

CROWN CRAFTS INC
Form 10-K/A
June 29, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/ A
Amendment No. 1

(Mark One)

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

For the fiscal year ended March 28, 2004

OR

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

Commission file no. 1-7604

Crown Crafts, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

**916 S. Burnside Ave.
Gonzales, Louisiana**

(Address of principal executive offices)

58-0678148

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

70737

(Zip Code)

Registrant's telephone number, including area code:

(225) 647-9100

Securities registered pursuant to Section 12(b) of the Act:

Title of class

Name of exchange on which registered

Common Stock, \$0.01 par value
Common Share Purchase Rights

OTC Bulletin Board
OTC Bulletin Board

Securities registered pursuant to Section 12(g) of the Act:

None

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark if the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of September 28, 2003, 9,504,937 shares of Common Stock were outstanding, and the aggregate market value of the Common Stock (based upon the closing price of these shares on that date) held by persons other than Officers, Directors, and 5% shareholders was approximately \$3,727,011.

As of June 1, 2004, 9,504,937 shares of the Company's Common Stock were outstanding.

Forward-Looking Information

This annual report contains forward-looking statements within the meaning of 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, changing competition, 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 and the Company's dependence upon licenses from third parties.

Explanatory Note

This Report on Form 10-K/A amends and restates in its entirety Item 1 of the Annual Report on Form 10-K of Crown Crafts, Inc. (the Company) for the fiscal year ended March 28, 2004. Item 1 has been amended and restated to correct the Company's fiscal year-end as referenced under the caption "Order Backlog".

PART I

Item 1. *Business*

Crown Crafts, Inc. is a Delaware corporation as a result of the Company's reincorporation in Delaware completed in 2003. The Company was originally formed as a Georgia corporation in 1957. The Company operates indirectly through its subsidiaries (Hamco, Inc.; Churchill Weavers, Inc.; Crown Crafts Infant Products, Inc. and, previously, Burgundy Interamericana) in the Infant Products segment within the Consumer Products industry. The Infant Products segment consists of infant bedding, bibs, soft goods and accessories. Sales are generally made directly to retailers, primarily mass merchants, large chain stores and gift stores. These 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.

In response to changing business conditions in the consumer products industry, the Company made significant changes in its business operations over the last four years. In addition to a program of cost reductions and rationalization, the Company outsourced virtually all of its manufacturing to domestic and foreign contract manufacturers, with the exception of the specialty hand wovens produced by Churchill Weavers and, until recently, screen-printed infant bibs produced by Burgundy in Mexico. The Woven Products division, with manufacturing primarily in north Georgia, was sold on November 14, 2000 and net proceeds of \$32.3 million were used to reduce debt. Following the outsourcing of adult bedding and bath, the Roxboro, North Carolina plant was sold on June 14, 2001 and the proceeds of \$8.0 million were used to reduce debt. Also, the Company made a decision to exit the adult bedding and bath business, and its net assets related to that business of \$12.4 million were sold effective July 23, 2001. Proceeds of the sale were \$8.5 million cash plus the assumption of liabilities of \$3.4 million as well as the assumption of certain contingent liabilities. Cash from the sale was used to reduce debt. After that sale, the Company has operated primarily in the infant and juvenile products business, but in describing the results of operations for fiscal 2002, reference is made to all of the product groups. Because of the sale of assets and the refinancing that occurred July 23, 2001, the Company's historical results for fiscal 2002 and prior are not indicative of the Company's future operations.

In December 2002, the Company adopted a formal plan to change its sourcing strategy for certain products and close the Mexican manufacturing facility operated by Burgundy. This decision was based on extensive research by management which indicated that, due to lower wages and the elimination of certain governmental quotas on the importation of bibs, outsourcing the supply of products then being manufactured by Burgundy to Asian manufacturers was more cost-effective and competitive than maintaining operations in Mexico. Under the plan, Burgundy continued to operate through the first quarter of fiscal 2004, at which time

the Company began to liquidate Burgundy's assets. As a result of the decision of the Company to discontinue its Mexican operations, the Company recorded a \$1.8 million restructuring charge to operations in the quarter ended December 29, 2002, which consisted primarily of a write-down of the property and equipment at the Mexican facility of approximately \$800,000, inventory items deemed to be in excess of production requirements of approximately \$600,000, an accrual for contractual termination benefits of approximately \$300,000 due Burgundy's entire workforce (approximately 130 employees) under the provisions of Mexico's labor regulations and the write-off of goodwill of approximately \$60,000. The Company paid approximately \$189,000 of the severance benefits in the first quarter of fiscal 2004 and paid the remainder through October 2003. The Company continued to charge the ongoing operating costs associated with Burgundy's production in the period in which the costs were incurred. The Company incurred a loss of approximately \$85,000 related to the operation and closure of this facility for the three-month period ended June 29, 2003, at which time the closure was complete.

