wrap products.

The Company has experienced growth through a combination of acquisitions and the improvement of existing operations. The Company's goal is to continue 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.

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. In addition, the Nominating and Governance Committee, the Human Resources Committee and the Audit Committee each have a charter that sets forth the committee's role and responsibilities. All of these charters are available on the Company's website. The Board has also adopted its Corporate Governance Principles, its Employees Code of Ethics and Internal Disclosure Procedures and its Directors Code of Business Conduct and Ethics, copies of which are also available on the Company's website. This information is available in print to any stockholder who requests it.

Principal Products CSS designs, manufactures and distributes a broad range of seasonal consumer products primarily through the mass market distribution channel. Christmas products include gift wrap, gift bags, boxed greeting cards, gift tags, decorative tissue paper, paper and vinyl 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's® 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 decorative ribbons and bows to its mass market, craft 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 direct-to-retail teachers' stores.

CSS manufactures and warehouses its products in twenty facilities located in Pennsylvania, Maryland, South Carolina, Alabama, Tennessee, Texas, Ohio and Kentucky. Boxed greeting cards, gift tags, paper and vinyl decorations and classroom exchange Valentine products are primarily 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 to specific proprietary 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 twelve facilities located in northeastern Pennsylvania, Maryland, South Carolina, Alabama 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, the Far East and Latin America. Domestic woven products are either narrow woven or converted from bulk rolls of wide width textiles. Manufacturing of gift wrap, including web printing, finishing, rewinding and packaging are performed in one facility in Memphis, Tennessee. Finished gift wrap products are warehoused and shipped from both the production facility and a separate facility in Memphis. Tissue products are either sourced from international sources or converted from raw stock into packaged goods at our Maysville, Kentucky facility. Tissue and gift bag products are primarily distributed from a facility in Hamilton, Ohio. Other products, designed to the specifications of CSS, are imported from Pacific Rim manufacturers.

Sales and Marketing Most of CSS' products are sold in the United States and Canada by national and regional account sales managers, inside sales representatives, product specialists and by a network of independent manufacturers' representatives. CSS maintains permanent showrooms in New York City, Memphis, Minneapolis, Dallas, Atlanta and Hong Kong where major retail buyers 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 merchandise retailers, warehouse clubs, drug and food chains, independent card shops and retail teachers' stores. CSS' revenues are primarily seasonal with approximately 60% of sales related to the Christmas season and the remaining sales relating to the Halloween, Easter and Valentine's Day seasons and everyday product sales. Seasonal products are generally designed and marketed beginning approximately eighteen to twenty months before the holiday event and manufactured during an eight to ten month production cycle. With such long lead time requirements, timely communication with outsourcing 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 after the holiday, in accordance with industry practice. In general, CSS products are not sold under guaranteed or return privilege terms. All-occasion ribbon and bow products are also sold through inside 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.

Due to the ever increasing competitive retail environment, CSS plays a crucial role in helping the retailer develop programs to meet revenue objectives while appealing to consumers' tastes. These objectives are met through the development and manufacture of custom configured and designed products. CSS' years of experience in 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 seasonal product offerings.

CSS believes its products are positioned adequately for continued growth 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' product driven focus combined with consistent service levels allows it to compete effectively in its core markets.

### Employees

At May 25, 2004, approximately 2,300 persons were employed by CSS (increasing to approximately 4,300 as seasonal employees are added).

With the exception of the bargaining units at the gift wrap facilities in Memphis, Tennessee and the ribbon manufacturing facilities in Hagerstown, Maryland, which totaled approximately 600 employees as of May 25, 2004, 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 Company believes that relationships with its employees are good.

### Item 2. Properties.

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

| | | Approximate Square Feet | |
|---|---|---|---|
| **Location** | **Use** | **Owned** | **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 | 216,000 | — |
| Berwick, PA | Manufacturing and distribution | 220,000 | — |
| Berwick, PA | Distribution | 226,000 | — |
| Berwick, PA | Distribution | — | 521,000 |
| Berwick, PA | Distribution | — | 36,000 |
| Memphis, TN | Manufacturing and distribution | — | 986,000 |
| Memphis, TN | Distribution | — | 366,000 |
| Hagerstown, MD | Manufacturing and distribution | 284,000 | — |
| Hagerstown, MD | Manufacturing and distribution | 97,000 | — |
| Hagerstown, MD | Distribution | — | 31,000 |
| Hartwell, SC | Manufacturing | 229,000 | — |
| Anniston, AL | Manufacturing and distribution | 120,000 | — |
| Anniston, AL | Distribution | — | 28,000 |
| El Paso, TX | Distribution | — | 100,000 |
| Maysville, KY | Manufacturing | 110,000 | — |
| Hamilton, OH | Distribution | — | 240,000 |
| Total | | 2,179,000 | 2,308,000 |

The Company also utilizes owned and leased space aggregating 166,000 square feet for various marketing and administrative purposes. 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 related to former operations), portions of which have been subleased by the Company, as sublessor, to various sublessees. The

Company also owns two distribution facilities (approximately 162,000 square feet), one of which has been subleased by the Company and the other is being held for sale.

**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"). The petitioners are seeking the imposition of antidumping duties of 163.36% on certain tissue paper products imported from China. If successful, the petition could result in the imposition of antidumping duties on gift tissue products that the Company imports from China for re-sale to the Company's customers in the United States. The Company is contesting the petition in proceedings before the ITC and the Commerce Department.

In April 2004, the ITC made a preliminary determination that there is a "reasonable indication" that a domestic industry is being materially injured or threatened with material injury by reason of the imported tissue paper products. As a result, the Commerce Department will make a determination as to whether the imported goods are being sold into the United States at less than fair value. If the Commerce Department makes preliminary and final determinations in the affirmative, and the ITC makes a final determination of material injury or threat of material injury to a domestic industry resulting from the imported tissue paper products, antidumping duties will be imposed for a period of at least five years from the date of ITC's order.

In 2003, the Company imported from China a substantial portion of the Company's requirements for gift tissue products, and the Company had planned to import from China substantially all of its 2004 requirements for gift tissue products. While it is not possible for the Company to predict the outcome of the ITC and Commerce Department proceedings, the Company is considering actions intended to mitigate the adverse impact that would result from the imposition of antidumping duties on gift tissue products that the Company imports from China. In this regard, the Company has resumed tissue-converting operations at the Company's previously-closed Maysville, Kentucky facility, and the Company is evaluating sourcing arrangements outside of China. At this time, the Company believes that the imposition of antidumping duties would not have a material effect on the Company's financial condition or results of operations.

In November 2002, Bleyer Industries, Inc. ("Bleyer") filed suit against CSS and certain of its subsidiaries in the Supreme Court of the State of New York, County of Nassau. The suit alleged that CSS and certain of its subsidiaries misused certain confidential information disclosed by Bleyer pursuant to certain confidentiality agreements entered into by CSS and Bleyer. The relief sought consisted of compensatory damages of approximately $10,000,000, prejudgment interest and punitive damages. In October 2003, this litigation was dismissed with prejudice.

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.

**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 for each of the quarters during fiscal 2004 and fiscal 2003.

| | High[(1)] | Low[(1)] | Dividends Declared[(1)] |
|---|---|---|---|
| **2004** | | | |
| First Quarter | $26.66 | $22.60 | $.067 |
| Second Quarter | 26.94 | 24.09 | .080 |
| Third Quarter | 31.55 | 26.12 | .080 |
| Fourth Quarter | 33.50 | 29.73 | .080 |

| | High[(1)] | Low[(1)] | Dividends Declared[(1)] |
|---|---|---|---|
| **2003** | | | |
| First Quarter | $25.57 | $21.39 | $ — |
| Second Quarter | 25.80 | 21.12 | — |
| Third Quarter | 25.07 | 22.07 | — |
| Fourth Quarter | 24.13 | 18.67 | .067 |

(1) Amounts have been restated to reflect a three-for-two stock split on July 10, 2003.

At May 25, 2004, there were approximately 2,225 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.

### Purchases of Equity Securities

The following table provides information with respect to purchases the Company made of its common stock during the fourth quarter of fiscal 2004:

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program[(1)] | Maximum Number of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| January 1 through January 31, 2004 | — | — | — | 901,400 |
| February 1 through February 29, 2004 | 120,200 | $30.48 | 120,200 | 781,200 |
| March 1 through March 31, 2004 | 64,100 | 31.53 | 64,100 | 717,100 |
| Total Fourth Quarter | 184,300 | $30.85 | 184,300 | 717,100 |

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

## Item 6. Selected Financial Data.

(In thousands, except per share amounts)

| | Years Ended March 31, | | | Three Month Periods Ended March 31, | | Years Ended December 31, | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 | 2000 | 1999 |
| | | | | | (Unaudited) | | |
| **Statement of Operations Data:** | | | | | | | |
| Net sales | $539,349 | $532,815 | $424,309 | $ 26,987 | $ 24,589 | $421,084 | $408,867 |
| Income (loss) before income taxes | 46,297 | 40,010 | 33,455 | (9,194) | (9,604) | 28,406 | 28,442 |
| Income (loss) before cumulative effect of change in accounting principle | 29,850 | 25,846 | 21,501 | (6,080) | (6,147) | 18,231 | 18,061 |
| Cumulative effect of change in accounting principle | — | (8,813) | — | — | — | — | — |
| Net income (loss) | 29,850 | 17,033 | 21,501 | (6,080) | (6,147) | 18,231 | 18,061 |
| Basic net income (loss) per common share: | | | | | | | |
| Before cumulative effect of accounting change | $ 2.54 | $ 2.19 | $ 1.63 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| Cumulative effect of accounting change | — | (.74) | — | — | — | — | — |
| Basic net income (loss) per common share | $ 2.54 | $ 1.45 | $ 1.63 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| Diluted net income (loss) per common share: | | | | | | | |
| Before cumulative effect of accounting change | $ 2.42 | $ 2.09 | $ 1.60 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| Cumulative effect of accounting change | — | (.71) | — | — | — | — | — |
| Diluted net income (loss) per common share | $ 2.42 | $ $1.38 | $ 1.60 | $ (.46) | $ (.44) | $ 1.35 | $ 1.23 |
| **Balance Sheet Data:** | | | | | | | |
| Working capital | $187,813 | $155,112 | $125,398 | $124,171 | $120,402 | $133,397 | $130,889 |
| Total assets | 370,397 | 349,563 | 309,503 | 275,316 | 257,763 | 366,597 | 360,689 |
| Short-term debt | 335 | 109 | 200 | 312 | 424 | 62,961 | 63,488 |
| Long-term debt | 50,251 | 50,063 | 165 | 193 | 434 | 252 | 537 |
| Stockholders' equity | 249,152 | 220,863 | 234,845 | 220,945 | 209,575 | 227,091 | 219,477 |
| **Cash dividends declared per common share** | $ .307 | $ .067 | — | — | — | — | — |

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

### Strategic Overview

The Company's business is roughly 75% seasonal (Christmas, Valentines, Easter, back to school and Halloween products), with the remainder being everyday product sales. Seasonal products are sold primarily to mass market retailers and the Company typically has relatively high market shares in many of these categories. Most of these markets have shown little or no growth in recent years and there continues to be significant cost pressure in this area as our competitors source certain products overseas and our customers increase direct sourcing from overseas factories. Increasing customer concentration and bargaining power also contribute to price pressure.

The Company is responding to these pressures in a number of ways. First, we are increasing our investment in product and packaging design and product knowledge to assure we can continue to provide unique added value to our customers. Secondly, we have opened a new office and showroom in the Far East to better meet our customers' buying needs and to be able to provide alternatively sourced products at competitive prices. Lastly, we increased our focus on efficiency and productivity in our North American production and distribution facilities to assure our competitiveness domestically.

Our everyday product lines, principally craft, floral and packaging products, have higher inherent growth potential due to higher market growth rates, particularly in craft, and to our relatively low current market shares. We have established project teams to pursue top line sales growth in these and other areas.

Historically, significant growth at CSS has come through carefully chosen and executed acquisitions. Management anticipates that it will continue this pursuit in the future, as well.

### Business Acquisitions and Divestitures

On October 18, 2002, a subsidiary of the Company acquired all of the capital stock of Crystal for approximately $22,891,000, including transaction costs, and assumed and repaid $18,828,000 of outstanding debt (primarily seasonal working capital debt). During fiscal 2004, the Company received cash of approximately $2,155,000 in satisfaction of a post closing adjustment to the purchase price. Crystal, headquartered in Middletown, Ohio, is a leading designer, manufacturer and distributor of consumer convenience gift wrap products. Its product lines include gift tissue, gift bags, and related packaging products for the consumer market, as well as specialty tissues for in-store packaging of retailers and for industrial applications. A portion of the purchase price is being held in escrow for certain indemnification obligations. The acquisition was accounted for as a purchase and the excess of cost over the fair market value of the net tangible assets acquired of $9,877,000 was recorded as intangible assets, including goodwill, in the accompanying consolidated balance sheet.

On March 15, 2002, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of the portion of Offray which manufactures and sells decorative ribbon products, floral accessories and narrow fabrics for apparel, craft and packaging applications. The Company paid approximately $44,865,000 in cash, including transaction costs. A portion of the purchase price is being held in escrow to cover indemnification obligations. The acquisition was accounted for as a purchase and the cost approximated the fair market value of the net assets acquired.

On May 8, 2001, the Company acquired certain assets of Tye-Sil Corporation Ltd. of Montreal, Quebec, Canada. Tye-Sil had been the leading Canadian provider of gift wrap and accessories. The Company paid approximately $7,849,000 in cash, including transaction costs. The acquisition was accounted for as a purchase and the cost approximated the fair market value of the net assets acquired. Subsequent to the acquisition, the operations of Tye-Sil were consolidated into existing operations of the Company.

