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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

**(Mark One)**

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

For the fiscal year ended April 3, 2016

OR

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

Commission File No. 1-7604

# Crown Crafts, Inc.

*(Exact name of registrant as specified in its charter)*

Delaware  
*(State of Incorporation)*

58-0678148  
*(I.R.S. Employer Identification No.)*

916 S. Burnside Ave.  
Gonzales, Louisiana  
*(Address of principal executive offices)*

70737  
*(Zip Code)*

Registrant's Telephone Number, including area code: (225) 647-9100

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

**Title of class**  
Common Stock, \$0.01 par value

**Name of exchange on which registered**  
The NASDAQ Capital Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes  No

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

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 25, 2015 (the last business day of the Company’s most recently completed second fiscal quarter) was \$58.1 million.

As of May 10, 2016, 9,990,848 shares of the Company’s common stock were outstanding.

### Documents Incorporated by Reference:

Portions of the registrant’s Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated into Part III hereof by reference.

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## Cautionary Notice Regarding Forward-Looking Statements

Certain of the statements made herein under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere, including information incorporated herein by reference to other documents, are “forward-looking statements” within the meaning of, and subject to the protections of, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control and which may cause the actual results, performance or achievements of Crown Crafts, Inc. to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “plan,” “point to,” “project,” “predict,” “could,” “intend,” “target,” “potential” and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation, those described in Part I, Item 1A. “Risk Factors,” and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission (the “SEC”) under the Exchange Act.

All written or oral forward-looking statements that are made by or are attributable to us are expressly qualified in their entirety by this cautionary notice. Our forward-looking statements apply only as of the date of this report or the respective date of the document from which they are incorporated herein by reference. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this report, or after the respective dates on which such statements otherwise are made, whether as a result of new information, future events or otherwise.

## PART I

### ITEM 1. *Business*

#### Description of Business

Crown Crafts, Inc. (the “Company”) operates indirectly through its wholly-owned subsidiaries, Crown Crafts Infant Products, Inc. (“CCIP”) and Hamco, Inc. (“Hamco”), in the infant and toddler products segment within the consumer products industry. The infant and toddler segment consists of infant and toddler bedding and blankets, bibs, soft bath products, disposable products and accessories. Sales of the Company’s products are generally made directly to retailers, which are primarily mass merchants, mid-tier retailers, juvenile specialty stores, value channel stores, grocery and drug stores, restaurants, internet accounts and wholesale clubs. The Company’s products are manufactured primarily in Asia and marketed under a variety of Company-owned trademarks, under trademarks licensed from others and as private label goods.

The Company's fiscal year ends on the Sunday nearest to or on March 31. References herein to “fiscal year 2016” or “2016” represent the 53-week period ended April 3, 2016 and references to “fiscal year 2015” or “2015” represent the 52-week period ended March 29, 2015.

#### Products

The Company's primary focus is on infant, toddler and juvenile products, including the following:

- crib and toddler bedding
- blankets and swaddle blankets
- nursery and toddler accessories
- room décor
- reusable and disposable bibs
- burp cloths
- hooded bath towels and washcloths
- reusable and disposable placemats and floor mats
- disposable cup labels, toilet seat covers and changing mats
- other infant, toddler and juvenile soft goods

## **Government Regulation and Environmental Control**

The Company is subject to various federal, state and local environmental laws and regulations, which regulate, among other things, product safety and the discharge, storage, handling and disposal of a variety of substances and wastes, and to laws and regulations relating to employee safety and health, principally the Occupational Safety and Health Administration Act and regulations thereunder. The Company believes that it currently complies in all material respects with applicable environmental, health and safety laws and regulations and that future compliance with such existing laws or regulations will not have a material adverse effect on its capital expenditures, earnings or competitive position. However, there is no assurance that such requirements will not become more stringent in the future or that the Company will not have to incur significant costs to comply with such requirements.

## **Sales and Marketing**

The Company's products are marketed through a national sales force consisting of salaried sales executives and employees located in Compton, California; Gonzales, Louisiana; and Bentonville, Arkansas. Products are also marketed by independent commissioned sales representatives located throughout the United States. Substantially all products are sold to retailers for resale to consumers. The Company's subsidiaries introduce new products throughout the year and participate at the ABC Kids Expo.

## **Product Sourcing**

The Company's products are produced by foreign and domestic manufacturers, with the largest concentration being in China. The Company makes sourcing decisions on the basis of 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's management and quality assurance personnel visit the third-party facilities regularly to monitor and audit product quality and to ensure compliance with labor requirements and social and environmental standards. In addition, the Company closely monitors the currency exchange rate. The impact of future fluctuations in the exchange rate or changes in safeguards cannot be predicted with certainty.