Products

The Company's primary focus is on infant and juvenile products. Infant products include crib bedding, diaper stackers, mobiles, bibs, receiving blankets, burp cloths, bathing accessories and other infant soft goods and accessories. The Company also produces hand-woven throws for infants and adults, which are manufactured and imported in a variety of colors, designs and fabrics, including cotton, acrylic, cotton/acrylic blends, rayon, wool, fleece and chenille.

Historically, the company's products also included two additional groups: 1) bedroom and bath products and 2) imported and jacquard woven throws. Bedroom products included comforters, comforter sets, sheets, pillowcases, sheet sets, pillow shams, bed skirts, duvets, decorative pillows, coverlets and jacquard-woven bedspreads.

The table below indicates the allocation of sales of the Company's products.

	Fiscal Year		
	2004	2003	2002
Infant and Juvenile Products	97%	97%	80%
Throws	3%	3%	3%
Bedroom and Bath Products	0%	0%	17%

Product Design and Styling

Research and development expenditures focus primarily on product design and styling. The Company believes styling and design are key components to its success. The Company's designers and stylists work closely with the marketing staff and licensors to develop new designs. These designs, which are developed internally and obtained from numerous additional sources, including graphic artists, decorative fabric manufacturers, apparel designers and employees, include traditional, contemporary, textured and whimsical patterns across a broad spectrum of retail price points. The Company is continually developing new designs for all of its product groups using computer-aided-design systems to increase design flexibility, reduce costs and shorten the time for responding to customer demands and changing market trends. The Company also creates designs for exclusive sale by certain of its customers.

Sales and Marketing, Customers

Products are marketed through a national sales force consisting of salaried sales executives and employees and independent commissioned sales representatives. Independent representatives are used most significantly in sales to the gift trade and infant markets. Sales outside the United States are made primarily through distributors.

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The Company's customers consist principally of mass merchants, chain stores, department stores, specialty home furnishings stores, wholesale clubs, gift stores and catalogue and direct mail houses. The table below indicates customers representing more than 10% of gross sales.

	Fiscal Year		
	2004	2003	2002
Toys R Us	36%	31%	26%
Wal-Mart Stores, Inc.	27%	30%	22%
Target Corporation	12%	10%	*

* Less than 10%.

The Company's sales offices are located in Huntington Beach, California; Gonzales, Louisiana; Berea, Kentucky and Rogers, Arkansas. Substantially all products are sold to retailers for resale to consumers. The Company's infant product subsidiaries generally introduce new products once each year during the annual Juvenile Products Manufacturers' Association (JPMA) trade show. Private label products are introduced throughout the year. New product introductions for the gift trade are concentrated in January through March and June through August when Churchill Weavers participates in numerous local and regional gift shows.

In fiscal 2004, approximately 1% of the Company's gross sales were made through its retail store in Berea, Kentucky. Stores in Calhoun, Georgia and Rancho Santa Margarita, California were closed in fiscal 2001 and a store in Roxboro, North Carolina was sold in fiscal 2002.

Manufacturing

The Company's infant products are produced primarily by domestic and foreign contract manufacturers. These products are then warehoused and shipped from facilities in Compton, California and Gonzales, Louisiana.

Raw Materials

The principal raw materials used in the manufacture of infant comforters, sheets and accessories are printed and solid color cotton and polycotton fabrics, with polyester fibers used as filling material. The principal raw materials used in the manufacture of throws and other products are natural-color and pre-dyed 100% cotton yarns, rayon yarns and acrylic yarns. The principal raw materials used in the production of infant bibs are knit-terry polycotton, woven polycotton and vinyl fabrics. Although the Company usually maintains supply relationships with only a limited number of suppliers, the Company believes these raw materials presently are available from several sources in quantities sufficient to meet the Company's requirements.

The Company uses significant quantities of cotton, either in the form of cotton fabric or polycotton fabric. Cotton is subject to ongoing price fluctuations. The price fluctuations are a result of cotton being an agricultural product subject to weather patterns, disease and other factors as well as supply and demand considerations, both domestically and internationally. Significant increases in the price of cotton could adversely affect the Company's operations.

