

CROWN CRAFTS INC  
Form 10-Q  
November 14, 2007

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 1-7604**

**CROWN CRAFTS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

58-0678148

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

916 South Burnside Avenue, Gonzales, Louisiana 70737

(Address of principal executive offices)

(225) 647-9100

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ○ Accelerated filer ○ Non-Accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

○ No ☐

The number of shares of common stock, \$0.01 par value, of the registrant outstanding as of September 30, 2007 was 9,936,420.

**TABLE OF CONTENTS**

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4 CONTROLS AND PROCEDURES

**PART II OTHER INFORMATION**

Item 1 Legal Proceedings

Item 1A Risk Factors

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Item 3 Defaults Upon Senior Securities

Item 4 Submission of Matters to a Vote of Security Holders

Item 5 Other Information

Item 6 Exhibits

**SIGNATURES**

Index to Exhibits

Rule 13a-14(a) Certification of CEO

Rule 13a-14(a) Certification of CFO

Section 1350 Certification by the CEO

Section 1350 Certification by the CFO

---

**Table of Contents**

**CROWN CRAFTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

September 30, 2007 and April 1, 2007

(UNAUDITED)

(amounts in thousands, except share and per share amounts)

	September 30, 2007	April 1, 2007
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 485	\$ 33
Accounts receivable (net of allowances of \$1,335 at September 30, 2007 and \$989 at April 1, 2007):		
Due from factor	9,947	11,764
Other	2,040	1,121
Inventories, net	9,991	7,145
Prepaid expenses	997	1,313
Assets held for sale	663	
Deferred income taxes	1,621	2,408
<b>Total current assets</b>	<b>25,744</b>	<b>23,784</b>
<b>Property, plant and equipment at cost:</b>		
Land, buildings and improvements	200	1,322
Machinery and equipment	2,299	2,502
Furniture and fixtures	746	654
	3,245	4,478
Less accumulated depreciation	2,568	3,037
Property, plant and equipment net	677	1,441
<b>Other assets:</b>		
Goodwill, net	22,884	22,884
Other	759	807
<b>Total other assets</b>	<b>23,643</b>	<b>23,691</b>
<b>Total Assets</b>	<b>\$ 50,064</b>	<b>\$ 48,916</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 5,814	\$ 3,552
Accrued wages and benefits	894	1,300
Accrued royalties	1,138	671
Other accrued liabilities	57	73
Current maturities of long-term debt	12	19
<b>Total current liabilities</b>	<b>7,915</b>	<b>5,615</b>

<b>Non-current liabilities:</b>		
Long-term debt	3,146	5,780
Deferred income taxes	698	698
<b>Total non-current liabilities</b>	<b>3,844</b>	<b>6,478</b>
<b>Commitments and contingencies</b>		
<b>Shareholders equity:</b>		
Common stock \$0.01 par value; Authorized - 74,000,000: Issued - 10,021,275 at September 30, 2007 and 10,003,692 at April 1, 2007	100	100
Additional paid-in capital	38,909	38,619
Treasury stock at cost - 84,855 shares at September 30, 2007	(335)	
Accumulated deficit	(369)	(1,896)
<b>Total shareholders equity</b>	<b>38,305</b>	<b>36,823</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 50,064</b>	<b>\$ 48,916</b>

*See notes to unaudited condensed consolidated financial statements.*

**Table of Contents**

**CROWN CRAFTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

For the Three and Six-Month Periods Ended September 30, 2007 and October 1, 2006

(UNAUDITED)

(amounts in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Net sales	\$ 17,111	\$ 20,919	\$ 32,471	\$ 36,673
Cost of products sold	13,148	15,241	24,202	26,527
Gross profit	3,963	5,678	8,269	10,146
Marketing and administrative expenses	2,972	2,483	5,376	4,651
Income from operations	991	3,195	2,893	5,495
Other income (expense):				
Interest expense	(119)	(286)	(231)	(1,010)
Gain on debt refinancing		4,069		4,069
Other net	11	20	(24)	160
Income before income taxes	883	6,998	2,638	8,714
Income tax expense	337	1,641	1,013	2,307
Income from continuing operations after income taxes	546	5,357	1,625	6,407
Loss from discontinued operations net of income taxes	(5)	(4)	(98)	(143)
Net income	\$ 541	\$ 5,353	\$ 1,527	\$ 6,264
Weighted average shares outstanding basic	9,990	9,690	9,997	9,598
Weighted average shares outstanding diluted	10,285	9,990	10,295	9,821
Basic earnings per share:				
Income from continuing operations	\$ 0.05	\$ 0.55	\$ 0.16	\$ 0.66
Loss from discontinued operations			(0.01)	(0.01)
Income per share	\$ 0.05	\$ 0.55	\$ 0.15	\$ 0.65
Diluted earnings per share:				
Income from continuing operations	\$ 0.05	\$ 0.54	\$ 0.16	\$ 0.65
Loss from discontinued operations			(0.01)	(0.01)