The Company maintains a foreign representative office located in Shanghai, China, which is responsible for the coordination of production, purchases and shipments, seeking out new vendors and overseeing inspections for social compliance and quality.

The Company's products are warehoused and distributed from a facility located in Compton, California.

## **Product Design and Styling**

The Company believes that its creative team is one of its key strengths. The Company's product designs are primarily created internally and are supplemented by numerous additional sources, including independent artists, decorative fabric manufacturers and apparel designers. Ideas for product design creations are drawn from various sources and are reviewed and modified by the design staff to ensure consistency within the Company's existing product offerings and the themes and images associated with such existing products. In order to respond effectively to changing consumer preferences, the Company's designers and stylists attempt to stay abreast of emerging lifestyle trends in color, fashion and design. When designing products under the Company's various licensed brands, the Company's designers coordinate their efforts with the licensors' design teams to provide for a more fluid design approval process and to effectively incorporate the image of the licensed brand into the product. The Company's designs include traditional, contemporary, textured and whimsical patterns across a broad spectrum of retail price points. Utilizing state of the art computer technology, the Company continually develops new designs throughout the year for all of its product groups. This continual development cycle affords the Company design flexibility, multiple opportunities to present new products to customers and the ability to provide timely responses to customer demands and changing market trends. The Company also creates designs for exclusive sale by certain of its customers under the Company's brands, as well as the customers' private label brands.

## **Competition**

The infant and toddler 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, on the basis of 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.

## Employees

At May 10, 2016, the Company had 135 employees, none of whom is represented by a labor union or is otherwise a party to a collective bargaining agreement. The Company attracts and maintains qualified personnel by paying competitive salaries and benefits and offering opportunities for advancement. The Company considers its relationship with its employees to be good.

## Customers

The Company's customers consist principally of mass merchants, mid-tier retailers, juvenile specialty stores, value channel stores, grocery and drug stores, restaurants, internet accounts and wholesale clubs. The Company does not enter into long-term or other purchase agreements with its customers. The table below sets forth those customers that represented at least 10% of the Company's gross sales in fiscal years 2016 and 2015.

|                       | Fiscal Year |      |
|-----------------------|-------------|------|
|                       | 2016        | 2015 |
| Wal-Mart Stores, Inc. | 42%         | 36%  |
| Toys R Us             | 23%         | 25%  |

## Seasonality and Inventory Management

There are no significant variations in the seasonal demand for the Company's products from year to year. Sales are generally higher in periods when customers take initial shipments of new products, as these orders typically include enough products for initial sets for each store and additional quantities for the customer's distribution centers. The timing of these initial shipments varies by customer and depends on when the customer finalizes store layouts for the upcoming year and whether the customer has any mid-year introductions of products. Sales may also be higher or lower, as the case may be, in periods when customers are restricting internal inventory levels. Consistent with the expected introduction of specific product offerings, the Company carries necessary levels of inventory to meet the anticipated delivery requirements of its customers. Customer returns of merchandise shipped are historically less than 1% of gross sales.

## Trademarks, Copyrights and Patents

The Company considers its intellectual property to be of material importance to its business. Sales of products marketed under the Company's trademarks, primarily NoJo® and Neat Solutions®, accounted for 23% and 26% of the Company's total gross sales during fiscal years 2016 and 2015, respectively. Protection for these trademarks is obtained through domestic and foreign registrations. The Company also markets designs which are subject to copyrights and design patents owned by the Company.

## International Sales

Sales to customers in countries other than the United States represented 3% of the Company's total gross sales during each of fiscal years 2016 and 2015, which included 1% of sales to the customers set forth above that represented more than 10% of the Company's gross sales during fiscal year 2016. International sales are based upon the location that predominately represents what the Company believes to be the final destination of the products delivered to the Company's customers.

## Licensed Products

Certain products are manufactured and sold pursuant to licensing agreements for trademarks. Also, many of the designs used by the Company are copyrighted by other parties, including trademark licensors, and are available to the Company through copyright license agreements. The licensing agreements are generally for an initial term of one to three years and may or may not be subject to renewal or extension. Sales of licensed products represented 62% of the Company's gross sales in fiscal year 2016, which included 46% of sales under the Company's license agreements with affiliated companies of The Walt Disney Company ("Disney"), which expire on December 31, 2017.

