

CROWN CRAFTS INC
Form 10-Q
February 09, 2011

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**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 26, 2010

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

For the transition period from _____ to _____

Commission File No. 1-7604

CROWN CRAFTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

58-0678148

(State or other jurisdiction of
incorporation or organization)

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

916 South Burnside Avenue, Gonzales, Louisiana 70737

(Address of principal executive offices)

(225) 647-9100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant 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 January 28, 2011 was 9,581,446.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 December 26, 2010 and March 28, 2010

	December 26, 2010	March 28, 2010
	(Unaudited)	(Unaudited)
	(amounts in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36	\$ 75
Accounts receivable (net of allowances of \$1,240 at December 26, 2010 and \$1,238 at March 28, 2010):		
Due from factor	15,715	17,633
Other	753	388
Inventories	19,352	10,453
Prepaid expenses	2,088	1,625
Temporary investments restricted		505
Assets held for sale	396	396
Deferred income taxes	363	399
Total current assets	38,703	31,474
Property, plant and equipment at cost:		
Vehicles	58	58
Land, buildings and improvements	215	212
Machinery and equipment	2,602	2,537
Furniture and fixtures	781	764
	3,656	3,571
Less accumulated depreciation	3,190	3,020
Property, plant and equipment net	466	551
Intangible assets at cost:		
Goodwill	1,154	864
Customer relationships	5,411	5,083
Other intangible assets	6,701	5,496
	13,266	11,443
Less accumulated amortization	4,993	4,086
Intangible assets net	8,273	7,357
Other assets:		
Deferred income taxes	1,862	1,904
Other	104	106

Total other assets		1,966		2,010
Total Assets	\$	49,408	\$	41,392

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

Accounts payable	\$	8,389	\$	5,563
Accrued wages and benefits		1,324		838
Accrued royalties		1,876		1,051
Income taxes currently payable		71		1,048
Other accrued liabilities		196		205
Current maturities of long-term debt		1,917		1,952

Total current liabilities		13,773		10,657
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Non-current liabilities:

Long-term debt		5,666		3,238
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Commitments and contingencies

Shareholders equity:

Preferred stock \$0.01 par value per share; Authorized 1,000,000 shares; No shares issued at December 26, 2010 and March 28, 2010

Common stock \$0.01 par value per share; Authorized 74,000,000 shares; Issued 10,825,772 shares at December 26, 2010 and 10,288,940 shares at March 28, 2010

Additional paid-in capital		108		103
Treasury stock at cost - 1,244,326 shares at December 26, 2010 and 1,074,025 shares at March 28, 2010		42,085		41,007
Accumulated deficit		(4,338)		(3,580)
		(7,886)		(10,033)

Total shareholders equity		29,969		27,497
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Total Liabilities and Shareholders Equity	\$	49,408	\$	41,392
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See notes to unaudited condensed consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine-Month Periods Ended December 26, 2010 and December 27, 2009

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
	(amounts in thousands, except per share amounts)			
Net sales	\$ 21,938	\$ 20,646	\$ 62,816	\$ 60,094
Cost of products sold	17,531	16,008	48,463	46,973
Gross profit	4,407	4,638	14,353	13,121
Marketing and administrative expenses	3,047	2,746	9,581	8,625
Income from operations	1,360	1,892	4,772	4,496
Other income (expense):				
Interest and amortization of debt discount and expense	(112)	(181)	(334)	(581)
Other net	(8)	9	1	(30)
Income before income tax expense	1,240	1,720	4,439	3,885
Income tax expense	460	598	1,711	1,409
Income from continuing operations	780	1,122	2,728	2,476
Loss from discontinued operations net of income taxes	(5)	(9)	(13)	(22)
Net income	\$ 775	\$ 1,113	\$ 2,715	\$ 2,454
Weighted average shares outstanding basic	9,565	9,167	9,466	9,186
Weighted average shares outstanding diluted	9,786	9,271	9,631	9,287
Basic earnings per share:				
Income from continuing operations	\$ 0.08	\$ 0.12	\$ 0.29	\$ 0.27
Loss from discontinued operations net of income taxes				
Total basic earnings per share	\$ 0.08	\$ 0.12	\$ 0.29	\$ 0.27
Diluted earnings per share:				
Income from continuing operations	\$ 0.08	\$ 0.12	\$ 0.28	\$ 0.26