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

Income per share	\$ 0.05	\$ 0.54	\$ 0.15	\$ 0.64
------------------	---------	---------	---------	---------

*See notes to unaudited condensed consolidated financial statements.*

2

---

**Table of Contents**

CROWN CRAFTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Six-Month Periods Ended September 30, 2007 and October 1, 2006  
(UNAUDITED)  
(amounts in thousands)

	Six Months Ended	
	September 30, 2007	October 1, 2006
<b>Operating activities:</b>		
Net income	\$ 1,527	\$ 6,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	171	231
Goodwill write-off		90
Amortization of intangibles	37	1
Deferred income taxes	787	1,688
Loss (gain) on sale of property, plant and equipment	8	(11)
Discount accretion	112	242
Gain on debt refinancing		(4,069)
Stock-based compensation	277	47
Changes in assets and liabilities:		
Accounts receivable	898	(691)
Inventories, net	(2,846)	(2,304)
Prepaid expenses	316	186
Other assets	11	(106)
Accounts payable	2,262	3,136
Accrued liabilities	45	1,142
<b>Net cash provided by operating activities</b>	<b>3,605</b>	<b>5,846</b>
<b>Investing activities:</b>		
Capital expenditures	(92)	(117)
Proceeds from disposition of assets	14	11
<b>Net cash used in investing activities</b>	<b>(78)</b>	<b>(106)</b>
<b>Financing activities:</b>		
Retirement of debt		(17,077)
Payments on long-term debt	(11)	(19)
(Repayments) proceeds under line of credit, net	(2,742)	7,647
Debt issuance costs		(69)
Purchase of treasury stock	(335)	
Issuance of common stock	13	30
<b>Net cash used in financing activities</b>	<b>(3,075)</b>	<b>(9,488)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>452</b>	<b>(3,748)</b>



Edgar Filing: CROWN CRAFTS INC - Form 10-Q

Cash and cash equivalents at beginning of period	33	3,790
<b>Cash and cash equivalents at end of period</b>	<b>\$ 485</b>	<b>\$ 42</b>
<b>Supplemental cash flow information:</b>		
Income taxes paid	\$ 382	\$ 136
Interest paid	123	624

*See notes to unaudited condensed consolidated financial statements.*

3

---

**Table of Contents**

CROWN CRAFTS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE THREE AND SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2007 AND OCTOBER 1,  
2006

1. *Basis of Presentation:* The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim financial information and the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such interim consolidated financial statements contain all adjustments necessary to present fairly the financial position of Crown Crafts, Inc. (the Company) as of September 30, 2007 and the results of its operations and cash flows for the periods presented. Such adjustments include normal, recurring accruals. Operating results for the three and six-month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending March 30, 2008. For further information, refer to the Company's consolidated financial statements and notes thereto included in the annual report on Form 10-K for the year ended April 1, 2007.

*Revenue Recognition:* Sales are recorded when goods are shipped to customers and are reported net of allowances for estimated returns and allowances in the consolidated statements of income. Allowances for returns are estimated based on historical rates. Allowances for returns, advertising allowances, warehouse allowances and volume rebates are netted against sales. These allowances are recorded commensurate with sales activity and the cost of such allowances is netted against sales in reporting the results of operations. Shipping and handling costs, net of amounts reimbursed by customers, are relatively insignificant and are included in net sales.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates are made with respect to the allowances related to accounts receivable for customer deductions for returns, allowances and disputes. The Company has a certain amount of discontinued and irregular raw materials and finished goods which necessitate the establishment of inventory reserves which are highly subjective. Actual results could differ from those estimates.

*Segment and Related Information:* The Company operates primarily in one principal segment, infant products. These products consist of infant bedding, bibs and soft goods.

*Impairment of Long-lived Assets, Identifiable Intangibles and Goodwill:* The Company reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. In the event of impairment, the asset is written down to its fair market value. Assets to be disposed of, if any, are recorded at the lower of net book value or fair market value less cost to sell at the date management commits to a plan of disposal and are classified as assets held for sale on the consolidated balance sheet.

The Company reviews the carrying value of goodwill annually and sooner if facts and circumstances suggest that the asset may be impaired. Impairment of goodwill and write-downs, if any, are measured based on estimates of future cash flows. Goodwill is stated net of accumulated amortization of \$6.4 million at September 30, 2007 and April 1, 2007. On April 1, 2002, the Company implemented Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Asset*. As a result, the Company discontinued amortizing goodwill but continued to amortize other long-lived intangible assets. In lieu of amortization, the Company is required to perform an annual impairment review of its goodwill. The Company has performed a transitional fair value based

impairment test on its goodwill in accordance with SFAS No. 142. With the exception of goodwill related to Churchill Weavers, Inc. ( Churchill ), the Company determined that the fair value exceeded the recorded value at April 3, 2006 and April 2, 2007. Churchill s goodwill of \$90,000 was written off in June 2006 due to an impairment indicator, the decline in sales volume and decline in profitability in recent years. Churchill has ceased operations and the remaining assets are held for sale (see Note 6 to the Company s consolidated financial statements).

