

CSS INDUSTRIES INC  
Form 10-Q  
July 31, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 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)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>13-1920657</b> (I.R.S. Employer Identification No.)
<b>1845 Walnut Street, Philadelphia, PA</b> (Address of principal executive offices)	<b>19103</b> (Zip Code)
<b>(215) 569-9900</b> (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.  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).  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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

As of July 23, 2013, there were 9,512,262 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

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Table of ContentsCSS INDUSTRIES, INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,	
	2013	2012
Sales	\$ 47,117	\$ 61,067
Costs and expenses		
Cost of sales	32,658	43,869
Selling, general and administrative expenses	17,004	18,570
Interest expense (income), net	20	(53)
Other expense, net	6	14
	49,688	62,400
Loss from continuing operations before income taxes	(2,571)	(1,333)
Income tax benefit	(904)	(466)
Loss from continuing operations	(1,667)	(867)
Loss from discontinued operations, net of tax	0	(37)
Net loss	\$ (1,667)	\$ (904)
Basic and diluted net loss per common share:		
Continuing operations	\$ (.18)	\$ (.09)
Discontinued operations	\$ (.00)	\$ (.00)
Total	\$ (.18)	\$ (.09)
Weighted average basic and diluted shares outstanding	9,505	9,642
Cash dividends per share of common stock	\$ 0.15	\$ 0.15

See notes to consolidated financial statements.

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(Unaudited)

(In thousands)

	June 30, 2013	March 31, 2013	June 30, 2012
<b><u>Assets</u></b>			
Current assets			
Cash and cash equivalents	\$ 67,038	\$ 87,108	\$ 37,444
Accounts receivable, net of allowances of \$1,421, \$2,009 and \$1,360	40,488	43,133	55,521
Inventories	81,843	62,598	89,816
Deferred income taxes	4,079	4,520	3,241
Other current assets	16,669	13,073	18,400
Current assets of discontinued operations	0	2	142
<b>Total current assets</b>	<b>210,117</b>	<b>210,434</b>	<b>204,564</b>
Property, plant and equipment, net	28,046	27,956	29,249
Deferred income taxes	3,204	3,974	420
Other assets			
Goodwill	14,522	14,522	17,233
Intangible assets, net	27,590	28,004	29,275
Other	4,352	4,290	6,642
<b>Total other assets</b>	<b>46,464</b>	<b>46,816</b>	<b>53,150</b>
<b>Total assets</b>	<b>\$ 287,831</b>	<b>\$ 289,180</b>	<b>\$ 287,383</b>
<b><u>Liabilities and Stockholders' Equity</u></b>			
Current liabilities			
Accrued customer programs	\$ 3,772	\$ 4,015	\$ 3,833
Other current liabilities	33,591	30,718	39,059
Current liabilities of discontinued operations	567	644	981
<b>Total current liabilities</b>	<b>37,930</b>	<b>35,377</b>	<b>43,873</b>
Long-term obligations	4,709	4,825	4,516
<b>Stockholders' equity</b>	<b>245,192</b>	<b>248,978</b>	<b>238,994</b>

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Total liabilities and stockholders' equity	\$ 287,831	\$ 289,180	\$ 287,383
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See notes to consolidated financial statements.

**Table of Contents**CSS INDUSTRIES, INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended June 30,	
	2013	2012
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,667)	\$ (904)
<b>Adjustments to reconcile net loss to net cash used for operating activities:</b>		
Depreciation and amortization	1,905	1,972
Provision for accounts receivable allowances	433	325
Deferred tax provision	1,211	826
Stock-based compensation expense	492	410
Loss on sale or disposal of assets	0	17
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in accounts receivable	2,212	(10,820)
Increase in inventory	(19,245)	(18,145)
Increase in other assets	(3,658)	(2,777)
Increase in other accrued liabilities	3,546	6,637
Decrease in accrued taxes	(1,139)	(200)
<b>Total adjustments</b>	<b>(14,243)</b>	<b>(21,755)</b>
<b>Net cash used for operating activities - continuing operations</b>	<b>(15,910)</b>	<b>(22,659)</b>
<b>Net cash used for operating activities - discontinued operations</b>	<b>(75)</b>	<b>(1,368)</b>
<b>Net cash used for operating activities</b>	<b>(15,985)</b>	<b>(24,027)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(1,581)	(1,242)
<b>Net cash used for investing activities - continuing operations</b>	<b>(1,581)</b>	<b>(1,242)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid	(1,431)	(1,441)
Purchase of treasury stock	(625)	(1,923)
Exercise of stock options, net of tax withholdings	(288)	192
Payments for tax withholding on net restricted stock settlements	(537)	(244)
Tax effect on stock awards	377	(6)
<b>Net cash used for financing activities - continuing operations</b>	<b>(2,504)</b>	<b>(3,422)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(20,070)</b>	<b>(28,691)</b>
Cash and cash equivalents at beginning of period	87,108	66,135
<b>Cash and cash equivalents at end of period</b>	<b>\$ 67,038</b>	<b>\$ 37,444</b>

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See notes to consolidated financial statements.



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**CSS INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 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 months ended June 30, 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's 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.

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On September 5, 2012 the Company and its Paper Magic Group, Inc. ( 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 transition costs (included within disposition of product 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 throughout fiscal 2014.