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Loss from discontinued operations net of
income taxes

Total diluted earnings per share	\$	0.08	\$	0.12	\$	0.28	\$	0.26
Cash dividends declared per share	\$	0.02	\$		\$	0.06	\$	

See notes to unaudited condensed consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 Nine-Month Periods Ended December 26, 2010 and December 27, 2009

	Nine-Month Periods Ended December 26, 2010 December 27, 2009 (amounts in thousands)	
Operating activities:		
Net income	\$ 2,715	\$ 2,454
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	192	220
Amortization of intangibles	907	1,265
Deferred income taxes	78	176
Gain on sale of property, plant and equipment	(2)	
Accretion of interest expense to original issue discount	148	195
Accretion of interest income to temporary investment restricted		(3)
Stock-based compensation	605	617
Tax shortfall from stock-based compensation	(14)	
Changes in assets and liabilities:		
Accounts receivable	1,554	5,955
Inventories	(8,627)	(994)
Prepaid expenses	(463)	(835)
Other assets	(21)	47
Accounts payable	2,819	1,930
Accrued liabilities	325	(146)
Net cash provided by operating activities	216	10,881
Investing activities:		
Capital expenditures	(107)	(132)
Maturity (purchase) of temporary investments	505	(500)
Proceeds from disposition of assets	2	
Payment to acquire the Bibsters product line	(2,072)	
Payment to acquire the assets of Neat Solutions, Inc., net of liabilities assumed		(4,434)
Net cash used in investing activities	(1,672)	(5,066)
Financing activities:		
Payments on long-term debt	(2,000)	(1,667)
Borrowings (repayments) under revolving line of credit, net	4,245	(18,118)
Purchase of treasury stock	(758)	(524)
Issuance of common stock	341	165
Excess tax benefit from stock-based compensation	151	
Dividends paid	(562)	
Net cash provided by (used in) financing activities	1,417	(20,144)

Net decrease in cash and cash equivalents	(39)	(14,329)
Cash and cash equivalents at beginning of period	75	15,249
Cash and cash equivalents at end of period	\$ 36	\$ 920
Supplemental cash flow information:		
Income taxes paid	\$ 2,507	\$ 1,943
Interest paid, net of interest received	171	384
Noncash financing activity:		
Dividends declared but unpaid	192	
<i>See notes to unaudited condensed consolidated financial statements.</i>		

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CROWN CRAFTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND NINE-MONTH PERIODS ENDED DECEMBER 26, 2010 AND
DECEMBER 27, 2009

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Crown Crafts, Inc. and its subsidiaries (collectively, the Company) and have been prepared in accordance with accounting principles generally accepted in the United States of America (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 December 26, 2010 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 and nine-month periods ended December 26, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending April 3, 2011. 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 28, 2010.

Fiscal Year: The Company's fiscal year ends on the Sunday nearest March 31. References herein to fiscal year 2011 represent the 53-week period ending April 3, 2011, references herein to fiscal year 2010 represent the 52-week period ended March 28, 2010 and references herein to fiscal year 2009 represent the 52-week period ended March 29, 2009.

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 that are highly subjective. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.

Financial Instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and cash equivalents, accounts receivable and accounts payable For those short-term instruments, the carrying value is a reasonable estimate of fair value.

Long-term debt The carrying value of the Company's long-term debt approximates fair value because interest rates under the Company's borrowings are variable, based on prevailing market rates.

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 sixteen 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.

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. Net sales of

bedding, blankets and accessories amounted to \$46.6 million for each of the nine-month periods ended December 26, 2010 and December 27, 2009, and net sales of bibs, bath and disposable products amounted to \$16.2 million and \$13.5 million for the nine-month periods ended December 26, 2010 and December 27, 2009, respectively.

