

CROWN CRAFTS INC  
Form 10-Q  
February 11, 2009

**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 December 28, 2008**

**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  
(State or other jurisdiction of  
incorporation or organization)

58-0678148  
(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, 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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Yes  No

The number of shares of common stock, \$0.01 par value, of the registrant outstanding as of February 2, 2009 was 9,205,890.

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

**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**

**Index to Exhibits**

**EX-31.1**

**EX-31.2**

**EX-32.1**

**EX-32.2**

---

**Table of Contents**

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

December 28, 2008 and March 30, 2008

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

	December 28, 2008  (Unaudited)	March 30, 2008
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 12,214	\$ 7,930
Accounts receivable (net of allowances of \$1,151 at December 28, 2008 and \$1,268 at March 30, 2008):		
Due from factor	12,545	16,081
Other	1,931	2,197
Inventories, net	14,729	13,777
Prepaid expenses	1,146	1,064
Assets held for sale	644	663
Deferred income taxes	733	885
<b>Total current assets</b>	<b>43,942</b>	<b>42,597</b>
<b>Property, plant and equipment at cost:</b>		
Land, buildings and improvements	205	203
Machinery and equipment	2,366	2,241
Furniture and fixtures	765	742
	3,336	3,186
Less accumulated depreciation	2,816	2,597
Property, plant and equipment net	520	589
<b>Other assets:</b>		
Goodwill, net	13,884	22,884
Intangible assets, net	5,931	7,276
Deferred income taxes	39	
Other	190	131
<b>Total other assets</b>	<b>20,044</b>	<b>30,291</b>
<b>Total Assets</b>	<b>\$ 64,506</b>	<b>\$ 73,477</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 6,779	\$ 5,614
Accrued wages and benefits	944	1,179
Accrued royalties	1,700	1,023
Other accrued liabilities	1,115	711

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

Current maturities of long-term debt	2,292	2,504
<b>Total current liabilities</b>	12,830	11,031
<b>Non-current liabilities:</b>		
Long-term debt	18,891	22,311
Deferred income taxes		402
<b>Total non-current liabilities</b>	18,891	22,713
<b>Commitments and contingencies</b>		
<b>Shareholders equity:</b>		
Common stock \$0.01 par value per share; Authorized 74,000,000 shares; Issued 10,094,941 shares at December 28, 2008 and 10,039,942 shares at March 30, 2008	101	100
Additional paid-in capital	39,807	39,247
Treasury stock at cost 889,051 shares at December 28, 2008 and 562,647 shares at March 30, 2008	(3,056)	(2,071)
Retained earnings (accumulated deficit)	(4,067)	2,457
<b>Total shareholders equity</b>	32,785	39,733
<b>Total Liabilities and Shareholders Equity</b>	\$ 64,506	\$ 73,477

*See notes to unaudited condensed consolidated financial statements.*

**Table of Contents**

**CROWN CRAFTS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
For the Three and Nine-Month Periods Ended December 28, 2008 and December 30, 2007  
(amounts in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	December	December	December	December
	28,	30,	28,	30,
	2008	2007	2008	2007
Net sales	\$ 19,316	\$ 18,431	\$ 62,830	\$ 50,902
Cost of products sold	15,519	13,853	49,940	38,055
Gross profit	3,797	4,578	12,890	12,847
Marketing and administrative expenses	2,217	2,584	8,096	7,960
Goodwill impairment charge	9,000		9,000	
(Loss) income from operations	(7,420)	1,994	(4,206)	4,887
Other income (expense):				
Interest expense	(265)	(244)	(900)	(475)
Other net	37	178	87	154
(Loss) income before income taxes	(7,648)	1,928	(5,019)	4,566
Income tax expense	526	692	1,532	1,705
(Loss) income from continuing operations after income taxes	(8,174)	1,236	(6,551)	2,861
(Loss) income from discontinued operations net of income taxes	(4)	(12)	27	(110)
Net (loss) income	\$ (8,178)	\$ 1,224	\$ (6,524)	\$ 2,751
Weighted average shares outstanding basic	9,265	9,903	9,353	9,966
Weighted average shares outstanding diluted	9,265	10,176	9,353	10,248
Basic (loss) earnings per share:				
(Loss) income from continuing operations	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.29
(Loss) income from discontinued operations				(0.01)
Total basic (loss) earnings per share	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.28
Diluted (loss) earnings per share:				
(Loss) income from continuing operations	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.28
(Loss) income from discontinued operations				(0.01)

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

Total diluted (loss) earnings per share	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.27
---	-----------	---------	-----------	---------

*See notes to unaudited condensed consolidated financial statements.*

2

---

**Table of Contents**

**CROWN CRAFTS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Nine-Month Periods Ended December 28, 2008 and December 30, 2007  
(amounts in thousands)