**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, 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.

**Table of Contents****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):

	June 30, 2013	March 31, 2013	June 30, 2012
Raw material	\$ 9,496	\$ 8,116	\$ 9,177
Work-in-process	17,719	14,687	16,339
Finished goods	54,628	39,795	64,300
	\$ 81,843	\$ 62,598	\$ 89,816

**Property, Plant and Equipment**

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

	June 30, 2013	March 31, 2013	June 30, 2012
Land	\$ 2,508	\$ 2,508	\$ 2,508
Buildings, leasehold interests and improvements	37,021	37,007	37,110
Machinery, equipment and other	103,217	101,916	101,052
	142,746	141,431	140,670
Less - Accumulated depreciation and amortization	(114,700)	(113,475)	(111,421)
Net property, plant and equipment	\$ 28,046	\$ 27,956	\$ 29,249

Depreciation expense was \$1,491,000 and \$1,558,000 for the quarters ended June 30, 2013 and 2012, respectively.

**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 Loss Per Common Share**

Due to the Company's net losses in the first quarter, potentially dilutive securities of 150,200 shares and 269,000 shares as of June 30, 2013 and 2012, respectively, consisting of outstanding stock options and non-vested restricted stock units, were excluded from the diluted loss per share calculation due to their antidilutive effect.

**(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

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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 June 30, 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 June 30, 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):

	Three Months Ended June 30,	
	2013	2012
Operating loss	\$ 0	\$ (57)
Discontinued operations, before income taxes	0	(57)
Income tax benefit	0	20
Discontinued operations, net of tax	\$ 0	\$ (37)

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):

	June 30, 2013	March 31, 2013	June 30, 2012
Accounts receivable, net	\$ 0	\$ 2	\$ 21
Inventories	0	0	121
Total current assets	\$ 0	\$ 2	\$ 142
Total assets attributable to discontinued operations	\$ 0	\$ 2	\$ 142
Customer programs	\$ 133	\$ 162	\$ 237
Restructuring reserve	0	0	376
Other current liabilities	434	482	368
Total current liabilities	\$ 567	\$ 644	\$ 981
Total liabilities associated with discontinued operations	\$ 567	\$ 644	\$ 981

**(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,

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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.

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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 has been 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.

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 months ended June 30, 2013, the Company made payments of \$579,000 primarily related to facility costs and severance. As of June 30, 2013, \$825,000 of the remaining liability was classified in other current liabilities and \$135,000 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 throughout fiscal 2014.

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	(159)	(381)	(39)	(579)
Non-cash adjustments	(23)	(91)	(234)	(348)
Restructuring reserve as of June 30, 2013	\$ 407	\$ 343	\$ 210	\$ 960

**(5) STOCK-BASED COMPENSATION*****2004 Equity Compensation Plan***

Under the terms of the Company's 2004 Equity Compensation Plan ( "2004 Plan" ), the Human Resources Committee ( "Committee" ) of the Board of Directors ( "Board" ) may grant incentive stock options, non-qualified stock options, restricted stock grants, stock appreciation rights, stock bonuses and other awards to officers and other employees. Grants under the 2004 Plan may be made through August 3, 2014. The term of each grant is at the discretion of the Committee, but in no event greater than ten years from the date of grant. The Committee has discretion to determine the date or dates on which granted options become exercisable. Service-based options outstanding as of June 30, 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

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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 June 30, 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 June 30, 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. At June 30, 2013, 687,458 shares were available for grant under the 2004 Plan.

The fair value of each market-based stock option and each market-based RSU granted under the above plan was estimated on the date of grant using a Monte Carlo simulation model with the following average assumptions:

	Stock Options Three Months Ended June 30,		RSUs Three Months Ended June 30,	
	2013	2012	2013	2012
Risk-free interest rate	0.84%	0.72%	0.66%	0.58%
Volatility	52.27%	54.75%	40.47%	57.90%
Dividend yield	2.04%	3.15%	2.04%	3.15%

The weighted average fair value of stock options granted during the three months ended June 30, 2013 and 2012 was \$11.06 and \$7.27, respectively. The weighted average fair value of restricted stock units granted during the three months ended June 30, 2013 and 2012 was \$20.51 and \$14.78, respectively.

*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 25% per year commencing one year after the date of grant. At June 30, 2013, 114,000 shares were available for grant under the 2011 Plan.

As of June 30, 2013, there was \$1,966,000 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 June 30, 2013, there was \$2,017,000 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 2.5 years.

Compensation cost related to stock options and RSUs recognized in operating results (included in selling, general and administrative expenses) was \$492,000 and \$410,000 in the quarters ended June 30, 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 expense, net as offsets of gains and losses resulting from the underlying hedged transactions. Realized gains of \$7,000 were recorded in the three months ended June 30, 2013. As of June 30, 2013 and 2012, the notional amount of open foreign currency forward contracts was \$927,000 and \$3,919,000, respectively. The related unrealized gain was \$10,000 and \$51,000 at June 30, 2013 and 2012, respectively. We believe we do not have significant counterparty credit risks as of June 30, 2013.



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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 as of June 30, 2013 and 2012 (in thousands):

	Balance Sheet Location	Fair Value of Derivative Instruments		
		June 30, 2013	March 31, 2013	June 30, 2012
Foreign currency forward contracts	Other current assets	\$ 10	\$ 0	\$ 51
Foreign currency forward contracts	Other current liabilities	0	17	0

**(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. During the three months ended June 30, 2013, there have not been any such events.

