

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 December 31, 2017

- 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)

**58-0678148**

(IRS Employer Identification No.)

**916 South Burnside Avenue, Gonzales, LA**

(Address of principal executive offices)

**70737**

(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 25, 2018 was 10,085,764.

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2017 AND APRIL 2, 2017

	December 31, 2017 (Unaudited)	April 2, 2017
	(amounts in thousands, except share and per share amounts)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 117	\$ 7,892
Accounts receivable (net of allowances of \$657 at December 31, 2017 and \$775 at April 2, 2017):		
Due from factor	9,857	14,921
Other	2,907	693
Inventories	22,844	15,821
Prepaid expenses	2,105	1,783
<b>Total current assets</b>	<b>37,830</b>	<b>41,110</b>
<b>Property, plant and equipment - at cost:</b>		
Vehicles	268	247
Leasehold improvements	262	248
Machinery and equipment	3,956	2,396
Furniture and fixtures	807	789
<b>Property, plant and equipment - gross</b>	<b>5,293</b>	<b>3,680</b>
Less accumulated depreciation	3,422	3,239
<b>Property, plant and equipment - net</b>	<b>1,871</b>	<b>441</b>
<b>Finite-lived intangible assets - at cost:</b>		
Customer relationships	7,374	5,534
Other finite-lived intangible assets	7,086	3,686
<b>Finite-lived intangible assets - gross</b>	<b>14,460</b>	<b>9,220</b>
Less accumulated amortization	6,710	6,092
<b>Finite-lived intangible assets - net</b>	<b>7,750</b>	<b>3,128</b>
Goodwill	6,863	1,126
Deferred income taxes	655	1,240
Other	130	139
<b>Total Assets</b>	<b>\$ 55,099</b>	<b>\$ 47,184</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 8,902	\$ 5,149
Accrued wages and benefits	955	799
Accrued royalties	1,803	353
Dividends payable	807	803
Income taxes payable	161	224
Other accrued liabilities	459	245
<b>Total current liabilities</b>	<b>13,087</b>	<b>7,573</b>
<b>Non-current liabilities:</b>		
Long-term debt	2,311	-
Reserve for unrecognized tax benefits	956	688
<b>Total non-current liabilities</b>	<b>3,267</b>	<b>688</b>
<b>Shareholders' equity:</b>		
Common stock - \$0.01 par value per share; Authorized 40,000,000 shares at December 31, 2017 and April 2, 2017; Issued 12,493,789 shares at December 31, 2017 and 12,423,539 shares at April 2, 2017	125	124
Additional paid-in capital	52,741	52,220
Treasury stock - at cost - 2,408,025 shares at December 31, 2017 and 2,401,066 shares at April 2, 2017	(12,231)	(12,175)

Accumulated Deficit	<u>(1,890)</u>	<u>(1,246)</u>
<b>Total shareholders' equity</b>	<u>38,745</u>	<u>38,923</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 55,099</u>	<u>\$ 47,184</u>

*See notes to unaudited condensed consolidated financial statements.*

CROWN CRAFTS, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 THREE AND NINE-MONTH PERIODS ENDED DECEMBER 31, 2017 AND JANUARY 1, 2017  
 (amounts in thousands, except per share amounts)

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Net sales	\$ 17,476	\$ 17,262	\$ 47,584	\$ 48,670
Cost of products sold	12,207	11,623	33,691	34,435
Gross profit	5,269	5,639	13,893	14,235
Marketing and administrative expenses	3,656	2,576	10,364	8,176
Income from operations	1,613	3,063	3,529	6,059
Other income (expense):				
Interest expense	(47)	(13)	(85)	(55)
Interest income	11	40	80	103
Foreign exchange (loss) gain	-	(3)	(3)	26
Other - net	1	1	3	3
Income before income tax expense	1,578	3,088	3,524	6,136
Income tax expense	1,047	1,227	1,750	2,173
Net income	\$ 531	\$ 1,861	\$ 1,774	\$ 3,963
Weighted average shares outstanding:				
Basic	10,086	10,031	10,068	10,007
Effect of dilutive securities	4	27	7	33
Diluted	10,090	10,058	10,075	10,040
Earnings per share:				
Basic	\$ 0.05	\$ 0.19	\$ 0.18	\$ 0.40
Diluted	\$ 0.05	\$ 0.19	\$ 0.18	\$ 0.39
Cash dividends declared per share	\$ 0.08	\$ 0.48	\$ 0.24	\$ 0.64

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
NINE-MONTH PERIODS ENDED DECEMBER 31, 2017 AND JANUARY 1, 2017

	Nine-Month Periods Ended	
	December 31, 2017	January 1, 2017
	(amounts in thousands)	
<b>Operating activities:</b>		
Net income	\$ 1,774	\$ 3,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	183	138
Amortization of intangibles	618	566
Deferred income taxes	585	669
Reserve for unrecognized tax benefits	268	168
Stock-based compensation	406	456
Changes in assets and liabilities:		
Accounts receivable	2,850	6,343
Inventories	(2,759)	(1,590)
Prepaid expenses	(198)	(1,519)
Other assets	9	(17)
Accounts payable	3,435	2,967
Accrued liabilities	1,463	(192)
<b>Net cash provided by operating activities</b>	<b>8,634</b>	<b>11,952</b>
<b>Investing activities:</b>		
Capital expenditures for property, plant and equipment	(160)	(152)
Payment for acquisitions, net of liabilities assumed	(15,245)	-
<b>Net cash used in investing activities</b>	<b>(15,405)</b>	<b>(152)</b>
<b>Financing activities:</b>		
Repayments under revolving line of credit	(2,909)	-
Borrowings under revolving line of credit	5,220	-
Purchase of treasury stock	(56)	(861)
Issuance of common stock	-	786
Payments on capital leases	(845)	-
Dividends paid	(2,414)	(4,905)
<b>Net cash used in financing activities</b>	<b>(1,004)</b>	<b>(4,980)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(7,775)</b>	<b>6,820</b>
Cash and cash equivalents at beginning of period	7,892	7,574
<b>Cash and cash equivalents at end of period</b>	<b>\$ 117</b>	<b>\$ 14,394</b>
<b>Supplemental cash flow information:</b>		
Income taxes paid	\$ 1,068	\$ 1,367
Interest paid	8	2
<b>Noncash financing activities:</b>		
Dividends declared but unpaid	(807)	(4,816)
Compensation paid as common stock	116	108

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE-MONTH PERIODS ENDED DECEMBER 31, 2017 AND JANUARY 1, 2017

**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 accounting principles generally accepted in the United States (“GAAP”) applicable to interim financial information as promulgated by the Financial Accounting Standards Board (“FASB”). 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 has been established by the FASB as the authoritative source for GAAP to be applied by nongovernmental entities.

In the opinion of management, the interim unaudited consolidated financial statements contained herein include all adjustments necessary to present fairly the financial position of the Company as of December 31, 2017 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 31, 2017 are not necessarily indicative of the results that may be expected by the Company for its fiscal year ending April 1, 2018. 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 April 2, 2017.

*Fiscal Year:* The Company’s fiscal year ends on the Sunday that is nearest to or on March 31. References herein to “fiscal year 2018” or “2018” represent the 52-week period ending April 1, 2018 and references herein to “fiscal year 2017” or “2017” represent the 52-week period ended April 2, 2017.

*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 accompanying condensed consolidated balance sheets and the reported amounts of revenues and expenses during the periods presented on the accompanying unaudited 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 products 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. The Company has also established estimated reserves in connection with the uncertainty concerning the amount of income tax recognized. 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. There are no compensating balance requirements or other restrictions on the transfer of amounts associated with the Company’s depository accounts.

*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.

*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. Costs associated with advertising on websites such as Facebook and Google and which are related to the Company’s online business are recorded as incurred. Advertising expense is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income and amounted to \$534,000 and \$168,000 for the three-month periods ended December 31, 2017 and January 1, 2017, respectively, and amounted to \$1.1 million and \$666,000 for the nine-month periods ended December 31, 2017 and January 1, 2017, respectively.