	Nine Months Ended	
	December 28, 2008	December 30, 2007
<b>Operating activities:</b>		
Net (loss) income	\$ (6,524)	\$ 2,751
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	225	259
Amortization of intangibles	1,311	340
Goodwill impairment charge	9,000	
Deferred income taxes	(288)	1,390
(Gain) loss on sale of property, plant and equipment	(65)	6
Discount accretion	182	169
Stock-based compensation	542	432
Changes in assets and liabilities:		
Accounts receivable	3,861	(2,098)
Inventories, net	(952)	(5,246)
Prepaid expenses	(83)	(724)
Other assets	(84)	9
Accounts payable	1,165	4,968
Accrued liabilities	846	680
<b>Net cash provided by operating activities</b>	<b>9,136</b>	<b>2,936</b>
<b>Investing activities:</b>		
Capital expenditures	(158)	(156)
Acquisition costs to purchase Baby Products Line from Springs Global		(356)
Proceeds from disposition of assets	86	19
<b>Net cash used in investing activities</b>	<b>(72)</b>	<b>(493)</b>
<b>Financing activities:</b>		
Payments on long-term debt	(1,879)	(223)
Repayments under revolving line of credit, net	(1,935)	(1,438)
Purchase of treasury stock	(985)	(854)
Issuance of common stock	19	40
<b>Net cash used in financing activities</b>	<b>(4,780)</b>	<b>(2,475)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>4,284</b>	<b>(32)</b>
Cash and cash equivalents at beginning of period	7,930	33
<b>Cash and cash equivalents at end of period</b>	<b>\$ 12,214</b>	<b>\$ 1</b>

**Supplemental cash flow information:**

Income taxes paid	\$ 1,218	\$ 984
Interest paid	626	228

**Noncash investing activities:**

Debt issued to purchase Baby Products Line from Springs Global:		
Funded through revolving line of credit	\$	\$ 6,014
Funded through long-term debt		5,000

<b>Total debt issued to purchase Baby Products Line from Springs Global</b>	\$	\$ 11,014
---	----	-----------

<b>Adjustment to purchase price of Springs Baby Products from resolution of pre-acquisition contingency</b>	\$ (58)	\$
---	---------	----

*See notes to unaudited condensed consolidated financial statements.*

**Table of Contents**

CROWN CRAFTS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE THREE AND NINE-MONTH PERIODS ENDED DECEMBER 28, 2008 AND  
DECEMBER 30, 2007

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 ( GAAP ) applicable to interim financial information and the rules and regulations of the Securities and Exchange Commission ( SEC ). Accordingly, they do not include all of the information and disclosures required by GAAP 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. and its subsidiaries (collectively, the Company ) as of December 28, 2008 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 nine-month periods ended December 28, 2008 are not necessarily indicative of the results that may be expected for the year ending March 29, 2009. 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 March 30, 2008.

*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 recorded commensurate with sales activity and the cost of such allowances are netted against sales in reporting the results of operations. Shipping and handling costs, net of amounts reimbursed by customers, are included in net sales.

*Use of Estimates:* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated balance sheets and the reported amounts of revenues and expenses during the periods presented on the consolidated statements of income and cash flows. 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 finished goods which necessitate the establishment of inventory reserves which are highly subjective. Our impairment test of goodwill is based on comparing the fair value of each of the reporting units of the Company to such reporting unit s carrying value. Fair value is measured using a combination of the income approach, utilizing the discounted cash flow method that incorporates our estimates of future revenues and costs for our business, and the public company comparables approach, utilizing multiples of profit measures. The estimates that we use to measure goodwill are consistent with the plans and estimates that we use to manage our operations, and are based on the best information available as of the date of the measurement. Actual results could differ from those estimates.

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

*Impairment of Long-lived Assets, Identifiable Intangibles and Goodwill:* The Company reviews for impairment long-lived assets and certain identifiable intangible assets 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 sheets.

The Company reported goodwill of \$13.9 million and \$22.9 million at December 28, 2008 and March 30, 2008, respectively. The Company tests the fair value of the goodwill of its reporting units annually in a two-step

approach ( Impairment Test ). The first step is the estimation of the fair value of each reporting unit to ensure that its fair value exceeds its carrying value. If step one indicates that a potential impairment exists, the second step is performed to measure the amount of an impairment charge, if any. In the second step, these estimated fair values are used as the hypothetical purchase price for the reporting units, and an allocation of such hypothetical purchase price is made to the identifiable tangible and intangible assets and assigned liabilities of the reporting units. The impairment charge is calculated as the amount, if any, that the carrying value of the goodwill exceeds the residual amount of goodwill that results from this hypothetical purchase price allocation. An Impairment Test must be performed more frequently if an event occurs or circumstances change that suggest that the fair value of the goodwill of either of the reporting units of the Company has more likely than not fallen below its carrying value.

**Table of Contents**

During the three months ended December 28, 2008, the market capitalization of the Company was below its net book value, which the Company has concluded was a triggering event that required the Company to perform an interim Impairment Test. Due to the complexity of estimating the fair value of the goodwill of each reporting unit required in the step one analysis, and the complexity of estimating the fair value of the identifiable tangible and intangible assets of the reporting units in the step two analysis, the Company was not able to complete the interim Impairment Test by the filing deadline for its Form 10-Q for the three-month period ended December 28, 2008. The Company has estimated that the interim Impairment Test, when completed, will result in a probable pre-tax impairment charge that will be in the range of \$6 million to \$12 million. During the three-month period ended December 28, 2008, the Company recorded a pretax charge of \$9 million, or \$0.97 per basic and diluted share, which is its best reasonable estimate of the probable impairment to the goodwill of one or both of its reporting units. Based upon the completion of the interim Impairment Test, the Company will record an adjustment, if any, to this estimated impairment charge in the quarter ending March 29, 2009. This impairment charge, and any adjustment thereof, will not have any effect on the cash expenditures of the Company, or any adverse effect on the covenant calculations under the Company's debt agreements or the Company's overall compliance with these covenants.