## **ITEM 1A. Risk Factors**

*The following risk factors as well as the other information contained in this report and other filings made by the Company with the SEC should be considered in evaluating the Company's business. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, operating results may be affected in future periods.*

### **The loss of one or more of the Company's key customers could result in a material loss of revenues.**

The Company's top two customers represented approximately 65% of gross sales in fiscal year 2016. Although the Company does not enter into contracts with its key customers, it expects them to continue to be a significant portion of its gross sales in the future. The loss of, or a decline in orders from, one or more of these customers could result in a material decrease in the Company's revenue and operating income.

### **The Company's business is impacted by general economic conditions and related uncertainties affecting markets in which the Company operates.**

The Company's growth is largely dependent upon growth in the birthrate, and in particular, the rate of first births. Economic conditions, including the real and perceived threat of a recession, could lead individuals to decide to forgo or delay having children. Even under optimal economic conditions, shifts in demographic trends and preferences could have the consequence of individuals starting to have children later in life and/or having fewer children. These conditions could result in reduced demand for some of the Company's products, increased order cancellations and returns, an increased risk of excess and obsolete inventories and increased pressure on the prices of the Company's products. Also, although the Company's use of a commercial factor significantly reduces the risk associated with collecting accounts receivable, the factor may at any time terminate or limit its approval of shipments to a particular customer, and the likelihood of the factor doing so may increase due to a change in economic conditions. Such an action by the factor could result in the loss of future sales to the affected customer.

### **The loss of one or more of the Company's licenses could result in a material loss of revenues.**

Sales of licensed products represented 62% of the Company's gross sales in fiscal year 2016, which included 46% of sales associated with the Company's license agreements with Disney. The Company could experience a material loss of revenues if it is unable to renew its major license agreements or obtain new licenses. Additionally, the volume of sales of licensed products is inherently tied to the success of the characters, films and other licensed programs of the Company's licensors. A decline in the popularity of these licensed programs or the inability of the licensors to develop new properties for licensing could also result in a material loss of revenues to the Company.

### **The strength of the Company's competitors may impact the Company's ability to maintain and grow its sales, which could decrease the Company's revenues.**

The infant and toddler consumer products industry is highly competitive. The Company competes with a variety of distributors and manufacturers, both branded and private label. The Company's ability to compete successfully depends principally on styling, price, service to the retailer and continued high regard for the Company's products and trade names. Several of these competitors are larger than the Company and have greater financial resources than the Company, and some have experienced financial challenges from time to time, including servicing significant levels of debt. Those facing financial pressures could choose to make particularly aggressive pricing decisions in an attempt to increase revenue. The effects of increased competition could result in a material decrease in the Company's revenues.

### **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 these 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.

**The Company's inability to anticipate and respond to consumers' tastes and preferences could adversely affect the Company's revenues.**

Sales are driven by consumer demand for the Company's products. There can be no assurance that the demand for the Company's products will not decline or that the Company will be able to anticipate and respond to changes in demand. The Company's failure to adapt to these changes could lead to lower sales and excess inventory, which could have a material adverse effect on the Company's financial condition and operating results.

**The Company's debt covenants may affect its liquidity or limit its ability to pursue acquisitions, incur debt, make investments, sell assets or complete other significant transactions.**

The Company's credit facility contains usual and customary covenants regarding significant transactions, including restrictions 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. Unless waived by the Company's lender, these covenants could limit the Company's ability to pursue opportunities to expand its business operations, respond to changes in business and economic conditions and obtain additional financing, or otherwise engage in transactions that the Company considers beneficial.

**Customer pricing pressures could result in lower selling prices, which could negatively affect the Company's operating results.**

The Company's customers could place pressure on the Company to reduce the prices of its products. The Company continuously strives to stay ahead of its competition in sourcing, which allows the Company to obtain lower cost products while maintaining high standards for quality. There can be no assurance that the Company could respond to a decrease in sales prices by proportionately reducing its costs, which could adversely affect the Company's operating results.

**Changes in international trade regulations and other risks associated with foreign trade could adversely affect the Company's sourcing.**

The Company sources its products primarily from foreign contract manufacturers, with the largest concentration being in China. Difficulties encountered by these suppliers, such as the instability inherent in operating within an authoritarian political structure, could halt or disrupt production of the Company's products. The Chinese government could make allegations against the Company of corruption or antitrust violations, or could adopt regulations related to the importation of products, including quotas, duties, taxes and other charges or restrictions on imported goods, any of which could result in an increase in the cost of the Company's products. Also, an arbitrary strengthening of the Chinese currency versus the U.S. dollar could increase the prices at which the Company purchases finished goods. Any event causing a disruption of the flow of products manufactured on behalf of the Company, whether within the Chinese interior or at the point of embarkation, could result in delays in the receipt of the Company's inventory and an increase in the cost of the Company's products. In addition, changes in U.S. customs procedures or delays in the clearance of goods through customs could result in the Company being unable to deliver goods to customers in a timely manner or the potential loss of sales altogether. The occurrence of any of these events could adversely affect the Company's profitability.