*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 and nine-month periods ended December 31, 2017 and January 1, 2017 are as follows (in thousands):

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Bedding, blankets and accessories	\$ 11,558	\$ 11,445	\$ 30,414	\$ 31,847
Bibs, bath and disposable products	5,918	5,817	17,170	16,823
Total net sales	\$ 17,476	\$ 17,262	\$ 47,584	\$ 48,670

*Revenue Recognition:* Sales made directly to consumers are recorded when shipped products have been received by customers. Sales made to retailers are recorded when products are shipped to customers and are reported net of allowances for estimated returns and allowances in the accompanying unaudited condensed consolidated statements of income. Allowances for returns are estimated based on historical rates. Allowances for returns, cooperative advertising allowances, warehouse allowances, placement fees, volume rebates, coupons and discounts 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 condensed 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 bad debt expense is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income. The Company did not recognize a charge for bad debt expense during fiscal year 2017 and recorded \$25,000 for the nine-month period ended December 31, 2017.

The Company's accounts receivable as of December 31, 2017 was \$12.8 million, net of allowances of \$657,000. Of this amount, \$9.9 million was due from CIT under the factoring agreements, which represents the maximum loss that the Company could incur if CIT failed completely to perform its obligations thereunder.

*Other Accrued Liabilities:* An amount of \$459,000 was recorded as other accrued liabilities as of December 31, 2017. Of this amount, \$199,000 reflected unearned revenue recorded for payments from customers that were received before products were shipped. Other accrued liabilities as of December 31, 2017 also includes a reserve for customer returns of \$13,000 and unredeemed store credits and gift certificates totaling \$27,000. The Company reduces its liabilities for store credits and gift certificates, and recognizes the associated revenue, at the earlier of their redemption by customers, their expiration or when their likelihood of redemption becomes remote, generally two years from the date of issuance.

*Depreciation and Amortization:* The accompanying condensed 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 five to twenty years for amortizable intangible assets. 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. The Company incurs certain legal and associated costs in connection with applications for patents, which are classified within other finite-lived intangible assets in the accompanying condensed consolidated balance sheets. 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 to the extent that 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 protection or 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 involves considerable management judgment, and a different conclusion could result in a material impairment charge up to the carrying value of these assets.

*Inventory Valuation:* The preparation of the Company's financial statements requires careful determination of the appropriate value of the Company's inventory balances. Such amounts are presented as a current asset in the accompanying condensed consolidated balance sheets and are a direct determinant of cost of products sold in the accompanying consolidated statements of income and, therefore, have a significant impact on the amount of net income in the accounting periods reported. The basis of accounting for inventories is cost, which for products that have been contracted to be manufactured includes the direct supplier acquisition cost, duties, taxes and freight, and the indirect costs incurred to design, develop, source and store the products until they are sold. A portion of the Company's products are manufactured by a wholly-owned subsidiary of the Company. Because most of these products are made to order and are shipped immediately after production has been completed, the Company's aggregate inventory cost for this subsidiary is primarily related to raw materials. Once cost has been determined, the Company's inventory is then stated at the lower of cost or net realizable value, with cost determined under the assumption that inventory quantities are sold in the order in which they are acquired (the first-in, first-out ("FIFO") method).

The indirect costs allocated to inventory are done so as a percentage of projected annual supplier purchases and can impact the Company's results of operations as purchase volumes fluctuate from quarter to quarter and year to year. The difference between indirect costs incurred and the indirect costs allocated to inventory creates a burden variance, which is generally favorable when actual inventory purchases exceed planned inventory purchases, and is generally unfavorable when actual inventory purchases are lower than planned inventory purchases. The determination of the indirect charges and their allocation to the Company's finished products 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 products 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 products 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.



*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 products sold in the accompanying unaudited condensed consolidated statements of income and amounted to \$1.8 million and \$1.9 million for the three-month periods ended December 31, 2017 and January 1, 2017, respectively, and amounted to \$5.0 million and \$5.2 million for the nine-month periods ended December 31, 2017 and January 1, 2017, respectively.

*Provision for Income Taxes:* The Company's provision for income taxes includes all currently payable federal, state, local and foreign taxes and is based upon the Company's estimated annual effective tax rate, which is based on the Company's forecasted annual pre-tax income, as adjusted for certain expenses within the consolidated statements of income that will never be deductible on the Company's tax returns and certain charges expected to be deducted on the Company's tax returns that will never be deducted on the consolidated statements of income, multiplied by the statutory tax rates for the various jurisdictions in which the Company operates and reduced by certain anticipated tax credits. The Company's provision for income taxes for fiscal year 2018 is based upon an estimated annual effective tax rate ("ETR") from continuing operations of 33.0%.

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 in which the tax rates are changed. On December 22, 2017, the President of the United States signed into law comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"), which includes a provision to lower the federal corporate income tax rate to 21% effective as of January 1, 2018. As the Company's fiscal 2018 will end on April 1, 2018, the lower corporate income tax rate will be phased in, resulting in a blended federal statutory rate of 30.75% for fiscal 2018. The Company's policy is to provide 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 has prepared an initial accounting to recognize the effect of the TCJA on the Company's net deferred income tax assets, which as of October 2, 2017 and April 2, 2017 had been recorded based upon the pre-TCJA enacted composite federal, state and foreign income tax rate of approximately 37.5% that would have been applied as the financial statement and tax differences began to reverse. Because most of these differences are now expected to reverse at a composite rate of approximately 23.5%, the Company was required to revalue its net deferred income tax assets. This revaluation resulted in a provisional discrete charge to income tax expense of \$409,000 during the three and nine months ended December 31, 2017. The revaluation required management judgment with respect to estimates of the financial statement and tax differences that would be established or reversed during the three-month period ending April 1, 2018, upon which the ETR of 33.0% is expected to be applied. To the extent that the actual results may differ from those estimates, an additional discrete charge or benefit to income tax expense may be required in a future period to complete the accounting to recognize the effect of the TCJA on the Company's net deferred income tax assets.

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. The Company applies the provisions of FASB ASC Sub-topic 740-10-25, which requires a minimum recognition threshold that a tax benefit must meet before being recognized in the financial statements. 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.

During fiscal year 2016, an evaluation was made of the Company's process regarding the calculation of the state portion of its income tax provision. This evaluation resulted in the Company taking a tax position that reflected opportunities for the application of more favorable state apportionment percentages for several prior fiscal years. After considering all relevant information, the Company believes that the technical merits of this tax position would more likely than not be sustained. However, the Company also believes that the ultimate resolution of the tax position will result in a tax benefit that is less than the full amount being sought. Therefore, the Company's measurement regarding the tax impact of the revised state apportionment percentages resulted in the Company recording a reserve for unrecognized tax benefits during the three and nine-month periods ended December 31, 2017 of \$31,000 and \$60,000, respectively, and \$65,000 and \$115,000 for the three and nine-month periods ended January 1, 2017, respectively, in the accompanying unaudited condensed consolidated statements of income. Because the tax impact of the revised state apportionment percentages are measured net of federal income taxes, the provision in the TCJA that lowered the federal corporate income tax rate to 21% required the Company to revalue its reserve for unrecognized tax benefits. This revaluation, which the Company believes is complete, resulted in a net discrete charge to income tax expense of \$132,000 during the three and nine-month periods ended December 31, 2017.

The Company's policy is to accrue interest expense and penalties as appropriate on estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income. Interest expense or penalties are not accrued with respect to estimated unrecognized tax benefits that are associated with claims for income tax refunds as long as the overpayments are receivable. The Company accrued interest and penalties associated with its reserve for unrecognized tax benefits during the three and nine-month periods ended December 31, 2017 of \$16,000 and \$52,000, respectively, and \$13,000 and \$53,000 for the three and nine-month periods ended January 1, 2017, respectively, in the accompanying unaudited condensed consolidated statements of income. The revaluation the Company's reserve for unrecognized tax benefits set forth in the preceding paragraph resulted in an additional accrual for interest and penalties with respect to the revalued reserve for unrecognized tax benefits of \$25,000 during the three and nine-month periods ended December 31, 2017.

The revaluations of the Company's net deferred income tax assets and its reserve for unrecognized tax benefits was the primary factor in the increase in the overall provision for income taxes to 66.3% and 49.7% for the three and nine-month periods ended December 31, 2017, respectively.