### Litigation

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 Commerce Department and the ITC. The petitioners are seeking the imposition of antidumping duties of 163.36% on certain tissue paper products imported from China. If successful, the petition could result in the imposition of antidumping duties on gift tissue products that the Company imports from China for re-sale to the Company's customers in the United States. The Company is contesting the petition in proceedings before the ITC and the Commerce Department.

In April 2004, the ITC made a preliminary determination that there is a "reasonable indication" that a domestic industry is being materially injured or threatened with material injury by reason of the imported tissue paper products. As a result, the Commerce Department will make a determination as to whether the imported goods are being sold into the United States at less than fair value. If the Commerce Department makes preliminary and final determinations in the affirmative, and the ITC makes a final determination of material injury or threat of material injury to a domestic industry resulting from the imported tissue paper products, antidumping duties will be imposed for a period of at least five years from the date of ITC's order.

In 2003, the Company imported from China a substantial portion of the Company's requirements for gift tissue products, and the Company had planned to import from China substantially all of its 2004 requirements for gift tissue products. While it is not possible for the Company to predict the outcome of the ITC and Commerce Department proceedings, the Company is considering actions intended to mitigate the adverse impact that would result from the imposition of antidumping duties on gift tissue products that the Company imports from China. In this regard, the Company has resumed tissue-converting operations at the Company's previously-closed Maysville, Kentucky facility, and the Company is evaluating sourcing arrangements outside of China. At this time, the Company believes that the imposition of antidumping duties would not have a material effect on the Company's financial condition or results of operations.

In November 2002, Bleyer filed suit against CSS and certain of its subsidiaries in the Supreme Court of the State of New York, County of Nassau. The suit alleged that CSS and certain of its subsidiaries misused certain confidential information disclosed by Bleyer pursuant to certain confidentiality agreements entered into by CSS and Bleyer. The relief sought consisted of compensatory damages of approximately $10,000,000, prejudgment interest and punitive damages. In October 2003, this litigation was dismissed with prejudice.

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.

**Seasonality**

The seasonal nature of CSS' business results in low sales and in operating losses in the first and fourth quarters and high shipment 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.

Because of the seasonality and the general industry practice of deferred payment terms, a material portion of the Company's trade receivables are collected in December and January, thus enabling the Company to repay the short-term debt borrowed to fund the inventory and accounts receivable build-up during the year.

**Stock Split**

On May 27, 2003 the Board of Directors authorized a three-for-two common stock split, effected by a distribution on July 10, 2003 of one share for each two shares held of record at the close of business on June 30, 2003. The capital stock accounts, share data and earnings per share data are presented as if the stock split occurred prior to the earliest year included in the consolidated financial statements.

**Results of Operations**

Fiscal 2004 Compared to Fiscal 2003

Consolidated sales for fiscal 2004 increased 1% to $539,349,000 from $532,815,000 in fiscal 2003. This increase was primarily a result of the inclusion of a full year of sales of Crystal, acquired on October 18, 2002. Excluding Crystal, sales declined 3% as improved sales of Everyday products were offset by reduced sales of seasonal products caused primarily by the sluggish retail environment.

Cost of sales, as a percentage of sales, decreased to 73% in 2004 from 74% in 2003 primarily as a result of improved efficiencies and shipping performance in our Halloween business.

Selling, general and administrative expenses, as a percentage of sales, were 18% in 2004 and 2003, as reduced bad debt expense and acquisition integration savings were partially offset by increased salary and other operating costs.

Interest expense decreased to $3,402,000 in 2004 from $3,661,000 in 2003 primarily due to lower borrowing levels, partially offset by the impact of increased levels of fixed rate debt as a result of the issuance of $50,000,000 of seven year fixed rate Senior Notes in December 2002.

Income before income taxes was $46,297,000, or 9% of sales, in fiscal 2004 and $40,010,000, or 8% of sales, in fiscal 2003.

Income taxes, as a percentage of income before taxes, were 36% in 2004 and 35% in 2003. The increased rate was primarily due to increased state taxes, partially offset by tax benefits associated with export sales.

Income before cumulative change in accounting principle for the year ended March 31, 2004 increased 15% to $29,850,000 from $25,846,000 in 2003. Income before cumulative change in accounting principle per diluted share increased 16% to $2.42 per share from $2.09 per share in 2003. The Company adopted SFAS No. 142 effective April 1, 2002, which resulted in a non-cash write-off of goodwill and negative goodwill in the amount of $8,813,000, net of taxes, or $.71 per diluted share.

Fiscal 2003 Compared to Fiscal 2002

Consolidated sales for fiscal 2003 increased 26% to $532,815,000 from $424,309,000 in fiscal 2002. This increase was largely a result of the acquisitions of Crystal and Offray. Excluding these acquisitions, sales declined 1% as improved sales of Christmas products were offset by reduced sales of Halloween, Easter and educational products.

Cost of sales, as a percentage of sales, increased to 74% in 2003 from 73% in 2002 as a result of the impact of acquired businesses. On a comparable basis, excluding the impact of the recently acquired companies, cost of sales as a percentage of sales remained consistent with 2002 results.

Selling, general and administrative expenses, as a percentage of sales, decreased to 18% in 2003 from 19% in 2002, primarily as a result of the effects of the Kmart Chapter 11 bankruptcy filing in 2002 and the absence of goodwill amortization due to the adoption in 2003 of SFAS No. 142, "Goodwill and Other Intangible Assets."

Interest expense increased to $3,661,000 in 2003 from $1,898,000 in 2002 primarily as a result of increased borrowings related to acquisitions and the repurchase of 1,100,000 shares of common stock in June 2002.

Rental and other (income) expense improved from expense of $136,000 to income of $685,000, primarily as a result of gains on foreign currency translation in fiscal 2003.

Income before income taxes was $40,010,000, or 8% of sales, in fiscal 2003 and $33,455,000, or 8% of sales, in fiscal 2002.

Income taxes, as a percentage of income before taxes, were 35% in 2003 and 36% in 2002. The decreased rate was primarily due to the absence of non-deductible goodwill amortization in accordance with the adoption of SFAS No. 142 and to the reversal of a portion of the valuation allowance related to certain state income tax benefits from net operating loss carryforwards, offset by the absence of certain items permanently deductible for tax purposes.

Income before cumulative change in accounting principle for the year ended March 31, 2003 increased 20% to $25,846,000 from $21,501,000 in 2002. Income before cumulative change in accounting principle per diluted share increased 31% to $2.09 per share from $1.60 per share in 2002. The disproportionate increase in diluted earnings per share is the result of the repurchase of 1,100,000 shares of common stock in June 2002. The Company adopted SFAS No. 142 effective April 1, 2002, which resulted in a non-cash write-off of goodwill and negative goodwill in the amount of $8,813,000, net of taxes, or $.71 per diluted share.

## Inflation

The financial statements are presented on a historical cost basis and do not fully reflect the impact of prior years' inflation. The U.S. inflation rate has been modest the past several years and the Company conducts the majority of its business using the U.S. dollar. The ability to pass on inflationary costs is uncertain due to general economic conditions and competitive situations. The Company attempts to alleviate inflationary material and labor pressures by increasing selling prices to help offset rising costs (subject to competitive conditions), increasing productivity, improving design and manufacturing techniques and improving product sourcing.

## Liquidity and Capital Resources

At March 31, 2004, the Company had working capital of $187,813,000 and stockholders' equity of $249,152,000. The decrease in accounts receivable, net of reserves, from $47,583,000 in 2003 to $40,460,000 in 2004 was primarily a result of improved collections in the current year. Inventories decreased from $106,648,000 to $94,459,000 due to improved inventory management. Capital expenditures were $13,253,000 in fiscal 2004 compared to $12,414,000 in fiscal 2003 and consisted primarily of costs related to the purchase of a new administrative building in Berwick, PA and investment in the system integration of Offray into Berwick.

The Company relies primarily on cash generated from its operations and seasonal borrowings to meet its liquidity requirements. Most CSS revenues are seasonal with approximately 60% of sales being Christmas related. As payment for sales of Christmas related products is usually not received until after the holiday 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 borrowings were made under a $100,000,000 unsecured revolving credit facility with five banks and a $100,000,000 accounts receivable securitization facility with an issuer of receivables-backed commercial paper. On April 23, 2004, the Company announced the replacement of its expiring revolving credit facility and the extension of its expiring accounts receivable securitization facility. The Company's expiring $100,000,000 revolving credit facility has been replaced with a $50,000,000 unsecured revolving credit facility with five banks. This facility expires on April 23, 2009. On June 1, 2004, the Company renewed its $100,000,000 accounts receivable securitization facility for a five-year period, expiring on July 25, 2009, although it may terminate prior to such date in the event of termination of the commitments of the facility's back-up purchasers. The facility limit now has a seasonally-adjusted funding limit of $100,000,000 during peak seasonal periods and $25,000,000 during off-peak seasonal periods. Interest on amounts financed under this facility are based on a variable commercial paper rate plus 0.375% and provides for commitment fees of 0.225% per annum or the daily average of the unused commitment. In addition, the Company has outstanding $50,000,000 of 4.48% Senior Notes due ratably in annual installments over five years beginning in December 2005. These financial 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 unsecured revolving credit facility. At March 31, 2004, there were no short-term amounts outstanding and there were long-term borrowings of $50,000,000 related to the Senior Notes. For information concerning these credit facilities, see Note 8 of the Notes to Consolidated Financial Statements.

The Company's Board of Directors previously authorized a buyback of the Company's common stock at prices and pursuant to 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, 2004, the Company has approximately 717,100 shares remaining available for repurchase under the Board's authorization. The Company repurchased 184,300 shares for $5,687,000 and 1,100,000 shares for $36,510,000 in fiscal 2004 and fiscal 2003, respectively.

On June 24, 2002, the Company purchased an aggregate of 1,100,000 shares of its common stock from its Chairman, members of his family and a trust for members of his family. The terms of the purchase were negotiated on behalf of the Company by a Special Committee of the Board of Directors consisting of three independent directors. The Special Committee retained an independent investment bank which rendered a fairness opinion. The Special Committee unanimously recommended that the Company's Board of Directors authorize the purchase, and the Board of Directors, other than its Chairman who was not present at the meeting, unanimously authorized the purchase. The total amount of this transaction was $36,510,000.

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, 2004, 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 | 335 | 251 | — | — | 586 |
| Operating leases | 7,583 | 7,880 | 2,919 | 1,564 | 19,946 |
| Long-term debt | — | 20,000 | 20,000 | 10,000 | 50,000 |
| Other long-term obligations | — | 697 | 186 | 2,748 | 3,631 |
| | $7,918 | $28,828 | $23,105 | $14,312 | $74,163 |

Other long-term obligations consist primarily of medical postretirement liabilities and deferred compensation arrangements. Future timing of payments represent management's best estimate.

As of March 31, 2004, 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 | $4,368 | $ — | $ — | $ — | $ 4,368 |

The Company has letters of credit that guarantee funding of workers compensation claims as well as obligations to certain vendors. 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.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to accounts receivable reserves, inventory reserves, intangible assets, income taxes, restructuring and contingency accruals and litigation accruals. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 1 to the Consolidated Financial Statements, included elsewhere in this Form 10-K, includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The following is a brief discussion of the critical accounting policies and methods used by us.

Revenue

Revenue is recognized from product sales when goods are shipped and title and risk of loss transfer to the customer. 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 can only become known subsequent to recognizing the revenue. 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 rights to return that the Company believes are typical of our industry for reasons such as 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 minimizes its exposure to bad debts by evaluating the creditworthiness of its major customers and purchasing credit insurance when appropriate. 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 accounts and by reference to historical experience.

### 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.

### Product Development Costs

Product development costs consist of purchases of outside artwork, printing plates, cylinders, catalogs and samples. The Company classifies these costs as a prepaid expense. Product development costs begin to be incurred approximately 18 to 20 months before the holiday event and are amortized monthly over the selling season, generally within two to four months of the respective holiday event. Product development expense is recorded in selling, general and administrative expense.

### Goodwill

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill is no longer subject to amortization; however, 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. 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, an impairment loss is reported as a reduction to goodwill and a charge to operating expense, except at the transition date, when the loss was reflected as a cumulative effect of a change in accounting principle. In determining the fair value of the reporting units, the Company utilizes cash flow models reflecting the expected range of future cash flow outcomes to a prospective buyer over the life of the model. These cash flows are then discounted to the measurement date using a risk-adjusted discount rate. The development of these cash flow models is based on management estimates and assumptions about future operating results, including revenues and earnings.

### 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 and equipment, and valuation of inventories. Temporary differences 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 must include an expense within the tax provision in the accompanying consolidated statements of operations.

**Accounting Pronouncements**

SFAS No. 143, "Accounting for Asset Retirement Obligations," was issued in June 2001. SFAS No. 143 addresses accounting and reporting for legal obligations and related costs associated with the retirement of long-lived assets. This statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period incurred if a reasonable estimate of fair value can be made. The estimated retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 was adopted by the Company at the beginning of fiscal year 2004 with no impact on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement, among other things, rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." The statement requires gains and losses from debt extinguishments that are used as part of the Company's risk management strategy to be classified as part of income from operations rather than as extraordinary items, net of tax. SFAS No. 145 was adopted by the Company at the beginning of fiscal year 2004 with no impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities (VIE), an Interpretation of ARB No. 51," which requires all VIEs to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In December 2003, the FASB revised FIN 46 ("FIN 46R"), delaying the effective dates for certain entities created before February 1, 2003, and making other amendments to clarify application of the guidance. FIN 46R requires certain disclosures of an entity's relationship with variable interest entities. FIN 46R was effective for companies with interests in variable interest entities or potential variable interest entities (commonly referred to as special-purpose entities, or SPEs) for periods ending after December 15, 2003. FIN 46R was effective for companies with all other types of entities (i.e. non-SPEs) for periods ending after March 15, 2004. The adoption of FIN 46R had no impact on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative and when a derivative contains a financing component. This statement was effective for contracts entered into or modified after June 30, 2003. The adoption of this statement had no impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which requires that certain financial instruments that were previously presented as equity or as temporary equity to be presented as liabilities. Such instruments include mandatory redeemable preferred and common stock, and certain options and warrants. SFAS No. 150 was effective for financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company adopted SFAS No. 150 for new or modified financial instruments on June 1, 2003. The adoption of this statement had no impact on the Company's financial position or results of operations.