*Provision for Income Taxes:* The provisions for income taxes include all currently payable federal, state and local taxes that are based upon the Company s taxable income and the change during the fiscal year in net deferred income tax assets and liabilities. The Company provides for deferred income taxes based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates that will be in effect when the differences are expected to reverse.

**Table of Contents**

*Allowances Against Accounts Receivable:* The Company's allowances against accounts receivable are primarily contractually agreed upon deductions for items such as advertising and warehouse allowances and volume rebates. These deductions are recorded throughout the year commensurate with sales activity. Funding of the majority of the Company's allowances occurs on a per-invoice basis.

The allowances for customer deductions, which are netted against accounts receivable in the consolidated balance sheets, consist of agreed upon advertising support, markdowns and warehouse and other allowances. Consistent with the guidance provided in Emerging Issues Task Force 01-9, all such allowances are recorded as direct offsets to sales, and such costs are accrued commensurate with sales activities. When a customer requests deductions, the allowances are reduced to reflect such payments.

The Company analyzes the components of the allowances for customer deductions monthly and adjusts the allowances to the appropriate levels. The timing of the customer initiated funding requests for advertising support can cause the net balance in the allowance account to fluctuate from period to period. The timing of such funding requests should have no impact on the consolidated statements of income since such costs are accrued commensurate with sales activity.

*Royalty Payments:* The Company has entered into agreements that provide for royalty payments based on a percentage of sales with certain minimum guaranteed amounts. These royalty amounts are accrued based upon historical sales rates adjusted for current sales trends by customers. Total royalty expenses included in cost of sales amounted to \$1.8 million and \$2.3 million in the six-month periods ended September 30, 2007 and October 1, 2006, respectively.

*Recently Issued Accounting Standards:* In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation ( FIN ) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN No. 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. On April 2, 2007, the Company adopted the provisions of FIN No. 48. Based on our recent evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in the Company's consolidated financial statements. Our evaluation was performed for the tax years ended March 28, 2004, April 3, 2005, April 2, 2006 and April 1, 2007, the tax years which remain subject to examination by major tax jurisdictions as of September 30, 2007. The Company's policy is to accrue interest expense and penalties as appropriate on its estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement provides companies an option to report selected financial assets and liabilities at fair value. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is assessing SFAS No. 159 and has not determined yet the impact that the adoption of SFAS No. 159 will have on its result of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged provided that the reporting entity has not yet issued financial statements for that fiscal year including financial statements for an interim period within that fiscal year. The Company is assessing SFAS No. 157 and has not determined yet the impact that the adoption of SFAS No. 157 will have on its result of operations or financial position.

2. *Stock-Based Compensation:* The Company has two incentive stock plans, the 1995 Stock Option Plan ( 1995 Plan ) and the 2006 Omnibus Incentive Plan ( 2006 Plan ). The Company granted non-qualified stock options to employees and non-employee directors from the 1995 Plan through the fiscal year ended April 2, 2006. In conjunction with the approval of the 2006 Plan by the Company s stockholders at its Annual Meeting in August 2006, options may no longer be issued from the 1995 Plan.

The 2006 Plan is intended to attract and retain directors, officers and employees of the Company and its subsidiaries and to motivate these persons to achieve performance objectives related to the Company s overall goal of increasing stockholder value. The principal reason for adopting the 2006 Plan is to ensure that the Company has a mechanism for long-term, equity-based incentive compensation to directors, officers and employees. Awards granted under the 2006 Plan may be in the form of qualified or non-qualified stock options, restricted stock, stock appreciation rights ( SARs ), long-term incentive compensation units consisting of a combination of cash and shares of the Company s common stock, or any combination thereof within the limitations set forth in the 2006 Plan. The 2006 Plan is administered by the compensation committee of the board of directors,

**Table of Contents**

which selects eligible employees and non-employee directors to participate in the 2006 Plan and determines the type, amount and duration of individual awards.

On April 3, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*. This standard requires expensing of stock options and other share-based payments and supersedes SFAS No. 123, *Accounting for Stock-Based Compensation*, and Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related implementation guidance that had previously allowed companies to choose between expensing stock options or providing pro-forma disclosure only. SFAS No. 123(R) eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under APB Opinion No. 25 and instead requires that such transactions be accounted for using a fair-value-based method. In addition, the SEC issued Staff Accounting Bulletin 107 in April 2005, which provides supplemental implementation guidance for SFAS No. 123(R).

The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123(R), consistent with the method previously used for pro forma disclosures under SFAS No. 123. The Company elected to use the modified prospective transition method permitted by SFAS No. 123(R). Under the modified prospective method, SFAS No. 123(R) applies to new awards issued on or after April 3, 2006 as well as the unvested portion of awards that were outstanding as of April 2, 2006, including those that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, compensation cost recognized in fiscal year 2007 includes compensation cost for all share-based payments granted prior to, but not yet vested as of, April 2, 2006 in accordance with the original provisions of SFAS No. 123. Prior periods were not restated to reflect the impact of adopting the new standard.