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

	June 30, 2013		March 31, 2013		June 30, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Tradenames and trademarks	\$ 12,793	\$ 0	\$ 12,793	\$ 0	\$ 12,793	\$ 0
Customer relationships	22,057	8,234	22,057	7,859	22,057	6,734
Non-compete	0	0	0	0	200	200
Trademarks	403	250	403	243	403	220
Patents	1,262	441	1,262	409	1,301	325
	\$ 36,515	\$ 8,925	\$ 36,515	\$ 8,511	\$ 36,754	\$ 7,479

Amortization expense related to intangible assets was \$414,000 for each of the quarters ended June 30, 2013 and 2012. 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	\$ 1,240
Fiscal 2015	1,635
Fiscal 2016	1,634
Fiscal 2017	1,634
Fiscal 2018	1,634

**(8) TREASURY STOCK TRANSACTIONS**

Under a stock repurchase program authorized by the Company's Board of Directors, the Company repurchased 29,336 shares of the Company's common stock for \$731,000 during the three months ended June 30, 2013. As payment for stock repurchases occurs upon settlement three business days after the trade transaction, \$106,000 of this amount was paid by the Company subsequent to June 30, 2013. The Company repurchased 101,706 shares of the Company's common stock for \$1,923,000 during the three months ended June 30, 2012. As of June 30, 2013, the Company had 444,274 shares remaining available for repurchase under the Board's authorization.



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(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 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 June 30, 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 June 30, 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 June 30, 2013.

To increase consistency and comparability in fair value measurements, the Financial Accounting Standards Board ( 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 June 30, 2013 and March 31, 2013 (in thousands):

	June 30, 2013	Fair Value Measurements at June 30, 2013 Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Marketable securities	\$ 677	\$ 677	\$ 0	\$ 0
Cash surrender value of life insurance policies	1,047	0	1,047	0
Foreign exchange contracts	10	0	10	0
<b>Total assets</b>	<b>\$ 1,734</b>	<b>\$ 677</b>	<b>\$ 1,057</b>	<b>\$ 0</b>
<b>Liabilities</b>				
Deferred compensation plans	\$ 677	\$ 677	\$ 0	\$ 0

**15,148,724**

**Technology (1.4%)**

**FORWARD CURRENCY CONTRACTS at 10/31/15 (aggregate face value \$236,928,126) (Unaudited)**

Counterparty	Currency	Contract type	Delivery date	Value	Aggregate face value	Unrealized appreciation/ (depreciation)
<b>Bank of America N.A.</b>						
	British Pound	Buy	12/16/15	\$549,626	\$545,885	\$3,741
	Chilean Peso	Sell	1/20/16	510,051	511,073	1,022
	Euro	Sell	12/16/15	2,899,557	2,985,560	86,003
	Mexican Peso	Buy	1/20/16	3,217,574	3,119,176	98,398
	New Taiwan Dollar	Buy	11/18/15	6,431,665	6,492,155	(60,490)

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New Taiwan Dollar	Sell	11/18/15	6,516,073	6,474,455	(41,618)
New Zealand Dollar	Buy	1/20/16	1,919,550	1,815,041	104,509
Norwegian Krone	Sell	12/16/15	1,223,053	1,230,888	7,835
Swedish Krona	Sell	12/16/15	1,100,942	1,091,477	(9,465)
<b>Barclays Bank PLC</b>					
British Pound	Buy	12/16/15	208,845	207,407	1,438
Euro	Sell	12/16/15	7,060,726	7,216,566	155,840
Japanese Yen	Buy	11/18/15	6,639,840	6,593,465	46,375
Japanese Yen	Sell	11/18/15	6,639,840	6,646,334	6,494
Mexican Peso	Buy	1/20/16	3,124,653	3,025,709	98,944
New Zealand Dollar	Sell	1/20/16	1,410,691	1,341,038	(69,653)
Norwegian Krone	Sell	12/16/15	1,650,941	1,656,546	5,605
Singapore Dollar	Buy	11/18/15	3,496,469	3,481,882	14,587
Singapore Dollar	Sell	11/18/15	3,496,469	3,547,978	51,509
Swedish Krona	Buy	12/16/15	1,285,048	1,383,363	(98,315)
Swiss Franc	Buy	12/16/15	2,647,790	2,693,880	(46,090)
<b>Citibank, N.A.</b>					
Brazilian Real	Sell	1/5/16	104,050	102,390	(1,660)
British Pound	Buy	12/16/15	1,386,241	1,376,604	9,637
Canadian Dollar	Sell	1/20/16	329,253	325,426	(3,827)
Euro	Buy	12/16/15	230,644	237,414	(6,770)
Japanese Yen	Sell	11/18/15	1,419,787	1,381,996	(37,791)
Mexican Peso	Buy	1/20/16	2,604,773	2,530,744	74,029
Norwegian Krone	Buy	12/16/15	2,081,089	2,146,541	(65,452)
Swedish Krona	Sell	12/16/15	3,467,131	3,526,120	58,989
Swiss Franc	Buy	12/16/15	322,387	332,013	(9,626)
<b>Credit Suisse International</b>					
British Pound	Buy	12/16/15	2,255,839	2,240,221	15,618
Canadian Dollar	Sell	1/20/16	1,084,616	1,068,856	(15,760)
Euro	Sell	12/16/15	2,847,289	2,943,948	96,659
Indian Rupee	Buy	11/18/15	3,160,471	3,158,774	1,697
Japanese Yen	Sell	11/18/15	262,681	164,678	(98,003)
New Zealand Dollar	Buy	1/20/16	138,578	131,091	7,487
Norwegian Krone	Sell	12/16/15	2,773,072	2,858,970	85,898
Singapore Dollar	Buy	11/18/15	3,455,589	3,442,575	13,014
Singapore Dollar	Sell	11/18/15	3,455,589	3,506,971	51,382
Swedish Krona	Sell	12/16/15	115,492	117,435	1,943
Swiss Franc	Sell	12/16/15	165,145	167,969	2,824
<b>Deutsche Bank AG</b>					
British Pound	Buy	12/16/15	395,188	392,445	2,743
Canadian Dollar	Sell	1/20/16	3,157,681	3,120,413	(37,268)
Czech Koruna	Sell	12/16/15	3,131,314	3,204,682	73,368
Euro	Buy	12/16/15	1,200,318	1,220,860	(20,542)
Israeli Shekel	Sell	1/20/16	448,949	448,021	(928)
Japanese Yen	Sell	11/18/15	3,146,876	3,063,399	(83,477)
Norwegian Krone	Sell	12/16/15	1,039,098	1,071,532	32,434
Polish Zloty	Sell	12/16/15	1,749,893	1,778,547	28,654
Swedish Krona	Sell	12/16/15	26,878	27,345	467
Swiss Franc	Sell	12/16/15	1,753,474	1,784,411	30,937
<b>Goldman Sachs International</b>					
Australian Dollar	Buy	1/20/16	1,251,504	1,235,841	15,663