**A significant disruption to the Company's distribution network or to the timely receipt of inventory could adversely impact sales or increase transportation costs, which would decrease the Company's profits.**

Nearly all of the Company's products are imported from China into the Port of Long Beach in southern California. There are many links in the distribution chain, including the availability of ocean freight, cranes, dockworkers, containers, tractors, chassis and drivers. The timely receipt of the Company's products is also dependent upon efficient operations at the Port of Long Beach. Any shortages in the availability of any of these links or disruptions in port operations, including strikes, lockouts or other work stoppages or slowdowns, could cause bottlenecks and other congestion in the distribution network, which could adversely impact the Company's ability to obtain adequate inventory on a timely basis and result in lost sales, increased transportation costs and an overall decrease of the Company's profits.

**The Company's sourcing and marketing operations in foreign countries are subject to anti-corruption laws.**

The Company's foreign operations are subject to laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in foreign jurisdictions, which apply to the Company's directors, officers, employees and agents acting on behalf of the Company. Failure to comply with these laws could result in damage to the Company's reputation, a diversion of management's attention from its business, increased legal and investigative costs, and civil and criminal penalties, any or all of which could adversely affect the Company's operating results.

**The Company's success is dependent upon retaining key management personnel.**

Certain of the Company's executive management and other key personnel have been integral to the Company's operations and the execution of its growth strategy. The departure from the Company of one or more of these individuals, along with the inability of the Company to attract qualified and suitable individuals to fill the Company's open positions, could adversely impact the Company's growth and operating results.

**The Company may need to write down or write off inventory.**

If product programs end before the inventory is completely sold, then the remaining inventory may have to be sold at less than carrying value. The market value of certain inventory items could drop to below carrying value after a decline in sales, at the end of programs, or when management makes the decision to exit a product group. Such inventory would then need to be written down to the lower of carrying or market value, or possibly completely written off, which would adversely affect the Company's operating results.

**Recalls or product liability claims could increase costs or reduce sales.**

The Company must comply with the Consumer Product Safety Improvement Act, which imposes strict standards to protect children from potentially harmful products and which requires that the Company's products be tested to ensure that they are within acceptable levels for lead and phthalates. The Company must also comply with related regulations developed by the Consumer Product Safety Commission and similar state regulatory authorities. The Company's products could be subject to involuntary recalls and other actions by these authorities, and concerns about product safety may lead the Company to voluntarily recall, accept returns or discontinue the sale of select products. Product liability claims could exceed or fall outside the scope of the Company's insurance coverage. Recalls or product liability claims could result in decreased consumer demand for the Company's products, damage to the Company's reputation, a diversion of management's attention from its business and increased customer service and support costs, any or all of which could adversely affect the Company's operating results.

**The Company could experience adjustments to its effective tax rate or its prior tax obligations, either of which could adversely affect its results of operations.**

The Company is subject to income taxes in the many jurisdictions in which it operates, including the U.S., several U.S. states and China. At any particular point in time, several tax years are subject to general examination or other adjustment by these various jurisdictions. Although management believes that the calculations and positions taken on its original and amended filed returns are reasonable and justifiable, negotiations or litigation leading to the final outcome of any examination or claim for refund could result in an adjustment to the position that the Company has taken. Such adjustment could result in further adjustment to one or more income tax returns for other jurisdictions, or to income tax returns for prior or subsequent tax years, or both. The overall effect of such adjustments could have an adverse impact on the Company's results of operations.

The Company's provision for income taxes is based on its effective tax rate, which in any given financial statement period could fluctuate based on changes in tax laws or regulations, changes in the mix and level of earnings by taxing jurisdiction, changes in the amount of certain expenses within the consolidated statements of income that will never be deductible on the Company's income tax returns and certain charges deducted on the Company's income tax returns that are not included within the consolidated statements of income. These changes could cause fluctuations in the Company's effective tax rate either on an absolute basis, or in relation to varying levels of the Company's pre-tax income. Such fluctuations in the Company's effective tax rate could adversely affect its results of operations.