The Company files income tax returns in the many jurisdictions within which it operates, including the U.S., several U.S. states and the People's Republic of China. The statute of limitations for the Company's filed income tax returns varies by jurisdiction; tax years open to federal or state examination or other adjustment as of December 31, 2017 were the fiscal years ended April 2, 2017, April 3, 2016, March 29, 2015, March 30, 2014, March 31, 2013, April 1, 2012 and April 3, 2011.

*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.

*Recently-Issued Accounting Standards:* In 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace most existing GAAP guidance on revenue recognition, and which will require the use of more estimates and judgments, as well as additional disclosures. When issued, the ASU was to become effective in the fiscal year beginning after December 15, 2016, but on August 12, 2015 the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which provides for a one-year deferral of the effective date to apply the guidance of ASU No. 2014-09. Early adoption was originally not permitted in ASU No. 2014-09, but ASU No. 2015-14 now permits early adoption in the first interim period of the fiscal year beginning after December 15, 2016. The Company is currently evaluating its existing revenue contract arrangements and expects its review to be complete before the end of fiscal year 2018. At this time, the Company has not yet determined whether it will adopt the provisions of ASU No. 2014-09 on a retrospective basis or through a cumulative adjustment to equity.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which clarified that after an entity determines the cost of its inventory, the subsequent measurement and presentation of such inventory should be at the lower of cost or net realizable value. The ASU became effective for the first interim period of the fiscal year beginning after December 15, 2016, and was applied prospectively. The Company adopted ASU No. 2015-11 on April 3, 2017, and has determined that the adoption of the ASU did not have a material effect on its financial position, results of operations and related disclosures.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will increase transparency and comparability by requiring an entity to recognize lease assets and lease liabilities on its balance sheet and by requiring the disclosure of key information about leasing arrangements. Under the provisions of ASU No. 2016-02, the Company will be required to capitalize most of its current operating lease obligations as right-of-use assets with corresponding liabilities based upon the present value of the future cash outflows associated with such operating lease obligations. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2018. The ASU is to be applied using a modified retrospective approach, and early adoption is permitted. The Company has not yet decided if it will early-adopt the ASU and is currently evaluating the effect that the adoption of the ASU will have on its financial position, results of operations and related disclosures.

On June 16, 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the objective of which is to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity. Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable that a loss has been incurred. Because this methodology restricted the recognition of credit losses that are expected, but did not yet meet the “probable” threshold, ASU No. 2016-13 was issued to require the consideration of a broader range of reasonable and supportable information when determining estimates of credit losses. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2019. The ASU is to be applied using a modified retrospective approach, and the ASU may be early-adopted as of the first interim period of the fiscal year beginning after December 15, 2018.

Although the Company has not yet decided whether to adopt ASU No. 2016-13 early or determined the full impact of the adoption of the ASU, because the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT, the Company does not believe that its adoption of ASU No. 2016-13 will have a significant impact on the Company’s financial position, results of operations and related disclosures.

On January 26, 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Under previous GAAP, the test for the impairment of goodwill was performed by first assessing qualitative factors to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount. If such qualitative factors so indicated, then the impairment test was continued in a two-step approach. The first step was the estimation of the fair value of each reporting unit to ensure that its fair value exceeded its carrying value. If step one indicated that a potential impairment existed, then the second step was performed to measure the amount of an impairment charge, if any. In the second step, these estimated fair values were used as the hypothetical purchase price for the reporting units, and an allocation of such hypothetical purchase price was made to the identifiable tangible and intangible assets and assigned liabilities of the reporting units. The impairment charge was calculated as the amount, if any, by which the carrying value of the goodwill exceeded the implied amount of goodwill that resulted from this hypothetical purchase price allocation.

The intent of ASU No. 2017-04 was to simplify this process by eliminating the second step from the goodwill impairment test. Instead, an entity should perform its annual or interim measurement of goodwill for impairment by comparing the estimated fair value of each reporting unit of the entity with its carrying value. If the carrying value of a reporting unit of an entity exceeds its estimated fair value, then an impairment charge is calculated as the difference between the carrying value of the reporting unit and its estimated fair value, not to exceed the goodwill of the reporting unit.

The ASU is to be applied on a prospective basis and was to have become effective for the first interim period of the fiscal year beginning after December 15, 2019, but it could have been early-adopted as of the date of the first interim or annual measurement of goodwill for impairment performed on or after January 1, 2017. The Company elected to early-adopt the ASU effective as of April 3, 2017, which did not have an impact on its financial position or results of operations.

The Company has determined that all other ASUs which had become effective as of December 31, 2017, or which will become effective at some future date, are not expected to have a material impact on the Company’s consolidated financial statements.

## **Note 2 – Acquisitions**

*Carousel:* On August 4, 2017, Carousel Acquisition, LLC, a wholly-owned subsidiary of the Company, acquired substantially all of the assets of Carousel Designs, LLC (“OLDSCO”), a privately held manufacturer and online retailer of premium infant and toddler bedding and nursery décor based in Douglasville, Georgia. On August 11, 2017, Carousel Acquisition, LLC changed its name to Carousel Designs, LLC (“Carousel”), OLDSCO having relinquished its rights to that name as part of the terms of the acquisition transaction (the “Carousel Acquisition”).

The Company anticipates that certain synergies, including administrative and capital efficiencies, may be achieved as a result of the Company’s control of the combined assets and that the Company will benefit from the direct-to-consumer opportunities that will result from the Carousel Acquisition. Carousel paid an acquisition cost of \$8.7 million from cash on hand and assumed certain specified liabilities relating to the business. Carousel also recognized as expense \$35,000 and \$299,000 of costs associated with the acquisition during the three and nine-month periods ended December 31, 2017, respectively, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income.

The Carousel Acquisition has been accounted for as a business combination in accordance with FA SB ASC Topic 805, *Business Combinations*. The Company is currently determining the allocation of the acquisition cost with the assistance of an independent third party. The identifiable assets acquired were recorded at their estimated fair value, which has been preliminarily determined based on available information and the use of multiple valuation approaches. The estimated useful lives of the identifiable intangible assets acquired was determined based upon the remaining time that these assets are expected to directly or indirectly contribute to the future cash flow of the Company. Certain data necessary to complete the acquisition cost allocation is not yet available, including, but not limited to, the valuation of pre-acquisition contingencies and the final appraisals and valuations of assets acquired and liabilities assumed.

The following table represents the Company's preliminary allocation of the acquisition cost (in thousands) to the identifiable assets acquired and the liabilities assumed based on their respective estimated fair values as of the acquisition date. The excess of the acquisition cost over the estimated fair value of the identifiable net assets acquired is reflected as goodwill.

Tangible assets:	
Inventory	\$ 967
Prepaid expenses	5
Fixed assets	1,068
Total tangible assets	<u>2,040</u>
Amortizable intangible assets:	
Tradenname	1,400
Developed technology	1,100
Non-compete covenants	360
Total amortizable intangible assets	<u>2,860</u>
Goodwill	5,379
Total acquired assets	<u>10,279</u>
Liabilities assumed:	
Accounts payable	319
Accrued wages and benefits	59
Unearned revenue	271
Other accrued liabilities	60
Capital leases	845
Total liabilities assumed	<u>1,554</u>
Net acquisition cost	<u>\$ 8,725</u>

The Company expects to complete the acquisition cost allocation during the 12-month period following the acquisition date, during which time the values of the assets acquired and liabilities assumed, including the goodwill, may need to be revised as appropriate.

In connection with the Carousel Acquisition, Carousel paid off capital leases amounting to \$845,000 that were associated with certain fixed assets that were acquired.

Based upon the preliminary allocation of the acquisition cost, the Company has recognized \$5.4 million of goodwill, the entirety of which has been assigned to the reporting unit of the Company that produces and markets infant and toddler bedding, blankets and accessories, and the entirety of which is expected to be deductible for income tax purposes.

The Carousel Acquisition resulted in net sales of \$1.8 million and \$3.0 million of infant and toddler bedding, blankets and accessories during the three-month period ended December 31, 2017 and during the period from the acquisition date through December 31, 2017, respectively. Carousel recorded amortization expense associated with the acquired amortizable intangible assets in the amount of \$63,000 and \$115,000 during the three-month period ended December 31, 2017 and during the period from the acquisition date through December 31, 2017, respectively, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income. Amortization is computed for the acquired amortizable intangible assets using the straight-line method over the estimated useful lives of the assets, which are 15 years for the Tradenname, 10 years for the Developed technology, 5 years for the Non-compete agreements and 12 years on a weighted-average basis for the grouping taken together.