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British Pound	Buy	12/16/15	3,233,328	3,212,089	21,239
Canadian Dollar	Buy	1/20/16	1,179,027	1,187,863	(8,836)
Euro	Sell	12/16/15	4,706,417	4,854,144	147,727
Japanese Yen	Sell	11/18/15	1,603,281	1,658,096	54,815
Norwegian Krone	Sell	12/16/15	1,371,429	1,414,145	42,716
Swedish Krona	Buy	12/16/15	1,604,412	1,619,666	(15,254)
<b>HSBC Bank USA, National Association</b>					
British Pound	Sell	12/16/15	1,438,953	1,428,598	(10,355)
Canadian Dollar	Sell	1/20/16	591,998	585,018	(6,980)
Euro	Sell	12/16/15	6,718,501	6,915,883	197,382
Japanese Yen	Sell	11/18/15	75,390	52,362	(23,028)
New Zealand Dollar	Buy	1/20/16	904,122	854,897	49,225
Swedish Krona	Buy	12/16/15	923,644	939,724	(16,080)
<b>JPMorgan Chase Bank N.A.</b>					
Australian Dollar	Buy	1/20/16	91,778	90,634	1,144
British Pound	Sell	12/16/15	727,954	723,108	(4,846)
Canadian Dollar	Sell	1/20/16	2,142,630	2,090,143	(52,487)
Euro	Sell	12/16/15	7,044,000	7,196,348	152,348
Indian Rupee	Buy	11/18/15	3,179,890	3,173,583	6,307
Japanese Yen	Sell	11/18/15	338,664	532,709	194,045
New Taiwan Dollar	Sell	11/18/15	3,237,053	3,303,143	66,090
New Zealand Dollar	Buy	1/20/16	59,862	56,621	3,241
Norwegian Krone	Sell	12/16/15	395,429	365,852	(29,577)
Singapore Dollar	Buy	11/18/15	3,562,818	3,549,745	13,073
Singapore Dollar	Sell	11/18/15	3,562,818	3,612,882	50,064
South African Rand	Buy	1/20/16	939,138	926,171	12,967
South Korean Won	Sell	11/18/15	140,955	125,349	(15,606)
Swedish Krona	Sell	12/16/15	1,964,690	2,062,115	97,425
Swiss Franc	Buy	12/16/15	335,254	341,264	(6,010)
<b>Royal Bank of Scotland PLC (The)</b>					
Australian Dollar	Buy	1/20/16	1,554,684	1,573,649	(18,965)
British Pound	Buy	12/16/15	2,171,992	2,134,922	37,070
Canadian Dollar	Buy	1/20/16	1,714,380	1,753,388	(39,008)
Euro	Sell	12/16/15	5,832,348	5,971,304	138,956
Japanese Yen	Sell	11/18/15	1,592,953	1,690,059	97,106
New Zealand Dollar	Buy	1/20/16	1,772,757	1,730,356	42,401
Norwegian Krone	Sell	12/16/15	656,618	637,216	(19,402)
Singapore Dollar	Buy	11/18/15	1,710,244	1,689,240	21,004
Singapore Dollar	Sell	11/18/15	1,710,244	1,735,906	25,662
South Korean Won	Sell	11/18/15	32,598	56,237	23,639
Swedish Krona	Sell	12/16/15	1,036,406	984,076	(52,330)
<b>State Street Bank and Trust Co.</b>					
Australian Dollar	Buy	1/20/16	1,144,596	1,130,134	14,462
Brazilian Real	Buy	1/5/16	676,553	614,856	61,697
British Pound	Buy	12/16/15	346,021	343,620	2,401
Canadian Dollar	Buy	1/20/16	2,050,284	2,047,385	2,899
Euro	Sell	12/16/15	7,254,176	7,370,756	116,580
Hungarian Forint	Buy	12/16/15	3,361,563	3,370,555	(8,992)
Japanese Yen	Sell	11/18/15	557,753	474,165	(83,588)
Norwegian Krone	Buy	12/16/15	47,456	48,939	(1,483)
Singapore Dollar	Buy	11/18/15	4,981,981	4,948,823	33,158