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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, advertising allowances, warehouse allowances and volume rebates are recorded commensurate with sales activity and the cost of such allowances is netted against sales in reporting the results of operations. Shipping and handling costs, net of amounts reimbursed by customers, are 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 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. 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 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 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 funding requests should have no impact on the consolidated statements of income since such costs are accrued commensurate with sales activity.

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 The CIT Group/Commercial Services, Inc., a subsidiary of CIT Group, Inc. (CIT). In the event a factored receivable becomes uncollectible due to creditworthiness, CIT bears the risk of loss. The Company must make estimates of the uncollectibility of its non-factored accounts receivable, which it accomplishes by specifically analyzing accounts receivable, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers' payment terms to evaluate the adequacy of its allowance for doubtful accounts. The Company's accounts receivable at December 26, 2010 amounted to \$16.5 million, net of allowances of \$1.2 million. Of this amount, \$15.7 million is due from CIT under the factoring agreements, which amount represents the maximum amount of loss that the Company could incur under the factoring agreements if CIT failed completely to perform its obligations thereunder.

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 reported. The basis of accounting for inventories is cost, which is the sum of expenditures and charges, both direct and indirect, incurred to acquire inventory, bring it to a condition suitable for sale, and store it until it is sold. Once cost has been determined, the Company's inventory is then stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method, which assumes that inventory quantities are sold in the order in which they are acquired. The determination of the indirect charges and their allocation to the Company's finished goods inventories is complex and requires significant management judgment and estimates. If management made different judgments or utilized different estimates, then differences would result in the valuation of the Company's inventories, the amount and timing of the Company's cost of goods sold and the resulting net income for any accounting period.

On a periodic basis, management reviews the Company's inventory quantities on hand for obsolescence, physical deterioration, changes in price levels and the existence of quantities on hand which may not reasonably be expected to be sold within the normal operating cycle of the Company's operations. To the extent that any of these conditions is believed to exist or the market value of the inventory expected to be realized in the ordinary course of business is otherwise no longer as great as its carrying value, an allowance against the inventory value is established. To the extent that this allowance is established or increased during an accounting period, an expense is recorded in cost of goods sold in the Company's consolidated statements of income. Only when inventory for which an allowance has been established is later sold or is otherwise disposed of is the allowance reduced accordingly. Significant

management judgment is required in determining the amount and adequacy of this allowance. In the event that actual results differ from management's estimates or these estimates and judgments are revised in future periods, the Company may not fully realize the carrying value of its inventory or may need to establish additional allowances, either of which could materially impact the Company's financial position and results of operations.

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Valuation of Long-Lived Assets, Identifiable Intangible Assets and Goodwill: 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. Assets to be disposed of, if any, are recorded at the lower of net book value or fair market value, less estimated costs to sell at the date management commits to a plan of disposal, and are classified as assets held for sale on the accompanying consolidated balance sheets.

The Company tests the fair value of the goodwill of its reporting units annually as of the first day of the Company's fiscal year. An additional interim impairment test is performed during the year whenever an event or change in circumstances occurs 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. The annual or interim impairment test is performed in a two-step approach. 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, then 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, by which the carrying value of the goodwill exceeds the implied amount of goodwill that results from this hypothetical purchase price allocation.

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 and amounted to \$4.9 million and \$4.7 million for the nine-month periods ended December 26, 2010 and December 27, 2009, respectively.

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

Management evaluates items of income, deductions and credits reported on the Company's various federal and state income tax returns filed, and recognizes the effect of positions taken on those income tax returns only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood 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 accompanying consolidated financial statements. Tax years open to federal or state general examination or other adjustment as of December 26, 2010 were the tax years ended March 30, 2008, March 29, 2009 and March 28, 2010, as well as the tax year ended April 1, 2007 for several states. 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.

Earnings Per Share: The Company calculates basic earnings per share by using a weighted average of the number of shares outstanding during the reporting periods. Diluted shares outstanding are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all exercisable options would be used to repurchase shares at market value. The net number of shares issued after the exercise proceeds are exhausted represents the potentially dilutive effect of the options, which are added to basic shares to arrive at diluted shares.

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The following table sets forth the computation of basic and diluted net income per common share for the three and nine-month periods ended December 26, 2010 and December 27, 2009.