**Disruptions to the Company's information technology systems could negatively affect the Company's results of operations.**

The Company's operations are highly dependent upon computer hardware and software systems, including customized information technology systems and cloud-based applications. The Company also employs third-party systems and software that are integral to its operations. These systems are vulnerable to disruptions and security breaches by computer hackers and cyber terrorists. The Company has implemented security measures to securely maintain confidential and proprietary information stored on the Company's information systems and continually invests in maintaining and upgrading the systems and applications to mitigate these risks. There can be no assurance that these measures and technology will adequately prevent an intrusion or that a third-party that is relied upon by the Company will not suffer an intrusion, that unauthorized individuals will not gain access to confidential or proprietary information or that any such incident will be timely detected and effectively countered. A significant data security breach could result in a disruption to the Company's operations and could adversely impact its results of operations.

### **The Company could experience losses associated with its intellectual property.**

The Company relies upon the fair interpretation and enforcement of patent, copyright, trademark and trade secret laws in the U.S., similar laws in other countries, and agreements with employees, customers, suppliers, licensors and other parties. Such reliance serves to establish and maintain the intellectual property rights associated with the products that the Company develops and sells. However, the laws and courts of certain countries at times do not protect intellectual property rights or respect contractual agreements to the same extent as the laws of the U.S. Therefore, in certain jurisdictions the Company may not be able to protect its intellectual property rights against counterfeiting or enforce its contractual agreements with other parties. In addition, another party could claim that the Company is infringing upon such party's intellectual property rights, and claims of this type could lead to a civil complaint.

An unfavorable outcome in litigation involving intellectual property could result in any or all of the following: (i) civil judgments against the Company, which could require the payment of royalties on both past and future sales of certain products, as well as plaintiff's attorneys' fees and other litigation costs; (ii) impairment charges of up to the carrying value of the Company's intellectual property rights; (iii) restrictions on the ability of the Company to sell certain of its products; (iv) legal and other costs associated with investigations and litigation; and (v) the Company's competitive position could be adversely affected.

### **Economic conditions could result in an increase in the amounts paid for the Company's products.**

Significant increases in the price of raw materials that are components of the Company's products, including cotton, oil and labor, could adversely affect the amounts that the Company must pay its suppliers for its finished goods. If the Company is unable to pass these cost increases along to its customers, its profitability could be adversely affected.

### **A stockholder could lose all or a portion of his or her investment in the Company.**

The Company's common stock has historically experienced a degree of price variability, and the price could be subject to rapid and substantial fluctuations. The Company's common stock has also historically been thinly traded, a circumstance that exists when there is a relatively small volume of buy and sell orders for the Company's common stock at any given point in time. In such situations, a stockholder may be unable to liquidate his or her position in the Company's common stock at the desired price. Also, as an equity investment, a stockholder's investment in the Company is subordinate to the interests of the Company's creditors, and a stockholder could lose all or a substantial portion of his or her investment in the Company in the event of a voluntary or involuntary bankruptcy filing or liquidation.

## **ITEM 2. *Properties***

The Company's headquarters are located in Gonzales, Louisiana. The Company rents 17,761 square feet at this location under a lease that expires January 31, 2021. Management believes that its properties are suitable for the purposes for which they are used, are in generally good condition and provide adequate capacity for current and anticipated future operations. The table below sets forth certain information regarding the Company's principal real property as of May 10, 2016.

| <u>Location</u>                      | <u>Use</u>                                 | <u>Approximate<br/>Square Feet</u> | <u>Owned/<br/>Leased</u> |
|--------------------------------------|--|------------------------------------|--------------------------|
| Gonzales, Louisiana                  | Administrative and sales office            | 17,761                             | Leased                   |
| Compton, California                  | Offices, warehouse and distribution center | 157,400                            | Leased                   |
| Bentonville, Arkansas                | Sales office                               | 1,376                              | Leased                   |
| Shanghai, People's Republic of China | Office                                     | 1,912                              | Leased                   |

## **ITEM 3. *Legal Proceedings***

The Company is, from time to time, involved in various legal 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 legal proceeding the outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

## PART II

### ITEM 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Description of Securities

The Company is authorized to issue up to 40,000,000 shares of capital stock, all of which are classified as common stock with a par value of \$0.01 per share. On May 10, 2016, there were 12,293,039 shares of the Company's common stock issued, 9,990,848 of which were outstanding.