In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and other Postretirement Benefits," establishing additional annual disclosures about plan assets, investment strategy, measurement date, plan obligations and cash flows. In addition, the revised standard established interim disclosure requirements related to the net periodic benefit cost recognized and contributions paid or expected to be paid during the current fiscal year. The new annual disclosures are effective for financial statements with fiscal years ending after December 15, 2003 and the interim-period disclosures are effective for interim periods beginning after December 15, 2003. The Company adopted the disclosures for its fiscal year ending March 31, 2004. The adoption of this statement had no impact on the Company's financial position or results of operations.

In May 2004, the FASB issued FASB Staff Position (FSP) No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act)." FSP No. 106-2 requires an employer to initially account for any subsidy received under the Act as an actuarial experience gain to the accumulated postretirement benefit obligation (APBO), which would be amortized over future service periods. Future subsidies would reduce service cost each year. The Company's consolidated financial statements as of March 31, 2004 do not reflect the effects of the Act, if any, on the APBO or net periodic postretirement benefit cost. The Company has not yet determined whether its postretirement benefit plans are "actuarially equivalent" to Medicare Part D under the Act. FSP No. 106-2 is effective for the Company beginning in the second fiscal quarter of fiscal 2005.

**Forward-Looking and Cautionary Statements**

This document contains certain forward-looking statements that are subject to risks and uncertainties. Forward-looking statements include certain information related to the Company's capital resources and the costs related to operational decisions, as well as information contained elsewhere in this report where statements are preceded by, followed by, or include the words "believes," "expects," "anticipates" or similar expressions. For such statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. 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, and factors discussed elsewhere in this report and the documents incorporated herein by reference.

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

The Company's primary market risk exposure with regard to financial instruments is to changes in interest rates. Pursuant to the Company's line 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 of $80,358,000 for the year ended March 31, 2004, a 1% increase or decrease in current market interest rates would have increased or decreased interest expense by approximately $800,000.

Approximately 5% of the Company's sales in fiscal 2004 were denominated in a foreign currency. The Company considers its risk exposure with regard to foreign currency fluctuations minimal 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.

**CSS INDUSTRIES, INC.**
**AND SUBSIDIARIES**

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

## INDEX

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of
CSS Industries, Inc.:

We have audited the 2004 and 2003 consolidated financial statements of CSS Industries, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the 2004 and 2003 consolidated financial statements, we also have audited the 2004 and 2003 financial statement schedule listed in Item 15 of this Form 10-K. 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. The 2002 consolidated financial statements and financial statement schedule of CSS Industries, Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements and financial statement schedule, before the revisions described in Note 1 and Note 2 to the consolidated financial statements, in their report dated May 14, 2002.

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 2004 and 2003 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, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related 2004 and 2003 financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed above, the 2002 consolidated financial statements of CSS Industries, Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. As described in Note 2, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of April 1, 2002. In our opinion, the disclosures for the year ended March 31, 2002 are appropriate. In addition, as described in Note 1, the capital stock accounts, share data and per share data have been restated to reflect a 3-for-2 stock split. We audited the adjustments that were applied to restate the capital stock accounts, share data and per share data reflected in the 2002 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2002 consolidated financial statements of CSS Industries, Inc. and subsidiaries other than with respect to such disclosures and adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2002 consolidated financial statements taken as a whole.

KPMG LLP

Philadelphia, Pennsylvania
May 25, 2004, except as to last paragraph in
Note 8, which is as of June 1, 2004

## Independent Auditors' Report

To the Board of Directors and Stockholders
of CSS Industries, Inc.:

We have audited the accompanying consolidated balance sheets of CSS Industries, Inc. (a Delaware Corporation) and subsidiaries as of March 31, 2002 and 2001 and the related consolidated statements of operations and comprehensive income, cash flows and stockholders' equity for the years ended March 31, 2002, December 31, 2000 and 1999, and the three month period ended March 31, 2001. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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, 2002 and 2001 and the results of their operations and their cash flows for the years ended March 31, 2002, December 31, 2000 and 1999, and the three month period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedule listed in Item 14(a) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Philadelphia, PA
May 14, 2002

Note: The report above is a copy of a previously issued report and has not been reissued by Arthur Andersen LLP (Andersen). Certain financial information for the year ended March 31, 2002 was not reviewed by Andersen and includes: (i) as described in Note 2, the inclusion of transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted by the Company as of April 1, 2002, and (ii) as described in Note 1, restatements to give effect to the stock split effective July 10, 2003.

## CSS INDUSTRIES, INC. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

| ASSETS | March 31, 2004 | March 31, 2003 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 93,191 | $ 51,981 |
| Accounts receivable, net of allowances of $6,822 and $5,926 | 40,460 | 47,583 |
| Inventories | 94,459 | 106,648 |
| Deferred income taxes | 7,937 | 6,226 |
| Other current assets | 12,987 | 13,771 |
| Total current assets | 249,034 | 226,209 |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Land | 3,416 | 2,110 |
| Buildings, leasehold interests and improvements | 55,117 | 48,523 |
| Machinery, equipment and other | 111,613 | 109,090 |
| | 170,146 | 159,723 |
| Less — Accumulated depreciation | (88,953) | (76,992) |
| Net property, plant and equipment | 81,193 | 82,731 |
| **OTHER ASSETS** | | |
| Goodwill | 30,952 | 31,017 |
| Intangible assets, net of accumulated amortization of $280 and $129 | 4,667 | 5,028 |
| Other | 4,551 | 4,578 |
| Total other assets | 40,170 | 40,623 |
| | $370,397 | $349,563 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | March 31, 2004 | 2003 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Note payable | $ — | $ — |
| Current portion of long-term debt | 335 | 109 |
| Accounts payable | 16,883 | 24,399 |
| Accrued income taxes | 2,533 | 1,452 |
| Accrued payroll and other compensation | 15,596 | 13,004 |
| Accrued restructuring expenses | 769 | 1,115 |
| Accrued customer programs | 12,385 | 13,334 |
| Accrued other expenses | 12,720 | 17,684 |
| Total current liabilities | 61,221 | 71,097 |
| LONG-TERM DEBT, NET OF CURRENT PORTION | 50,251 | 50,063 |
| OTHER LONG-TERM OBLIGATIONS | 3,631 | 3,684 |
| DEFERRED INCOME TAXES | 6,142 | 3,856 |
| COMMITMENTS AND CONTINGENCIES | — | — |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, Class 2, $.01 par, 1,000,000 shares authorized | — | — |
| Common stock, $.10 par, 20,000,000 shares authorized, 14,703,084 shares issued at March 31, 2004 and 2003 | 1,470 | 1,470 |
| Additional paid-in capital | 31,619 | 30,461 |
| Retained earnings | 282,351 | 257,226 |
| Accumulated other comprehensive loss, net of tax | — | (289) |
| Common stock in treasury, 2,872,749 and 3,077,033 shares, at cost | (66,288) | (68,005) |
| Total stockholders' equity | 249,152 | 220,863 |
| | $370,397 | $349,563 |

See notes to consolidated financial statements.

# CSS INDUSTRIES, INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| **NET SALES** | $539,349 | $532,815 | $424,309 |
| **COSTS AND EXPENSES** | | | |
| Cost of sales | 393,806 | 392,588 | 309,409 |
| Selling, general and administrative expenses | 96,270 | 97,241 | 79,411 |
| Interest expense, net of interest income of $317, $170 and $462 | 3,402 | 3,661 | 1,898 |
| Rental and other (income) expense, net | (426) | (685) | 136 |
| | 493,052 | 492,805 | 390,854 |
| **INCOME BEFORE INCOME TAXES** | 46,297 | 40,010 | 33,455 |
| **INCOME TAX PROVISION** | 16,447 | 14,164 | 11,954 |
| **INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE** | 29,850 | 25,846 | 21,501 |
| **CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX OF $2,843** | — | (8,813) | — |
| **NET INCOME** | $ 29,850 | $ 17,033 | $ 21,501 |
| **BASIC NET INCOME PER COMMON SHARE** | | | |
| Before cumulative effect of accounting change | $ 2.54 | $ 2.19 | $ 1.63 |
| Cumulative effect of accounting change | — | (.74) | — |
| Basic net income per common share | $ 2.54 | $ 1.45 | $ 1.63 |
| **DILUTED NET INCOME PER COMMON SHARE** | | | |
| Before cumulative effect of accounting change | $ 2.42 | $ 2.09 | $ 1.60 |
| Cumulative effect of accounting change | — | (.71) | — |
| Diluted net income per common share | $ 2.42 | $ 1.38 | $ 1.60 |

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| **COMPREHENSIVE INCOME** | | | |
| Net income | $ 29,850 | $ 17,033 | $ 21,501 |
| Change in fair value of interest rate swap agreements, net | 276 | (14) | (196) |
| Foreign currency translation adjustment | 13 | (2) | (11) |
| Comprehensive income | $ 30,139 | $ 17,017 | $ 21,294 |

See notes to consolidated financial statements.

# CSS INDUSTRIES, INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | For the Years Ended March 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 29,850 | $ 17,033 | $ 21,501 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Cumulative effect of accounting change, net of tax | — | 8,813 | — |
| Depreciation and amortization | 14,113 | 13,894 | 11,645 |
| Provision for doubtful accounts | 768 | 1,521 | 10,936 |
| Deferred tax provision | 575 | 1,490 | 2,297 |
| Gain on claims put agreement | — | — | (5,436) |
| Loss (gain) on sale or disposal of assets | 1,023 | (7) | (3) |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Decrease (increase) in accounts receivable | 5,592 | 14,640 | (8,192) |
| Decrease in inventories | 8,913 | 10,442 | 13,506 |
| (Increase) decrease in other assets | (606) | 7,424 | (10,483) |
| (Decrease) in accounts payable | (7,516) | (4,903) | (5,622) |
| Increase in accrued income taxes | 2,239 | 792 | 1,371 |
| (Decrease) increase in accrued expenses | (3,791) | (1,793) | 13,535 |
| Total adjustments | 21,310 | 52,313 | 23,554 |
| Net cash provided by operating activities | 51,160 | 69,346 | 45,055 |
| Cash flows from investing activities: | | | |
| Purchases of businesses, net of cash received of $1 in 2003 and $295 in 2002 | — | (22,890) | (52,378) |
| Purchase price adjustment for a business previously acquired | 2,155 | — | — |
| Purchase of property, plant and equipment | (13,253) | (12,414) | (10,007) |
| Proceeds from sale of assets | 3,729 | 30 | 4,251 |
| Net cash used for investing activities | (7,369) | (35,274) | (58,134) |
| Cash flows from financing activities: | | | |
| Payments on long-term obligations | (256) | (1,005) | (1,181) |
| Borrowings on long-term obligations | 670 | — | 170 |
| Borrowings on notes payable | 188,795 | 458,215 | 199,570 |
| Payments on notes payable | (188,795) | (458,215) | (199,570) |
| Repayment of acquisition debt | — | (18,828) | — |
| Proceeds from the issuance of long-term debt | — | 50,000 | — |
| Payment of private placement transaction costs | — | (294) | — |
| Dividends paid | (3,616) | (771) | — |
| Purchase of treasury stock | (5,687) | (36,510) | (9,409) |
| Proceeds from exercise of stock options | 6,295 | 5,313 | 1,829 |
| Net cash used for financing activities | (2,594) | (2,095) | (8,591) |
| Effect of exchange rate changes on cash | 13 | (2) | (11) |
| Net increase (decrease) in cash and cash equivalents | 41,210 | 31,975 | (21,681) |
| Cash and cash equivalents at beginning of period | 51,981 | 20,006 | 41,687 |
| Cash and cash equivalents at end of period | $ 93,191 | $ 51,981 | $ 20,006 |

See notes to consolidated financial statements.

