

CROWN CRAFTS INC
Form DFAN14A
July 26, 2007

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary proxy statement.
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).
- Definitive proxy statement.
- Definitive additional materials.
- Soliciting material under Rule 14a-12.

CROWN CRAFTS, INC.

(Name of Registrant as Specified in its Charter)

WYNNEFIELD PARTNERS SMALL CAP VALUE, L.P.
WYNNEFIELD PARTNERS SMALL CAP VALUE, L.P. I
WYNNEFIELD SMALL CAP VALUE OFFSHORE FUND, LTD.
WYNNEFIELD CAPITAL MANAGEMENT, LLC
WYNNEFIELD CAPITAL, INC.
CHANNEL PARTNERSHIP II, L.P.
NELSON OBUS
JOSHUA H. LANDES

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

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The Wynnefield Capital Group
Presentation to
Institutional Shareholder Services
July 26, 2007

Today's Agenda

Wynnefield Capital Group – Who We Are

Crown Crafts Situation Analysis

Wynnefield's Action Plan

Summary

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The Wynnefield Capital Group
Value Investor in Small and Micro-Cap
Stocks Since 1992
Long-term, Patient Investors
Under-Followed, Under-Recognized and
Under-Valued companies
Minimal Balance Sheet Risk
Potential to Unlock Value Thru Remediating
Problems
\$450M Invested
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The Wynnefield Capital Group
Only Take Actions that Benefit Entire
Class of Investors
Constructive Approach Driven By Dialogue
Adherence to Best Practices

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The Wynnefield Capital Group

Wynnefield has Worked with Other Companies to Successfully Create Value

Layne Christensen Company- Worked with the Company on their Capital Allocation Process. Stock has increased from \$9 to \$44.

Cornell Companies, Inc.- Worked to Short-Circuit Attempted Private Equity Buy-out. Stock Immediately Traded Over Deal Price.

Supported Negotiations (Through Chairman of Compensation Committee) which Led to Retention of CEO despite Loss of Deal

Allied Defense Group, Inc.- Granted Board Seat in December 2006, Filled by Frederick Wasserman

Wasserman Instrumental in Focusing Board and Management on Impending Significant Financial Issues.

Hands-on Involvement (at the request of Management and the Board)

Played a Key Role in the Successful Negotiations with Note Holders, Settling Default Claims and Re-financing the Company.

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The Wynnefield Capital Group
In Another Situation, First Aviation Service, Inc. (“FAVS”)
Did Not Work With Wynnefield
ISS Supported Wynnefield’s Position, Despite Management’s
Locked-in Majority
Wynnefield was Unsuccessful, as Was Inevitable Due to the Share
Ownership
Wynnefield undertook the campaign as a matter of principle for the
benefit of all stockholders
Company has Continued to Struggle and has Now Filed to Go Dark
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The Wynnefield Capital Group

Nelson Obus

Wynnefield's Managing Partner Since 1992

45 Years Experience as a Value Investor

20 Years Experience as a Textile Industry Analyst

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Frederick Wasserman
Financial and Management Consultant
Currently serving on 6 Boards
31 Years of Experience with Middle Market Companies
13 Years as a CPA
18 Years as CFO and President
Served as Wynnefield's Observer to CRWS's Board
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Crown Crafts Situation Analysis

Wynnefield first invested in Crown Crafts in 1999

The Largest Shareholder, Currently owns >14% of the stock

Wynnefield has Been Very Supportive of the Company and the Board to Date,

Most Notably, No Strings Attached Support of Company's Controversial Move to Re-incorporate in Delaware from Georgia.

This Move was Necessary if the Company was to Increase the Number of Shares Outstanding. The Increase in Shares was Needed to Support Warrants to be Issued to the Company's Banks.

Despite Other Shareholders' Concerns, Wynnefield Researched the Situation until Confident that Management was Right and then Provided the support.

Wynnefield Has Actively Pursued Full Voting Board Representation over Last Several Years, but has been offered only "Advisory Observer" status.

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Crown Crafts Situation Analysis

“Past Performance is not Necessarily Indicative of Future Results”

Management has Been Able to Financially Stabilize the Balance Sheet over
the Last Several Years

Refinancing Transaction that Resulted in Significant Increase in Equity Value

Continual Improvement in Sourcing

Cost Cutting Efforts

Decision to Close Churchill Weavers

However, They Have Not Been Able to Address Other Critical Areas

Not in Sales and Marketing

Not Strategic in Nature

Capital Structure-Related Initiatives Now In Place Have Been Urged By Wynnefield

Over Last Several Years

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Crown Crafts Situation Analysis

Crown Crafts is Now at a Crossroads

Growth Potential without Revenue Momentum is Limited,
despite the Company's Operational Expertise

The Entire Industry's Dependence on a Limited Number of

Retailers Eliminates the Company's Leverage

Company is Vulnerable to Larger Competitors

Without Forward Momentum, the Stock Valuation is

Vulnerable to Any Operational Setback

See Recall of Baby Bibs Earlier This Year

Financially Immaterial; Valuation Drop Significant

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Crown Crafts Situation Analysis