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	Singapore Dollar	Sell	11/18/15	4,981,981	5,045,041	63,060
	Swedish Krona	Sell	12/16/15	1,013,207	1,030,808	17,601
	Swiss Franc	Sell	12/16/15	688,948	700,767	11,819
<b>UBS AG</b>						
	Australian Dollar	Buy	1/20/16	1,698,744	1,746,842	(48,098)
	British Pound	Buy	12/16/15	2,788,048	2,768,657	19,391
	Canadian Dollar	Sell	1/20/16	1,842,503	1,821,521	(20,982)
	Euro	Sell	12/16/15	5,058,105	5,207,396	149,291
	Israeli Shekel	Sell	1/20/16	17,641	17,397	(244)
	Japanese Yen	Sell	11/18/15	1,314,493	1,279,211	(35,282)
	Norwegian Krone	Buy	12/16/15	41,587	42,858	(1,271)
	Swedish Krona	Sell	12/16/15	137,601	87,410	(50,191)
<b>WestPac Banking Corp.</b>						
	Canadian Dollar	Sell	1/20/16	107,713	108,187	474
	Euro	Sell	12/16/15	4,278,691	4,404,414	125,723
	Japanese Yen	Buy	11/18/15	3,466,992	3,356,635	110,357
	Japanese Yen	Sell	11/18/15	3,466,992	3,473,976	6,984
	New Zealand Dollar	Buy	1/20/16	1,583,880	1,476,027	107,853
	South Korean Won	Sell	11/18/15	29,818	15,131	(14,687)
<b>Total</b>						<b>\$2,334,822</b>

**FUTURES CONTRACTS OUTSTANDING at 10/31/15 (Unaudited)**

	Number of contracts	Value	Expiration date	Unrealized appreciation/ (depreciation)
Euro-Bund 10 yr (Long)	10	\$1,728,760	Dec-15	\$37,800
U.S. Treasury Bond 30 yr (Long)	54	8,447,625	Dec-15	(10,574)
U.S. Treasury Bond Ultra 30 yr (Long)	48	7,668,000	Dec-15	20,200
U.S. Treasury Note 10 yr (Short)	304	38,817,000	Dec-15	(182,456)
<b>Total</b>				<b>\$(135,030)</b>

**WRITTEN SWAP OPTIONS OUTSTANDING at 10/31/15 (premiums \$10,128,356) (Unaudited)**

<b>Counterparty</b>	<b>Fixed Obligation % to receive or (pay)/ Floating rate index/Maturity date</b>	<b>Expiration date/strike</b>	<b>Contract amount</b>	<b>Value</b>
<b>Bank of America N.A.</b>				
	1.798/3 month USD-LIBOR-BBA/Dec-17	Dec-15/1.798	\$209,244,000	\$209
	1.278/3 month USD-LIBOR-BBA/Dec-17	Dec-15/1.278	52,311,000	2,616
<b>Citibank, N.A.</b>				
	2.587/3 month USD-LIBOR-BBA/May-18	May-16/2.587	87,981,400	6,159
	2.387/3 month USD-LIBOR-BBA/May-18	May-16/2.387	87,981,400	11,438
<b>Credit Suisse International</b>				
	2.515/3 month USD-LIBOR-BBA/Apr-47	Apr-17/2.515	9,241,300	887,424
<b>Goldman Sachs International</b>				
	2.58625/3 month USD-LIBOR-BBA/Jun-18	Jun-16/2.58625	175,962,800	12,317
	(1.885)/3 month USD-LIBOR-BBA/Jan-46	Jan-16/1.885	8,552,050	19,328
	2.29/3 month USD-LIBOR-BBA/Nov-25	Nov-15/2.29	41,967,600	47,843
	(0.725)/3 month USD-LIBOR-BBA/Dec-17	Dec-15/0.725	226,793,700	88,450
	(0.8125)/3 month USD-LIBOR-BBA/Dec-17	Dec-15/0.8125	226,793,700	185,971
	(1.435)/3 month USD-LIBOR-BBA/Nov-20	Nov-15/1.435	166,457,000	324,591
	(2.29)/3 month USD-LIBOR-BBA/Nov-25	Nov-15/2.29	41,967,600	844,808
<b>JPMorgan Chase Bank N.A.</b>				
	(0.83)/3 month USD-LIBOR-BBA/Dec-17	Dec-15/0.83	106,366,500	89,348
	(0.905)/3 month USD-LIBOR-BBA/Dec-17	Dec-15/0.905	106,366,500	158,484
	(2.023)/3 month USD-LIBOR-BBA/Nov-25	Nov-15/2.023	41,614,200	203,077
	2.023/3 month USD-LIBOR-BBA/Nov-25	Nov-15/2.023	41,614,200	459,421
	(6.00 Floor)/3 month USD-LIBOR-BBA/Mar-18	Mar-18/6.00	26,070,000	3,346,241
<b>Total</b>			<b>\$6,687,725</b>	



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**WRITTEN OPTIONS OUTSTANDING at 10/31/15 (premiums \$1,056,563)  
(Unaudited)**

	<b>Expiration date/strike price</b>	<b>Contract amount</b>	<b>Value</b>
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/\$99.98	\$21,000,000	\$43,491
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/99.92	21,000,000	40,467
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/99.86	21,000,000	37,611
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/99.77	21,000,000	33,684
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/99.19	21,000,000	16,527
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/99.03	21,000,000	13,545
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/98.98	21,000,000	12,747
Federal National Mortgage Association 30 yr 3.0s TBA commitments (Put)	Dec-15/98.86	21,000,000	10,836
<b>Total</b>			<b>\$208,908</b>

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**FORWARD PREMIUM SWAP OPTION CONTRACTS OUTSTANDING at 10/31/15 (Unaudited)**