## CSS INDUSTRIES, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

| | Preferred Stock | | Common Stock | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| **BALANCE, APRIL 1, 2001, AS PREVIOUSLY REPORTED** | — | $ — | 12,366,566 | $1,237 |
| Impact of stock split, effective July 10, 2003 | — | — | 2,336,518 | 233 |
| **BALANCE, APRIL 1, 2001, AS RESTATED** | — | — | 14,703,084 | 1,470 |
| Tax benefit associated with exercise of stock options | — | — | — | — |
| Issuance of common stock upon exercise of stock options | — | — | — | — |
| Increase in treasury shares | — | — | — | — |
| Change in fair value of interest rate swap agreements, net | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — |
| Net income | — | — | — | — |
| **BALANCE, MARCH 31, 2002** | — | — | 14,703,084 | 1,470 |
| Tax benefit associated with exercise of stock options | — | — | — | — |
| Issuance of common stock upon exercise of stock options | — | — | — | — |
| Increase in treasury shares | — | — | — | — |
| Change in fair value of interest rate swap agreements, net | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — |
| Cash dividends | — | — | — | — |
| Net income | — | — | — | — |
| **BALANCE, MARCH 31, 2003** | — | — | 14,703,084 | 1,470 |
| Tax benefit associated with exercise of stock options | — | — | — | — |
| Issuance of common stock upon exercise of stock options | — | — | — | — |
| Increase in treasury shares | — | — | — | — |
| Change in fair value of interest rate swap agreements, net | — | — | — | — |
| Foreign currency translation adjustment | — | — | — | — |
| Cash dividends | — | — | — | — |
| Net income | — | — | — | — |
| **BALANCE, MARCH 31, 2004** | — | $ — | 14,703,084 | $1,470 |

See notes to consolidated financial statements.

| Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Common Stock in Treasury Shares | Common Stock in Treasury Amount | Total |
|---|---|---|---|---|---|
| $29,538 | $265,980 | $ (66) | (3,536,046) | $(75,744) | $220,945 |
| (686) | (46,551) | — | 1,565,998 | 47,004 | — |
| 28,852 | 219,429 | (66) | (1,970,048) | (28,740) | 220,945 |
| 187 | — | — | — | — | 187 |
| — | 34 | — | 81,949 | 1,794 | 1,828 |
| — | — | — | (327,000) | (9,409) | (9,409) |
| — | — | (196) | — | — | (196) |
| — | — | (11) | — | — | (11) |
| — | 21,501 | — | — | — | 21,501 |
| 29,039 | 240,964 | (273) | (2,215,099) | (36,355) | 234,845 |
| 969 | — | — | — | — | 969 |
| 453 | — | — | 238,066 | 4,860 | 5,313 |
| — | — | — | (1,100,000) | (36,510) | (36,510) |
| — | — | (14) | — | — | (14) |
| — | — | (2) | — | — | (2) |
| — | (771) | — | — | — | (771) |
| — | 17,033 | — | — | — | 17,033 |
| 30,461 | 257,226 | (289) | (3,077,033) | (68,005) | 220,863 |
| 1,158 | — | — | — | — | 1,158 |
| — | (1,109) | — | 388,584 | 7,404 | 6,295 |
| — | — | — | (184,300) | (5,687) | (5,687) |
| — | — | 276 | — | — | 276 |
| — | — | 13 | — | — | 13 |
| — | (3,616) | — | — | — | (3,616) |
| — | 29,850 | — | — | — | 29,850 |
| $31,619 | $282,351 | $ — | (2,872,749) | $(66,288) | $249,152 |

# CSS INDUSTRIES, INC. AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
# MARCH 31, 2004

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Principles of Consolidation

The consolidated financial statements include the accounts of CSS Industries, Inc. ("CSS" or the "Company") and all of its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

### Foreign Currency Translation and Transactions

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

### Nature of Business

CSS is a consumer products company primarily engaged in the design, manufacture and sale to mass market retailers of seasonal, social expression products, including gift wrap, gift bags, boxed greeting cards, gift tags, tissue paper, paper and vinyl decorations, classroom exchange Valentines, decorative ribbons and bows, Halloween masks, costumes, make-up and novelties, Easter egg dyes and novelties and educational products. CSS provides its retail customers the opportunity to use a single vendor for much of their seasonal product requirements. CSS' product breadth, product innovation, creative design, manufacturing and packaging flexibility, product quality and customer service are key to sustaining the Company's market leadership position. A substantial portion of CSS' products are manufactured, packaged and warehoused in twenty North American facilities, with the remainder purchased primarily from manufacturers in the Far East. The Company's products are sold to its retail customers by national and regional account managers and product specialists and by a network of independent manufacturers' representatives. The Company's operating subsidiaries include Paper Magic Group, Inc. ("Paper Magic"), Berwick Offray LLC ("Berwick"), and Cleo Inc ("Cleo").

### Reclassification

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

### Stock Split

On May 27, 2003 the Board of Directors authorized a three-for-two split of the Company's common stock, effected by a distribution on July 10, 2003 of one share for each two shares held of record at the close of business on June 30, 2003. The capital stock accounts, share data and per share data are presented as if the stock split occurred prior to the earliest year included in these financial statements.

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Judgments and assessments of uncertainties are required in applying the Company's accounting policies in many areas. Such estimates include valuation reserves for inventory, accounts receivable and deferred tax assets, the assessment of the recoverability of goodwill and other intangible assets, and litigation accruals. Actual results could differ from these estimates.

### Inventories

The Company records inventory at the date of taking title which generally occurs upon receipt or prior to receipt of in-transit inventory of overseas product. The Company adjusts unsalable and slow-moving inventory to its net realizable value. Substantially all of the Company's inventories are stated at the lower of first-in, first-out (FIFO) cost or market. The remaining portion of the inventory is valued at the lower of last-in, first-out cost or market which was $1,639,000 and $2,376,000 at March 31, 2004 and 2003, respectively. Had all inventories been valued at the lower of FIFO cost or market, inventories would have been greater by $1,229,000 and $1,248,000 at March 31, 2004 and 2003, respectively. Inventories consisted of the following:

| | March 31, | |
|---|---|---|
| **(in thousands)** | **2004** | **2003** |
| Raw material | $17,878 | $ 24,260 |
| Work-in-process | 27,363 | 30,183 |
| Finished goods | 49,218 | 52,205 |
| | $94,459 | $106,648 |

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided generally on the straight-line method and is based on estimated useful lives or terms of leases as follows:

| | |
|---|---|
| Buildings, leasehold interests and improvements | Lease term to 45 years |
| Machinery, equipment and other | 3 to 12 years |

When property is retired or otherwise disposed of, the related cost and accumulated depreciation and amortization are eliminated from the consolidated balance sheet. Any gain or loss from the disposition of property, plant and equipment is included in other income. Maintenance and repairs are expensed as incurred while improvements are capitalized and depreciated over their estimated useful lives. Depreciation expense was $13,463,000, $13,768,000 and $10,427,000 for the years ended March 31, 2004, 2003 and 2002, respectively.

### Long-Lived Assets

Effective April 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," to supply a single accounting approach for measuring impairment of long-lived assets, including definite lived intangible assets, businesses accounted for as a discontinued operation, assets to be sold and assets to be disposed of other than by sale. The initial adoption of SFAS No. 144 did not have a material effect on the Company's financial position or results of operations.

Under SFAS No. 144, long-lived assets, except for goodwill and indefinite lived intangible assets, are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows estimated by the Company to be generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are recorded at the lower of carrying value or estimated net realizable value.

### Goodwill and Intangible Assets

When a company is acquired, the difference between the fair value of its net assets, including intangibles, and the purchase price is goodwill. Goodwill is recorded as an asset on the consolidated balance sheet.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives are no longer amortized on a recurring basis but instead are subject to impairment testing at least annually. The Company adopted SFAS No. 142 on April 1, 2002. Upon adoption of SFAS No. 142, an $8,813,000 charge, net of tax, was recognized in the first quarter of fiscal 2003 to record the impairment of certain goodwill, primarily related to the Company's Paper Magic – Fall, Spring and Everyday reporting unit, as well as the reversal of negative goodwill related to Cleo, and was classified as a cumulative effect of a change in accounting principle. In the fourth quarter of fiscal 2004 and 2003, the Company also performed the required annual impairment test of the carrying amount of goodwill and determined that no goodwill impairment existed. Application of SFAS No. 142 reduced amortization expense by approximately $1,263,000 and $1,191,000 for fiscal 2004 and 2003, respectively. Fiscal 2002 included amortization expense of $1,213,000. Other intangible assets with definite useful lives are required to continue to be amortized over their respective estimated useful lives.

Prior to April 1, 2002, the Company amortized goodwill over periods not exceeding 40 years.

In addition to goodwill, at March 31, 2004 the Company had $4,290,000 of other intangible assets relating to trade names that are not subject to amortization and $377,000 of other intangible assets, net of accumulated amortization of $280,000, relating primarily to a covenant not to compete, that are being amortized over periods of three to five years.

**Derivative Financial Instruments**

The Company uses certain derivative financial instruments as part of its risk management strategy to reduce interest rate and currency risk. Derivatives are not used for trading or speculative activities.

The Company recognizes all derivatives on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, the Company generally designates the derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), or (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). Changes in the fair value of a derivative that is designated as, and meets all the required criteria for, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings. Changes in the fair value of a derivative that is designated as, and meets all the required criteria for, a cash flow hedge are recorded in accumulated other comprehensive loss and reclassified into earnings as the underlying hedged item affects earnings. The portion of the change in fair value of a derivative associated with hedge ineffectiveness or the component of a derivative instrument excluded from the assessment of hedge effectiveness is recorded currently in earnings. Also, changes in the entire fair value of a derivative that is not designated as a hedge are recorded immediately in earnings. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes relating all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions.

The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively.

The Company enters into foreign currency forward contracts in order to reduce the impact of certain foreign currency fluctuations. Firmly committed transactions and the related receivables and payables may be hedged with forward exchange contracts. Gains and losses arising from foreign currency forward contracts are recognized in income or expense as offsets of gains and losses resulting from the underlying hedged transactions. The notional amount of open forward exchange contracts as of March 31, 2004 was $357,000 and the related loss was not material. There were no open forward exchange contracts as of March 31, 2003.

During 2001, the Company entered into interest rate swap agreements, with maturities through January 2004, to manage its exposure to interest rate movements by effectively converting a portion of its anticipated working capital debt from variable to fixed rates. The average annual notional amounts of interest rate swap contracts subject to fixed rates were $10,946,000 and $21,890,000 for fiscal years 2004 and 2003, respectively. These agreements involved the exchange of variable rate payments for fixed rate payments without the effect of leverage and without the exchange of the underlying face amount. Fixed interest rate payments were at a weighted average rate of 5.09% and 4.96% in fiscal 2004 and 2003, respectively. Interest rate differentials paid under these agreements were recognized as adjustments to interest expense and amounted to $443,000 and $722,000 for the years ended March 31, 2004 and 2003, respectively.

There were no outstanding interest rate swap contracts as of March 31, 2004. The fair value of interest rate swap agreements is included in other current liabilities and totaled $437,000 as of March 31, 2003.

### Income Taxes

The Company follows the liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities and the tax effects of net operating loss carryforwards. Deferred tax assets or liabilities at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered.

### Revenue Recognition

The Company recognizes revenue from product sales when the goods are shipped and the title and risk of loss pass to the customer. Provisions for allowances and rebates to customers, returns and other adjustments are provided in the same period that the related sales are recorded.

### Product Development Costs

Product development costs consist of purchases of outside artwork, printing plates, cylinders, catalogs and samples. The Company classifies these costs as a prepaid expense. Product development costs begin to be incurred approximately 18 to 20 months before the holiday event and are amortized monthly over the selling season, generally within two to four months of the respective holiday event. Product development expense is recorded in selling, general and administrative expense.

Product development costs capitalized as of March 31, 2004 and 2003 were $4,490,000 and $5,113,000, respectively. Product development expense of $7,668,000, $6,424,000 and $5,319,000 was recognized in the years ended March 31, 2004, 2003 and 2002, respectively.

### Shipping and Handling Costs

Shipping and handling costs are reported in cost of sales in the consolidated statements of operations.

### Stock-Based Compensation

The Company applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans. Accordingly, compensation expense is generally not recognized for its stock-based compensation plans. Had compensation expense for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced as follows:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| (in thousands, except per share amounts) | | | |
| Net income, as reported | $29,850 | $17,033 | $21,501 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (2,782) | (3,216) | (2,492) |
| Pro forma net income | $27,068 | $13,817 | $19,009 |
| Earnings per share: | | | |
| Basic – as reported | $ 2.54 | $ 1.45 | $ 1.63 |
| Basic – pro forma | $ 2.30 | $ 1.17 | $ 1.43 |
| Diluted – as reported | $ 2.42 | $ 1.38 | $ 1.60 |
| Diluted – pro forma | $ 2.21 | $ 1.12 | $ 1.41 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following average assumptions:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Expected dividend yield at time of grant | 1.14% | 0% | 0% |
| Expected stock price volatility | 38% | 45% | 44% |
| Risk-free interest rate | 4.92% | 5.22% | 5.28% |
| Expected life of option | 9.0 years | 9.6 years | 9.9 years |

### Net Income Per Common Share

The following table sets forth the computation of basic income per common share and diluted income per common share for the years ended March 31, 2004, 2003 and 2002.

| (in thousands, except per share amounts) | For the Years Ended March 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| Numerator: | | | |
| Income before cumulative effect of accounting change | $29,850 | $25,846 | $21,501 |
| Cumulative effect of accounting change | — | (8,813) | — |
| Net income | $29,850 | $17,033 | $21,501 |
| Denominator: | | | |
| Weighted average shares outstanding for basic income per common share | 11,755 | 11,784 | 13,241 |
| Effect of dilutive stock options | 591 | 554 | 217 |
| Adjusted weighted average shares outstanding for diluted income per common share | 12,346 | 12,338 | 13,458 |
| Basic net income per common share: | | | |
| Income before cumulative effect of accounting change | $ 2.54 | $ 2.19 | $ 1.63 |
| Cumulative effect of accounting change | — | (.74) | — |
| Net income per common share | $ 2.54 | $ 1.45 | $ 1.63 |
| Diluted net income per common share: | | | |
| Income before cumulative effect of accounting change | $ 2.42 | $ 2.09 | $ 1.60 |
| Cumulative effect of accounting change | — | (.71) | — |
| Net income per common share | $ 2.42 | $ 1.38 | $ 1.60 |

Options on 50,000 shares, 77,000 shares and 720,000 shares of common stock were not included in computing diluted income per common share for the years ended March 31, 2004, 2003 and 2002, respectively, because their effects were antidilutive.

### Statements of Cash Flows

For purposes of the consolidated statements of cash flows, the Company considers all holdings of highly liquid debt instruments with a maturity at time of purchase of less than three months to be cash equivalents.