The Company recorded \$152,000 and \$277,000 of stock-based compensation during the three and six-month periods ended September 30, 2007, which affected basic and diluted earnings per share by \$0.02 and \$0.03, respectively. No stock-based compensation costs were capitalized as part of the cost of an asset as of September 30, 2007.

*Stock Options:* The following table represents stock option activity for fiscal year 2008:

	<b>Weighted-Average Exercise Price</b>	<b>Number of Options Outstanding</b>
Outstanding at April 1, 2007	\$ 1.68	593,346
Granted	4.08	112,000
Exercised	0.72	17,583
Forfeited	0.76	17,766
Outstanding, September 30, 2007	\$ 2.13	669,997
Exercisable, September 30, 2007	\$ 1.41	449,667

During the quarter ended September 30, 2007, the Company granted 112,000 non-qualified options at the market price at the date of grant, which options vest over a two-year period, assuming continued service. The following weighted-average assumptions were used for grants issued during the quarter ended September 30, 2007.

	<b>Options Issued to Employees</b>	<b>Options Issued to Directors</b>
Options Issued	100,000	12,000

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

Dividend Yield		
Expected Volatility	65.00%	65.00%
Risk free interest rate	4.51%	4.42%
Expected life, years	5.75	3.25
Forfeiture rate	5.00%	5.00%

6

---

**Table of Contents**

For the three and six-month periods ended September 30, 2007, the Company recognized the following compensation expense associated with stock option grants:

	3-month period			6-month period		
	Cost of Products Sold	Selling & Marketing Expense	Total Expense	Cost of Products Sold	Selling & Marketing Expense	Total Expense
	(in thousands)					
Option grants in fiscal year 2007	15	46	61	26	85	111
Option grants in fiscal year 2008	5	12	17	5	12	17
Unvested options at April 2, 2007					1	1
	20	58	78	31	98	129

*Non-vested Stock:* The fair value of non-vested stock is determined based on the number of shares granted and the quoted closing price of the Company's common stock on the date of grant. All non-vested stock awards issued under the 2006 Plan vest based upon continued service.

During the quarter ended October 1, 2006, the Company granted 375,000 shares of non-vested stock with a weighted-average grant date fair value of \$3.15. These shares have four-year cliff vesting. The Company recognized \$74,000 and \$148,000 of compensation expense in the three and six-month periods ended September 30, 2007, respectively, that was included in marketing and administrative expenses in the accompanying consolidated statements of income. The deferred amount is being amortized by monthly charges to earnings over the four-year vesting period.

As of September 30, 2007, the amount of unrecognized non-vested stock compensation costs amounted to \$861,000. The amount of unrecognized non-vested stock compensation will be affected by any future non-vested stock grants and by the separation from the Company of any employee who has received non-vested stock grants that are unvested as of such employee's separation date.

3. *Inventory:* Major classes of inventory were as follows (in thousands):

	September 30, 2007	April 1, 2007
Raw Materials	\$ 20	\$ 15
Work in Process		12
Finished Goods	9,971	7,118
	\$ 9,991	\$ 7,145

Inventory is net of reserves for inventories classified as irregular or discontinued of \$0.8 million at September 30, 2007 and \$0.3 million at April 1, 2007. The increase in the reserve is due primarily to a \$0.3 million reserve associated with the planned destruction of certain vinyl bibs in stock at September 30, 2007.

4. *Financing Arrangements*

*Factoring Agreement:* The Company assigns the majority of its trade accounts receivable to a commercial factor. Under the terms of the factoring agreement, the factor remits payments to the Company on the average due date of



each group of invoices assigned. The factor bears credit losses with respect to assigned accounts receivable that are within approved credit limits. The Company bears losses resulting from returns, allowances, claims and discounts.

**Table of Contents**

*Notes Payable and Other Credit Facilities:* At September 30, 2007 and April 1, 2007, long-term debt consisted of:

	September 30, 2007	April 1, 2007
Revolving credit facility	\$	\$ 2,742
Non-interest bearing notes	4,000	4,000
Capital leases	12	23
Original issue discount	(854)	(966)
	3,158	5,799
Less current maturities	12	19
	\$ 3,146	\$ 5,780

The Company's credit facilities at September 30, 2007 include the following:

*Revolving Credit* of up to \$22 million, including a \$1.5 million sub-limit for letters of credit. The interest rate is prime minus 1.00% (6.75% at September 30, 2007) for base rate borrowings or LIBOR plus 2.25% (7.37% at September 30, 2007). The maturity date is July 11, 2009. The facility is secured by a first lien on all assets. There was no balance outstanding at September 30, 2007. Based on eligible accounts receivable and inventory balances as of September 30, 2007, the Company had \$15.1 million available under the revolving credit facility. As of September 30, 2007, letters of credit of \$550,000 were outstanding against the \$1.5 million sub-limit for letters of credit.