*Sassy*: On December 15, 2017, Hamco, Inc. (“Hamco”), a wholly-owned subsidiary of the Company, acquired certain assets associated with the Sassy®-branded developmental toy, feeding and baby care product line from Sassy 14, LLC and assumed certain related liabilities (the “Sassy Acquisition”).

The Company anticipates that certain synergies, including administrative and capital efficiencies, may be achieved as a result of the Company’s acquisition of the Sassy product line and that the Company will benefit from the added diversity to the Company’s portfolio of products. The Company further anticipates that the Sassy Acquisition will strengthen the Company’s overall position in the infant and juvenile products market. Hamco paid an acquisition cost of \$6.5 million from a combination of cash on hand and the revolving line of credit. Hamco also recognized as expense \$125,000 of costs associated with the acquisition during each of the three and nine-month periods ended December 31, 2017, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income.

The Sassy Acquisition has been accounted for as a business combination in accordance with FASB ASC Topic 805, *Business Combinations*. With the assistance of an independent third party, the Company has used preliminary inputs to prepare an allocation of the acquisition cost. The identifiable assets acquired were recorded at their estimated fair value, which has been preliminarily determined based on available information and the use of multiple valuation approaches. Certain data necessary to complete the acquisition cost allocation is not yet available, including, but not limited to, the valuation of pre-acquisition contingencies and the final appraisals and valuations of assets acquired and liabilities assumed.

The following table represents the Company’s preliminary allocation of the acquisition cost (in thousands) to the identifiable assets acquired and the liabilities assumed based on their respective estimated fair values as of the acquisition date. The excess of the acquisition cost over the estimated fair value of the identifiable net assets acquired is reflected as goodwill.

Tangible assets:	
Inventory	\$ 3,297
Prepaid expenses	119
Fixed assets	385
Total tangible assets	<u>3,801</u>
Amortizable intangible assets:	
Tradenname	540
Customer Relationships	1,840
Total amortizable intangible assets	<u>2,380</u>
Goodwill	359
Total acquired assets	<u>6,540</u>
Liabilities assumed:	
Accrued wages	<u>20</u>
Net acquisition cost	<u>\$ 6,520</u>

The Company expects to complete the acquisition cost allocation during the 12-month period following the acquisition date, during which time the values of the assets acquired and liabilities assumed, including the goodwill, may need to be revised as appropriate.

Based upon the preliminary allocation of the acquisition cost, the Company has recognized \$359,000 of goodwill, the entirety of which has been assigned to the reporting unit of the Company that produces and markets infant and toddler bibs, developmental toys, bath care and disposable products, and the entirety of which is expected to be deductible for income tax purposes. The Sassy Acquisition resulted in net sales of \$20,000 of developmental toy, feeding and baby care products during the period from the acquisition date through December 31, 2017.

### Note 3 – Goodwill, Customer Relationships and Other Intangible Assets

*Goodwill:* Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in business combinations. For the purpose of presenting and measuring for the impairment of goodwill, the Company has two reporting units: one that produces and markets infant and toddler bedding, blankets and accessories and another that produces and markets infant and toddler bibs, developmental toys, bath care and disposable products. The goodwill of the reporting units of the Company as of April 2, 2017 amounted to \$24.0 million, which was increased by \$5.4 million and \$359,000 as a result of the Carousel Acquisition and the Sassy Acquisition, respectively, as the excess of the acquisition cost over the fair values of the identifiable tangible and intangible assets acquired. Thus, as of December 31, 2017, the goodwill of the reporting units of the Company amounted to \$29.8 million, which is reflected in the accompanying condensed consolidated balance sheets net of accumulated impairment charges of \$22.9 million, for a net reported balance of \$6.9 million.

As disclosed in Note 1, effective as of April 3, 2017, the Company adopted ASU No. 2017-04, the intent of which was to simplify the measurement of goodwill for impairment. The Company measures for impairment the goodwill within its reporting units annually as of the first day of the Company's fiscal year. An additional interim measurement for impairment is performed during the year whenever an event or change in circumstances occurs that suggests that the fair value of either of the reporting units of the Company has more likely than not (defined as having a likelihood of greater than 50%) fallen below its carrying value. The annual or interim measurement for impairment is performed by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If such qualitative factors so indicate, then the measurement for impairment is continued by calculating an estimate of the fair value of each reporting unit and comparing the estimated fair value to the carrying value of the reporting unit. If the carrying value exceeds the estimated fair value of the reporting unit, then an impairment charge is calculated as the difference between the carrying value of the reporting unit and its estimated fair value, not to exceed the goodwill of the reporting unit.

On April 3, 2017, the Company performed the annual measurement for impairment of the goodwill of its reporting units and concluded that the estimated fair value of each of the Company's reporting units substantially exceeded their carrying values, and thus the goodwill of the Company's reporting units was not impaired as of that date.

*Other Intangible Assets:* Other intangible assets as of December 31, 2017 and April 2, 2017 consisted primarily of the fair value of identifiable assets acquired in business combinations other than tangible assets and goodwill. The gross amount and accumulated amortization of the Company's other intangible assets as of December 31, 2017 and April 2, 2017, the amortization expense for the three and nine-month periods ended December 31, 2017 and January 1, 2017 and the classification of such amortization expense within the accompanying unaudited condensed consolidated statements of income are as follows (in thousands):

	Gross Amount		Accumulated Amortization		Amortization Expense			
					Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	April 2, 2017	December 31, 2017	April 2, 2017	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Tradename and trademarks	\$ 3,927	\$ 1,987	\$ 1,204	\$ 1,066	\$ 50	\$ 33	\$ 138	\$ 100
Developed technology	1,100	-	46	-	28	-	46	-
Non-compete covenants	458	98	102	67	20	2	35	5
Patents	1,601	1,601	646	565	27	27	81	81
Customer relationships	7,374	5,534	4,712	4,394	64	127	318	380
Total other intangible assets	\$ 14,460	\$ 9,220	\$ 6,710	\$ 6,092	\$ 189	\$ 189	\$ 618	\$ 566

Classification within the accompanying unaudited condensed consolidated statements of income:

Cost of products sold	\$ 2	\$ 2	\$ 5	\$ 5
Marketing and administrative expenses	187	187	613	561
Total amortization expense	\$ 189	\$ 189	\$ 618	\$ 566

### Note 4 – Inventories

Major classes of inventory were as follows (in thousands):

	December 31, 2017	April 2, 2017
Raw Materials	\$ 1,074	\$ 42
Finished Goods	21,770	15,779
Total inventory	\$ 22,844	\$ 15,821

## Note 5 – Financing Arrangements

*Master Stand-by Claims Purchase Agreements:* On May 16, 2017, the Company entered into an agreement (the “First Agreement”) with JPMorgan Chase Bank, N.A. (“Chase”) wherein the Company had the right to sell, and Chase had the obligation to purchase, certain claims that could arise if accounts receivable amounts owed by Toys R Us-Delaware, Inc. (“TRU”) to the Company became uncollectible. The First Agreement would have expired on September 20, 2018 and carried a fee of 1.65% per month of the limit of \$1.8 million of accounts receivable due from TRU. On September 18, 2017, TRU filed a voluntary petition for relief under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the “Bankruptcy Filing”). Pursuant to the terms of the First Agreement, the Bankruptcy Filing allowed the Company to exercise its right to sell to Chase the claim that arose as a result of the Bankruptcy Filing, which amounted to \$866,000 payable to the Company (the “Exercise”). Of this amount, \$755,000 remained payable to the Company by Chase as of December 31, 2017 and has been classified as other accounts receivable in the accompanying condensed consolidated balance sheets. The Exercise resulted in the acceleration of the recognition of the remaining unpaid fees owed under the First Agreement. During the nine-month period ended December 31, 2017, the Company recorded \$480,000 in fees under the First Agreement, which are included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income.