**Supplemental Schedule of Cash Flow Information**

(in thousands)

| | For the Years Ended March 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest | $ 3,811 | $ 3,352 | $ 2,139 |
| Income taxes | $12,746 | $13,351 | $10,705 |
| **Details of acquisitions:** | | | |
| Fair value of assets acquired | $ — | $56,257 | $64,499 |
| Liabilities assumed | — | 33,366 | 11,826 |
| Cash paid | — | 22,891 | 52,673 |
| Less cash acquired | — | 1 | 295 |
| Net cash paid for acquisitions | $ — | $22,890 | $52,378 |

See Note 3 for supplemental disclosure of non cash investing activities.

**(2) GOODWILL AND OTHER INTANGIBLE ASSETS – ADOPTION OF SFAS NO. 142:**

Effective July 1, 2001 and April 1, 2002, the Company adopted SFAS No. 141, "Business Combinations," and SFAS No. 142, respectively. The guidance in SFAS No. 141 supercedes APB Opinion No. 16, "Business Combinations." Upon adoption of SFAS No. 142, amortization of existing goodwill ceased. Goodwill is now subject to fair-value based impairment tests performed, at a minimum, on an annual basis. In addition, a transitional goodwill impairment test was required as of the adoption date. These impairment tests are conducted on each business of the Company where goodwill is recorded, and may require two steps. The initial step is designed to identify potential goodwill impairment by comparing an estimate of the fair value for each applicable business to its respective carrying value. For those businesses where the carrying value exceeds fair value, a second step is performed to measure the amount of goodwill impairment, if any.

The Company had $39,715,000 in positive goodwill and $2,393,000 in negative goodwill recorded on its consolidated balance sheet at the beginning of fiscal 2003. The negative goodwill related entirely to the acquisition of Cleo. Cleo was purchased on November 15, 1995 at a discount to fair value and after all long-term assets were reduced to $0 in purchase accounting, the remaining discount was recorded as negative goodwill and was being amortized over ten years. The $2,393,000 of remaining negative goodwill within the Cleo reporting unit was required to be reversed upon adoption of SFAS No. 142. The Company completed the required transitional goodwill impairment test in the first quarter of fiscal 2003, and determined that $14,049,000 of goodwill recorded within the Company's Paper Magic – Fall, Spring and Everyday reporting unit was impaired under the fair value impairment test approach required by SFAS No. 142.

The fair values of the reporting units were estimated using the expected present value of associated future cash flows and market values of comparable businesses where available. Upon adoption of SFAS No. 142, an $8,813,000 charge, net of tax, was recognized in the first quarter of fiscal 2003 to record this impairment as well as the reversal of negative goodwill and was classified as a cumulative effect of a change in accounting principle. In the fourth quarter of fiscal 2004 and 2003, the Company performed the required annual impairment test of the carrying amount of goodwill and determined that no goodwill impairment existed.

Amortization expense for goodwill and negative goodwill for the year ended March 31, 2002 was $1,213,000. The effects of excluding such goodwill amortization for the year ended March 31, 2002 follows (in thousands, except per share data):

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Income before accounting change as reported | $29,850 | $25,846 | $21,501 |
| Add back: | | | |
| Goodwill and negative goodwill amortization, net of income taxes | — | — | 1,088 |
| Pro forma income before accounting change | $29,850 | $25,846 | $22,589 |
| Net income as reported | $29,850 | $17,033 | $21,501 |
| Add back: | | | |
| Goodwill and negative goodwill amortization, net of income taxes | — | — | 1,088 |
| Pro forma net income | $29,850 | $17,033 | $22,589 |
| Pro forma income per common share before accounting change: | | | |
| Basic | $ 2.54 | $ 2.19 | $ 1.71 |
| Diluted | $ 2.42 | $ 2.09 | $ 1.68 |
| Pro forma net income per common share: | | | |
| Basic | $ 2.54 | $ 1.45 | $ 1.71 |
| Diluted | $ 2.42 | $ 1.38 | $ 1.68 |

The changes in the carrying amount of goodwill for the year ended March 31, 2004 are as follows (in thousands):

| | |
|---|---|
| Balance as of March 31, 2003 | $31,017 |
| Finalization of purchase accounting | 235 |
| Non cash reduction of Crystal restructuring reserve | (300) |
| Balance as of March 31, 2004 | $30,952 |

In addition to goodwill, the Company has $4,290,000 of other intangible assets relating to trade names that are not subject to amortization and $377,000 of other intangible assets, net of accumulated amortization of $280,000, relating primarily to a covenant not to compete, that are being amortized over periods of three to five years. Accumulated amortization at March 31, 2004 and 2003 was $280,000 and $129,000 and amortization expense for fiscal 2004 and 2003 was $151,000 and $126,000. The estimated amortization expense for fiscal 2005, 2006, 2007, 2008 and 2009 is $151,000, $94,000, $94,000, $38,000 and $0, respectively.

## (3) BUSINESS ACQUISITIONS AND DIVESTITURES:

*Crystal Creative Products, Inc.*

On October 18, 2002, a subsidiary of the Company acquired all of the capital stock of Crystal Creative Products, Inc. ("Crystal") for $22,891,000, including transaction costs, and assumed and repaid $18,828,000 of outstanding debt (primarily seasonal working capital debt). During fiscal 2004, the Company received cash of approximately $2,155,000 in satisfaction of a post closing adjustment to the purchase price. Crystal, headquartered in Middletown, Ohio, is a leading designer, manufacturer and distributor of consumer convenience gift wrap products and competed in the seasonal end of the gift bag and tissue markets with the Company's existing product lines. Its product lines include gift tissue, gift bags, and related packaging products for the consumer market, as well as specialty tissues for in-store packaging of retailers and for industrial applications. A portion of the purchase price is being held in escrow for certain indemnification obligations. The acquisition was accounted for as a purchase and the excess of cost over the fair market value of the net tangible assets acquired of $9,877,000 was recorded as intangible assets in the accompanying consolidated balance sheets. Of the $9,877,000 of acquired intangible assets, $4,290,000 was assigned to trade names that are not subject to amortization, $5,287,000 was assigned to goodwill ($3,553,000 is expected to be deductible for tax purposes) and $300,000 was assigned to a covenant not to compete which has a useful life of five years.

In July 2003, the Company finalized a restructuring plan related to the Crystal acquisition, under which the Company restructured its business to integrate the acquired entity with its current businesses. In connection with this plan, the Company sold assets related to a non-core portion of the Crystal business for $3,525,000 in July 2003, and closed Crystal's primary manufacturing facility in Maysville, Kentucky. A separate administration building in Middletown, Ohio was also closed in March 2004. The Company recorded a restructuring reserve of $1,672,000 as part of purchase accounting, including severance related to approximately 150 employees. As a result of this restructuring and other adjustments, goodwill increased by $235,000. Payments of $1,005,000, mainly for severance and costs associated with the closing of the Maysville facility, were made in the year ended March 31, 2004. In addition, during the fourth quarter, there was a reduction in the restructuring accrual of $300,000 for costs related to the closure of the Maysville facility that were less than originally estimated. There was a corresponding reduction in goodwill for this amount. Severance payments will be paid in the first quarter of fiscal 2005 and payments related to contractual obligations and facility exit costs will be paid through the end of fiscal 2005. As of March 31, 2004, the remaining liability of $367,000 was classified as a current liability in the accompanying consolidated balance sheet.

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

| | Severance | Contractual Obligations and Facility Exit Costs | Total |
|---|---|---|---|
| Initial accrual – July 2003 | $ 626 | $1,046 | $ 1,672 |
| Cash paid | (483) | (522) | (1,005) |
| Non cash reduction | — | (300) | (300) |
| Restructuring reserve as of March 31, 2004 | $ 143 | $ 224 | $ 367 |

*C. M. Offray & Son, Inc.*

On March 15, 2002, a subsidiary of the Company completed the acquisition of substantially all of the business and assets of the portion of C. M. Offray & Son, Inc. ("Offray") which manufactures and sells decorative ribbon products, floral accessories and narrow fabrics for apparel, craft and packaging applications. Berwick acquired substantially all of the business and assets of Offray for $44,865,000 in cash, including transaction costs. A portion of the purchase price is being held in escrow to cover indemnification obligations. The acquisition was accounted for as a purchase and the cost approximated the fair market value of the net assets acquired. Therefore, no goodwill was recorded in this transaction.

In conjunction with the acquisition of Offray, the Company's management approved a restructuring plan. As part of this plan, the Company accrued $2,385,000 for severance and costs related to the closure of certain facilities. As of March 31, 2004, the Company had closed Offray's distribution facility in Quebec, Canada and its warehouse in Antietam, Maryland and has communicated termination of employment to approximately 125 employees. Payments, mainly for severance and facility exit costs, of $576,000 were made in the year ended March 31, 2004. During the fourth quarter, there was a reduction in the restructuring accrual of $137,000 related to relocation costs that were less than originally estimated as certain employees under the plan did not relocate as expected. There was a corresponding reduction in property, plant and equipment for this amount. As of March 31, 2004, the remaining liability of $402,000 was classified as a current liability in the accompanying consolidated balance sheet and will be paid during fiscal 2005.

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

| | Severance | Contractual Obligations and Facility Exit Costs | Total |
|---|---|---|---|
| Restructuring reserve as of March 31, 2003 | $ 713 | $ 402 | $1,115 |
| Cash paid – 2004 | (403) | (173) | (576) |
| Non cash reductions – 2004 | — | (137) | (137) |
| Restructuring reserve as of March 31, 2004 | $ 310 | $ 92 | $ 402 |

*Tye-Sil Corporation Ltd.*

On May 8, 2001, the Company acquired certain assets of Tye-Sil Corporation Ltd. of Montreal, Quebec, Canada. Tye-Sil had been the leading Canadian provider of gift wrap and accessories. The Company paid $7,849,000 in cash, including transaction costs. The acquisition was accounted for as a purchase and the cost approximated the fair market value of the net assets acquired. Subsequent to the acquisition, the operations of Tye-Sil were consolidated into existing operations of the Company.

## (4) TREASURY STOCK TRANSACTIONS:

The Company's Board of Directors previously authorized a buyback of the Company's common stock at prices and pursuant to 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, 2004, the Company has approximately 717,100 shares remaining available for repurchase under the Board's authorization. The Company repurchased 184,300 shares for $5,687,000 and 1,100,000 shares for $36,510,000 in fiscal 2004 and fiscal 2003, respectively.

On June 24, 2002, the Company purchased an aggregate of 1,100,000 shares of its common stock from its Chairman, members of his family and a trust for members of his family. The terms of the purchase were negotiated on behalf of the Company by a Special Committee of the Board of Directors consisting of three independent directors. The Special Committee retained an independent investment bank which rendered a fairness opinion. The Special Committee unanimously recommended that the Company's Board of Directors authorize the purchase, and the Board of Directors, other than its Chairman who was not present at the meeting, unanimously authorized the purchase. The total amount of this transaction was $36,510,000.

## (5) STOCK OPTION PLANS:

The Board of Directors of the Company adopted the CSS Industries, Inc. 2004 Equity Compensation Plan ("2004 Plan"), subject to stockholder approval. If approved by the stockholders, the Human Resources Committee ("Committee") of the Board of Directors may grant incentive stock options, non-qualified stock options, restricted stock grants, stock appreciation rights, stock bonuses and other awards to officers and other key employees. Grants under the 2004 Plan may be made through February 2014 and are exercisable at the discretion of the Committee but in no event greater than ten years from the date of grant. Options may be exercised at the rate of 25% per year commencing one year after the date of grant. Options to acquire 2,000,000 shares were available for grant under the 2004 Plan at March 31, 2004.

Under the terms of the CSS Industries, Inc. 2000 Stock Option Plan for Non-Employee Directors ("2000 Plan"), non-qualified stock options to purchase up to 300,000 shares of common stock are available for grant to non-employee directors at exercise prices of not less than fair market value on the date of grant. Options to purchase 6,000 shares of the Company's common stock are to be granted automatically to each non-employee director on the last day that the Company's common stock is traded in November from 2001 to 2005. Each option will expire ten years after the date the option is granted and options may be exercised at the rate of 25% per year commencing one year after the date of grant. At March 31, 2004, options to acquire 231,000 shares were available for grant under the 2000 Plan.

Under the terms of the 1994 Equity Compensation Plan ("1994 Plan"), the Committee may grant incentive stock options, non-qualified stock options, restricted stock grants, stock appreciation rights or combinations thereof to officers and other key employees. Grants under the 1994 Plan may be made through November 2004. Each option will expire no later than ten years after the date the option is granted and options may be exercised at the rate of 25% per year commencing one year after the date of grant. At March 31, 2004, options to acquire 1,155,528 shares were available for grant under the 1994 Plan.

Transactions from April 1, 2001 through March 31, 2004 under the above plans were as follows:

| | Number of Shares | Option Price per Share | Weighted Average Price | Weighted Average Life Remaining |
|---|---|---|---|---|
| Options outstanding at April 1, 2001 | 2,404,813 | $11.42 – 22.09 | $15.77 | 7.3 years |
| Granted | 529,650 | 16.27 – 21.13 | 17.05 | |
| Exercised | (122,923) | 12.42 – 19.09 | 14.87 | |
| Canceled | (91,239) | 13.42 – 19.09 | 15.51 | |
| Options outstanding at March 31, 2002 | 2,720,301 | 11.42 – 22.09 | 16.07 | 7.2 years |
| Granted | 169,500 | 21.67 – 24.40 | 22.90 | |
| Exercised | (377,391) | 11.42 – 22.00 | 15.43 | |
| Canceled | (117,339) | 12.71 – 21.70 | 15.96 | |
| Options outstanding at March 31, 2003 | 2,395,071 | 12.71 – 24.40 | 16.67 | 6.6 years |
| Granted | 354,462 | 23.58 – 31.25 | 24.92 | |
| Exercised | (469,369) | 12.88 – 22.75 | 15.72 | |
| Canceled | (177,178) | 12.88 – 26.00 | 20.76 | |
| Options outstanding at March 31, 2004 | 2,102,986 | $12.71 – 31.25 | $17.92 | 6.4 years |
| Options exercisable at March 31, 2004 | 1,401,776 | $12.71 – 24.40 | $16.51 | |

The weighted average fair value of options granted during fiscal 2004, 2003 and 2002 was $11.80, $9.24 and $10.84 per share, respectively.