#### Market Information and Price

The Company's common stock is traded on the NASDAQ Capital Market under the symbol "CRWS". On May 10, 2016, the closing price of the Company's common stock was \$9.48 per share. The table below sets forth the high and low closing price per share of the Company's common stock and the cash dividends per share declared on the Company's common stock during each quarter of fiscal years 2016 and 2015.

| Quarter                 | Closing Price |         | Cash Dividends Declared |
|-------------------------|---------------|---------|-------------------------|
|                         | High          | Low     |                         |
| <b>Fiscal Year 2016</b> |               |         |                         |
| First Quarter           | \$ 8.61       | \$ 7.74 | \$ 0.08                 |
| Second Quarter          | 8.22          | 7.88    | 0.08                    |
| Third Quarter           | 8.85          | 7.91    | 0.08                    |
| Fourth Quarter          | 9.50          | 7.87    | 0.33                    |
| <b>Fiscal Year 2015</b> |               |         |                         |
| First Quarter           | \$ 8.72       | \$ 7.86 | \$ 0.08                 |
| Second Quarter          | 8.03          | 7.18    | 0.08                    |
| Third Quarter           | 7.74          | 7.10    | 0.08                    |
| Fourth Quarter          | 8.62          | 7.60    | 0.08                    |

#### Holder of Common Stock

As of May 10, 2016, there were approximately 178 registered holders of the Company's common stock.

#### Dividends

The Company's credit facility permits the Company to pay cash dividends on its common stock without limitation, provided there is no default under the credit facility before or as a result of the payment of such dividends.

## Issuer Purchases of Equity Securities.

The table below sets forth information regarding the Company's repurchase of its outstanding common stock during the three months ended April 3, 2016.

| Period                                     | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs |
|--|--------------------------------------|------------------------------|--|--|
| December 28, 2015 through January 31, 2016 | 0                                    | \$ 0                         | 0  | \$ 0   |
| February 1, 2016 through February 28, 2016 | 31,734                               | \$ 8.52                      | 0  | \$ 0   |
| February 29, 2016 through April 3, 2016    | 95,150                               | \$ 9.21                      | 0  | \$ 0   |
| Total                                      | 126,884                              | \$ 9.04                      | 0  | \$ 0   |

- (1) The shares purchased from February 1, 2016 through April 3, 2016 consist of shares of common stock surrendered to the Company in payment of the exercise price and income tax withholding obligations relating to the exercise of options and the income tax withholding obligations relating to the vesting of non-vested stock.

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is a summary of certain factors that management considers important in reviewing the Company's results of operations, financial position, liquidity and capital resources. This discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report.

### Results of Operations

The following table contains results of operations for fiscal years 2016 and 2015 and the dollar and percentage changes for those periods (in thousands, except percentages).

|                                       | 2016      | 2015      | Change     |         |
|---------------------------------------|-----------|-----------|------------|---------|
|                                       |           |           | \$         | %       |
| Net sales by category                 |           |           |            |         |
| Bedding, blankets and accessories     | \$ 59,020 | \$ 64,038 | \$ (5,018) | -7.8%   |
| Bibs, bath and disposable products    | 25,322    | 21,940    | 3,382      | 15.4%   |
| Total net sales                       | 84,342    | 85,978    | (1,636)    | -1.9%   |
| Cost of products sold                 | 60,529    | 62,428    | (1,899)    | -3.0%   |
| Gross profit                          | 23,813    | 23,550    | 263        | 1.1%    |
| <i>% of net sales</i>                 | 28.2%     | 27.4%     |            |         |
| Marketing and administrative expenses | 13,025    | 14,330    | (1,305)    | -9.1%   |
| <i>% of net sales</i>                 | 15.4%     | 16.7%     |            |         |
| Interest expense                      | 58        | 37        | 21         | 56.8%   |
| Other income (expense)                | 14        | (23)      | 37         | -160.9% |
| Income tax expense                    | 3,915     | 3,442     | 473        | 13.7%   |
| Net income                            | 6,829     | 5,718     | 1,111      | 19.4%   |
| <i>% of net sales</i>                 | 8.1%      | 6.7%      |            |         |

*Net Sales:* Sales of \$84.3 million for 2016 were lower than 2015, having decreased 1.9%, or \$1.6 million. The majority of the sales decrease was due to initial placements of new programs in the prior year that had previously been placed with a competitor that exited the business, which placements were not repeated in the current year.

*Gross Profit:* Gross profit increased in amount by \$263,000 and increased as a percentage of net sales from 27.4% to 28.2%. The increase as a percentage of net sales can be attributed to the improved product costs from China, which were the result of favorable exchange rate fluctuations. These increases in the gross profit percentage were offset by decreases resulting from the assumption of new business from a former competitor with lower pre-set prices.

*Legal Expenses:* Legal expense for fiscal year 2015 were \$1.3 million higher as compared with fiscal year 2016 primarily due to a charge in 2015 of \$850,000 that the Company paid to BreathableBaby, LLC in settlement of litigation, as well as legal fees in 2015 of \$380,000 that were associated with the litigation.

