CROWN CRAFTS INC
Form 10-Q
August 13, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 June 29, 2014

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)	(IRS Employer Identification No.)
916 South Burnside Avenue, Gonzales, LA	**70737**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(225) 647-9100**

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (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 August 12, 2014 was 10,077,558.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

JUNE 29, 2014 AND MARCH 30, 2014

	June 29, 2014 (Unaudited)	March 30, 2014
	(amounts in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$6,219	$560
Accounts receivable (net of allowances of $559 at June 29, 2014 and $718 at March 30, 2014):		
Due from factor	13,990	20,800
Other	809	912
Inventories	18,042	13,607
Prepaid expenses	967	1,391
Deferred income taxes	852	799
Total current assets	40,879	38,069
Property, plant and equipment - at cost:		
Vehicles	192	193
Leasehold improvements	213	213
Machinery and equipment	2,717	2,671
Furniture and fixtures	738	738
Property, plant and equipment - gross	3,860	3,815
Less accumulated depreciation	3,309	3,229
Property, plant and equipment - net	551	586
Finite-lived intangible assets - at cost:		
Customer relationships	5,411	5,411
Other finite-lived intangible assets	7,613	7,613
Finite-lived intangible assets - gross	13,024	13,024

Less accumulated amortization	7,970	7,776
Finite-lived intangible assets - net	5,054	5,248
Goodwill	1,126	1,126
Deferred income taxes	1,354	1,109
Other	91	77
Total Assets	$49,055	$46,215
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$7,588	$5,066
Accrued wages and benefits	2,157	2,426
Accrued royalties	1,311	1,139
Dividends payable	804	789
Income taxes currently payable	696	787
Other accrued liabilities	104	91
Total current liabilities	12,660	10,298
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock - $0.01 par value per share; Authorized 40,000,000 shares at June 29, 2014 and March 30, 2014; Issued 11,982,302 shares at June 29, 2014 and 11,794,070 shares at March 30, 2014	120	118
Additional paid-in capital	47,739	47,162
Treasury stock - at cost - 1,932,744 shares at June 29, 2014 and March 30, 2014	(8,147)	(8,147)
Accumulated deficit	(3,317)	(3,216)
Total shareholders' equity	36,395	35,917
Total Liabilities and Shareholders' Equity	$49,055	$46,215

See notes to unaudited condensed consolidated financial statements.

1

CROWN CRAFTS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE-MONTH PERIODS ENDED JUNE 29, 2014 AND JUNE 30, 2013

(amounts in thousands, except per share amounts)

	Three-Month Periods Ended	
	June 29, 2014	June 30, 2013
Net sales	$15,704	$16,613
Cost of products sold	11,422	12,119
Gross profit	4,282	4,494
Legal expense	192	259
Other Marketing and administrative expenses	2,970	2,911
Income from operations	1,120	1,324
Other income (expense):		
Interest expense	(8)	(21)
Interest income	10	9
Other - net	5	(3)
Income before income tax expense	1,127	1,309
Income tax expense	424	487
Net income	$703	$822
Weighted average shares outstanding:		
Basic	9,985	9,828
Effect of dilutive securities	44	12
Diluted	10,029	9,840
Earnings per share:		
Basic	$0.07	$0.08
Diluted	$0.07	$0.08
Cash dividends declared per share	$0.08	$0.08

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE-MONTH PERIODS ENDED JUNE 29, 2014 AND JUNE 30, 2013

	Three-Month Periods Ended June 29, 2014 (amounts in thousands)			June 30, 2013		
Operating activities:						
Net income	$	703		$	822	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation of property, plant and equipment		80			76	
Amortization of intangibles		194			183	
Deferred income taxes		(298	)		1	
Stock-based compensation		215			193	
Tax shortfall from stock-based compensation		-			(4	)
Changes in assets and liabilities:						
Accounts receivable		6,913			6,828	
Inventories		(4,435	)		(4,187	)
Prepaid expenses		424			74	
Other assets		(14	)		-	
Accounts payable		2,522			(917	)
Accrued liabilities		179			306	
Net cash provided by operating activities		6,483			3,375	
Investing activities:						
Capital expenditures for property, plant and equipment		(45	)		(19	)
Capitalized costs of internally developed intangible assets		-			(16	)