The financing agreement for the \$22 million revolving credit facility contains usual and customary covenants for transactions of this type, including limitations on other indebtedness, liens, transfers of assets, investments and acquisitions, merger or consolidation transactions, dividends, transactions with affiliates and changes in or amendments to the organizational documents for the Company and its subsidiaries. The Company was in compliance with these covenants as of September 30, 2007.

On November 5, 2007, the Company amended its credit facility to increase the maximum principal amount of its revolving line of credit from \$22 million to \$26 million, to extend the term of the revolving line of credit one year to July 11, 2010 and to provide for a \$5 million term loan (see Note 8). The interest rate on the term loan is prime plus 0.5%, and payments are due in 24 equal monthly installments. The maturity date is November 5, 2009.

*Subordinated Notes* of \$4 million. The notes do not bear interest and are due in two equal installments of \$2 million each, the first of which is payable on July 11, 2010, and the second of which is payable on July 11, 2011. The original issue discount of \$1.1 million on this non-interest bearing obligation at a market interest rate of 7.25% is being amortized over the life of the notes. The remaining unamortized balance of \$0.9 million is included in the consolidated balance sheet as of September 30, 2007.

Minimum annual maturities are as follows (in thousands):

Fiscal	Sub Notes	Other	Total
2008		\$ 8	\$ 8
2009		4	4
2010			
2011	\$ 2,000		2,000

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

2012		2,000		2,000
Total		\$ 4,000	\$ 12	\$ 4,012

**Table of Contents**

5. *Acquisitions*: On December 29, 2006, the Company, through its wholly-owned subsidiary Crown Crafts Infant Products, Inc. ( CCIP ), acquired substantially all of the assets of Kimberly Grant, Inc., a designer of various infant and toddler products. The following table summarizes the allocation of the \$550,000 paid at closing and the \$50,000 paid upon renewal of the acquired Kimberly Grant trademark based upon fair values of the assets acquired assumed at the date of the acquisition. The fair values of certain intangibles were based upon a third-party valuation of such assets.

The table below represents estimated amortization expense for the following periods:

	<b>Gross Carrying Amount</b>	<b>Estimated Useful Life</b>	<b>Accumulated Amortization</b>	<b>Aggregate Amortization Expense in FY 2008</b>
Tradename	\$ 466,387	15 years	\$ 23,326	\$ 15,546
Existing Designs	35,924	1 year	17,960	17,960
Non-compete	97,689	15 years	4,836	3,258
	\$ 600,000		\$ 46,122	\$ 36,764

6. *Discontinued Operations*: On February 2, 2007, the Company announced that it would liquidate Churchill. Goodwill of \$90,000 associated with the acquisition of Churchill was written-off in June 2006. In anticipation of the liquidation of Churchill, the Company recorded valuation allowances approximating \$550,000 in the quarter ended December 31, 2006 to reflect the expected net realizable value of Churchill's receivables, inventories and prepaid expenses. In the fourth quarter of fiscal year 2007, the Company sold the Churchill Weavers name, together with Churchill's other intellectual property, domain name and website, yarn inventory, looms and other weaving, sewing and laundry equipment for \$275,000. The Company also sold in the fourth quarter of fiscal year 2007 a small portion of the Churchill property in Berea, Kentucky, and Churchill's archives and certain antiques for \$110,000. During the first quarter of fiscal year 2008, Churchill's operations ceased and all employees were terminated.

The Company is actively marketing Churchill's land and building for sale. The property has been appraised at greater than net book value. In accordance with accounting guidelines, in the second quarter of fiscal year 2008, the property is classified as assets held for sale in the consolidated balance sheet and the operations of Churchill are classified as discontinued operations in the consolidated statement of income. These classifications were not used prior to the end of fiscal year 2007 because Churchill's operations were continuing at that time.

7. *Treasury Stock*: In June 2007, the Company created a capital committee of the board of directors that is authorized to spend up to \$6 million in the aggregate to repurchase from stockholders shares of the Company's Series A common stock from July 1, 2007 through July 1, 2008. During the three and six-month periods ended September 30, 2007, the Company repurchased 84,855 shares of common stock for approximately \$335,000.

8. *Subsequent Event*: On November 5, 2007 (the Closing Date), CCIP, a wholly-owned subsidiary of the Company, entered into an Asset Purchase Agreement (the Purchase Agreement) with Springs Global US, Inc. (Springs) pursuant to which CCIP purchased certain assets from, and assumed certain liabilities of, Springs with respect to Springs' infant and toddler product line. On the Closing Date, CCIP paid Springs approximately \$12.4 million for such assets, which included inventory, intellectual property and certain related assets as specified in the Purchase Agreement. The final purchase price is subject to adjustment pending the completion by the parties of a final inventory valuation as of the Closing Date.