*Other Marketing and Administrative Expenses:* Other marketing and administrative expenses for fiscal year 2016 experienced a slight decrease of \$44,000 as compared with fiscal year 2015.

*Income Tax Expense:* The Company's provision for income taxes decreased to 36.4% during fiscal year 2016 from 37.6% in fiscal year 2015. The Company's effective tax rate from continuing operations for the current year was 38.9%. The Company recorded during the current year a discrete net income tax benefit of approximately \$260,000, primarily resulting from the application of more favorable state apportionment percentages.

### **Known Trends and Uncertainties**

The Company's financial results are closely tied to sales to the Company's top two customers, which represented approximately 65% of the Company's gross sales in fiscal year 2016. A significant downturn experienced by either or both of these customers could lead to pressure on the Company's revenues. At times, the Company has also faced higher raw material costs, primarily related to cotton, as well as increases in labor, transportation and currency costs associated with the Company's sourcing activities in China. Increases in these costs could adversely affect the profitability of the Company if it cannot pass the cost increases along to its customers in the form of price increases or if the timing of price increases does not closely match the cost increases. For additional discussion of trends, uncertainties and other factors that could impact the Company's operating results, see "Risk Factors" in Item 1A. of Part I. of this annual report on Form 10-K.

### **Financial Position, Liquidity and Capital Resources**

Net cash provided by operating activities increased from \$4.8 million for the fiscal year ended March 29, 2015 to \$11.0 million for the fiscal year ended April 3, 2016. In the current year, the Company experienced a decrease in its inventory and accounts receivable balances as compared with increases in these balances in the prior year. The decrease in inventory in the current year is primarily related to the sell-off of new programs gained during the prior year, and the decrease in accounts receivable in the current year was primarily the result of lower sales during the fourth quarter of the current year as compared with the same period of the prior year.

Net cash used in investing activities was \$324,000 in fiscal year 2016 compared with \$256,000 in the prior year. The increase in the current year was primarily due to \$123,000 used in the current year to purchase certain intangible assets.

Net cash used in financing activities increased by \$1.7 million to \$4.9 million in the current year. The increase was primarily associated with the surrender to the Company's treasury of a portion of the shares of non-vested stock that vested and from shares issued upon the exercise of options, which was in consideration of the Company remitting the income tax withholding obligations to the appropriate taxing authorities on behalf of the employees of the Company that exercised options and had non-vested stock that vested.

During each of fiscal years 2016 and 2015, the Company used \$3.2 million for the payment of dividends.

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 availability on its revolving line of credit will be adequate to meet its liquidity needs.

The Company's credit facility at April 3, 2016 consisted of a revolving line of credit under a financing agreement with The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group Inc., of up to \$26.0 million, which includes a \$1.5 million sub-limit for letters of credit, bearing interest at the rate of prime minus 0.5% or LIBOR plus 2.0%. The financing agreement matures on July 11, 2019 and is secured by a first lien on all assets of the Company. At April 3, 2016, the Company had elected to pay interest on balances owed under the revolving line of credit, if any, under the LIBOR option. The financing agreement also provides for the payment by CIT to the Company of interest at the rate of prime minus 2.0%, which was 1.5% at April 3, 2016, on daily negative balances held at CIT.

The financing agreement as in effect prior to December 28, 2015 provided for a monthly fee, which was assessed based on 0.125% of the average unused portion of the \$26.0 million revolving line of credit, less any outstanding letters of credit (the "Commitment Fee"). The Commitment Fee amounted to \$25,000 and \$33,000 during fiscal years 2016 and 2015, respectively. The financing agreement was amended on December 28, 2015 to eliminate the Commitment Fee. At April 3, 2016, there was no balance owed on the revolving line of credit, there was no letter of credit outstanding and \$25.6 million was available under the revolving line of credit based on the Company's eligible accounts receivable and inventory balances.

The financing agreement 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 believes it was in compliance with these covenants as of April 3, 2016.

To reduce its exposure to credit losses, the Company assigns the majority of its trade accounts receivable to CIT pursuant to factoring agreements, which have expiration dates that are coterminous with that of the financing agreement described above. 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 shipments, 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 were to occur, the Company would either assume the credit risk for shipments to the customer after the date of such termination or limitation or cease shipments to the customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying consolidated statements of income, were \$556,000 and \$673,000 during fiscal years 2016 and 2015, respectively. There were no advances on the factoring agreements at either April 3, 2016 or March 29, 2015.