On September 19, 2017, the Company entered into an agreement (the “Second Agreement”) with Chase wherein the Company has the right to sell, and Chase has the obligation to purchase, certain accounts receivable claims that could arise if TRU converts its Chapter 11 case to Chapter 7 of the U.S. Bankruptcy Code or takes other specified actions. The Second Agreement expires on March 31, 2018 and carries a fee of 1.50% per month of the limit of \$1.8 million of accounts receivable due from TRU. On December 31, 2017, \$1.3 million in accounts receivable covered by the Second Agreement was owed to the Company from TRU. During the three and nine-month periods ended December 31, 2017, the Company recorded \$81,000 and \$92,000, respectively, in fees under the Second Agreement, which are included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income.

*Factoring Agreements:* The Company assigns the majority of its trade accounts receivable to CIT under factoring agreements whose expiration dates are coterminous with that of the financing agreement described below. Under the terms of the factoring agreements, CIT remits customer payments to the Company as such payments are received by CIT.

CIT bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits, while the Company bears the responsibility for adjustments from customers related to returns, allowances, claims and discounts. CIT may at any time terminate or limit its approval of shipments to a particular customer. If such a termination or limitation occurs, the Company either assumes (and may seek to mitigate) the credit risk for shipments after the date of such termination or limitation or discontinues shipments to such customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income, amounted to \$49,000 and \$101,000 for the three-month periods ended December 31, 2017 and January 1, 2017, respectively, and amounted to \$164,000 and \$307,000 for the nine-month periods ended December 31, 2017 and January 1, 2017, respectively.

*Credit Facility:* The Company’s credit facility at December 31, 2017 consisted of a revolving line of credit under a financing agreement with CIT of up to \$26.0 million, which includes a \$1.5 million sub-limit for letters of credit, with an interest rate of prime minus 0.50% or LIBOR plus 2.00%. The financing agreement is scheduled to mature on July 11, 2019 and is secured by a first lien on all assets of the Company. As of December 31, 2017, the Company had elected to pay interest on balances owed under the revolving line of credit under the LIBOR option, which was 3.37% as of December 31, 2017. The financing agreement also provides for the payment by CIT to the Company of interest at the rate of prime as of the beginning of the calendar month minus 2.00% on daily cash balances held at CIT.

At December 31, 2017, there was a balance due on the revolving line of credit of \$2.3 million and there was no letter of credit outstanding. At April 2, 2017, there was no balance owed on the revolving line of credit and there was no letter of credit outstanding. As of December 31, 2017 and April 2, 2017, \$18.9 million and \$21.4 million, respectively, was available under the revolving line of credit based on the Company’s eligible accounts receivable and inventory balances.

The financing agreement for the revolving line of credit contains usual and customary covenants for agreements of that type, including limitations on other indebtedness, liens, transfers of assets, investments and acquisitions, merger or consolidation transactions, 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 31, 2017.

## Note 6 – Stock-based Compensation

The Company has two incentive stock plans, the 2006 Omnibus Incentive Plan (the “2006 Plan”) and the 2014 Omnibus Equity Compensation Plan (the “2014 Plan”). As a result of the approval of the 2014 Plan by the Company’s stockholders at the Company’s 2014 annual meeting, grants may no longer be issued under the 2006 Plan.

The Company believes that awards of long-term, equity-based incentive compensation will attract and retain directors, officers and employees of the Company and will encourage these individuals to contribute to the successful performance of the Company, which will lead to the achievement of the Company’s overall goal of increasing stockholder value. Awards granted under the 2014 Plan may be in the form of incentive stock options, non-qualified stock options, shares of restricted or unrestricted stock, stock units, stock appreciation rights or other stock-based awards. Awards may be granted subject to the achievement of performance goals or other conditions, and certain awards may be payable in stock or cash, or a combination of the two. The 2014 Plan is administered by the Compensation Committee of the Company’s Board of Directors (the “Board”), which selects eligible employees, non-employee directors and other individuals to participate in the 2014 Plan and determines the type, amount, duration and other terms of individual awards. Grants under the 2014 Plan are settled primarily through the issuance of new shares of the Company’s common stock, 672,000 shares of which were available for future issuance under the 2014 Plan as of December 31, 2017.

Stock-based compensation expense is calculated according to FASB ASC Topic 718, *Compensation – Stock Compensation*, which requires stock-based compensation expense to be accounted for using a fair-value-based measurement. The Company recorded stock-based compensation expense of \$129,000 and \$149,000 for the three-month periods ended December 31, 2017 and January 1, 2017, respectively, and recorded \$406,000 and \$456,000 for the nine-month periods ended December 31, 2017 and January 1, 2017, respectively. The Company records the compensation expense related to stock-based awards granted to individuals in the same classifications in the accompanying unaudited condensed consolidated statements of income as the cash compensation paid to those same individuals. No stock-based compensation costs have been capitalized as part of the cost of an asset as of December 31, 2017.

*Stock Options:* The following table represents stock option activity for the nine-month periods ended December 31, 2017 and January 1, 2017:

	<b>Nine-Month Period Ended December 31, 2017</b>		<b>Nine-Month Period Ended January 1, 2017</b>	
	<b>Weighted- Average Exercise Price</b>	<b>Number of Options Outstanding</b>	<b>Weighted- Average Exercise Price</b>	<b>Number of Options Outstanding</b>
Outstanding at Beginning of Period	\$ 8.35	322,500	\$ 7.64	305,000
Granted	7.35	140,000	9.60	120,000
Exercised	-	-	7.67	(102,500)
Forfeited	9.05	(67,500)	-	-
Outstanding at End of Period	7.93	395,000	8.35	322,500
Exercisable at End of Period	7.94	220,000	7.33	147,500

As of December 31, 2017, the intrinsic value of the outstanding and exercisable stock options was \$53,000 and \$35,000, respectively. There were no options exercised during the nine-month period ended December 31, 2017. The intrinsic value of the stock options exercised during the three and nine-month periods ended January 1, 2017 was \$45,000 and \$214,000, respectively. The Company did not receive any cash from the exercise of stock options during the three and nine-month periods ended January 1, 2017. Upon the exercise of stock options, participants may choose to surrender to the Company those shares from the option exercise necessary to satisfy the exercise amount and their income tax withholding obligations that arise from the option exercise. The effect on the cash flow of the Company from these “cashless” stock option exercises is that the Company remits cash on behalf of the participant to satisfy his or her income tax withholding obligations. The Company used cash to remit the required income tax withholding amounts from “cashless” stock option exercises of \$14,000 and \$75,000 during the three and nine-month periods ended January 1, 2017, respectively.



To determine the estimated fair value of stock options granted, the Company uses the Black-Scholes-Merton valuation formula, which is a closed-form model that uses an equation to estimate fair value. The following table sets forth the assumptions used to determine the fair value of the non-qualified stock options that were awarded to certain employees during fiscal years 2018 and 2017, which options vest over a two-year period, assuming continued service.

	Stock Options Issued to Employees During Fiscal Years			
	2018		2017	
Number of options issued	10,000	20,000	110,000	120,000
Grant date	December 18,			
	2017	August 4, 2017	June 8, 2017	June 8, 2016
Dividend yield	4.92%	5.77%	4.13%	3.33%
Expected volatility	25.00%	25.00%	25.00%	20.00%
Risk free interest rate	1.94%	1.51%	1.47%	0.93%
Contractual term (years)	10.00	10.00	10.00	10.00
Expected term (years)	3.00	3.00	3.00	3.00
Forfeiture rate	5.00%	5.00%	5.00%	5.00%
Exercise price (grant-date closing price) per option	\$ 6.50	\$ 5.55	\$ 7.75	\$ 9.60
Fair value per option	\$ 0.59	\$ 0.50	\$ 0.85	\$ 0.94

For the three and nine-month periods ended December 31, 2017 and January 1, 2017, the Company recorded compensation expense associated with stock options as follows (in thousands):

Options Granted in Fiscal Year	Three-Month Period Ended December 31, 2017			Three-Month Period Ended January 1, 2017		
	Cost of Products	Marketing & Administrative	Total	Cost of Products	Marketing & Administrative	Total
	Sold	Expenses	Expense	Sold	Expenses	Expense
2016	\$ -	\$ -	\$ -	\$ 5	\$ 5	\$ 10
2017	4	4	8	8	5	13
2018	5	6	11	-	-	-
Total stock option compensation	\$ 9	\$ 10	\$ 19	\$ 13	\$ 10	\$ 23

Options Granted in Fiscal Year	Nine-Month Period Ended December 31, 2017			Nine-Month Period Ended January 1, 2017		
	Cost of Products	Marketing & Administrative	Total	Cost of Products	Marketing & Administrative	Total
	Sold	Expenses	Expense	Sold	Expenses	Expense
2015	\$ -	\$ -	\$ -	\$ 14	\$ 12	\$ 26
2016	6	1	7	17	15	32
2017	20	11	31	18	12	30
2018	11	13	24	-	-	-
Total stock option compensation	\$ 37	\$ 25	\$ 62	\$ 49	\$ 39	\$ 88

As of December 31, 2017, total unrecognized stock option compensation expense amounted to \$97,000, which will be recognized as the underlying stock options vest over a weighted-average period of 10.3 months. The amount of future stock option compensation expense could be affected by any future stock option grants and by the separation from the Company of any individual who has received stock options that are unvested as of such individual's separation date.