The following table summarizes information concerning currently outstanding and exercisable options:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $12.50 – $15.63 | 698,050 | 6.1 | $14.20 | 583,666 | $14.21 |
| $15.64 – $18.75 | 796,173 | 5.7 | $17.38 | 619,772 | $17.58 |
| $18.76 – $21.88 | 209,400 | 5.9 | $19.63 | 160,275 | $19.33 |
| $21.89 – $25.00 | 316,263 | 8.5 | $23.65 | 38,063 | $22.54 |
| $25.01 – $28.13 | 33,100 | 9.4 | $25.83 | — | — |
| $28.14 – $31.25 | 50,000 | 9.7 | $29.91 | — | — |
| | 2,102,986 | 6.4 | $17.92 | 1,401,776 | $16.51 |

## (6) RETIREMENT BENEFIT PLANS:

*Profit Sharing Plans*

The Company maintains defined contribution profit sharing and 401(k) plans covering substantially all of its employees as of March 31, 2004. Annual contributions under the plans are determined by the Board of Directors of the Company or each subsidiary, as appropriate. Consolidated expense related to the plans for the years ended March 31, 2004, 2003 and 2002 was $2,894,000, $2,635,000 and $2,060,000, respectively.

*Pension Plans*

The Company's Cleo subsidiary administers a defined benefit pension plan covering substantially all salaried employees of Crystal. The plan, acquired as part of the Crystal acquisition on October 18, 2002, was frozen on November 2, 2002 and terminated September 30, 2003. Future benefits to Crystal division employees will be provided by participation in an existing defined contribution profit sharing and 401(k) plan.

*Postretirement Medical Plans*

The Company's Cleo subsidiary administers a postretirement medical plan covering substantially all active employees of the former Crystal division. The plan was frozen to new participants prior to Crystal's acquisition by the Company.

The Company uses a March 31 measurement date for all pension and postretirement medical plans.

The following provides a reconciliation of benefit obligations and plan assets (in thousands):

| | March 31, | | | |
|---|---|---|---|---|
| | Pension Benefits | | Other Benefits | |
| | 2004 | 2003 | 2004 | 2003 |
| Change in plan assets: | | | | |
| Fair value of plan assets at acquisition or beginning of year | $ 4,788 | $4,753 | $ — | $ — |
| Actual return on plan assets | 730 | 181 | — | — |
| Benefits paid from plan assets | (1,023) | (146) | — | — |
| Fair value of plan assets at end of year. | 4,495 | 4,788 | — | — |
| Change in benefit obligation: | | | | |
| Benefit obligation at acquisition or beginning of year | 2,304 | 2,398 | 1,452 | 1,418 |
| Service cost | — | — | — | 13 |
| Interest cost | 111 | 61 | 86 | 42 |
| Actuarial loss (gain) | (124) | (6) | 80 | (8) |
| Adjustment in cost of settlement | — | (3) | — | |
| Benefits paid | (1,023) | (146) | (43) | (13) |
| Gain due to terminations | — | — | (609) | — |
| Benefit obligation at end of year | 1,268 | 2,304 | 966 | 1,452 |
| Funded status | 3,227 | 2,484 | (966) | (1,452) |
| Unrecognized net (loss) gain | — | (23) | 72 | (8) |
| Prepaid benefit cost/(accrued obligation) recognized in the consolidated balance sheet | $ 3,227 | $2,461 | $ (894) | $(1,460) |

The following table summarizes the assumptions of the defined benefit pension plan and the postretirement medical plan:

| | For the Years Ended March 31, | | | |
|---|---|---|---|---|
| | Pension Benefits | | Other Benefits | |
| | 2004 | 2003 | 2004 | 2003 |
| Weighted-average assumptions used to determine net periodic benefit costs: | | | | |
| Discount rate | 4.8% | 4.8% | 6.0% | 6.0% |
| Expected return on plan assets | 7.0% | 7.0% | — | — |
| Weighted average assumptions used to determine benefit obligation: | | | | |
| Discount rate | 5.0% | 4.8% | 6.0% | 6.0% |
| Assumed health care cost trend rates: | | | | |
| Initial rate assumed for next year | | | 20% | 20% |
| Ultimate rate | | | 6% | 6% |
| Years to ultimate rate | | | 14 | 14 |

The expected return on plan assets rate was developed considering historical returns and the future expectations for returns for each asset class, weighted by the target asset allocations.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical plan. A one percentage point change in assumed health care cost trend rates would have the following effects (in thousands):

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on total of service and interest cost | $ 0 | $ 0 |
| Effect on postretirement benefit obligation | 96 | (83) |

Net periodic pension and postretirement medical costs (benefits) include the following components (in thousands):

| | For the Years Ended March 31, | | | |
|---|---|---|---|---|
| | Pension Benefits | | Other Benefits | |
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | $ — | $ — | $ — | $13 |
| Interest cost | 111 | 61 | 86 | 42 |
| Expected return on plan assets | (335) | (166) | — | — |
| Amortization of gain due to terminations | — | — | (609) | — |
| Benefit cost (credit) | $(224) | $(105) | $(523) | $55 |

The pension plan's weighted average asset allocations at March 31, 2004 and 2003, by asset category are as follows:

| | % of Total at March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Annuities | 100% | —% |
| Equity securities | — | 59 |
| Debt securities | — | 41 |
| | 100% | 100% |

The Company intends to maintain the current asset allocations in the future.

The goal of the Company's investment policy is to have sufficient assets to fund pension obligations when they become due and achieve the required return within acceptable levels of risk.

### (7) INCOME TAXES:

The following table summarizes the provision for U.S. federal, state and foreign taxes on income:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| (in thousands) | | | |
| Current: | | | |
| Federal | $12,803 | $13,922 | $ 8,336 |
| State | 847 | 146 | 38 |
| Foreign | 2,222 | 1,449 | 1,283 |
| | 15,872 | 15,517 | 9,657 |
| Deferred: | | | |
| Federal | 795 | (1,284) | 2,220 |
| State | (220) | (69) | 77 |
| | 575 | (1,353) | 2,297 |
| | $16,447 | $14,164 | $11,954 |

The differences between the statutory and effective federal income tax rates on income before income taxes were as follows:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, less federal benefit | .9 | .5 | .2 |
| Non-deductible goodwill | — | — | .8 |
| Other | (.4) | (.1) | (.3) |
| | 35.5% | 35.4% | 35.7% |

Deferred taxes are recorded based upon differences between the financial statement and tax bases of assets and liabilities and available net operating loss and credit carryforwards. The following temporary differences gave rise to net deferred income tax assets (liabilities) as of March 31, 2004 and 2003:

| (in thousands) | March 31, 2004 | March 31, 2003 |
|---|---|---|
| Deferred income tax assets: | | |
| Accounts receivable | $ 1,069 | $ 748 |
| Inventories | 2,518 | 2,737 |
| Accrued expenses | 5,296 | 3,556 |
| State net operating loss and credit carryforwards | 8,725 | 8,148 |
| Other | 2,368 | 3,264 |
| | 19,976 | 18,453 |
| Valuation allowance | (8,425) | (7,910) |
| | 11,551 | 10,543 |
| Deferred income tax liabilities: | | |
| Property, plant and equipment | 5,969 | 6,217 |
| Unremitted earnings of foreign subsidiaries | 1,643 | 702 |
| Other | 2,144 | 1,254 |
| | 9,756 | 8,173 |
| Net deferred income tax asset | $ 1,795 | $ 2,370 |

At March 31, 2004 and 2003, the Company had potential state income tax benefits of $8,725,000 and $8,148,000, respectively, from net operating loss and credit carryforwards that expire in various years through 2018. At March 31, 2004 and 2003, the Company provided valuation allowances of $8,425,000 and $7,910,000, respectively. The $515,000 increase in the valuation allowance was due to the increase in state net operating loss and credit carryforwards, and reflects management's assessment of the portion of the deferred tax asset that more likely than not will not be realized through future taxable earnings or implementation of tax planning strategies.

## (8) LONG-TERM DEBT AND CREDIT ARRANGEMENTS:

Long-term debt consisted of the following:

| (in thousands) | March 31, 2004 | March 31, 2003 |
|---|---|---|
| 4.48% Senior Notes due December 13, 2009 | $50,000 | $50,000 |
| Other | 586 | 172 |
| | 50,586 | 50,172 |
| Less — current portion | (335) | (109) |
| | $50,251 | $50,063 |

On December 13, 2002, the Company issued $50,000,000 of 4.48% Senior Notes due December 13, 2009 (the "Senior Notes"). The Senior Notes are to be paid ratably over five years, beginning at the end of the third year of the seven year term of the agreement. The note purchase agreement contains covenants, the most restrictive of which pertain to net worth, the ratio of operating cash flow to fixed charges and the ratio of debt to capitalization. The Company is in compliance with all covenants as of March 31, 2004.

The Company maintained an unsecured revolving credit facility with five banks which allowed for borrowings up to $100,000,000. This facility expired on April 30, 2004 and provided that borrowings were limited during a consecutive 30 day period in each year of the agreement. The loan agreement contained provisions to increase or reduce the interest pricing spread based on the achievement of certain benchmarks related to the ratio of earnings to interest expense. At the Company's option, interest on the facility accrued at (1) the greater of the prime rate minus 0.5% or the Federal Funds Rate, or (2) LIBOR plus 1%. The revolving credit facility provided for commitment fees of 0.25% per annum on the daily average of the unused commitment. The loan agreement also contained covenants, the most restrictive of which pertained to net worth, the ratio of operating cash flow to fixed charges, the ratio of earnings to interest expense and the ratio of debt to capitalization. The Company is in compliance with all financial debt covenants as of March 31, 2004.

The Company also maintained a receivables purchase agreement with an issuer of receivables-backed commercial paper. Under this arrangement, the Company sold, on an ongoing basis and without recourse, its trade accounts receivable to a wholly-owned special purpose subsidiary (the "SPS"), which in turn had the option to sell, on an ongoing basis and without recourse, to the commercial paper issuer an undivided percentage interest in the pool of accounts receivable. Under the agreement, new trade receivables were automatically sold to the SPS and became a part of the receivables pool. The agreement permitted the sale (and repurchase) of an undivided interest in the accounts receivable pool for an amount of up to $100,000,000 through April 30, 2004, subject to an annual renewal. Interest on amounts financed under this facility was based on a variable commercial paper rate plus 0.375%. The receivables facility provided for commitment fees of 0.225% per annum on the daily average of the unused commitment. This arrangement was accounted for as a financing transaction.

The weighted average interest rate under these three credit facilities for the years ended March 31, 2004, 2003 and 2002, was 3.92%, 3.24% and 4.48% respectively. The average and peak borrowings were $80,358,000 and $144,590,000 for the year ended March 31, 2004 and $85,002,000 and $198,765,000 for the year ended March 31, 2003. Additionally, outstanding letters of credit totaled $4,368,000 and $4,114,000 at March 31, 2004 and 2003, respectively. The Company has letters of credit that guarantee funding of workers compensation claims as well as obligations to certain vendors.

On April 23, 2004, the Company's expiring $100,000,000 revolving credit facility was replaced with a $50,000,000 unsecured revolving credit facility with five banks. This facility expires on April 23, 2009. The loan agreement contains provisions to increase or reduce the interest pricing spread based on the achievement of certain benchmarks related to the ratio of earnings to interest expense. At the Company's option, interest on the facility currently accrues at (1) the greater of the prime rate minus 0.5% or the Federal Funds Rate, or (2) LIBOR plus .75%. The revolving credit facility provides for commitment fees of .225% per annum on the daily average of the unused commitment. The loan agreement also contains covenants, the most restrictive of which pertain to net worth, the ratio of operating cash flow to fixed charges, the ratio of debt to capitalization and limitations on capital expenditures.

Subsequent to year end, the Company entered into an extension of its expiring $100,000,000 accounts receivable securitization facility during which time it renewed the facility for a five-year period, expiring on July 25, 2009, although it may terminate prior to such date in the event of termination of the commitments of the facility's back-up purchasers. The facility limit now has a seasonally-adjusted funding limit of $100,000,000 during peak seasonal periods and $25,000,000 during off-peak seasonal periods. Interest on amounts financed under this facility are based on a variable commercial paper rate plus 0.375% and provides for commitment fees of 0.225% per annum or the daily average of the unused commitment.

Long-term debt matures as follows:

| | (in thousands) |
|---|---|
| 2005 | $ 335 |
| 2006 | 10,251 |
| 2007 | 10,000 |
| 2008 | 10,000 |
| 2009 | 10,000 |
| Thereafter | 10,000 |
| Total | $50,586 |

## (9) OPERATING LEASES:

The Company maintains various lease arrangements for property and equipment. The future minimum rental payments associated with all noncancelable lease obligations are as follows:

| (in thousands) | |
|---|---|
| 2005 | $ 7,583 |
| 2006 | 5,536 |
| 2007 | 2,344 |
| 2008 | 1,935 |
| 2009 | 984 |
| Thereafter | 1,564 |
| Total | $19,946 |

Rent expense was $10,324,000, $8,963,000 and $6,660,000 in the years ended March 31, 2004, 2003 and 2002, respectively.