Seasonality, Inventory Management

Historically, the Company has experienced a seasonal sales pattern, in which sales are lowest in the first fiscal quarter. In fiscal 2004, sales peaked in the fourth fiscal quarter and in fiscal 2002 and 2003, sales peaked in the second fiscal quarter.

The Company carries normal inventory levels to meet delivery requirements of customers. Customer returns of merchandise shipped are historically approximately 0.6% of gross sales.

Order Backlog

Management estimates the backlog of unfilled customer orders were \$4.4 million and \$3.4 million at March 28, 2004 and March 30, 2003, respectively. The majority of these unfilled orders are shipped within approximately eight weeks, and none are expected to be shipped beyond the completion of the fiscal year ending April 3, 2005. Due to the prevalence of quick-ship programs adopted by its customers, the Company does not believe that its backlogs are a meaningful indicator of future business.

Trademarks, Copyrights and Patents

The Company considers its trademarks to be of material importance to its business. Products are marketed in part under well-known trademarks such as Red Calliope®, Cuddle Me®, NoJo®, Hamco®, Pinky Baby® and Churchill Weavers®. Protection for these trademarks is obtained through domestic and foreign registrations.

Certain products are manufactured and sold pursuant to licensing agreements for trademarks that include, among others, Disney®. The licensing agreements for the Company's designer brands generally are for an initial term of one to five years, and may or may not be subject to renewal or extension. Sales of product under the Company's licenses with Disney Enterprises, Inc. accounted for 33% of the Company's total gross sales volume during fiscal 2004.

Many of the designs used by the Company are copyrighted by other parties, including trademark licensors, and are available to the Company through copyright licenses. Other designs are the subject of copyrights and design patents owned by the Company.

During the fiscal year ended March 28, 1999, the Company entered into licensing agreements with Calvin Klein, Inc. and Disney Enterprises, Inc. The Calvin Klein license granted the Company the right to produce and sell bedroom and bath products under the Calvin Klein brand. The Disney license expands the Company's right to produce and sell products featuring Disney characters. The current Disney license expires December 31, 2004. In connection with the sale of the adult bedding and bath business effective July 23, 2001, the rights of the Company under the Calvin Klein license were terminated.

The Company's aggregate commitment for minimum guaranteed royalty payments under all of its license agreements is \$3.3 million, \$0.2 million and \$0 for fiscal 2005, 2006, and thereafter, respectively. The Company believes that future sales of royalty products will exceed amounts required to cover the minimum royalty guarantees. The Company's total royalty expense, net of royalty income, was \$5.7 million, \$6.5 million and \$7.5 million for fiscal 2004, 2003 and 2002, respectively.

Competition

The infant consumer products industry is highly competitive. The Company competes with a variety of distributors and manufacturers on the basis of quality, design, price, service and packaging and is a leader in its respective industry segment. Its leadership results from the integration of extensive proprietary product design with low-cost, high-quality global sourcing to produce and market high-value merchandise to major customers. With a strong commitment to customer service, the Company develops distinctive programs for individual customers and maximizes retail productivity with aggressive pricing, quick replenishment merchandise management and efficient customer order execution. These qualities have enabled the Company to become the largest producer of infant bed coverings and bibs for distribution to mass and mid-tier merchants, enjoying approximately one-third of the infant bedding market share and one-half of the bib market share in the U.S.

Government Regulation, Environmental Control

The Company is subject to various federal, state and local environmental laws and regulations which regulate, among other things, the discharge, storage, handling and disposal of a variety of substances and wastes and to laws and regulations relating to employee safety and health, principally the Occupational Safety and Health Administration Act and regulations thereunder. The Company believes that it currently complies

in all material respects with applicable environmental, health and safety laws and regulations and that future compliance with such existing laws or regulations will not have a material adverse effect on its capital expenditures, earnings or competitive position. However, there can be no assurances that such requirements will not become more stringent in the future or that the Company will not incur significant costs in the future to comply with such requirements.

Employees

At March 28, 2004, the Company had approximately 241 employees, none of whom are represented by a labor union. The Company attracts and maintains qualified personnel by paying competitive salaries and benefits and offering opportunities for advancement. The Company considers its relationship with its employees to be good.

International Sales

Sales to customers in foreign countries outside the United States are not currently material to the Company's business.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)3. Exhibits

Exhibits required to be filed by Item 601 of Regulation S-K are included as Exhibits to this report as follows:

Exhibit Number	Description of Exhibits
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

INDEX TO EXHIBITS

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