*Non-vested Stock Granted to Non-Employee Directors:* The Board granted the following shares of non-vested stock to the Company's non-employee directors:

Number of Shares	Fair Value per Share	Grant Date
28,000	\$ 5.50	August 9, 2017
28,000	10.08	August 10, 2016
28,000	8.20	August 12, 2015
28,000	7.97	August 11, 2014

These shares vest over a two-year period, assuming continued service. The fair value of the non-vested stock granted to the Company's non-employee directors was based on the closing price of the Company's common stock on the date of each grant. In each of August 2017 and 2016, 28,000 shares that had been granted to the Company's non-employee directors vested, having an aggregate value of \$157,000 and \$281,000, respectively.

*Performance Bonus Plan:* The Company maintains a performance bonus plan for certain executive officers that provides for awards of shares of common stock in the event that the aggregate average market value of the common stock during the relevant fiscal year, plus the amount of cash dividends paid in respect of the common stock during such period, increases. These individuals may instead be awarded cash, if and to the extent that insufficient shares of common stock are available for issuance from all shareholder-approved, equity-based plans or programs of the Company in effect. The performance bonus plan also imposes individual limits on awards and provides that shares of common stock that may be awarded will vest over a two-year period. Compensation expense associated with performance bonus plan awards are recognized over a three-year period – the fiscal year in which the award is earned, plus the two-year vesting period.

In connection with the performance bonus plan, the Company granted shares of common stock and recognized or will recognize compensation expense as set forth below:

Fiscal Year Earned	Shares Granted	Fiscal Year Granted	Fair Value Per Share	Compensation expense recognized during fiscal year				
				2015	2016	2017	2018	2019
2015	58,532	2016	\$ 7.180	\$ 140,000	\$ 140,000	\$ 140,000	\$ -	\$ -
2016	41,205	2017	7.865	-	108,000	108,000	108,000	-
2017	42,250	2018	8.271	-	-	116,000	116,000	116,000

The table below sets forth the vesting of shares issued in connection with the grants of shares set forth in the above table. Each of the individuals holding shares that vested surrendered to the Company the number of shares necessary to satisfy the income tax withholding obligations that arose from the vesting of the shares. The table below also sets forth the taxes remitted to the appropriate taxing authorities on behalf of such individuals.

Fiscal Year Granted	Shares Granted	Vesting of shares during the three-month periods ended					
		July 2, 2017			July 3, 2016		
		Shares Vested	Aggregate Value	Taxes Remitted	Shares Vested	Aggregate Value	Taxes Remitted
2017	41,205	20,604	\$ 167,000	\$ 56,000	-	\$ -	\$ -

For the three and nine-month periods ended December 31, 2017 and January 1, 2017, the Company recorded compensation expense associated with stock grants, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income, as follows (in thousands):

Stock Granted in Fiscal Year	Three-Month Period Ended December 31, 2017			Three-Month Period Ended January 1, 2017		
	Employees	Non-employee Directors	Total Expense	Employees	Non-employee Directors	Total Expense
2016	-	-	-	35	29	64
2017	27	35	62	27	35	62
2018	29	19	48	-	-	-
Total stock grant compensation	\$ 56	\$ 54	\$ 110	\$ 62	\$ 64	\$ 126

Stock Granted in Fiscal Year	Nine-Month Period Ended December 31, 2017			Nine-Month Period Ended January 1, 2017		
	Employees	Non-employee Directors	Total Expense	Employees	Non-employee Directors	Total Expense
2016	-	38	38	105	86	191
2017	81	106	187	81	59	140
2018	87	32	119	-	-	-
Total stock grant compensation	\$ 168	\$ 176	\$ 344	\$ 186	\$ 182	\$ 368

As of December 31, 2017, total unrecognized compensation expense related to the Company's non-vested stock grants amounted to \$377,000, which will be recognized over the respective vesting terms associated with each block of non-vested stock indicated above, such grants having an aggregate weighted-average vesting term of 8.7 months. The amount of future compensation expense related to the Company's non-vested stock grants could be affected by any future non-vested stock grants and by the separation from the Company of any individual who has non-vested stock grants as of such individual's separation date.

## **Note 7 – Related Party Transaction**

On August 4, 2017, Carousel entered into a lease of the Carousel facilities in Douglasville, Georgia with JST Capital, LLC (“JST”), a wholly-owned subsidiary of Pritech, Inc., which is owned by the Chief Executive Officer and President of Carousel. Carousel made lease payments of \$24,000 and \$39,000 to JST for the three and nine-month periods ended December 31, 2017, respectively. During the three and nine-month periods ended December 31, 2017, \$21,000 and \$34,000, respectively, of the lease payments were included in cost of products sold and \$3,000 and \$5,000, respectively, were included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income.

## **Note 8 – Subsequent Events**

The Company has evaluated events which have occurred between December 31, 2017 and the date that the accompanying consolidated financial statements were issued, and has determined that there are no material subsequent events that require disclosure.

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

### **FORWARD-LOOKING INFORMATION**

This 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 Company’s ability to successfully integrate newly acquired businesses, 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 (the “SEC”) 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 expectations, whether as a result of new information, future events or otherwise.

### **DESCRIPTION OF BUSINESS**

The Company operates indirectly through its wholly-owned subsidiaries, Crown Crafts Infant Products, Inc. (“CCIP”), Hamco and Carousel, in the infant, toddler and juvenile products segment within the consumer products industry. The infant and toddler products segment consists of infant and toddler bedding and blankets, bibs, soft bath products, disposable products, developmental toys and accessories. Sales of the Company’s products are made directly to retailers, such as mass merchants, large chain stores, juvenile specialty stores, value channel stores, grocery and drug stores, restaurants, wholesale clubs and internet-based retailers, as well as directly to consumers through [www.babybedding.com](http://www.babybedding.com).

The Company’s products are marketed to retailers through a national sales force consisting of salaried sales executives and employees located in Compton, California, Gonzales, Louisiana, Grand Rapids, Michigan and Bentonville, Arkansas and by independent commissioned sales representatives located throughout the United States. Products are also marketed directly to consumers from a Company facility in Douglasville, Georgia. Sales outside the United States are made primarily through distributors.

Foreign and domestic contract manufacturers produce most of the Company’s products, with the largest concentration being in China. The Company makes sourcing decisions based on quality, timeliness of delivery and price, including the impact of ocean freight and duties. Although the Company maintains relationships with a limited number of suppliers, the Company believes that its products may be readily manufactured by several alternative sources in quantities sufficient to meet the Company’s requirements. The Company also produces some of its products domestically at a Company facility in Douglasville, Georgia.

The infant, toddler and juvenile consumer products industry is highly competitive. The Company competes with a variety of distributors and manufacturers (both branded and private label), including large infant and juvenile product companies and specialty infant and juvenile product manufacturers, based on 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.

A summary of certain factors that management considers important in reviewing the Company's results of operations, financial position, liquidity and capital resources is set forth below, which should be read in conjunction with the accompanying consolidated financial statements and related notes included in the preceding sections of this report.