## (10) CLAIMS PUT AGREEMENT:

The Company entered into a Claims Put Agreement (the Put Agreement) on January 16, 2002 with an unrelated financial institution giving CSS the ability to put Kmart trade receivables, not to exceed $16,000,000, arising from merchandise delivered during the period September 15, 2001 through the date of a bankruptcy event. CSS paid a premium of $480,000 to enter into this agreement. The Kmart put option was exercisable if Kmart filed for bankruptcy. On January 22, 2002, Kmart filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. On February 21, 2002, the Company exercised the put option giving CSS the right to collect an amount equal to the pre-petition receivables balance outstanding with Kmart, times the purchase rate of 70%.

The Company classifies gains on these types of credit risk arrangements in selling, general and administrative expenses (SG&A). For the year ended March 31, 2002, the Company recognized a pre-tax gain of $5,436,000 for the change in the Put Agreement's value, less the premium paid. This amount was offset by bad debt expense of $10,352,000 and was recorded in SG&A in the consolidated statement of operations.

As of March 31, 2002, the fair market value of Kmart receivables not yet assigned to the financial institution was $4,436,000 and was determined by applying the then going rate (30% of face value) for Kmart pre-petition bankruptcy claims, as ascertained in discussions with several debt securities firms that traded in these claims, to the net receivable balance. The value of the Kmart put right was $5,916,000 and was determined by applying the above market recovery percentage of 40% (70% recovery rate per the Put Agreement less 30% pre-petition claim market recovery percentage) to the net receivable balance. The fair market value of Kmart receivables not yet assigned to the financial institution and the value of the Kmart put right were classified as other current assets in the consolidated balance sheet as of March 31, 2002 and were subsequently collected during fiscal 2003.

On October 7, 2003 the Company received $1,118,000 in satisfaction of an additional claim made under the Put Agreement. This additional claim was made as a result of the settlement of the Company's Kmart bankruptcy claim, as approved by the bankruptcy court, and is recorded as a reduction of SG&A expenses for the year ended March 31, 2004.

## (11) FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate methodologies. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. The creditworthiness of counterparties is continually reviewed, and full performance is anticipated.

The methods and assumptions used to estimate the fair value of each class of financial instruments are set forth below:

- Cash and cash equivalents, accounts receivable and accounts payable – The carrying amounts of these items are a reasonable estimate of their fair values at March 31, 2004 and 2003.
- Short-term borrowings – Borrowings under the revolving credit facility have variable rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value.
- Other long-term obligations – The carrying amounts of these items are a reasonable estimate of their fair value.
- Foreign currency contracts – The fair value is based on quotes obtained from financial institutions. The fair value of foreign currency contracts was immaterial as of March 31, 2004 and there were no foreign currency contracts outstanding as of March 31, 2003.
- Interest rate swap agreements – The fair value is based on quotes obtained from financial institutions. There were no outstanding interest rate swap agreements as of March 31, 2004 and the fair value of interest rate swap agreements at March 31, 2003 was $437,000.
- Long-term debt – The fair value of long-term debt instruments is estimated using a discounted cash flow analysis. As of March 31, 2004, the carrying amount of long-term debt was $50,251,000 and the estimated fair value was estimated to be $50,640,000. As of March 31, 2003, the carrying amount of long-term debt was $50,063,000 and the estimated fair value was estimated to be $52,000,000.

**(12) COMMITMENTS AND CONTINGENCIES:**

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"). The petitioners are seeking the imposition of antidumping duties of 163.36% on certain tissue paper products imported from China. If successful, the petition could result in the imposition of antidumping duties on gift tissue products that the Company imports from China for re-sale to the Company's customers in the United States. The Company is contesting the petition in proceedings before the ITC and the Commerce Department.

In April 2004, the ITC made a preliminary determination that there is a "reasonable indication" that a domestic industry is being materially injured or threatened with material injury by reason of the imported tissue paper products. As a result, the Commerce Department will make a determination as to whether the imported goods are being sold into the United States at less than fair value. If the Commerce Department makes preliminary and final determinations in the affirmative, and the ITC makes a final determination of material injury or threat of material injury to a domestic industry resulting from the imported tissue paper products, antidumping duties will be imposed for a period of at least five years from the date of ITC's order.

In 2003, the Company imported from China a substantial portion of the Company's requirements for gift tissue products, and the Company had planned to import from China substantially all of its 2004 requirements for gift tissue products. While it is not possible for the Company to predict the outcome of the ITC and Commerce Department proceedings, the Company is considering actions intended to mitigate the adverse impact that would result from the imposition of antidumping duties on gift tissue products that the Company imports from China. In this regard, the Company has resumed tissue-converting operations at the Company's previously-closed Maysville, Kentucky facility, and the Company is evaluating sourcing arrangements outside of China. At this time, the Company believes that the imposition of antidumping duties would not have a material effect on the Company's financial condition or results of operations.

In November 2002, Bleyer Industries, Inc. ("Bleyer") filed suit against CSS and certain of its subsidiaries in the Supreme Court of the State of New York, County of Nassau. The suit alleged that CSS and certain of its subsidiaries misused certain confidential information disclosed by Bleyer pursuant to certain confidentiality agreements entered into by CSS and Bleyer. The relief sought consisted of compensatory damages of approximately $10,000,000, prejudgment interest and punitive damages. In October 2003, this litigation was dismissed with prejudice.

CSS and its subsidiaries are also involved in ordinary, routine pending 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.

**(13) SEGMENT DISCLOSURE:**

The Company operates in a single reporting segment, the manufacture, distribution and sale of non-durable seasonal consumer goods, primarily to mass market retailers. CSS conducts substantially all of its business in the United States.

The Company's detail of revenues from its various products is as follows:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| (in thousands) | 2004 | 2003 | 2002 |
| Christmas | $325,597 | $316,464 | $288,325 |
| Everyday | 148,017 | 139,197 | 50,294 |
| Halloween | 30,563 | 36,160 | 43,433 |
| Other | 35,172 | 40,994 | 42,257 |
| Total | $539,349 | $532,815 | $424,309 |

One customer accounted for sales of $119,881,000, or 21.2% of total sales in fiscal 2004, $107,915,000, or 20.3% in fiscal 2003 and $87,975,000, or 20.7% in fiscal 2002. One other customer accounted for sales of $69,974,000, or 12.4% of total sales in fiscal 2004, $55,132,000, or 10.3% in fiscal 2003 and $45,030,000, or 10.6% in fiscal 2002.

**(14) ACCOUNTING PRONOUNCEMENTS:**

SFAS No. 143, "Accounting for Asset Retirement Obligations," was issued in June 2001. SFAS No. 143 addresses accounting and reporting for legal obligations and related costs associated with the retirement of long-lived assets. The statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period incurred if a reasonable estimate of fair value can be made. The estimated retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 was adopted by the Company at the beginning of fiscal year 2004 with no impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144. This statement retains existing requirements to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measures any impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS No. 144 was adopted by the Company at the beginning of fiscal year 2003 with no impact to the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement, among other things, rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 requires gains and losses from debt extinguishments that are used as part of the Company's risk management strategy to be classified as part of income from operations rather than as extraordinary items, net of tax. SFAS No. 145 was adopted by the Company at the beginning of fiscal year 2004 with no impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. The Company was required to adopt the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends SFAS No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25. As allowed by SFAS No. 123, the Company has elected to continue to utilize the accounting method prescribed by APB Opinion No. 25 and has adopted the disclosure requirements of SFAS No. 148 as of March 31, 2003. The adoption of SFAS No. 148 did not have a material impact on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires a guarantor to include disclosure of certain obligations, and if applicable, at the inception of the guarantee, recognize a liability for the fair value of other certain obligations undertaken in issuing a guarantee. Interpretation No. 45 was adopted by the Company as of January 1, 2003 and did not have a material effect on its financial position or results of operations.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities (VIE), an Interpretation of ARB No. 51," which requires all VIEs to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In December 2003, the FASB revised FIN 46 ("FIN 46R"), delaying the effective dates for certain entities created before February 1, 2003, and making other amendments to clarify application of the guidance. FIN 46R requires certain disclosures of an entity's relationship with variable interest entities. FIN 46R was effective for companies with interests in variable interest entities or potential variable interest entities (commonly referred to as special-purpose entities, or SPEs) for periods ending after December 15, 2003. FIN 46R was effective for companies with all other types of entities (i.e. non-SPEs) for periods ending after March 15, 2004. The adoption of FIN 46R had no impact on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative and when a derivative contains a financing component. This statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this statement had no impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which requires that certain financial instruments that were previously presented as equity or as temporary equity to be presented as liabilities. Such instruments include mandatory redeemable preferred and common stock, and certain options and warrants. SFAS No. 150 was effective for financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company adopted SFAS No. 150 for new or modified financial instruments on June 1, 2003. The adoption of this statement had no impact on the Company's financial position or results of operations.

In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and other Postretirement Benefits," establishing additional annual disclosures about plan assets, investment strategy, measurement date, plan obligations and cash flows. In addition, the revised standard established interim disclosure requirements related to the net periodic benefit cost recognized and contributions paid or expected to be paid during the current fiscal year. The new annual disclosures are effective for financial statements with fiscal years ending after December 15, 2003 and the interim-period disclosures are effective for interim periods beginning after December 15, 2003. The Company adopted the disclosures for its fiscal year ending March 31, 2004. The adoption of this statement had no impact on the Company's financial position or results of operations.

In May 2004, the FASB issued FASB Staff Position (FSP) No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act)." FSP No. 106-2 requires an employer to initially account for any subsidy received under the Act as an actuarial experience gain to the accumulated postretirement benefit obligation (APBO), which would be amortized over future service periods. Future subsidies would reduce service cost each year. The Company's consolidated financial statements as of March 31, 2004 do not reflect the effects of the Act, if any, on the APBO or net periodic postretirement benefit cost. The Company has not yet determined whether its postretirement benefit plans are "actuarially equivalent" to Medicare Part D under the Act. FSP No. 106-2 is effective for the Company beginning in the second fiscal quarter of fiscal 2005.

**(15) QUARTERLY FINANCIAL DATA (UNAUDITED):**

(in thousands, except per share amounts)

| 2004 | Quarters | | | |
|---|---|---|---|---|
| | First | Second | Third | Fourth |
| Net sales | $58,290 | $179,162 | $247,394 | $54,503 |
| Gross profit | 15,604 | 48,867 | 71,319 | 9,753 |
| Net (loss) income | $ (4,039) | $ 14,216 | $ 27,397 | $ (7,724) |
| Net (loss) income per common share: | | | | |
| Basic | $ (.35) | $ 1.21 | $ 2.31 | $ (.65) |
| Diluted | $ (.35) | $ 1.15 | $ 2.18 | $ (.65) |

| 2003 | Quarters | | | |
|---|---|---|---|---|
| | First | Second | Third | Fourth |
| Net sales | $ 50,557 | $175,452 | $250,682 | $56,124 |
| Gross profit | 14,352 | 43,940 | 69,386 | 12,549 |
| Net (loss) income before accounting change | $ (4,340) | $ 11,012 | $ 25,666 | $ (6,492) |
| Cumulative effect of accounting change, net of tax | (8,813) | — | — | — |
| Net (loss) income | $(13,153) | $ 11,012 | $ 25,666 | $ (6,492) |
| Basic net (loss) income per common share: | | | | |
| Before cumulative effect of accounting change | $ (.35) | $ .97 | $ 2.24 | $ (.55) |
| Cumulative effect of accounting change | (.70) | — | — | — |
| Basic net (loss) income per common share | $ (1.05) | $ .97 | $ 2.24 | $ (.55) |
| Diluted net (loss) income per common share: | | | | |
| Before cumulative effect of accounting change | $ (.35) | $ .91 | $ 2.12 | $ (.55) |
| Cumulative effect of accounting change | (.70) | — | — | — |
| Diluted net (loss) income per common share | $ (1.05) | $ .91 | $ 2.12 | $ (.55) |

The seasonal nature of CSS' business results in low sales and operating losses in the first and fourth quarters and high shipment 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.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

On May 21, 2002, the Company terminated its engagement of Arthur Andersen LLP of Philadelphia, Pennsylvania ("Andersen") as independent auditors, effective June 11, 2002, and on July 3, 2002, determined to engage KPMG LLP as its new independent auditors for the fiscal year ending March 31, 2003. This determination followed the Company's decision to seek proposals from independent public accounting firms to audit the Company's financial statements and was approved by the Board of Directors upon the recommendation of the Audit Committee.

Andersen's report on the Company's consolidated financial statements for the fiscal year ended March 31, 2002 (the "Accounting Period") did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

During the Accounting Period and through the date of the Board of Directors determination to dismiss Andersen, effective June 11, 2002, there were no disagreements between the Company and Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused it to make reference to the subject matter of the disagreements in connection with its report on the Company's consolidated financial statements with respect to the Accounting Period. Also, during the Accounting Period and through June 11, 2002, there were no reportable events as listed in Item 304(a)(1)(v) of Regulation S-K.

The Company previously provided Andersen with a copy of the foregoing disclosures. Andersen's letter dated June 18, 2002, stating that it found no basis for disagreement with such statements, was filed as Exhibit 16.2 to the Company's Form 8-K filed June 20, 2002.

During the Accounting Period and through June 11, 2002, the Company did not consult with KPMG regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matter or reportable event listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

**Item 9A. Controls and Procedures.**

As of the end of the period covered by this report, with the participation of the Company's management, 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 period specified in the Commission's rules and procedures.

The evaluation referred to above did not identify any changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## *Part III*

**Item 10. Directors and Executive Officers of the Registrant.**

See "ELECTION OF DIRECTORS", "OUR EXECUTIVE OFFICERS" and "CORPORATE GOVERNANCE" in the Proxy Statement for the 2004 Annual Meeting of Stockholders of the Company, which will be incorporated herein by reference.