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December	December 27,	December	December 27,
	26, 2010	2009	26, 2010	2009
	(Amounts in thousands, except per share data)			
Income from continuing operations	\$ 780	\$ 1,122	\$ 2,728	\$ 2,476
Loss from discontinued operations, net of taxes	(5)	(9)	(13)	(22)
Net income	\$ 775	\$ 1,113	\$ 2,715	\$ 2,454
Weighted average number of common shares outstanding:				
Basic	9,565	9,167	9,466	9,186
Effect of dilutive securities	221	104	165	101
Diluted	9,786	9,271	9,631	9,287
Basic earnings per common share:				
Continuing operations	\$ 0.08	\$ 0.12	\$ 0.29	\$ 0.27
Discontinued operations				
Total	\$ 0.08	\$ 0.12	\$ 0.29	\$ 0.27
Diluted earnings per common share:				
Continuing operations	\$ 0.08	\$ 0.12	\$ 0.28	\$ 0.26
Discontinued operations				
Total	\$ 0.08	\$ 0.12	\$ 0.28	\$ 0.26

Recently Issued Accounting Standards: In May 2009, the FASB issued FASB ASC Topic 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC Topic 855 became effective for financial statements issued for interim and annual periods ending after June 15, 2009 and was to be applied prospectively. This standard originally required the Company to disclose the date through which subsequent events have been evaluated, which was intended to provide guidance to readers of the Company's financial statements that the Company has not evaluated subsequent events after that date. However, the FASB on February 24, 2010 issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*, which became effective upon issuance and which removed the requirement for an SEC registrant to disclose the date through which subsequent events have been evaluated. The Company's adoption of FASB ASC Topic 855 on March 30, 2009 and the adoption of ASU No. 2010-09 on February 24, 2010 did not impact the Company's consolidated financial statements.

On October 7, 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*. This ASU addresses the accounting for companies that provide for revenue arrangements to its customers that contain components of both the sale of a product and the sale of a service in a single contractually binding agreement. The ASU will become effective prospectively for such revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not typically enter into these types of revenue arrangements and, therefore, does not anticipate that the adoption by the Company of ASU No. 2009-13 on April 4, 2011 will materially impact its consolidated financial statements.

On July 21, 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU is intended to provide additional information to assist readers of the Company's financial statements in assessing the Company's credit risk exposures and evaluating the adequacy of its allowance for credit losses. For the Company's disclosures to be required as of the end of a reporting period, this ASU became effective as of the end of the first interim or annual reporting period ending on or after December 15, 2010. For the Company's disclosures to be required about activity that occurs during a reporting period, this ASU will become effective for interim or annual reporting periods beginning on or after December 15, 2010. Because the Company assigns the majority of its trade accounts receivable to CIT pursuant to factoring agreements, and further because CIT bears the risk of credit loss with respect to trade accounts receivable assigned to them, the Company's adoption of ASU No. 2010-20 on December 26, 2010 did not materially impact its consolidated financial statements.

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Neat Solutions: On July 2, 2009, Hamco, Inc. (Hamco), a wholly-owned subsidiary of the Company, acquired substantially all of the assets of Neat Solutions, Inc. (Neat Solutions), the privately-held developer of the Table Topper® Stay-in-Place Mat® (the Neat Solutions Acquisition). Hamco paid a purchase price of \$4.4 million, net of certain specified liabilities assumed. Hamco also recognized as expense \$195,000 of direct costs associated with the acquisition, which were included in marketing and administrative expenses during the nine-month period ended December 27, 2009.

The fair values of the assets acquired and liabilities assumed were determined by the Company with the assistance of an independent third party. The Company's allocation of the acquisition cost is as follows (in thousands):

	Amount
Tangible assets:	
Accounts receivable	\$ 837
Inventory	548
Prepaid expenses	52
Fixed assets	12
Other assets	2
 Total tangible assets	 1,451
Amortizable intangible assets:	
Trademarks	892
Designs	33
Non-compete covenant	241
Customer relationships	1,302
 Total amortizable intangible assets	 2,468
Goodwill	864
 Total acquired assets	 4,783
Liabilities assumed - accounts payable	349