**Table of Contents**

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company operates indirectly through its subsidiaries, Crown Crafts Infant Products, Inc. and Hamco, Inc., primarily in the Infant Products segment within the Consumer Products industry. The Company's offices are located in Compton, California; Gonzales, Louisiana; and Rogers, Arkansas.

The Infant Products segment consists of bedding, bibs, soft goods and accessories. The Company's infant products are marketed under a variety of Company-owned trademarks, under trademarks licensed from others, without trademarks as unbranded merchandise and with customers' private labels. The products are produced primarily by foreign contract manufacturers, then warehoused and shipped from a facility in Compton, California. Sales are generally made directly to retailers, primarily mass merchants, large chain stores and specialty stores.

The infant consumer products industry is highly competitive. The Company competes with a variety of distributors and manufacturers (both branded and private label), including Kids Line, LLC, a division of Russ Berrie and Co., Inc.; Springs Industries; Dolly Inc.; Co Ca Lo, Inc.; Carters, Inc.; Danara International, Ltd.; Luv n Care, Ltd.; The First Years Inc.; Sassy Inc., a division of Russ Berrie and Co., Inc.; Triboro Quilt Manufacturing, Inc.; and Gerber Childrenswear, Inc., on the basis of quality, design, price, brand name recognition, service and packaging. The Company's ability to compete depends principally on styling, price, service to the retailer and continued high regard for the Company's products and trade names.

**RESULTS OF OPERATIONS**

The following table contains results of operations data for the three and six-month periods ended September 30, 2007 and October 1, 2006 and the dollar and percentage variances among those periods.

	Three-month period ended				Six-month period ended			
	September		% change	% change	September		% change	% change
	30, 2007	October 1, 2006			\$ change	30, 2007		
	Dollars in thousands			Dollars in thousands				
Net Sales by Category								
Bedding, Blankets and Accessories	\$12,425	\$15,150	\$(2,725)	-18.0%	\$23,831	\$26,056	\$(2,225)	-8.5%
Bibs and Bath	4,686	5,769	(1,083)	-18.8%	8,640	10,617	(1,977)	-18.6%
Total Net Sales	17,111	20,919	(3,808)	-18.2%	32,471	36,673	(4,202)	-11.5%
Cost of Products Sold	13,148	15,241	(2,093)	-13.7%	24,202	26,527	(2,325)	-8.8%
Gross Profit	3,963	5,678	(1,715)	-30.2%	8,269	10,146	(1,877)	-18.5%
<i>% of Net Sales</i>	23.2%	27.1%			25.5%	27.7%		
Marketing and Administrative Expenses	2,972	2,483	489	19.7%	5,376	4,651	725	15.6%
<i>% of Net Sales</i>	17.4%	11.9%			16.6%	12.7%		
Interest Expense	119	286	(167)	-58.4%	231	1,010	(779)	-77.1%
Gain on Debt Refinancing		(4,069)	4,069	100.0%		(4,069)	4,069	100.0%
Other Expense (Income)	(11)	(20)	9	45.0%	24	(160)	184	115.0%
Income Tax Expense	337	1,641	(1,304)	-79.5%	1,013	2,307	(1,294)	-56.1%

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

Income from continuing operations after taxes	546	5,357	(4,811)	-89.8%	1,625	6,407	(4,782)	-74.6%
Discontinued Operations net of taxes	(5)	(4)	(1)	-25.0%	(98)	(143)	45	31.5%
Net Income	541	5,353	(4,812)	-89.9%	1,527	6,264	(4,737)	-75.6%
<i>% of Net Sales</i>	<i>3.2%</i>	<i>25.6%</i>			<i>4.7%</i>	<i>17.1%</i>		

10

**Table of Contents**

*Net Sales:* Sales of bedding, blankets and accessories decreased for the three-month period of fiscal year 2008 as compared to the same period in fiscal year 2007. Sales decreased by \$2.5 million due to programs that were discontinued in the latter part of fiscal year 2007 and the first six months of fiscal year 2008. In addition, there was a net decrease in shipments of replenishment orders of \$1.3 million, a decrease of \$0.9 million related to promotions that were not repeated in the current year and a decrease of \$0.4 million related to a shift of business from the second quarter to the third quarter. This decrease was offset by an increase of \$2.4 million due to sales of new designs and programs. Some of these designs and programs began shipping in the latter part of fiscal year 2007, while others began shipping during the first six months of fiscal year 2008.

Sales of bedding, blankets and accessories decreased for the six-month period of fiscal year 2008 as compared to the same period in fiscal year 2007. Sales decreased by \$5.3 million due to programs that were discontinued in the latter part of fiscal year 2007 and the first six months of fiscal year 2008. In addition, there was a net decrease in shipments of replenishment orders of \$1.3 million and a decrease of \$0.6 million related to a shift of business from the second quarter to the third quarter. This decrease was offset by an increase of \$5.0 million due to sales of new designs and programs. Some of these designs and programs began shipping in the latter part of fiscal year 2007, while others began shipping during the first six months of fiscal year 2008.