**Item 11. Executive Compensation.**

See "EXECUTIVE COMPENSATION" in the Proxy Statement for the 2004 Annual Meeting of Stockholders of the Company, which will be incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

See "CSS SECURITY OWNERSHIP" and "DISCLOSURE WITH RESPECT TO CSS' EQUITY COMPENSATION PLANS" in the Proxy Statement for the 2004 Annual Meeting of Stockholders of the Company, which will be incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions.**

See "CERTAIN TRANSACTIONS" in the Proxy Statement for the 2004 Annual Meeting of Stockholders of the Company, which will be incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

See "OUR INDEPENDENT ACCOUNTANTS, THEIR FEES AND THEIR ATTENDANCE AT THE ANNUAL MEETING" in the Proxy Statement for the 2004 Annual Meeting of Stockholders of the Company, which will be incorporated herein by reference.

# *Part IV*

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.**

(a) Attached hereto and filed as part of this report are the financial statement schedules and the exhibits listed below:

1. Financial Statements

   Report of Independent Registered Public Accounting Firm

   Independent Auditors' Report

   Consolidated Balance Sheets — March 31, 2004 and 2003

   Consolidated Statements of Operations and Comprehensive Income — for the years ended March 31, 2004, 2003 and 2002

   Consolidated Statements of Cash Flows – for the years ended March 31, 2004, 2003 and 2002

   Consolidated Statements of Stockholders' Equity – for the years ended March 31, 2004, 2003 and 2002

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules

   Schedule II — Valuation and Qualifying Accounts

(b) Reports on Form 8-K filed during the last quarter of fiscal 2004

On January 28, 2004, the Company furnished (not filed) pursuant to Item 12 under Item 9 (in accordance with the interim filing guidance for these Items) the press release announcing its financial results for the quarter ended December 31, 2003, which was also filed as an exhibit under Item 7.

(c) Exhibits, Including Those Incorporated by Reference The following is a list of exhibits filed as part of this annual report on Form 10-K. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

Articles of Incorporation and By-Laws

3.1 Restated Certificate of Incorporation filed December 5, 1990. (1) (Exhibit 3.1)

3.2 Amendment to Restated Certificate of Incorporation filed May 8, 1992. (2) (Exhibit 3.2)

3.3 Certificate eliminating Class 2, Series A, $1.35 Preferred stock filed September 27, 1991. (3) (Exhibit 3.2)

3.4 Certificate eliminating Class 1, Series B, Convertible Preferred Stock filed January 28, 1993. (2) (Exhibit 3.5)

*3.5 By-laws of the Company, as amended to date (as last amended January 15, 2004).

Material Contracts

10.1 Asset Purchase Agreement, dated February 8, 2002, among Berwick Industries, LLC, Daylight Acquisition Corp., Lion Ribbon Company, Inc., C. M. Offray & Son, Inc., CVO Corporation (Delaware), C.M. Offray & Son (Hong Kong) Limited, Claude V. Offray, Jr., Claude V. Offray III, and Denise A. Offray. (12) (Exhibit 2.1)

10.2 Amendment No. 1 to Asset Purchase Agreement dated March 15, 2002. (12) (Exhibit 2.2)

10.3 Interest Rate Swap Master Agreement dated as of March 19, 2001 between First Union National Bank and CSS Industries, Inc. (13) (Exhibit 10.6)

10.4 Interest Rate Swap Master Agreement dated as of April 2, 2001 between PNC Bank, National Association and CSS Industries, Inc. (13) (Exhibit 10.7)

10.5 Loan Agreement among CSS Industries, Inc., the Lending Institutions listed therein, PNC Bank, National Association as the Administrative Agent, PNC Capital Markets, Inc. as Lead Arranger and Fleet National Bank and First Union National Bank as Co-Documentation Agents, dated as of April 30, 2001. (13) (Exhibit 10.8)

10.6 Receivables Purchase Agreement among CSS Funding LLC, CSS Industries, Inc., Market Street Funding Corporation and PNC Bank, National Association, dated as of April 30, 2001. (13) (Exhibit 10.9)

10.7 Purchase and Sale Agreement between Various Entities Listed on Schedule I, as the Originators, CSS Industries, Inc. and CSS Funding LLC, dated as of April 30, 2001. (13) (Exhibit 10.10)

10.8 Waiver and Amendment to Loan Agreement dated March 11, 2002. (13) (Exhibit 10.11)

10.9 First Amendment to Receivables Purchase Agreement dated as of August 24, 2001. (13) (Exhibit 10.12)

10.10 First Amendment to Purchase and Sale Agreement dated as of August 24, 2001. (13) (Exhibit 10.13)

10.11 CSS Industries, Inc. 2000 Stock Option Plan for Non-Employee Directors. (13) (Exhibit 10.14)

10.12 Stock Purchase Agreement, dated October 18, 2002, among Cleo Inc and the individuals and trusts constituting all of the shareholders of Crystal Creative Products, Inc. (14) (Exhibit 2.1)

10.13 Waiver and Amendment to Loan Agreement dated March 11, 2002. (15) (Exhibit 10.13)

10.14 Amendment and Limited Waiver of Loan Agreement dated June 24, 2002. (15) (Exhibit 10.14)

10.15 Amendment of Loan Agreement dated September 3, 2002. (15) (Exhibit 10.15)

10.16 Amendment and Limited Waiver of Loan Agreement dated December 12, 2002. (15) (Exhibit 10.16)

10.17 $50,000,000 4.48% Senior Notes due December 13, 2009 Note Purchase Agreement dated December 12, 2002. (15) (Exhibit 10.17)

*10.18 Amendment to Loan Agreement dated May 23, 2003.

Management Contracts, Compensatory Plans or Arrangements

10.19 CSS Industries, Inc. Non-Qualified Supplemental Executive Retirement Agreements, dated March 3, 1993, with certain executive officers of the Company. (2) (Exhibit 10.15)

10.20 CSS Industries, Inc. Non-Qualified Supplemental Executive Retirement Plan Guidelines, dated January 25, 1994. (4) (Exhibit 10.14)

10.21 CSS Industries, Inc. Annual Incentive Compensation Arrangement, Administrative Guidelines, dated March 15, 1993 (as amended January 1, 2000). (10) (Exhibit 10.11)

10.22 The Paper Magic Group, Inc. Management Incentive Bonus Program, Administrative Guidelines, dated March 15, 1993. (2) (Exhibit 10.28)

10.23 1994 Amendment to The Paper Magic Group, Inc. Management Incentive Bonus Program, Administrative Guidelines, dated March 2, 1994. (4) (Exhibit 10.26)

10.24 Berwick Industries, Inc. Incentive Bonus Plan, dated January 1, 1994. (4) (Exhibit 10.27)

10.25 Cleo Inc Management Incentive Plan, dated March 7, 1996. (6) (Exhibit 10.23)

10.26 Berwick Industries, Inc. Non-Qualified Supplemental Executive Retirement Plan, dated November 18, 1996. (7) (Exhibit 10.26)

10.27 The Paper Magic Group, Inc. Non-Qualified Supplemental Executive Retirement Plan, dated December 5, 1996. (7) (Exhibit 10.27)

10.28 Cleo Inc Non-Qualified Supplemental Executive Retirement Plan dated November 26, 1996. (9) (Exhibit 10.18)

*10.29 CSS Industries, Inc. 1994 Equity Compensation Plan (as last amended August 7, 2002).

Other

*21. List of Significant Subsidiaries of the Registrant.

*23. Consent of Independent Registered Public Accounting Firm.

*31.1 Certification of the Chief Executive Officer of CSS Industries, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.

*31.2 Certification of the Chief Financial Officer of CSS Industries, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.

*32.1 Certification of the Chief Executive Officer of CSS Industries, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes – Oxley Act of 2002.

*32.2 Certification of the Chief Financial Officer of CSS Industries, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes – Oxley Act of 2002.

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* Filed with this Annual Report on Form 10-K.

## Footnotes to List of Exhibits

(1) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1990 and incorporated herein by reference.

(2) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1992 and incorporated herein by reference.

(3) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1991 and incorporated herein by reference.

(4) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1993 and incorporated herein by reference.

(5) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1994 and incorporated herein by reference.

(6) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1995 and incorporated herein by reference.

(7) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1996 and incorporated herein by reference.

(8) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1997 and incorporated herein by reference.

(9) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1998 and incorporated herein by reference.

(10) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 1999 and incorporated herein by reference.

(11) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended December 31, 2000 and incorporated herein by reference.

(12) Filed as an exhibit to Form 8-K (No. 1-2661) dated March 15, 2002 and incorporated herein by reference.

(13) Filed as an exhibit to the Annual Report on Form 10-K/A (No. 1-2661) for the fiscal year ended March 31, 2002 and incorporated herein by reference.

(14) Filed as an exhibit to Form 8-K (No. 1-2661) dated October 18, 2002 and incorporated herein by reference.

(15) Filed as an exhibit to the Annual Report on Form 10-K (No. 1-2661) for the fiscal year ended March 31, 2003 and incorporated herein by reference.

The Company agrees to furnish supplementally a copy of omitted Schedules and Exhibits, if any, with respect to Exhibits listed above upon request.

Stockholders who have been furnished a copy of this Report may obtain copies of any Exhibit listed above on payment of $.50 per page for reproduction and mailing charges by writing to the Secretary, CSS Industries, Inc., 1845 Walnut Street, Philadelphia, Pennsylvania 19103.

# CSS INDUSTRIES, INC. AND SUBSIDIARIES
# SCHEDULE II
# VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

| Column A | Column B | Column C | | Column D | Column E |
|---|---|---|---|---|---|
| | | Additions | | | |
| | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts | Deductions | Balance at End of Period |
| Year ended March 31, 2004 | | | | | |
| Doubtful accounts receivable-customers ..... | $1,812 | $ 768 | $ — | $ 1,245(e) | $1,335 |
| Accrued restructuring expenses ............ | 1,115 | — | 1,672(d) | 2,018(f) | 769 |
| Year ended March 31, 2003 | | | | | |
| Doubtful accounts receivable-customers ..... | $1,549 | $ 1,521 | $ 237(c) | $ 1,495(e) | $1,812 |
| Accrued restructuring expenses ............ | 4,541 | — | — | 3,426(f) | 1,115 |
| Year ended March 31, 2002 | | | | | |
| Doubtful accounts receivable-customers ..... | $ 923 | $10,936(b) | $ 667(a) | $10,977(b)(e) | $1,549 |
| Accrued restructuring expenses | — | — | 4,541(a) | — | 4,541 |

Notes: (a) Balance at acquisition of Offray.
(b) Includes gross Kmart bad debt write-off before gain on Put Agreement of $5,436.
(c) Balance at acquisition of Crystal.
(d) Represents finalization of the Crystal plan for restructuring.
(e) Includes amounts written off as uncollectible, net of recoveries.
(f) Includes payments and non cash reductions further described in Note 3 of the accompanying consolidated financial statements.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on behalf of the undersigned thereunto duly authorized.

CSS INDUSTRIES, INC.

Registrant

Dated: June 7, 2004 By /s/ David J. M. Erskine

David J. M. Erskine, President and Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: June 7, 2004 /s/ David J. M. Erskine

David J. M. Erskine, President and Chief Executive Officer
(principal executive officer and a director)

Dated: June 7, 2004 /s/ Clifford E. Pietrafitta

Clifford E. Pietrafitta, Vice President – Finance and Chief Financial Officer
(principal financial and accounting officer)

Dated: June 7, 2004 /s/ Jack Farber

Jack Farber, Director

Dated: June 7, 2004 /s/ James H. Bromley

James H. Bromley, Director

Dated: June 7, 2004 /s/ Stephen V. Dubin

Stephen V. Dubin, Director

Dated: June 7, 2004 /s/ Leonard E. Grossman

Leonard E. Grossman, Director

Dated: June 7, 2004 /s/ James E. Ksansnak

James E. Ksansnak, Director

Dated: June 7, 2004 /s/ Rebecca C. Matthias

Rebecca C. Matthias, Director

Dated: June 7, 2004 /s/ Michael L. Sanyour

Michael L. Sanyour, Director

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**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David J. M. Erskine, certify that:

1. I have reviewed this annual report on Form 10-K of CSS Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2004

/s/ David J. M. Erskine

David J. M. Erskine,
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Clifford E. Pietrafitta, certify that:

1. I have reviewed this annual report on Form 10-K of CSS Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2004

/s/ Clifford E. Pietrafitta

Clifford E. Pietrafitta,
Vice President – Finance, Chief Financial Officer and
Principal Accounting Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CSS Industries, Inc. (the "Company") on Form 10-K for the year ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J.M. Erskine, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David J. M. Erskine
David J. M. Erskine
President and Chief Executive Officer

June 7, 2004

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CSS Industries, Inc. (the "Company") on Form 10-K for the year ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clifford E. Pietrafitta, Vice President – Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Clifford E. Pietrafitta

Clifford E. Pietrafitta
Vice President – Finance and Chief Financial Officer

June 7, 2004

**Stockholder Information**

Annual Meeting of Stockholders

All stockholders
are cordially invited
to attend this meeting,
which will be held
Wednesday, August 4, 2004
9:30 am
The Rittenhouse
210 West Rittenhouse Square
Philadelphia, PA 19103

**Stockholder Inquiries**

For address changes,
consolidations, lost
certificates and certificate
replacements, contact our
Transfer Agent and Registrar:
American Stock Transfer
and Trust Company
59 Maiden Lane
New York, NY 10038

For other inquiries, contact:
Stephen V. Dubin, Esq.
Executive Vice President,
Secretary and General Counsel

For additional investor information,
our website is
www.cssindustries.com

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CSS CREATIVE SEASONAL SOLUTIONS™

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www.cssindustries.com

CSS Listed NYSE

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