Company Operates in a Very Challenging
Environment

Large Competitors

Overly Reliant on 3 Customers

Customer Base is Capable of Vertical Integration

Dependent on Licensed Properties

Gross Margins are Very Tight

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Crown Crafts Situation Analysis
Challenging Environment has led to
Declining Sales over 7 Year Period
Stagnant Operating Income

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Crown Crafts Situation Analysis

At This Crossroads, Crown Crafts Requires a
Long Term Strategic Approach to its Challenges

Tactics will Only Carry the Company to a Certain Point
Financial Engineering and Cost Cutting cannot Replace
Revenue Growth

The Board as Currently Comprised has Not Provided the
Vision Necessary to Generate Such a Plan or the Leadership
to Insist Management Provide that Vision

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Crown Crafts Situation Analysis

Company has a Thin Management Team
and is Very Dependent on President/CEO

Sales

Sourcing

Licensing

Banking relationship

Investment community

No Announced Succession Plan

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Crown Crafts Situation Analysis

Wynnefield believes Good Corporate Governance Practices Create and Protect Shareholder Value

Directors' Compensation is Paid over 96% Cash, with Only a Minimal Option Position, Dramatically Out of Line with Current Best Practices

Corporate Governance Issues Have Resulted in a CGQ of 2 and a CGQ in Comparison to its Peers of 17.1%

No Nominating Committee

Affiliated Director on Compensation Committee

Staggered Board Structure

Dual CEO/Chairman, without Lead Director

No Governance Committee

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Crown Crafts Situation Analysis

Result

Issues have led to

33% decline in Stock Price from February

Exceptionally low EV to EBITDA Ratio Compared to

Peers and Market

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Crown Crafts Situation Analysis

Despite The Situation, the Current Board has

Not Insisted on a Succession Plan

Not Instituted a Stock Buy Back Plan until Proxy Fight Began

Not Aggressively Monitored Updated Corporate Governance Practices

Allowed the Company to Operate without a Long Term Strategy

Not Hired Financial Advisors to Help Create Shareholder Value

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Crown Crafts Situation Analysis

Can this Board Objectively Consider All Alternatives
When Their Positions are Enhanced by the Status Quo?

Other than Mr. Chestnut, No Director has Material Stock Holdings.

This Creates Doubt that the Board is Aligned with Stockholder'
Interests. With the Status Quo, They Continue to receive
Substantial Director's Fees in Cash

A Substantial Number of Mr. Chestnut's Shares were earned, not
purchased. This Creates the Same Doubt as to His Approach as
Compared to the Shareholders' Perspective. The Status Quo
Allows Him to Accumulate More Shares and Earn Salary and
Bonuses.

Steve Fox Continues to Earn Legal Fees

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Wynnefield's Action Plan

Wynnefield Wants to Ensure

Development and Implementation of Corporate Governance

Best Practices, including Elimination of the Staggered Board

Complete and Correct Information is Available to All

Shareholders

The Shareholders' Perspective is Prominent in the Company's

Long Term Planning

That by Working in Cooperation with the Other Board Members,

the Company's Long Term Value (Which the Market is not

Yielding) is Realized by Its Owners

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Wynnefield's Action Plan
Wynnefield Does Not Want to
Sell the Company, unless This is the Best
Alternative after an Complete Analysis is
Performed
Control the Board of Directors
Undermine the Board or the CEO

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The Company's Response
Rather than Addressing the Strategic and
Governance Shortcomings that have Stalled the
Company, Their Responses to Wynnefield's
Questions were:
Obus is Subject to an SEC lawsuit
Wynnefield has a Short-Sighted, Self-Serving Agenda
Wasserman Takes His Direction From Wynnefield and Obus
Belatedly adopting some of the measures that Wynnefield
has long advocated

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Wynnefield's Action Plan

To Unlock Value For Shareholders We Will:

Address Poor Corporate Governance Practices

Retain Financial Advisor To Help Identify / Analyze Strategic
Options

Develop Strategic Plan for CRWS

Ensure Effective Execution of Plan by Management

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Wynnefield's Action Plan

In Order to Achieve Our Goals, Wynnefield
has nominated 2 Candidates for Election
to the Board

Nelson Obus

Frederick Wasserman

Wynnefield also Supports the Re-Election
of Mr. Chestnut to the Board

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Summary

As CRWS' Largest Shareholder, Our Interests are Directly Aligned with All Shareholders. We only Make Money When They Do.

Wynnefield Believes Crown Crafts is at a Crossroads, facing a Challenging Environment with Less Resources than its Competitors Crown Crafts Arrives at this Crossroads with Declining Revenues and a Depressed Stock Valuation.

The Board as Currently Comprised Has Failed the Company and its Shareholders by Allowing Poor Corporate Governance Practices, Not Having a Properly Researched and Implemented Capital Allocation Plan or a Management Succession Plan in Place

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Summary

It is Imperative that the Company Develop and Implement a Long Term Plan to Unlock Shareholder Value, with All Options Considered

The Board as Currently Comprised Does Not Include a Director who Shares the Stockholders' Perspective as to the Long Term Future of the Company

Wynnefield is a Long-time and By Far Largest Stockholder in the Company,

Owning More than 14% of the Shares and has a History of Working with

Boards of Other Companies to Increase Stockholder Value

Wynnefield Believes that Obus and Wasserman have the Skills, Experience

and Perspective to Significantly Increase the Company's Value.

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