*Provisions 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 years 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. The effect on deferred tax assets and liabilities of any change in statutory tax rates is recognized in income in the period that includes the enactment date.

The Company's provision for income taxes is based upon an effective tax rate of 39.0%, which is the sum of the top U.S. statutory federal income tax rate and a composite rate for state income taxes (net of federal tax benefit) in the various states in which the Company operates.

Beginning with the Company's adoption on April 2, 2007 of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48), the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Based on its recent evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's consolidated financial statements. Tax years still open to general examination or other adjustment as of December 28, 2008 include tax years ended April 2, 2006, April 1, 2007, and March 30, 2008. The Company's policy is to accrue interest expense and penalties as appropriate on any estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income. Prior to the adoption of FIN 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

*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, net of royalty income, included in cost of sales amounted to \$4.7 million and \$3.2 million for the nine-month periods ended December 28, 2008 and December 30, 2007, respectively.

*(Loss) earnings Per Share:* (Loss) earnings per share are calculated in accordance with SFAS No. 128, *Earnings per Share*, which requires dual presentation of basic and diluted (loss) earnings per share on the face of the consolidated statements of income for all entities with complex capital structures. (Loss) earnings per common share are based on the weighted average number of shares outstanding during the period. Basic and diluted

weighted average shares are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all options would be used to repurchase common shares at market value. The number of shares remaining after the exercise proceeds are exhausted represents the potentially dilutive effect of the options.

**Table of Contents**

The following table sets forth the computation of basic and diluted net (loss) income per common share for the three and nine-month periods ended December 28, 2008 and December 30, 2007.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
	(Amounts in thousands, except per share data)			
(Loss) income from continuing operations	\$ (8,174)	\$ 1,236	\$ (6,551)	\$ 2,861
(Loss) income from discontinued operations	(4)	(12)	27	(110)
Net (loss) income, basic and diluted	\$ (8,178)	\$ 1,224	\$ (6,524)	\$ 2,751
Weighted average number of shares outstanding				
Basic	9,265	9,903	9,353	9,966
Effect of dilutive securities		273		282
Diluted	9,265	10,176	9,353	10,248
(Loss) earnings per common share				
Basic				
Continuing operations	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.29
Discontinued operations				(0.01)
Total	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.28
(Loss) earnings per common share				
Diluted				
Continuing operations	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.28
Discontinued operations				(0.01)
Total	\$ (0.88)	\$ 0.12	\$ (0.70)	\$ 0.27

*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 Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* (EITF 01-9), by the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB), 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 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.

*Recently Issued Accounting Standards:* In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which defines fair value, establishes a framework for a reporting entity to measure fair value in GAAP, and expands disclosure requirements related to fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position ( FSP ) No. 157-2, which delayed the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Company has not yet determined the impact that the adoption of SFAS No. 157 will have on its non-financial assets and liabilities which are not recognized on a recurring basis; however, the Company does not anticipate that it will materially impact the Company s consolidated financial statements.

**Table of Contents**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ). This statement provides companies an option to report selected financial assets and liabilities at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, on March 31, 2008, the Company adopted the provisions of SFAS No. 159. Upon adoption, the Company did not elect the fair value option for any items within the scope of SFAS No. 159; therefore, the adoption of SFAS No. 159 did not have an impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ( SFAS No. 141(R) ), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited.

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

The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock options under SFAS No. 123 (Revised 2004), *Share-Based Payment* ( SFAS No. 123(R) ), consistent with the method previously used for pro forma disclosures under SFAS No. 123. The Company has elected to use the modified prospective transition method permitted by SFAS No. 123(R). Under the modified prospective transition method, SFAS No. 123(R) applies to stock options granted on or after April 3, 2006 as well as the unvested portion of stock options that were outstanding as of April 2, 2006, including those that are subsequently modified, repurchased or cancelled. Under the modified prospective transition method, compensation expense recognized during the fiscal year ended April 1, 2007 included compensation for all stock options 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 SFAS No. 123(R).

The Company recorded \$160,000 and \$542,000 of share-based compensation expense during the three and nine-month periods ended December 28, 2008, respectively; and recorded \$155,000 and \$432,000 of share-based compensation expense during the three and nine-month periods ended December 30, 2007, respectively. No share-based compensation costs have been capitalized as part of the cost of an asset as of December 28, 2008.

*Stock Options:* The following table represents stock option activity for fiscal year 2009:

	<b>Weighted-Average</b>	<b>Number of</b>
	<b>Exercise Price</b>	<b>Options</b>
Outstanding at March 30, 2008	\$ 2.15	651,330
Granted	3.58	200,000
Exercised	0.77	(24,999)
Forfeited	3.77	(3,000)
Outstanding at December 28, 2008	\$ 2.53	823,331
Exercisable at December 28, 2008	\$ 2.01	568,331

**Table of Contents**

During the quarter ended June 29, 2008, the Company granted 200,000 non-qualified stock options to certain employees at the closing price of the Company's common stock on the date of grant, which options vest over a two-year period, assuming continued service. The following assumptions were used for the stock options granted during the quarter ended June 29, 2008:

Dividend Yield	
Expected Volatility	55.00%
Risk free interest rate	3.54%
Expected life in years	5.75
Forfeiture rate	5.00%

For the three and nine-month periods ended December 28, 2008, the Company recognized compensation expense associated with stock options as follows (in thousands):