Counterparty			Premium	Unrealized
Fixed right or obligation % to receive or (pay)/	Expiration	Contract	receivable/	appreciation/
Floating rate index/Maturity date	date/strike	amount	(payable)	(depreciation)
<b>Bank of America N.A.</b>				
2.00/3 month USD-LIBOR-BBA/Nov-25 (Purchased)	Nov-15/2.00	\$83,228,400	\$(332,914)	\$24,969
(2.238)/3 month USD-LIBOR-BBA/Nov-25 (Purchased)	Nov-15/2.238	83,228,400	(332,914)	(98,210)
2.119/3 month USD-LIBOR-BBA/Nov-25 (Written)	Nov-15/2.119	41,614,200	332,914	71,701
(2.119)/3 month USD-LIBOR-BBA/Nov-25 (Written)	Nov-15/2.119	41,614,200	332,914	(51,976)
<b>Citibank, N.A.</b>				
1.475/3 month USD-LIBOR-BBA/Nov-20 (Purchased)	Nov-15/1.475	83,228,400	(220,555)	4,161
1.399/3 month USD-LIBOR-BBA/Nov-20 (Purchased)	Nov-15/1.399	83,228,400	(124,843)	2,497
(1.551)/3 month USD-LIBOR-BBA/Nov-20 (Written)	Nov-15/1.551	83,228,400	345,398	(20,807)
<b>JPMorgan Chase Bank N.A.</b>				
2.117/3 month USD-LIBOR-BBA/Feb-27 (Purchased)	Feb-17/2.117	11,591,775	(284,033)	(2,202)
2.035/3 month USD-LIBOR-BBA/Feb-27 (Purchased)	Feb-17/2.035	11,591,775	(294,535)	(43,817)
1.00/3 month USD-LIBOR-BBA/Apr-27 (Purchased)	Apr-17/1.00	21,148,700	(139,835)	(55,811)
1.00/3 month USD-LIBOR-BBA/Apr-27 (Purchased)	Apr-17/1.00	42,297,400	(297,139)	(128,965)
(3.035)/3 month USD-LIBOR-BBA/Feb-27 (Purchased)	Feb-17/3.035	11,591,775	(308,434)	(150,287)
(3.117)/3 month USD-LIBOR-BBA/Feb-27 (Purchased)	Feb-17/3.117	11,591,775	(324,570)	(186,709)
2.655/3 month USD-LIBOR-BBA/Feb-19 (Written)	Feb-17/2.655	50,772,000	336,365	270,412
2.56/3 month USD-LIBOR-BBA/Feb-19 (Written)	Feb-17/2.56	50,772,000	324,570	246,244
(1.00)/3 month USD-LIBOR-BBA/Apr-19 (Written)	Apr-17/1.00	84,594,800	270,703	28,762
(1.00)/3 month USD-LIBOR-BBA/Apr-19 (Written)	Apr-17/1.00	42,297,400	129,515	9,728
	Feb-17/1.56	50,772,000	292,309	(79,204)

(1.56)/3 month USD-LIBOR-BBA/Feb-19 (Written)			
(1.655)/3 month USD-LIBOR-BBA/Feb-19 (Written)	Feb-17/1.655	50,772,000	289,400
			<u>(134,546)</u>
<b>Total</b>			<b>\$(5,684)</b>
			<b>\$(294,060)</b>

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**TBA SALE COMMITMENTS OUTSTANDING at 10/31/15 (proceeds receivable \$254,950,664) (Unaudited)**

<b>Agency</b>	<b>Principal amount</b>	<b>Settlement date</b>	<b>Value</b>
Federal National Mortgage Association, 5 1/2s, November 1, 2045	\$5,000,000	11/12/15	\$5,585,938
Federal National Mortgage Association, 3 1/2s, November 1, 2045	55,000,000	11/12/15	57,247,267
Federal National Mortgage Association, 3s, December 1, 2045	1,000,000	12/10/15	1,008,672
Federal National Mortgage Association, 3s, November 1, 2045	188,000,000	11/12/15	190,041,567
<b>Total</b>			<u><b>\$253,883,444</b></u>

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**OTC INTEREST RATE SWAP CONTRACTS OUTSTANDING at  
10/31/15 (Unaudited)**

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**CENTRALLY CLEARED INTEREST RATE SWAP CONTRACTS  
OUTSTANDING at 10/31/15 (Unaudited)**

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**OTC TOTAL RETURN SWAP CONTRACTS OUTSTANDING at 10/31/15  
(Unaudited)**

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**OTC CREDIT DEFAULT CONTRACTS OUTSTANDING at 10/31/15  
(Unaudited)**

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***Key to holding's currency abbreviations***

AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CHF	Swiss Franc
CLP	Chilean Peso
EUR	Euro
GBP	British Pound
JPY	Japanese Yen
KRW	South Korean Won
MXN	Mexican Peso
NOK	Norwegian Krone
NZD	New Zealand Dollar
PLN	Polish Zloty
SEK	Swedish Krona
ZAR	South African Rand

***Key to holding's abbreviations***

ARP	Adjustable Rate Preferred Stock: the rate shown is the current interest rate at the close of the reporting period
bp	Basis Points
EMTN	Euro Medium Term Notes
FRB	

- Floating Rate Bonds: the rate shown is the current interest rate at the close of the reporting period
- FRN Floating Rate Notes: the rate shown is the current interest rate or yield at the close of the reporting period
- IFB Inverse Floating Rate Bonds, which are securities that pay interest rates that vary inversely to changes in the market interest rates. As interest rates rise, inverse floaters produce less current income. The rate shown is the current interest rate at the close of the reporting period.
- IO Interest Only
- OAO Open Joint Stock Company
- OJSC Open Joint Stock Company
- PO Principal Only
- REGS Securities sold under Regulation S may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.
- TBA To Be Announced Commitments

## Notes to the fund's portfolio

Unless noted otherwise, the notes to the fund's portfolio are for the close of the fund's reporting period, which ran from August 1, 2015 through October 31, 2015 (the reporting period). Within the following notes to the portfolio, references to "ASC 820" represent Accounting Standards Codification 820 *Fair Value Measurements and Disclosures*, references to "Putnam Management" represent Putnam Investment Management, LLC, the fund's manager, an indirect wholly-owned subsidiary of Putnam Investments, LLC and references to "OTC", if any, represent over-the-counter.