Net cash used in investing activities		(45	)		(35	)
Financing activities:						
Repayments under revolving line of credit		-			(9,947	)
Borrowings under revolving line of credit		-			9,947	
Purchase of treasury stock		-			(55	)
Issuance of common stock		-			51	
Excess tax benefit from stock-based compensation		10			-	
Dividends paid		(789	)		(786	)
Net cash used in financing activities		(779	)		(790	)
Net increase in cash and cash equivalents		5,659			2,550	
Cash and cash equivalents at beginning of period		560			340	
Cash and cash equivalents at end of period	$	6,219		$	2,890	
Supplemental cash flow information:						
Income taxes paid, net of refunds received	$	804		$	705	
Interest paid, net of interest received		3			12	
Noncash financing activity:						
Dividends declared but unpaid		(804	)		(786	)
Compensation paid in common stock		354			-	

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE THREE-MONTH PERIODS ENDED JUNE 29, 2014 AND JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Crown Crafts, Inc. (the "Company") and its subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") applicable to interim financial information as promulgated by the Financial Accounting Standards Board ("FASB") 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. References herein to GAAP are to topics within the FASB Accounting Standards Codification (the "FASB ASC"), which the FASB periodically revises through the issuance of an Accounting Standards Update ("ASU") and which has been established by the FASB as the authoritative source for GAAP recognized by the FASB to be applied by nongovernmental entities. In the opinion of management, these interim consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of June 29, 2014 and the results of its operations and cash flows for the periods presented. Such adjustments include normal, recurring accruals, as well as the elimination of all significant intercompany balances and transactions. Operating results for the three-month period ended June 29, 2014 are not necessarily indicative of the results that may be expected by the Company for its fiscal year ending March 29, 2015. For further information, refer to the Company's consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended March 30, 2014.

Fiscal Year: The Company's fiscal year ends on the Sunday that is nearest to or on March 31. References herein to "fiscal year 2015" or "2015" represent the 52-week period ending March 29, 2015 and references herein to "fiscal year 2014" or "2014" represent the 52-week period ended March 30, 2014.

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 also has a certain amount of discontinued finished goods which necessitates the establishment of inventory reserves and allocates indirect costs to inventory based on an estimated percentage of the supplier purchase price, each of which is highly subjective. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Company considers highly-liquid investments, if any, purchased with original maturities of three months or less to be cash equivalents. The Company's credit facility consists of a revolving line of credit under a financing agreement with The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group, Inc. The Company classifies a negative balance outstanding under this revolving line of credit as cash, as these amounts are legally owed to the Company and are immediately available to be drawn upon by the Company.

Financial Instruments: For short-term instruments such as cash and cash equivalents, accounts receivable and accounts payable, the Company uses carrying value as a reasonable estimate of the fair value.

Segment and Related Information: The Company operates primarily in one principal segment, infant, toddler and juvenile products. These products consist of infant and toddler bedding, bibs, soft bath products, disposable products and accessories. Net sales of bedding, blankets and accessories and net sales of bibs, bath and disposable products for the three-month periods ended June 29, 2014 and June 30, 2013 are as follows (in thousands):

	Three-Month Periods Ended	
	June 29, 2014	**June 30, 2013**
Bedding, blankets and accessories	$10,801	$11,298
Bibs, bath and disposable products	4,903	5,315
Total net sales	$15,704	$16,613

Advertising Costs: The Company’s advertising costs are primarily associated with cooperative advertising arrangements with certain of the Company’s customers and are recognized using the straight-line method based upon aggregate annual estimated amounts for those customers, with periodic adjustments to the actual amounts of authorized agreements. Advertising expense is included in marketing and administrative expenses in the accompanying consolidated statements of income and amounted to $234,000 and $221,000 for the three-month periods ended June 29, 2014 and June 30, 2013, respectively.