Bib and bath sales decreased for the three-month period of fiscal year 2008 as compared to the same period in fiscal year 2007. Sales decreased \$1.4 million due to programs that were discontinued and \$0.4 million in shipments of replenishment orders related to the temporary discontinuance of sales of vinyl bibs by Toys R Us and Babies R Us. Offsetting these decreases was an increase of \$0.7 million related to sales of new designs.

Bib and bath sales decreased for the six-month period of fiscal year 2008 as compared to the same period in fiscal year 2007. Sales decreased \$2.9 million due to programs that were discontinued and \$0.4 million due to promotions in the prior year that were not repeated in the current year. Also, there was a net decrease of \$0.4 million in shipments of replenishment orders related to the temporary discontinuance of sales of vinyl bibs. Offsetting these decreases were increases of \$1.5 million related to sales of new designs and \$0.2 million of shipments of replenishment orders.

*Gross Profit:* Gross profit decreased in both amount and as a percentage of net sales for the three and six-month periods of fiscal year 2008 as compared to the same period in fiscal year 2007. The decrease is a direct result of the decrease in net sales. Also, the Company recorded a \$215,000 charge related to vinyl bibs in the second quarter of fiscal year 2008. Additionally, although both the current and prior year six-month periods were favorably impacted by an over-absorption of overhead related to the increase in inventory, the current year over-absorption decreased as compared to the prior year. The over-absorption caused gross margin to increase by \$298,000 and \$543,000 in the six-month periods of fiscal year 2008 and 2007, respectively. For the three-month periods, the current year gross margin was negatively impacted by an over-absorption reversal of \$130,000 as compared to a prior year favorable impact of \$130,000. Consistent with the prior year, the current year over-absorption should reverse over the remaining quarters of fiscal year 2008.

*Marketing and Administrative Expenses:* Marketing and administrative expenses for the three and six-month periods of fiscal year 2008 increased in both dollars and as a percentage of net sales as compared to the same period of fiscal year 2007. As discussed in Note 2 to the Company's consolidated financial statements, the Company recorded \$132,000 and \$246,000 of stock-based compensation during the three and six-month periods ended September 30, 2007, respectively, as compared to \$42,000 for both the three and six-month period in the prior year. Also, the Company incurred costs of \$463,000 and \$478,000 during the three and six-month period, respectively, associated with the Company's proxy contest. The remaining increase as a percentage of net sales is a direct result of the changes in net sales for the comparative periods.

*Interest Expense:* The decrease in interest expense for the first three-month period of fiscal year 2008 as compared to fiscal year 2007 is due to a lower average debt balance and lower interest rates primarily as a result of the Company's debt refinancing on July 11, 2006. The Company had \$3.2 million in total debt at September 30, 2007, compared to \$10.6 million at October 1, 2006.

*Other Income Net:* Other income in fiscal year 2007 is composed primarily of interest income received on the Company's overnight investment sweep through July 11, 2006. The Company had \$7.8 million cash on July 11, 2006, \$7.4 million of which was used to reduce debt in connection with the July 11, 2006 debt refinancing.





**Table of Contents**

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by operating activities was \$3.6 million for the first six months of fiscal year 2008 compared to net cash provided by operating activities of \$5.8 million for the first six months of fiscal year 2007. The decrease in cash provided by operating activities is primarily due to a decrease in net income as a result of the gain on debt refinancing recorded in the prior year and a change in accounts receivable, offset by changes in accounts payable, accrued liabilities, deferred income taxes and inventory. Net cash used in investing activities was \$78,000 in the first six months of fiscal year 2008 and \$106,000 in the prior year period. Net cash used in financing activities was \$3.1 million compared to net cash used in financing activities of \$9.5 million in the prior year period. During the first quarter of fiscal year 2007, the Company had a cash balance of \$7.6 million and was not required to make payments on its credit facilities. In July 2006, the Company refinanced its credit facilities using cash of \$7.4 million to reduce debt. Cash used in the current year period was to pay down the line of credit obtained as a result of the refinancing. The Company's ability to make scheduled payments of principal, to pay the interest on or to refinance its maturing indebtedness, to fund capital expenditures or to comply with its debt covenants will depend upon future performance. The Company's future performance is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors beyond its control. Based upon the current level of operations, the Company believes that cash flow from operations together with revolving credit availability will be adequate to meet liquidity needs.

To reduce its exposure to credit losses and to enhance its cash flow, the Company assigns the majority of its trade accounts receivable to a commercial factor. The Company's factor establishes customer credit lines and accounts for and collects receivable balances. Under the terms of the factoring agreement, which expires in July, 2009, the factor remits payments to the Company on the average due date of each group of invoices assigned. If a customer fails to pay the factor on the due date, the Company is charged interest at prime less 1.0%, which was 6.75% at September 30, 2007, until payment is received. The factor bears credit losses with respect to assigned accounts receivable that are within approved credit limits. The Company bears losses resulting from returns, allowances, claims and discounts. The Company's factor at any time may terminate or limit its approval of shipments to a particular customer. If such a termination occurs, the Company may either assume the credit risks for shipments after the date of such termination or cease shipments to such customer.