- (a) Percentages indicated are based on net assets of \$637,553,151.
- (b) The aggregate identified cost on a tax basis is \$1,175,505,307, resulting in gross unrealized appreciation and depreciation of \$9,880,679 and \$49,438,219, respectively, or net unrealized depreciation of \$39,557,540.
- (NON) This security is non-income-producing.
- (STP) The interest rate and date shown parenthetically represent the new interest rate to be paid and the date the fund will begin accruing interest at this rate.
- (PIK) Income may be received in cash or additional securities at the discretion of the issuer.
- (AFF) Affiliated company. The rate quoted in the security description is the annualized 7-day yield of the fund at the close of the reporting period. Transactions during the period with Putnam Short Term Investment Fund, which is under common ownership and control, were as follows:

Name of affiliate	Fair value at the beginning of the reporting period	Purchase cost	Sale proceeds	Investment income	Fair value at the end of the reporting period
Putnam Short Term Investment Fund*	\$28,926,448	\$60,360,695	\$62,286,871	\$7,628	\$27,000,272

\* Management fees charged to Putnam Short Term Investment Fund have been waived by Putnam Management.

- (SEG)** This security, in part or in entirety, was pledged and segregated with the broker to cover margin requirements for futures contracts at the close of the reporting period.
- (SEGSF)** This security, in part or in entirety, was pledged and segregated with the custodian for collateral on certain derivative contracts at the close of the reporting period.
- (SEGCCS)** This security, in part or in entirety, was pledged and segregated with the custodian for collateral on the initial margin on certain centrally cleared derivative contracts at the close of the reporting period.
- (FWC)** Forward commitment, in part or in entirety.
- (c)** Senior loans are exempt from registration under the Securities Act of 1933, as amended, but contain certain restrictions on resale and cannot be sold publicly. These loans pay interest at rates which adjust periodically. The interest rates shown for senior loans are the current interest rates at the close of the reporting period. Senior loans are also subject to mandatory and/or optional prepayment which cannot be predicted. As a result, the remaining maturity may be substantially less than the stated maturity shown. Senior loans are purchased or sold on a when-issued or delayed delivery basis and may be settled a month or more after the trade date, which from time to time can delay the actual investment of available cash balances; interest income is accrued based on the terms of the securities.
- Senior loans can be acquired through an agent, by assignment from another holder of the loan, or as a participation interest in another holder's portion of the loan. When the fund invests in a loan or participation, the fund is subject to the risk that an intermediate participant between the fund and the borrower will fail to meet its obligations to the fund, in addition to the risk that the borrower under the loan may default on its obligations.
- (F)** This security is valued at fair value following procedures approved by the Trustees. Securities may be classified as Level 2 or Level 3 for ASC 820 based on the securities' valuation inputs.
- (i)** This security was pledged, or purchased with cash that was pledged, to the fund for collateral on certain derivative contracts.
- (P)** This security was pledged, or purchased with cash that was pledged, to the fund for collateral on certain derivative contracts. The rate quoted in the security description is the annualized 7-day yield of the fund at the close of the reporting period.

**(R)** Real Estate Investment Trust.

At the close of the reporting period, the fund maintained liquid assets totaling \$386,815,491 to cover certain derivative contracts and delayed delivery securities.

Unless otherwise noted, the rates quoted in Short-term investments security descriptions represent the weighted average yield to maturity.

Debt obligations are considered secured unless otherwise indicated.

144A after the name of an issuer represents securities exempt from registration under Rule 144A under the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

The dates shown on debt obligations are the original maturity dates.

**DIVERSIFICATION BY  
COUNTRY**

Distribution of investments by country of risk at the close of the reporting period, excluding collateral received, if any (as a percentage of Portfolio Value):

United States	88.1%
Greece	2.2
Russia	1.5
Argentina	1.4
Venezuela	1.0
United Kingdom	0.8
Canada	0.7
Luxembourg	0.5
Mexico	0.5
Brazil	0.5
Other	2.8

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ASC 820 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of the fund's investments. The three levels are defined as follows:

**Level 1:** Valuations based on quoted prices for identical securities in active markets.

**Level 2:** Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3:** Valuations based on inputs that are unobservable and significant to the fair value measurement.

The following is a summary of the inputs used to value the fund's net assets as of the close of the reporting period:

	<b>Valuation inputs</b>		
<b>Investments in securities:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Common stocks*:</b>			
Consumer cyclicals	\$—	\$—	\$23,241
Energy	6,715	—	460
<b>Total common stocks</b>	<b>6,715</b>	<b>—</b>	<b>23,701</b>
Convertible bonds and notes	—	362,594	—
Corporate bonds and notes	—	209,866,883	13
Foreign government and agency bonds and notes	—	58,720,099	—
Mortgage-backed securities	—	281,384,070	13,038,499
Preferred stocks	420,125	633,271	—
Purchased options outstanding	—	380,604	—
Purchased swap options outstanding	—	2,984,993	—
Senior loans	—	10,964,725	—
U.S. government and agency mortgage obligations	—	497,561,849	—
U.S. treasury obligations	—	462,894	—
Short-term investments	27,270,272	31,866,460	—
	<hr/>	<hr/>	<hr/>
<b>Totals by level</b>	<b>\$27,697,112</b>	<b>\$1,095,188,442</b>	<b>\$13,062,213</b>

The following is a reconciliation of Level 3 assets as of the close of the reporting period:

**Common stocks\*:**

Consumer cyclicals	\$23,241	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Energy	1,836	—	—	(1,376)	—	—	—	—
<b>Total common stocks</b>	<b>\$25,077</b>	<b>—</b>	<b>—</b>	<b>(1,376)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Corporate bonds and notes	\$13	—	—	—	—	—	—	—
Mortgage-backed securities	\$7,399,831	(198,895)	—	14,724	6,883,341	—	—	(1,060,502)
<b>Totals</b>	<b>\$7,424,921</b>	<b>\$(198,895)</b>	<b>\$—</b>	<b>\$13,348</b>	<b>\$6,883,341</b>	<b>\$—</b>	<b>\$—</b>	<b>\$(1,060,502)</b>

\* Common stock classifications are presented at the sector level, which may differ from the fund's presentation.

