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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

or

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

For the transition period from to

Commission file number 1-2661

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of January 23, 2014, there were 9,294,838 shares of common stock outstanding which excludes shares which may still be issued upon exercise of stock options or upon vesting of restricted stock unit grants.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

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

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

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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CSS INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

CSS Industries, Inc. (collectively with its subsidiaries, “CSS” or the “Company”) has prepared the consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. The Company has condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States pursuant to such rules and regulations. In the opinion of management, the statements include all adjustments (which include normal recurring adjustments) required for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2013. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

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

The Company’s fiscal year ends on March 31. References to a particular fiscal year refer to the fiscal year ending in March of that year. For example, “fiscal 2014” refers to the fiscal year ending March 31, 2014.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Nature of Business

CSS is a consumer products company primarily engaged in the design, manufacture, procurement, distribution and sale of all occasion and seasonal social expression products, principally to mass market retailers. These all occasion and seasonal products include decorative ribbons and bows, boxed greeting cards, gift tags, gift wrap, gift bags, gift boxes, gift card holders, decorative tissue paper, decorations, classroom exchange Valentines, floral accessories, Easter egg dyes and novelties, craft and educational products, stickers, memory books, stationery, journals, notecards, infant and wedding photo albums, scrapbooks, and other gift items that commemorate life’s celebrations. The seasonal nature of CSS’ business has historically resulted in lower sales levels and operating losses in the first and fourth quarters and comparatively higher sales levels and operating profits in the second and third quarters of the Company’s fiscal year, which ends March 31, thereby causing significant fluctuations in the quarterly results of operations of the Company.

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

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

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

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

Foreign Currency Translation and Transactions

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Judgments and assessments of uncertainties are required in applying the Company’s accounting policies in many areas. Such estimates pertain to revenue recognition, the valuation of inventory and accounts receivable, the assessment of the recoverability of goodwill and other intangible and long-lived assets, income tax accounting, the valuation of stock-based awards and resolution of litigation and other proceedings. Actual results could differ from these estimates.

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

The Financial Accounting Standards Board (“FASB”) issued updated authoritative guidance in September 2011 to amend previous guidance on the annual and interim testing of goodwill for impairment. The guidance became effective for the Company at the beginning of its 2013 fiscal year. The guidance provides entities with the option of first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined, on the basis of the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two step impairment test would still be required. The first step of the test compares the fair value of a reporting unit to its carrying amount, including goodwill, as of the date of the test. The Company uses a dual approach to determine the fair value of its reporting units including both a market approach and an income approach. We believe the use of multiple valuation techniques results in a more accurate indicator of the fair value of each reporting unit. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the implied fair value of the goodwill. If the implied fair value of the goodwill is less than the carrying amount of the goodwill, an impairment loss would be reported. Annual impairment tests are performed by the Company in the fourth quarter of each year. The adoption of this updated authoritative guidance had no impact on the Company’s Consolidated Financial Statements. See Note 7 for further information on goodwill and other intangible assets.

Other indefinite lived intangible assets consist primarily of tradenames which are also required to be tested annually. The fair value of the Company’s tradenames is calculated using a “relief from royalty payments” methodology.

Long-lived assets (including property, plant and equipment), except for goodwill and indefinite lived intangible assets, are reviewed for impairment when circumstances indicate the carrying value of an asset group may not be recoverable. If such asset group is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

Inventories

The Company records inventory when title is transferred, which occurs upon receipt or prior to receipt dependent on supplier shipping terms. The Company adjusts unsaleable and slow-moving inventory to its estimated net realizable value. Substantially all of the Company’s inventories are stated at the lower of first-in, first-out (FIFO) cost or market. The remaining portion of the inventory is valued at the lower of last-in, first-out (LIFO) cost or market. Inventories consisted of the following (in thousands):

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

Property, Plant and Equipment

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

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

During the nine months ended December 31, 2013, the Company identified and wrote off certain property, plant and equipment that was fully depreciated and no longer in use. The net effect was to decrease gross cost and accumulated depreciation by $4,237,000. There was no effect on net property, plant and equipment.