**FORWARD-LOOKING INFORMATION**

This Quarterly Report contains forward-looking statements within the meaning of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such statements are based upon management's current expectations, projections, estimates and assumptions. Words such as expects, believes, anticipates and variations of such words and similar expressions identify such forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that may cause future results to differ materially from those suggested by the forward-looking statements. These risks include, among others, general economic conditions, including changes in interest rates, in the overall level of consumer spending and in the price of oil, cotton and other raw materials used in the Company's products, changing competition, changes in the retail environment, the level and pricing of future orders from the Company's customers, the Company's dependence upon third-party suppliers, including some located in foreign countries with unstable political situations, the Company's ability to successfully implement new information technologies, customer acceptance of both new designs and newly-introduced product lines, actions of competitors that may impact the Company's business, disruptions to transportation systems or shipping lanes used by the Company or its suppliers, and the Company's dependence upon licenses from third parties. Reference is also made to the Company's periodic filings with the Securities and Exchange Commission for additional factors that may impact the Company's results of operations and financial condition. The Company does not undertake to update the forward-looking statements contained herein to conform to actual results or changes in the Company's explanations, whether as a result of new information, future events or otherwise.

**ITEM 3 QUANTITATIVE AND QUALITATIVE  
DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk from changes in interest rates on debt, changes in commodity prices, changes in international trade regulations, the concentration of the Company's customers and the Company's reliance upon

licenses. The Company's exposure to interest rate risk relates to the Company's floating rate debt, of which there was no balance outstanding at September 30, 2007 and \$7.6 million outstanding at October 1, 2006. The Company's exposure to commodity price risk primarily relates to changes in the price of cotton and oil, which are the principal raw materials used in a substantial number of the Company's products. Also, changes in import quantity allotments can materially impact the availability of the Company's products and the prices at which those products can be purchased by the Company for resale. Additionally, the Company's top three customers represent 80% of gross sales, and 37% of the Company's gross sales is of licensed products. The Company could be materially impacted by the loss of one or more of these customers or licenses.

**Table of Contents****ITEM 4 CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. During the quarter ended September 30, 2007, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting.

**PART II OTHER INFORMATION****Item 1 Legal Proceedings**

From time to time, the Company is involved in various legal proceedings relating to claims arising in the ordinary course of its business. Except as set forth in the Company's annual report on Form 10-K for the year ended April 1, 2007, neither the Company nor any of its subsidiaries is a party to any such legal proceeding the outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**Item 1A Risk Factors**

There have been no material changes to the risk factors disclosed in Item 1A. of Part 1 in our Form 10-K for the year ended April 1, 2007.

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

None.

**Item 3 Defaults Upon Senior Securities**

None.

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

The Annual Meeting of Shareholders of the Company was held on August 14, 2007 at the Company's corporate headquarters in Gonzales, Louisiana. The proposals set forth below were voted on at the meeting with the following results:

1. Election of three members to the board of directors to hold office for a three-year term. The results were as follows:

Director Nominee	For	Authority Withheld
E. Randall Chestnut	8,244,338	32,968
William T. Deyo, Jr.	4,154,476	32,901
Steven E. Fox	4,050,499	41,219
Nelson Obus	4,015,909	174,121
Frederick G. Wasserman	4,089,852	4,519

The Company's Class II directors, Sidney Kirschner and Zenon S. Nie, and Class III directors, Donald Ratajczak and James A. Verbrugge, currently serve until the annual meetings of stockholders to be held in 2009 and 2008, respectively.

**Table of Contents**

2. Transaction of such other business as may properly come before the annual meeting or any adjournments or postponements thereof. The results were as follows:

For	3,654,500
Against	452,134
Abstain	36,021

Each of the foregoing proposals was set forth and described in the Notice of Annual Meeting and Proxy Statement of the Company dated July 10, 2007.

Item 5 Other Information

None.

Item 6 Exhibits

Exhibit

No. Exhibit

31.1 Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer

32.1 Section 1350 Certification by the Company's Chief Executive Officer

32.2 Section 1350 Certification by the Company's Chief Financial Officer

**SIGNATURES**

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

CROWN CRAFTS, INC.

Date: November 14, 2007

/s/ Amy Vidrine Samson  
AMY VIDRINE SAMSON  
Chief Financial Officer  
(duly authorized signatory and  
Principal Financial and Accounting  
Officer)

**Table of Contents**

Index to Exhibits

Exhibit

No. Exhibit

31.1 Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer

32.1 Section 1350 Certification by the Company's Chief Executive Officer

32.2 Section 1350 Certification by the Company's Chief Financial Officer

15