† Transfers during the reporting period are accounted for using the end of period market value and represent, in the aggregate, more than 1% of the fund's net assets measured as of the end of the period.

# Includes \$13,348 related to Level 3 securities still held at period end.

During the reporting period, transfers between level 1 and level 2 within the fair value hierarchy, if any, (other than certain transfers involving non-U.S. equity securities as described in Note 1) did not represent, in the aggregate, more than 1% of the fund's net assets measured as of the end of the period. Transfers are accounted for using the end of period pricing valuation method.

Level 3 securities, which are fair valued by Putnam, are not material to the fund.

**Fair Value of Derivative  
Instruments as of the close of the  
reporting period**

	<b>Asset derivatives</b>	<b>Liability derivatives</b>
<b>Derivatives not accounted for as hedging instruments under ASC 815</b>	<b>Fair value</b>	<b>Fair value</b>
Credit contracts	\$185,516	\$2,091,881
Foreign exchange contracts	3,625,139	1,290,317
Interest rate contracts	13,123,430	30,998,808
	<u>                    </u>	<u>                    </u>

**Total** **\$16,934,085** **\$34,381,006**

The following table summarizes any derivatives, repurchase agreements and reverse repurchase agreements and similar agreement. For securities lending transactions, if applicable, see note "(d)" above, and for other transactions, see note "(e)" above.

	Bank of America N.A.	Barclays Bank PLC	Barclays Capital Inc. (clearing broker)	Citibank, N.A.	Credit Suisse International	Deutsche Bank AG	Goldman Sachs International
<b>Assets:</b>							
OTC Interest rate swap contracts*#	\$—	\$—	\$—	\$—	\$—	\$530,920	\$61,500
Centrally cleared interest rate swap contracts§	—	—	2,473,757	—	—	—	—
OTC Total return swap contracts*#	—	145,006	—	26,173	44,994	—	227,400
OTC Credit default contracts*#	—	—	—	—	106,705	—	60,700
Futures contracts§	—	—	—	—	—	—	—
Forward currency contracts#	301,508	380,792	—	142,655	276,522	168,603	282,100
Forward premium swap option contracts#	96,670	—	—	6,658	—	—	—
Purchased swap options#	1,046	—	—	29,914	841,291	—	1,270
Purchased options#	—	—	—	—	—	—	—
<b>Total Assets</b>	<b>\$399,224</b>	<b>\$525,798</b>	<b>\$2,473,757</b>	<b>\$205,400</b>	<b>\$1,269,512</b>	<b>\$699,523</b>	<b>\$1,900,000</b>
<b>Liabilities:</b>							

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OTC Interest rate swap contracts*#	—	—	—	—	—	2,804,199	—
Centrally cleared interest rate swap contracts§	—	—	1,890,221	—	—	—	—
OTC Total return swap contracts*#	—	74,812	—	—	12,977	2,185	361,000
OTC Credit default contracts*#	23,146	9,054	—	—	1,624,080	—	357,000
Futures contracts§	—	—	—	—	—	—	—
Forward currency contracts#	111,573	214,058	—	125,126	113,763	142,215	24,000
Forward premium swap option contracts#	150,186	—	—	20,807	—	—	—
Written swap options#	2,825	—	—	17,597	887,424	—	1,520,000
Written options#	—	—	—	—	—	—	—
Total Liabilities	\$287,730	\$297,924	\$1,890,221	\$163,530	\$2,638,244	\$2,948,599	\$2,200,000
Total Financial and Derivative Net Assets	\$111,494	\$227,874	\$583,536	\$41,870	\$(1,368,732)	\$(2,249,076)	\$(350,000)
Total collateral received (pledged)##†	\$111,494	\$197,972	\$—	\$—	\$(1,368,732)	\$(2,249,076)	\$(350,000)
Net amount	\$—	\$29,902	\$583,536	\$41,870	\$—	\$—	\$—

\* Excludes premiums, if any.

† Additional collateral may be required from certain brokers based on individual agreements.

# Covered by master netting agreement.

## Any over-collateralization of total financial and derivative net assets is not shown. Collateral may

§ Includes current day's variation margin only, which is not collateralized. Cumulative appreciation fund's portfolio.

For additional information regarding the fund please see the fund's most recent annual or semi-annual report or visit the Commission's Web site, [www.sec.gov](http://www.sec.gov), or visit Putnam's Individual Investor Web site at [www.putnam.com](http://www.putnam.com).

Item 2. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Changes in internal control over financial reporting: Not applicable

Item 3. Exhibits:

Separate certifications for the principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Putnam Premier Income Trust

By (Signature and Title):

/s/ Janet C. Smith  
Janet C. Smith  
Principal Accounting Officer  
Date: December 29, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title):

/s/ Jonathan S. Horwitz  
Jonathan S. Horwitz

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Principal Executive Officer  
Date: December 29, 2015

By (Signature and Title):

/s/ Steven D. Krichmar  
Steven D. Krichmar  
Principal Financial Officer  
Date: December 29, 2015