Revenue Recognition: Sales are recorded when goods are shipped to customers and are reported net of allowances for estimated returns and allowances in the accompanying consolidated statements of income. Allowances for returns are estimated based on historical rates. Allowances for returns, cooperative advertising allowances, warehouse allowances, placement fees and volume rebates are recorded commensurate with sales activity or using the straight-line method, as appropriate, 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 not material and are included in net sales.

Allowances Against Accounts Receivable: The Company’s allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as cooperative advertising and warehouse allowances, placement fees and volume rebates. These deductions are recorded throughout the year commensurate with sales activity or using the straight-line method, as appropriate. 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, placement fees, markdowns and warehouse and other allowances. All such allowances are recorded as direct offsets to sales, and such costs are accrued commensurate with sales activities or as a straight-line amortization charge of an agreed-upon fixed amount, as appropriate to the circumstances for each such arrangement. When a customer requests deductions, the allowances are reduced to reflect such payments or credits issued against the customer’s account balance. The Company analyzes the components of the allowances for customer deductions monthly and adjusts the allowances to the appropriate levels. The timing of 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 or using the straight-line method, as appropriate.

To reduce the exposure to credit losses and to enhance the predictability of its cash flows, the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT. In the event a factored receivable becomes uncollectible due to creditworthiness, CIT bears the risk of loss. The Company’s management must make estimates of the uncollectibility of its non-factored accounts receivable to evaluate the adequacy of the Company’s allowance for doubtful accounts, which is accomplished by specifically analyzing accounts receivable, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers’ payment terms. The Company’s accounts receivable as of June 29, 2014 was $14.8 million, net of allowances of $559,000. Of this amount, $14.0 million was due from CIT under the factoring agreements, and an additional $6.1 million was due from CIT as a negative balance outstanding under the revolving line of credit. The combined amount of $20.1 million represents the maximum loss that the Company could incur if CIT failed completely to perform its obligations under the factoring agreements and the revolving line of credit.

Depreciation and Amortization: The accompanying consolidated balance sheets reflect property, plant and equipment, and certain intangible assets at cost less accumulated depreciation or amortization. The Company capitalizes additions and improvements and expenses maintenance and repairs as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are three to eight years for property, plant and equipment, and one to twenty years for intangible assets other than goodwill. The Company amortizes improvements to its leased facilities over the term of the lease or the estimated useful life of the asset, whichever is shorter.

Valuation of Long-Lived Assets and Identifiable Intangible Assets: In addition to the depreciation and amortization procedures set forth above, 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.

Patent Costs: The Company incurs certain legal and associated costs in connection with its patent applications. The Company capitalizes such costs to be amortized over the expected life of the patent to the extent that an economic benefit is anticipated from the resulting patent or an alternative future use for the underlying product is available to the Company. The Company also capitalizes legal and other costs incurred in the protection or defense of the Company's patents when it is believed that the future economic benefit of the patent will be maintained or increased and a successful outcome of the litigation is probable. Capitalized patent defense costs are amortized over the remaining expected life of the related patent. The Company's assessment of the future economic benefit of its patents and its evaluation of the probability of a successful outcome of litigation associated with its patents involves considerable management judgment, and a different conclusion could result in a material impairment charge amounting to the carrying value of these assets.

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 royalties are accrued based upon historical sales rates adjusted for current sales trends by customers. Royalty expense is included in cost of sales in the accompanying consolidated statements of income and amounted to $1.4 million and $1.5 million for the three-month periods ended June 29, 2014 and June 30, 2013, respectively.

Inventory Valuation: The preparation of the Company's financial statements requires careful determination of the appropriate dollar amount of the Company's inventory balances. Such amount is presented as a current asset in the accompanying consolidated balance sheets and is a direct determinant of cost of goods sold in the accompanying consolidated statements of income and, therefore, has a significant impact on the amount of net income in the accounting periods reporte