	Three-month period			Nine-month period		
	Cost of Products Sold	Marketing & Administrative Expenses	Total Expense	Cost of Products Sold	Marketing & Administrative Expenses	Total Expense
Options granted in fiscal year 2007	\$	\$ (2)	\$ (2)	\$23	\$ 71	\$ 94
Options granted in fiscal year 2008	9	25	34	29	74	103
Options granted in fiscal year 2009	10	31	41	25	75	100
Total stock option compensation	\$19	\$ 54	\$73	\$77	\$ 220	\$297

For the three and nine-month periods ended December 30, 2007, the Company recognized compensation expense associated with stock options as follows (in thousands):

	Three-month period			Nine-month period		
	Cost of Products Sold	Marketing & Administrative Expense	Total Expense	Cost of Products Sold	Marketing & Administrative Expense	Total Expense
Options granted in fiscal year 2007	\$12	\$ 36	\$48	\$38	\$ 121	\$159
Options granted in fiscal year 2008	9	24	33	14	36	50
Unvested options at April 2, 2007		1	1		2	2
Total stock option compensation	\$21	\$ 61	\$82	\$52	\$ 159	\$211

*Non-vested Stock:* The fair value of non-vested stock granted is determined based on the number of shares granted multiplied by the closing price of the Company's common stock on the date of grant. All non-vested stock

granted under the 2006 Plan vests based upon continued service.

On August 25, 2006, the Company granted 375,000 shares of non-vested stock to certain employees with a fair value of \$3.15 as of the date of the stock grants. These shares have four-year cliff vesting. The Company recognized \$73,000 and \$221,000 of compensation expense related to these non-vested stock grants during each of the three and nine-month periods ended December 28, 2008 and December 30, 2007, respectively, which was included in marketing and administrative expenses in the accompanying consolidated statements of income. The deferred amount of these non-vested stock grants is being amortized by monthly charges to earnings over the remaining portion of the vesting period.

At December 28, 2008, the amount of unrecognized compensation expense related to these stock grants was \$493,000. The amount of compensation expense related to non-vested stock grants to be recognized in future periods will be affected by any future non-vested stock grants and by the separation from the Company of any of these employees whose stock grants are unvested as of such employee's separation date.

**Table of Contents**

During the quarter ended September 28, 2008, the Company granted 30,000 shares of non-vested stock to its non-employee directors with a fair value of \$3.87 as of the date of the stock grants. These shares vest over a two-year period. The Company recognized \$14,000 and \$24,000 of compensation expense related to these non-vested stock grants during the three and nine-month periods ended December 30, 2008, which was included in marketing and administrative expenses in the accompanying consolidated statements of income. The deferred amount of these non-vested stock grants is being amortized by monthly charges to earnings over the remaining portion of the vesting period.

At December 28, 2008, the amount of unrecognized compensation expense related to these stock grants was \$92,000. The amount of compensation expense related to non-vested stock grants to be recognized in future periods will be affected by any future non-vested stock grants and by the discontinuance of service on the Company's board of any of these non-employee directors whose stock grants are unvested as of the date of such non-employee director's discontinued service.

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

	<b>December 28, 2008</b>	<b>March 30, 2008</b>
Raw Materials	\$ 58	\$ 40
Finished Goods	14,671	13,737
Total inventory	\$ 14,729	\$ 13,777

Inventory is recorded net of reserves for inventories classified as irregular or discontinued of \$0.4 million at December 28, 2008 and \$0.3 million at March 30, 2008.

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, which expires in July 2010, 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 2.25% at December 28, 2008, until payment is received. The factor bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits. The Company bears losses resulting from returns, allowances, claims and discounts. The Company's factor may at any time terminate or limit its approval of shipments to a particular customer. If such a termination occurs, the Company must either assume the credit risks for shipments after the date of such termination or cease shipments to such customer.

*Long-term debt:* At December 28, 2008 and March 30, 2008, long term debt consisted of (in thousands):

	December 28, 2008	March 30, 2008
Revolving line of credit	\$ 15,448	\$ 17,383
Term loan	2,292	4,167
Non-interest bearing notes	4,000	4,000
Original issue discount	(557)	(739)
Capital leases		4

	21,183	24,815
Less current maturities	2,292	2,504
	\$ 18,891	\$ 22,311

The Company's credit facilities at December 28, 2008 consisted of the following:

*Revolving Line of Credit* of up to \$26 million, including a \$1.5 million sub-limit for letters of credit, with an interest rate of prime minus 1.00% (2.25% at December 28, 2008) for base rate borrowings or LIBOR plus 2.25% (4.15% at December 28, 2008), maturing on July 11, 2010 and secured by a first lien on all assets of the Company. The Company had \$4.1 million available under the revolving line of credit based on eligible accounts receivable and inventory balances as of December 28, 2008. As of December 28, 2008, letters of credit of \$0.5 million were outstanding against the \$1.5 million sub-limit for letters of credit.

**Table of Contents**

The financing agreement for the revolving line of credit 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 December 28, 2008.

*Term Loan* of an original amount of \$5 million, with an interest rate of prime plus 0.50% (3.75% at December 28, 2008) and requiring equal monthly installments of principal until final maturity on November 1, 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.