## RESULTS OF OPERATIONS

The following table contains the results of operations for the three and nine-month periods ended December 31, 2017 and January 1, 2017 and the dollar and percentage changes for those periods (in thousands, except percentages):

	<u>Three-Month Periods Ended</u>		<u>Change</u>		<u>Nine-Month Periods Ended</u>		<u>Change</u>	
	<u>December 31,</u> <u>2017</u>	<u>January 1,</u> <u>2017</u>	<u>\$</u>	<u>%</u>	<u>December 31,</u> <u>2017</u>	<u>January 1,</u> <u>2017</u>	<u>\$</u>	<u>%</u>
Net sales by category:								
Bedding, blankets and accessories	\$ 11,558	\$ 11,445	\$ 113	1.0%	\$ 30,414	\$ 31,847	\$(1,433)	-4.5%
Bibs, bath and disposable products	5,918	5,817	101	1.7%	17,170	16,823	347	2.1%
Total net sales	17,476	17,262	214	1.2%	47,584	48,670	(1,086)	-2.2%
Cost of products sold	12,207	11,623	584	5.0%	33,691	34,435	(744)	-2.2%
Gross profit	5,269	5,639	(370)	-6.6%	13,893	14,235	(342)	-2.4%
% of net sales	30.1%	32.7%			29.2%	29.2%		
Marketing and administrative expenses	3,656	2,576	1,080	41.9%	10,364	8,176	2,188	26.8%
% of net sales	20.9%	14.9%			21.8%	16.8%		
Interest expense	47	13	34	261.5%	85	55	30	54.5%
Other income	12	38	(26)	-68.4%	80	132	(52)	-39.4%
Income tax expense	1,047	1,227	(180)	-14.7%	1,750	2,173	(423)	-19.5%
Net income	531	1,861	(1,330)	-71.5%	1,774	3,963	(2,189)	-55.2%
% of net sales	3.0%	10.8%			3.7%	8.1%		

*Net Sales:* Sales increased by \$214,000, or 1.2%, for the three-month period ended December 31, 2017, and decreased by \$1.1 million, or 2.2%, for the nine-month period ended December 31, 2017, compared with the same periods in the prior year. The increase is due to sales by Carousel, which added \$1.8 million of sales during the three months ended December 31, 2017, which amount was offset by a decrease of \$1.6 million in sales by CCIP for the same period. A portion of the decrease resulted from reduced product shipments in the current year to a customer that experienced credit problems. Also affecting sales is the continuing change in the infant bedding marketplace in which parents are purchasing fewer bedding sets in favor of separates, leading to a lower average price point for the Company's infant bedding products.

*Gross Profit:* Gross profit decreased by \$370,000 and decreased from 32.7% of net sales for the three-month period ended January 1, 2017 to 30.1% of net sales for the three-month period ended December 31, 2017. Gross profit decreased by \$342,000 for the nine-month period ended December 31, 2017 compared with the same period of the prior year. Gross profit was unchanged at 29.2% of net sales for the nine-month periods of both years. The decrease in amount for both the three-month and the nine-month periods is due to higher sales of closeout inventory at low margins in the current year, as well as a shift in the current year to a less profitable customer and product mix.

*Marketing and Administrative Expenses:* Marketing and administrative expenses increased by \$1.1 and \$2.2 million for the three and nine-month periods ended December 31, 2017, respectively, compared with the same periods in the prior year. The increase in amount for the three-month period is the result of credit coverage fees amounting to \$81,000 that did not occur in the prior year and that were associated with the bankruptcy of a major customer. The Company also incurred \$35,000 and \$125,000 in costs during the current year three-month period that were associated with the Carousel Acquisition and the Sassy Acquisition, respectively. The nine-month period of the current year included an increase over the prior year of \$90,000 in audit fees associated with the Company's transition from a smaller reporting company to an accelerated filer for SEC purposes. The nine-month period of the current year included credit coverage fees amounting to \$572,000 that did not occur in the prior year and that were associated with the bankruptcy of a major customer. The Company also incurred \$299,000 and \$125,000 in costs during the current year nine-month period that were associated with the Carousel Acquisition and the Sassy Acquisition, respectively. Additionally, the Carousel Acquisition resulted in \$63,000 and \$115,000 in amortization expense for the three and nine-month periods ended December 31, 2017.

*Income Tax Expense:* The Company's provision for income taxes is based upon an estimated annual ETR from continuing operations for the current year of 33.0%.

On December 22, 2017, the President of the United States signed into law the TCJA, which includes a provision to lower the federal corporate income tax rate to 21% effective as of January 1, 2018. As the Company's fiscal year 2018 will end on April 1, 2018, the lower corporate income tax rate will be phased in, resulting in a blended federal statutory rate of 30.75% for fiscal year 2018. The Company provides for deferred income taxes based on the difference between the financial statement and tax bases of the Company's assets and liabilities. The Company's net deferred income tax assets had previously been recorded based upon the enacted composite federal, state and foreign income tax rate of approximately 37.5% that would have been applied as the financial statement-tax differences began to reverse. Because these differences are now expected to reverse at a composite rate of approximately 23.5%, the Company was required to revalue its net deferred income tax assets. This revaluation resulted in a provisional discrete charge to income tax expense of \$409,000 during the three and nine-month periods ended December 31, 2017.

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. The Company applies the provisions of FASB ASC Sub-topic 740-10-25, which requires a minimum recognition threshold that a tax benefit must meet before being recognized in the financial statements. 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.

During fiscal year 2016, an evaluation was made of the Company's process regarding the calculation of the state portion of its income tax provision. This evaluation resulted in the Company taking a tax position that reflected opportunities for the application of more favorable state apportionment percentages for several prior fiscal years. After considering all relevant information, the Company believes that the technical merits of this tax position would more likely than not be sustained. However, the Company also believes that the ultimate resolution of the tax position will result in a tax benefit that is less than the full amount being sought. Therefore, the Company's measurement regarding the tax impact of the revised state apportionment percentages resulted in the Company recording a reserve for unrecognized tax benefits during the three and nine-month periods ended December 31, 2017 of \$31,000 and \$60,000, respectively, and \$65,000 and \$115,000 for the three and nine-month periods ended January 1, 2017, respectively, in the accompanying unaudited condensed consolidated statements of income. Because the tax impact of the revised state apportionment percentages are measured net of federal income taxes, the provision in the TCJA that lowered the federal corporate income tax rate to 21% required the Company to revalue its reserve for unrecognized tax benefits. This revaluation, which the Company believes is complete, resulted in a net discrete charge to income tax expense of \$132,000 during the three and nine-month periods ended December 31, 2017.

Income tax expense for the nine-month period ended December 31, 2017 included a discrete income tax charge of \$37,000 and a discrete income tax benefit of \$60,000 to reflect the effect of the tax shortfall and the excess tax benefits, respectively, arising from the vesting of non-vested stock during the periods.

The revaluations of the Company's net deferred income tax assets and its reserve for unrecognized tax benefits was the primary factor in the increase in the overall provision for income taxes to 66.3% and 49.7% for the three and nine-month periods ended December 31, 2017, respectively.

Although the Company does not anticipate a material change to the ETR from continuing operations for the balance of fiscal year 2018, several factors could impact the ETR, including variations from the Company's estimates of the amount and source of its pre-tax income and the amount of certain tax credits.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities decreased from \$12.0 million for the nine-month period ended January 1, 2017 to \$8.6 million for the nine-month period ended December 31, 2017. Decreases of net cash provided by operating activities in the current year period included a decrease in the Company's accounts receivable balances that was \$3.5 million lower than the decrease in the prior year period. The Company's net income was also \$2.2 million lower in the current year period. The Company also experienced in the current year period an increase in its inventory balances that was \$1.2 million higher than the increase in the prior year period. Increases of net cash provided by operating activities that offset these decreases included a net increase in the Company's accrued liabilities balances in the current year period that was \$1.7 million higher than the decrease in the prior year period. The current year increase in accrued liabilities was primarily due to a \$1.5 million increase in accrued royalties. The Company also experienced an increase in the current year period in its prepaid expenses that was \$1.3 million lower than the increase in the prior year period, and an increase in the current year period in its accounts payable balances that was \$468,000 higher than the increase in the prior year period.

Net cash used in investing activities increased to \$15.4 million in the current year from \$152,000 in the prior year, due primarily to the payment of the purchase price of \$8.7 million for the Carousel Acquisition and \$6.5 million for the Sassy Acquisition.