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

Income Tax Valuation Allowance

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

Revenue Recognition

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

Net Income Per Common Share

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

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

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

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

(2) DISCONTINUED OPERATIONS

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

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

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

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

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

(3) BUSINESS RESTRUCTURING

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

(4) DISPOSITION OF PRODUCT LINE

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

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

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

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

(5) STOCK-BASED COMPENSATION

2013 Equity Compensation Plan

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

2004 Equity Compensation Plan

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

2011 Stock Option Plan for Non-Employee Directors

Under the terms of the Company’s 2011 Stock Option Plan for Non-Employee Directors (“2011 Plan”), non-qualified stock options to purchase up to 150,000 shares of common stock are available for grant to non-employee directors at exercise prices of not less than fair market value of the underlying common stock on the date of grant. Under the 2011 Plan, options to purchase 4,000 shares of the Company’s common stock are granted automatically to each non-employee director on the last day that the Company’s common stock is traded in November of each year from 2011 to 2015. Each option will expire five years after the date the option is granted and options may be exercised at the rate of

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

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

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

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

As of December 31, 2013, there was $1,480,000 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company's equity incentive plans which is expected to be recognized over a weighted average period of 2.2 years. As of December 31, 2013, there was $1,442,000 of total unrecognized compensation cost related to non-vested RSUs granted under the Company's equity incentive plans which is expected to be recognized over a weighted average period of 2.2 years.

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

(6) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into foreign currency forward contracts in order to reduce the impact of certain foreign currency fluctuations on sales denominated in a foreign currency. Derivatives are not used for trading or speculative activities. Firmly committed transactions and the related receivables may be hedged with forward exchange contracts. Gains and losses arising from foreign currency forward contracts are recorded in other income, net as offsets of gains and losses resulting from the underlying hedged transactions. A realized gain of $68,000 and $59,000 was recorded in the three- and nine months ended December 31, 2013, respectively. A realized loss of $50,000 and $56,000 was recorded in the three- and nine months ended December 31, 2012, respectively. As of December 31, 2013 and 2012, the notional amount of open foreign currency forward contracts was $3,401,000 and $5,230,000, respectively. The related unrealized gain was $11,000 as of December 31, 2013 and the related unrealized loss was $13,000 at December 31, 2012. We believe we do not have significant counterparty credit risks as of December 31, 2013.

The following table shows the fair value of the foreign currency forward contracts designated as hedging instruments and included in the Company's condensed consolidated balance sheet (in thousands):

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

(7) GOODWILL AND INTANGIBLES

The Company performs an annual impairment test of the carrying amount of goodwill and indefinite-lived intangible assets in the fourth quarter of its fiscal year. Additionally, the Company would perform its impairment testing at an interim date if events or circumstances indicate that goodwill or intangibles might be impaired. In connection with the

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

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

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

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

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

(8) TREASURY STOCK TRANSACTIONS

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

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

(9) COMMITMENTS AND CONTINGENCIES

CSS and its subsidiaries are involved in ordinary, routine legal proceedings that are not considered by management to be material. In the opinion of Company counsel and management, the ultimate liabilities resulting from such legal

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

(10) FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The Company uses certain derivative financial instruments as part of its risk management strategy to reduce foreign currency risk. The Company recorded all derivatives on the condensed consolidated balance sheet at fair value based on quotes obtained from financial institutions as of December 31, 2013.

The Company maintains a Nonqualified Supplemental Executive Retirement Plan for highly compensated employees and invests assets to mirror the obligations under this Plan. The invested funds are maintained at a third party financial institution in the name of CSS and are invested in publicly traded mutual funds. The Company maintains separate accounts for each participant to reflect deferred contribution amounts and the related gains or losses on such deferred amounts. The investments are included in other current assets and the related liability is recorded as deferred compensation and included in other long-term obligations in the condensed consolidated balance sheets. The fair value of the investments is based on the market price of the mutual funds as of December 31, 2013.

The Company maintains two life insurance policies in connection with deferred compensation arrangements with two former executives. The cash surrender value of the policies is recorded in other long-term assets in the condensed consolidated balance sheets and is based on quotes obtained from the insurance company as of December 31, 2013.

To increase consistency and comparability in fair value measurements, the FASB established a fair value hierarchy that prioritizes the inputs to valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The Company’s recurring assets and liabilities recorded on the condensed consolidated balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Examples of Level 2 inputs include quoted prices for identical or similar assets or liabilities in non-active markets and pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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The following table presents the Company’s fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis in its condensed consolidated balance sheet as of December 31, 2013 and March 31, 2013 (in thousands):

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

		Fair Value Measurements at March 31, 2013 Using		
	March 31, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Marketable securities	$678	$678	$—	$—
Cash surrender value of life insurance policies	1,040	—	1,040	—
Total assets	$1,718	$678	$1,040	$—