Minimum annual maturities as of December 28, 2008 are as follows (in thousands):

Fiscal	Revolver	Term Loan	Sub Notes	Total
2009		\$ 625		\$ 625
2010		1,667		1,667
2011	\$ 15,448		\$ 2,000	17,448
2012			2,000	2,000
Total	\$ 15,448	\$ 2,292	\$ 4,000	\$ 21,740

**5. Acquisitions**

*Kimberly Grant*: On December 29, 2006, Crown Crafts Infant Products, Inc. ( CCIP ), a wholly-owned subsidiary of the Company, acquired substantially all of the assets of Kimberly Grant, Inc., a designer of various infant and toddler products. The purchase price consisted of \$550,000 paid at closing and \$50,000 paid upon renewal of the acquired Kimberly Grant trademark.

The assets acquired were limited to certain intangible assets, the fair values of which were determined by the Company. The Company's resulting allocation of the purchase price, the estimated useful life of the assets acquired, the accumulated amortization and the amortization expense as of and for the three and nine-month periods ended December 28, 2008 is as follows:

	Gross Carrying Amount	Estimated Useful Life	Accumulated Amortization	Aggregate Amortization Expense Periods Ended December 28, 2008	
				Three-month period	Nine-month period
Tradename	\$ 466,387	15 years	\$ 62,191	\$ 7,773	\$ 23,319
Existing designs	35,924	1 year	35,924		
Non-compete	97,689	15 years	12,981	1,629	4,887
Totals	\$ 600,000		\$ 111,096	\$ 9,402	\$ 28,206

CCIP recorded \$18,000 and \$55,000 of amortization expense related to the intangible assets acquired from Kimberly Grant, Inc. during the three and nine-month periods ended December 30, 2007.

*Springs:* On November 5, 2007, CCIP acquired certain assets from, and assumed certain liabilities of, Springs Global US, Inc. ( Springs Global ) with respect to the baby products line of Springs Global. The purchase price consisted initially of \$12.4 million for the inventory and certain intangible assets, which was subject to an adjustment pending the completion of a final valuation of the inventory purchased. Upon the completion of this valuation, \$1.4 million was returned to the Company for a net purchase price of \$11.0 million. During the three-month period ended September 28, 2008, the resolution of the final pre-acquisition contingency resulted in a further reduction to the purchase price of \$0.1 million. The Company also capitalized \$0.4 million of direct costs associated with this acquisition for a total capitalized acquisition cost of \$11.3 million.

**Table of Contents**

The fair values of the intangible assets acquired were determined by the Company. The Company's allocation of the intangible assets acquired, their estimated useful life, the accumulated amortization and the amortization expense as of and for the three and nine-month periods ended December 28, 2008 is as follows:

	Gross Carrying Amount	Estimated Useful Life	Accumulated Amortization	Aggregate Amortization Expense Periods Ended December 28, 2008	
				Three-month period	Nine-month period
Licenses & existing designs	\$ 1,655,188	2 years	\$ 965,528	\$ 206,898	\$ 620,694
Licenses & future designs	1,846,822	4 years	538,672	115,425	346,275
Non-compete	114,981	4 years	33,551	7,185	21,555
Customer relationships	3,759,288	10 years	443,714	93,793	284,671
Totals	\$ 7,376,279		\$ 1,981,465	\$ 423,301	\$ 1,273,195

CCIP recorded \$283,000 of amortization expense related to the intangible assets acquired from Springs Global during the three months ended December 30, 2007.

The Springs Global baby products line represented less than 2% of the total revenues of Springs Global, and separate financial statements for the baby products line were not historically prepared. Nonetheless, in connection with the acquisition, the management of Springs Global furnished to the Company abbreviated statements of revenues and direct expenses with respect to the baby products line of Springs Global for the nine-month period ended September 29, 2007 (unaudited) and the twelve-month period ended December 30, 2006. These statements excluded charges for corporate overhead, interest expense and income taxes, but included estimates of charges for customer service, cash management, purchasing, accounting and information technology services that were directly charged to the baby products line and/or allocated to it based on a relative percentage of sales in the baby products line to the total sales of Springs Global. The periods covered by these statements are not coterminous with the Company's fiscal periods. Additionally, such charges and allocations are not necessarily indicative of the costs that would have been incurred if the Springs Global baby products line had been a separate entity, or if the business had been owned and operated by the Company. Certain of the Company's costs incurred to operate the Springs Global baby products line are anticipated to be less than those incurred by Springs Global; however, no reliably verifiable information is available to adjust the estimated results of operations of the Springs Global baby products line, and no pro forma adjustments have been made to give effect to these anticipated reduced costs.

For pro forma purposes, the revenues and direct expenses reported by the baby products line of Springs Global for the one and seven-month periods ended November 4, 2007 (derived on a pro rata basis using the abbreviated statements of revenues and direct expenses for the nine-month period ended September 29, 2007, because the Company does not have actual results of revenues and direct expenses for the one and seven-month periods ended November 4, 2007) were combined with the revenues and expenses reported by the Company for the three and nine-month periods ended December 30, 2007. This activity was performed to provide the following unaudited proforma financial information, which presents a summary of the Company's consolidated results of operations for the three and nine-month periods ended December 30, 2007, as if the acquisition of the baby products line from Springs Global had occurred on April 2, 2007. This unaudited proforma financial information includes adjustments to reflect the amortization expense related to the intangible assets acquired and an estimate of the interest expense that would have been incurred, but is not otherwise necessarily indicative of the consolidated results of operations that would have been reported by the Company if the acquisition had occurred on April 2, 2007 (in thousands):

**Three-Month**                      **Nine-Month**

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

	<b>Period Ended December 30, 2007</b>	<b>Period Ended December 30, 2007</b>
Net sales	\$ 20,434	\$ 64,923
Total operating expenses	18,586	61,059
Income from continuing operations	\$ 1,129	\$ 2,086
Income from continuing operations per share		
Basic	\$ 0.11	\$ 0.21
Diluted	\$ 0.11	\$ 0.20

**Table of Contents**

6. *Discontinued Operations*: On February 2, 2007, the Company announced that it would liquidate Churchill Weavers, Inc. ( Churchill ). 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, the property is classified as assets held for sale in the consolidated balance sheets, and the operations of Churchill are classified as discontinued operations in the consolidated statements of income.