Net cash used in financing activities decreased by \$4.0 million to \$1.0 million in the current year. The decrease was due to the payment in the prior year of a special dividend of \$2.5 million, which was not repeated in the current year, as well as net borrowings of \$2.3 million from the revolving line of credit in the current year, which did not occur in the prior year, which were offset by the \$845,000 payoff of capital leases associated with certain assets acquired in the Carousel Acquisition.

From January 1, 2017 to December 31, 2017, the Company decreased its cash balances from \$14.4 million to \$117,000. During that period, the Company made combined payments of \$15.2 million for the Carousel Acquisition and the Sassy Acquisition and paid \$7.2 million in dividends. Offsetting these decreases in cash was an increase in the Company's accounts payable balances of \$3.7 million and net income of \$3.5 million. At December 31, 2017, there was a balance of \$2.3 million owed on the revolving line of credit, there was no letter of credit outstanding and \$18.9 million was available under the revolving line of credit based on the Company's eligible accounts receivable and inventory balances.

To reduce its exposure to credit losses and to enhance the predictability of its cash flow, the Company assigns the majority of its trade accounts receivable to CIT under factoring agreements. Under the terms of the factoring agreements, CIT remits customer payments to the Company as such payments are received by CIT and bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits, while the Company bears the responsibility for adjustments from customers related to returns, allowances, claims and discounts. CIT may at any time terminate or limit its approval of shipments to a particular customer. If such a termination were to occur, the Company must either assume the credit risk for shipments after the date of such termination or limitation or cease shipments to such customer. There were no advances from the factor at either December 31, 2017 or January 1, 2017.

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 flow from operations and its availability from the revolving line of credit will be adequate to meet its liquidity needs.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a detailed discussion of market risk, refer to the risk factors disclosed in Item 1A. of Part 1 of the Company's annual report on Form 10-K for the year ended April 2, 2017.

#### INTEREST RATE RISK

As of December 31, 2017, the Company had \$2.3 million of indebtedness that bears interest at a variable rate, comprised of borrowings under the revolving line of credit. Based upon this level of outstanding debt, the Company's net income would decrease by approximately \$18,000 for each increase of one percentage point in the interest rate applicable to the debt.

#### COMMODITY RATE RISK

The Company sources its products primarily from foreign contract manufacturers, with the largest concentration being in China. The Company's exposure to commodity price risk primarily relates to changes in the prices in China of cotton, oil and labor, which are the principal inputs used in a substantial number of the Company's products. Also, although the Company's purchases of its products from its Chinese suppliers are paid in U.S. dollars, an arbitrary strengthening of the rate of the Chinese currency versus the U.S. dollar could result in an increase in the cost of the prices at which the Company purchases its finished goods. There can be no assurance that the Company could timely respond to such increases by proportionately increasing the prices at which its products are sold to the Company's customers.

#### MARKET CONCENTRATION RISK

For the fiscal year ended April 2, 2017, the Company's top two customers represented 61% of gross sales, and 62% of the Company's gross sales is of licensed products, which included 43% of sales associated with the Company's license agreements with affiliated companies of The Walt Disney Company. The Company's results could be materially impacted by the loss of one or more of these customers or licenses.

## 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.

In the Company's evaluation of whether there was any change in the Company's internal control over financial reporting ("ICFR") during the three-month period ended December 31, 2017, the Company has excluded an evaluation of the ICFR related to the operations of Carousel, which consummated the Carousel Acquisition on August 4, 2017. The net sales of Carousel were \$3.0 million, which was 6.3% of the Company's total net sales, for the nine months ended December 31, 2017. As of December 31, 2017, the total assets of Carousel amounted to \$10.5 million (including \$5.4 million in goodwill), which was 19.1% of the Company's total assets.

In the Company's evaluation of whether there was any change in the Company's ICFR during the three-month period ended December 31, 2017, the Company has excluded an evaluation of the ICFR related to the operations associated with the Sassy Acquisition, which was consummated on December 15, 2017. The net sales added as a result of the Sassy Acquisition were \$20,000, which was 0.04% of the Company's total net sales, for the nine-month period ended December 31, 2017. The net assets acquired in the Sassy Acquisition amounted to \$6.5 million (including \$3.1 million in goodwill), which was 11.8% of the Company's total assets as of December 31, 2017.

During the three-month period ended December 31, 2017, notwithstanding the exclusions of evaluations of the ICFR related to the operations of Carousel and the operations associated with the Sassy Acquisition, there was not any change in the Company's ICFR 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 ICFR.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is, from time to time, involved in various legal and regulatory 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 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 flow.

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. of Part 1 of the Company's annual report on Form 10-K for the year ended April 2, 2017. The Company recommends the consideration of the additional risk factors set forth below in evaluating the Company's business.

**The Company's ability to identify, consummate and integrate acquisitions, divestitures and other significant transactions successfully could have an adverse impact on the Company's financial results, business and prospects.**

As part of its business strategy, the Company has made acquisitions of businesses, divestitures of businesses and assets, and has entered into other transactions to further the interests of the Company's business and its stockholders. Risks associated with such activities include the following, any of which could adversely affect the Company's financial results:

- The active management of acquisitions, divestitures and other significant transactions requires varying levels of Company resources, including the efforts of the Company's key management personnel, which could divert attention from the Company's ongoing business operations.
  - The Company may not fully realize the anticipated benefits and expected synergies of any particular acquisition or investment, or may experience a prolonged timeframe for realizing such benefits and synergies.
  - Increased or unexpected costs, unanticipated delays or failure to meet contractual obligations could make acquisitions and investments less profitable or unprofitable.
-



**The Company's ability to comply with its credit facility is subject to future performance and other factors.**

The Company's ability to make required payments of principal and interest on its debts, 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. The breach of any of the debt covenants could result in a default under the Company's credit facility. Upon the occurrence of an event of default, the Company's lender could make an immediate demand of the amount outstanding under the credit facility. If a default was to occur and such a demand was to be made, there can be no assurance that the Company's assets would be sufficient to repay the indebtedness in full.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. 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 Exhibit
2.1	<a href="#">Asset Purchase Agreement, dated as of December 15, 2017, by and between Sassy 14, LLC and Hamco, Inc. (1)</a>
10.1	<a href="#">Twelfth Amendment to Financing Agreement, dated as of December 15, 2017, by and among Crown Crafts, Inc., Hamco, Inc., Carousel Designs, LLC, Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (1)</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer (2)</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer (2)</a>
32.1	<a href="#">Section 1350 Certification by the Company's Chief Executive Officer (2)</a>
32.2	<a href="#">Section 1350 Certification by the Company's Chief Financial Officer (2)</a>
101	The following information from the Registrant's Form 10-Q for the quarterly period ended December 31, 2017, formatted as interactive data files in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Statements of Income; (ii) Unaudited Condensed Consolidated Balance Sheets; (iii) Unaudited Condensed Consolidated Statements of Cash Flows; and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.  (1) Incorporated herein by reference to Registrant's Current Report on Form 8-K dated December 18, 2017. (2) Filed herewith.

SIGNATURE

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 8, 2018

/s/ Olivia W. Elliott  
OLIVIA W. ELLIOTT  
Chief Financial Officer  
(Principal Financial Officer  
and Principal Accounting Officer)

CERTIFICATION

I, E. Randall Chestnut, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Crown Crafts, Inc. for the period ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2018

/s/ E. Randall Chestnut  
E. Randall Chestnut, Chairman of the Board,  
President & Chief Executive Officer

## CERTIFICATION

I, Olivia W. Elliott, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Crown Crafts, Inc. for the period ended December 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2018

By: /s/ Olivia W. Elliott

Olivia W. Elliott,  
Vice President & Chief Financial Officer

SECTION 1350 CERTIFICATION

I, E. Randall Chestnut, Chairman of the Board, President and Chief Executive Officer of Crown Crafts, Inc. (the “Company”), do hereby certify, in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ending December 31, 2017 (the “Periodic Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 8, 2018

/s/ E. Randall Chestnut  
E. Randall Chestnut, Chairman of the Board,  
President & Chief Executive Officer

SECTION 1350 CERTIFICATION

I, Olivia W. Elliott, Vice President and Chief Financial Officer of Crown Crafts, Inc. (the "Company"), do hereby certify, in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ending December 31, 2017 (the "Periodic Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 8, 2018

/s/ Olivia W. Elliott

Olivia W. Elliott,  
Vice President and Chief Financial Officer