7. *Treasury Stock*: In June 2007, the board of directors of the Company created a capital committee and authorized the committee to adopt a program that would allow the Company to spend an aggregate of up to \$6.0 million to repurchase shares of the Company s common stock from July 1, 2007 through July 1, 2008. Pursuant to this program, the Company repurchased 679,296 shares at a cost of \$2.5 million.

On October 14, 2008 and November 3, 2008, the Company, in privately-negotiated transactions, repurchased (i) 100,000 shares of its common stock at a purchase price, including broker fees, of \$2.68 per share and (ii) 109,755 shares of its common stock at a purchase price, including broker fees, of \$2.69 per share, respectively.

## 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 and toddler products segments within the consumer products industry. The Company s offices are located in Compton, California; Gonzales, Louisiana; Rogers, Arkansas; Roslyn Heights, New York; and a foreign representative office in Shanghai, China.

The infant and toddler products segment consists of infant and toddler bedding, bibs, soft goods and accessories. Sales of the Company s products are generally made directly to retailers, which are primarily mass merchants, chain stores, juvenile specialty stores, internet accounts, wholesale clubs and catalogue and direct mail houses. The Company s products are manufactured primarily in China and marketed under a variety of Company-owned trademarks, under trademarks licensed from others and as private label goods.

The infant and toddler 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 and CoCaLo, Inc., divisions of Russ Berrie and Co., Inc. in its infant and juvenile segment; Summer Infant, Inc.; Lambs & Ivy; The Betesh Group; Carters, Inc.; Luv n Care, Ltd.; Danara International, Ltd.; 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 for the three and nine-month periods ended December 28, 2008 and December 30, 2007 and the dollar and percentage changes for those periods (in thousands, except percentages):

	Three-month period ended				Nine-month period ended			
	December 28, 2008	December 30, 2007	\$ change	% change	December 28, 2008	December 30, 2007	change	change
Net sales by category								
Bedding, blankets and accessories	\$16,305	\$14,770	\$1,535	10.4%	\$52,683	\$38,601	\$14,082	36.5%
Bibs and bath	3,011	3,661	(650)	-17.8%	10,147	12,301	(2,154)	-17.5%
Total net sales	19,316	18,431	885	4.8%	62,830	50,902	11,928	23.4%
Cost of products sold	15,519	13,853	1,666	12.0%	49,940	38,055	11,885	31.2%
Gross profit	3,797	4,578	(781)	-17.1%	12,890	12,847	43	0.3%
% of net sales	19.7%	24.8%			20.5%	25.2%		

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

Marketing and administrative expenses	2,217	2,584	(367)	-14.2%	8,096	7,960	136	1.7%
<i>% of net sales</i>	<i>11.5%</i>	<i>14.0%</i>			<i>12.9%</i>	<i>15.6%</i>		
Goodwill impairment charge	9,000		9,000	100.0%	9,000		9,000	100.0%
Interest expense	265	244	21	8.6%	900	475	425	89.5%
Other income (expense)	37	178	(141)	-79.2%	87	154	(67)	-43.5%
Income tax expense	526	692	(166)	-24.0%	1,532	1,705	(173)	-10.1%
(Loss) income from continuing operations after taxes	(8,174)	1,236	(9,410)	-761.3%	(6,551)	2,861	(9,412)	-329.0%
Discontinued operations net of taxes	(4)	(12)	8	-66.7%	27	(110)	137	-124.5%
Net (loss) income	(8,178)	1,224	(9,402)	-768.1%	(6,524)	2,751	(9,275)	-337.2%
<i>% of net sales</i>	<i>-42.3%</i>	<i>6.6%</i>			<i>-10.4%</i>	<i>5.4%</i>		

12

**Table of Contents**

*Net Sales:* Sales of bedding, blankets and accessories increased for the three-month period of fiscal year 2009 as compared to the same period in fiscal year 2008. Sales increased by \$3.1 million due to the acquisition of the baby products line of Springs Global on November 5, 2007, and increased by \$1.9 million due to shipments of new bedding and blanket programs. These increases were offset by \$3.5 million in lower replenishment orders or discontinued programs.

Sales of bedding, blankets and accessories increased for the nine-month period of fiscal year 2009 as compared to the same period in fiscal year 2008. Sales increased by \$13.0 million due to the Springs Global acquisition and increased by \$7.3 million due to shipments of new bedding and blanket programs. These increases were offset by \$6.2 million in lower replenishment orders or discontinued programs.

Bib and bath sales decreased for the three-month period of fiscal year 2009 as compared to the same period in fiscal year 2008. Sales decreased by \$1.3 million due to programs that were discontinued or had lower replenishment orders. Offsetting this decrease was an increase of \$0.6 million related to sales of new designs and promotions, including \$0.2 million of initial program shipments.

Bib and bath sales decreased for the nine-month period of fiscal year 2009 as compared to the same period in fiscal year 2008. Sales decreased by \$4.9 million due to programs that were discontinued or had lower replenishment orders. Offsetting this decrease was an increase of \$2.7 million related to sales of new designs and promotions, including \$0.6 million of initial program shipments.

*Gross Profit:* Gross profit decreased in amount and as a percentage of net sales for the three-month period of fiscal year 2009 as compared to the same period of fiscal year 2008. The decrease in the percentage is due primarily to increased amortization costs of \$101,000 in the current year associated with the acquisition of the baby products line of Springs Global and costs of \$84,000 related to the establishment of a Foreign Representative Office in China. The Company has also experienced an increase in product costs from Asia. These increased costs were offset somewhat by a \$292,000 charge in the prior year related to the warehousing and shared services agreement entered into in conjunction with the Springs Global acquisition.

Gross profit was nearly unchanged in amount, but decreased as a percentage of net sales for the nine-month period of fiscal year 2009 as compared to the same period of fiscal year 2008. The decrease in the percentage is due primarily to increased amortization costs of \$742,000 in the current year associated with the acquisition of the baby products line of Springs Global as well as costs of \$317,000 related to the establishment in late fiscal year 2008 of a Foreign Representative Office in China, increased product development and design costs of \$243,000 and increased testing costs of \$161,000. In addition, the Company has experienced an increase in product costs from Asia. Offsetting these increased costs were charges in the prior year of \$215,000 charge related to vinyl bibs and \$292,000 related to the warehousing and shared services agreement entered into in conjunction with the Springs Global acquisition.

*Marketing and Administrative Expenses:* Marketing and administrative expenses for the three-month period of fiscal year 2009 decreased in amount and as a percentage of net sales as compared to the same period of fiscal year 2008 due primarily to lower incentive-based salaries.

Marketing and administrative expenses for the nine-month period of fiscal year 2009 increased in amount but decreased as a percentage of net sales as compared to the same period of fiscal year 2008. In the current year, the Company incurred increased costs for amortization of approximately \$229,000 related to the acquisition of the baby products line of Springs Global, and \$195,000 in expenses associated with the Governance and Standstill Agreement entered into on July 1, 2008 with Wynnefield Small Cap Value, L.P. and its affiliates. These increases were partially offset by \$476,000 of costs incurred in the prior year associated with the Company's proxy contest.

*Goodwill Impairment Charge:* During the three-month period ended December 28, 2008, the market capitalization of the Company was below its net book value, which the Company concluded was a triggering event that required the Company to perform an interim impairment test of the goodwill of its reporting units. Due to the complexity of estimating the fair value of the goodwill of each reporting unit required in step one of the impairment test, and the complexity of estimating the fair values of the identifiable tangible and intangible assets of the reporting units in step two of the impairment test, the Company was not able to complete the interim impairment test by the deadline for filing its Form 10-Q for the quarter ended December 28, 2008. The Company has estimated that the interim impairment test, when completed, will result in a probable pre-tax impairment charge that will be in the range of \$6

million to \$12 million. During the three-month period ended December 28, 2008, the Company recorded a pre-tax charge of \$9 million, which is its best reasonable estimate of the probable impairment to the goodwill of one or both of its reporting units. Based upon the completion of the interim impairment test, the Company will record an adjustment, if any, to this estimated impairment charge in the quarter ending March 29, 2009.

**Table of Contents**

*Interest Expense:* The increase in interest expense for the three and nine-month periods of fiscal year 2009 as compared to the same periods in fiscal year 2008 is due to a higher revolving line of credit balance and a new term loan executed in conjunction with the acquisition of the baby products line of Springs Global on November 5, 2007.

*Income Tax Expense:* The effective tax rate for the three-month period ended December 28, 2008 was 6.9%, which reflects that the goodwill impairment charge does not result in a tax benefit. Excluding the goodwill impairment charge, the estimated annual tax provision was an annualized rate of 39%. The effective tax rate for the three and nine-month periods ended December 30, 2007 was 36% and 37%, respectively.

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by operating activities was \$9.1 million for the nine-month period ended December 28, 2008, compared to net cash provided by operating activities of \$2.9 million for the nine-month period ended December 30, 2007. The change in cash provided by operating activities was primarily due to changes in accounts receivable and inventory balances and amortization expense, offset by changes in accounts payable and deferred income tax balances. Net cash used in investing activities was \$72,000 in the current year compared to \$493,000 in the prior year. Cash used in the prior year was primarily for acquisition costs to purchase the baby products line from Springs Global. Net cash used in financing activities was \$4.8 million in the current year compared to \$2.5 million in the prior year. Cash used in both years was primarily for net repayments on the revolving line of credit, payments on long-term debt and treasury stock purchases. Total debt outstanding under the Company's credit facilities increased from \$15.3 million at December 30, 2007 to \$21.2 million at December 28, 2008. The increase is due to debt incurred to purchase the baby products line from Springs Global on November 5, 2007 and borrowings on the revolving line of credit drawn down due to uncertainties in the United States credit markets.

On December 28, 2008, the Company had \$12.2 million in cash and \$4.1 million available under its \$26 million revolving credit facility, based on eligible accounts receivable and inventory balances as of that date. Also, \$1.0 million was available for letters of credit against the \$1.5 million sub-limit for letters of credit associated with the revolving credit facility.

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 its cash balance, its cash flow from operations, and its availability from the revolving line of credit 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 approves customer accounts and credit lines and collects the Company's accounts receivable balances. Under the terms of the factoring agreement, which expires in July 2010, 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 2.25% at December 28, 2008, until payment is received. The factor bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits. The Company bears losses resulting from returns, allowances, claims and discounts. The Company's factor may at any time terminate or limit its approval of shipments to a particular customer. If such a termination occurs, the Company must 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.

**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 December 28, 2008, 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. 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 the Company's Form 10-K for the year ended March 30, 2008, other than as set forth below.

***The Company's business is impacted by general economic conditions and related uncertainties affecting markets in which the Company operates.***

Current economic conditions, including the credit crisis affecting global financial markets and the possibility of an extended global recession, could adversely impact the Company's business. These conditions could result in reduced demand for some of the Company's products, increased order cancellations and returns, an increased risk of excess and obsolete inventories, increased pressure on the prices of the Company's products, and greater difficulty in obtaining necessary financing on favorable terms. Also, although the Company's use of a commercial factor significantly reduces the risk associated with collecting accounts receivable, the factor may at any time terminate or limit its approval of shipments to a particular customer, and the likelihood of the factor's doing so may increase as a result of current economic conditions. Such an action by the factor would result in the loss of future sales to the affected customer.

***The Company could become obligated to record a further impairment charge related to its goodwill.***

Although the Company reviews the carrying value of its goodwill annually, it must continually evaluate whether any events or circumstances have occurred which would prompt it to perform an interim review of its goodwill. The Company must record an impairment charge whenever, on a reporting-unit basis, the carrying value of its goodwill exceeds its fair value. The estimates of the fair value of the Company's reporting units are based on certain judgments and estimates of the future cash flows of the respective reporting units and the Company's interpretation of economic indicators and market valuations. A prolonged global recession or a further decline in the market capitalization of the Company could adversely affect these measurements to a degree sufficient to cause a deterioration of the fair value of one or both of the Company's reporting units below their carrying value, thus prompting a further impairment charge related to the Company's goodwill.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(c) Issuer Purchases of Equity Securities.**

The table below sets forth information regarding the Company's repurchases of its outstanding common stock during the three-month period ended December 28, 2008.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share (1)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs</b>
September 29, 2008 through November 2, 2008	100,000(2)	\$ 2.68	0	\$ 0
November 3, 2008 through November 30, 2008	109,755(3)	\$ 2.69	0	\$ 0
December 1, 2008 through December 28, 2008		\$	0	\$ 0
<b>Total</b>	<b>209,755</b>	<b>\$ 2.69</b>	<b>0</b>	<b>\$ 0</b>

(1) Includes broker fees of \$0.03 per share.

(2) These shares of common stock were repurchased by the Company in a privately-negotiated transaction on October 14, 2008.

(3) These shares of common stock were repurchased by the Company in a privately-negotiated transaction on November 3, 2008.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**Table of Contents**

ITEM 6. EXHIBITS

Exhibit

No.	Exhibit
10.1	Employment Agreement dated November 6, 2008 by and between the Company and Olivia W. Elliott (1)
10.2	First Amendment to Employment Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut (2)
10.3	First Amendment to Amended and Restated Severance Protection Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut (2)
10.4	First Amendment to Amended and Restated Employment Agreement dated November 6, 2008 by and between the Company and Amy Vidrine Samson (2)
10.5	First Amendment to Amended and Restated Employment Agreement dated November 6, 2008 by and between the Company and Nanci Freeman (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer (3)
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer (3)
32.1	Section 1350 Certification by the Company's Chief Executive Officer (3)
32.2	Section 1350 Certification by the Company's Chief Financial Officer (3)

(1) Incorporated herein by reference to Registrant's Current Report on Form 8-K/A dated November 7, 2008.

(2) Incorporated herein by reference to Registrant's Current Report on Form 8-K dated November 7, 2008.

(3) Filed herewith.

SIGNATURE

Edgar Filing: CROWN CRAFTS INC - Form 10-Q

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: February 11, 2009

/s/ Olivia W. Elliott  
OLIVIA W. ELLIOTT  
Chief Financial Officer  
(duly authorized signatory and Principal  
Financial Officer)

17

---

**Table of Contents**

Index to Exhibits

Exhibit No.	Exhibit
10.1	Employment Agreement dated November 6, 2008 by and between the Company and Olivia W. Elliott (1)
10.2	First Amendment to Employment Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut (2)
10.3	First Amendment to Amended and Restated Severance Protection Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut (2)
10.4	First Amendment to Amended and Restated Employment Agreement dated November 6, 2008 by and between the Company and Amy Vidrine Samson (2)
10.5	First Amendment to Amended and Restated Employment Agreement dated November 6, 2008 by and between the Company and Nanci Freeman (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer (3)
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer (3)
32.1	Section 1350 Certification by the Company's Chief Executive Officer (3)
32.2	Section 1350 Certification by the Company's Chief Financial Officer (3)
(1)	Incorporated herein by reference to Registrant's Current Report on Form 8-K/A dated November 7, 2008.
(2)	Incorporated herein by reference to Registrant's Current Report on Form 8-K dated November 7, 2008.
(3)	Filed herewith.