### **Critical Accounting Policies and Estimates**

The Company prepares its financial statements to conform with accounting principles generally accepted in the United States of America ("GAAP") as promulgated by the Financial Accounting Standards Board ("FASB"). 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 recognized by the FASB to be applied by nongovernmental entities.

*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 disclosure of contingent assets and liabilities at the date of the consolidated balance sheets and the reported amounts of revenues and expenses during the reporting period. The listing below, while not inclusive of all of the Company's accounting policies, sets forth those accounting policies which the Company's management believes embody the most significant judgments due to the uncertainties affecting their application and the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

*Inventory Valuation:* The preparation of the Company's financial statements requires careful determination of the appropriate dollar amount of the Company's inventory balances. Such amount is presented as a current asset in the Company's consolidated balance sheets and is a direct determinant of cost of products sold in the consolidated statements of income and, therefore, has a significant impact on the amount of net income reported in the accounting periods. The basis of accounting for inventories is cost, which includes the direct supplier acquisition cost, duties, taxes and freight, and the indirect costs to design, develop, source and store the product until it is sold. Once cost has been determined, the Company's inventory is then stated at the lower of cost or market, with cost determined using the first-in, first-out ("FIFO") method, which assumes that inventory quantities are sold in the order in which they are acquired.

The determination of the indirect charges and their allocation to the Company's finished goods inventories is complex and requires significant management judgment and estimates. If management made different judgments or utilized different estimates, then differences would result in the valuation of the Company's inventories and in the amount and timing of the Company's cost of products sold and resulting net income for the reporting period.

On a periodic basis, management reviews its 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 Company's normal operating cycle. 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 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.

*Revenue Recognition:* Sales are recorded when goods are shipped to customers and are reported net of allowances for estimated returns and allowances in the consolidated statements of income. Allowances for returns are estimated based on historical rates. Allowances for returns, advertising allowances, warehouse allowances, placement fees and volume rebates are recorded commensurate with sales activity or using the straight-line method, as appropriate, and the cost of such allowances is netted against sales in reporting the results of operations. Shipping and handling costs, net of amounts reimbursed by customers, are not material and are included in net sales.

*Allowances Against Accounts Receivable:* The Company's allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as cooperative advertising and warehouse allowances, placement fees and volume rebates. These deductions are recorded throughout the year commensurate with sales activity or using the straight-line method, as appropriate. Funding of the majority of the Company's allowances occurs on a per-invoice basis. The allowances for customer deductions, which are netted against accounts receivable in the consolidated balance sheets, consist of agreed-upon cooperative 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 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 the customer-initiated funding requests for advertising support can cause the net balance in the allowance account to fluctuate from period to period. The timing of such funding requests has a minimal 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 its exposure to credit losses, the Company assigns the majority of its receivables 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 when evaluating the adequacy of its allowance for doubtful accounts, which it accomplishes by specifically analyzing accounts receivable, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers' payment terms.

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

*Valuation of Long-Lived Assets, Identifiable Intangible Assets and Goodwill:* In addition to the depreciation and amortization procedures set forth above, the Company reviews for impairment long-lived assets and certain identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. In the event of impairment, the asset is written down to its fair market value. Assets to be disposed of, if any, are recorded at the lower of net book value or fair market value, less estimated costs to sell at the date management commits to a plan of disposal, and are classified as assets held for sale on the consolidated balance sheets.

The Company tests the carrying value of its goodwill annually on the first day of the Company's fiscal year. An additional impairment test is performed during the year whenever an event or change in circumstances suggest that the fair value of the goodwill of either of the reporting units of the Company has more likely than not fallen below its carrying value. The Company considers its wholly-owned subsidiaries, CCIP and Hamco, to each be a reporting unit of the Company for goodwill impairment testing purposes.

*Patent Costs:* The Company incurs certain legal and related costs in connection with applications for patents. 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 alternative future use is available to the Company. The Company also capitalizes legal and other costs incurred in the protection or defense of the Company's patents when it is believed that the future economic benefit of the patent will be maintained or increased and a successful outcome of the litigation is probable. Capitalized patent protection or defense costs are amortized over the remaining expected life of the related patent. The Company's assessment of 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.

*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 royalty amounts are accrued based upon historical sales rates adjusted for current sales trends by customers. Royalty expense is included in cost of products sold and amounted to \$9.0 million and \$8.7 million for fiscal years 2016 and 2015, respectively.

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

Management evaluates items of income, deductions and credits reported on the Company's various federal and state income tax returns filed and recognizes the effect of positions taken on those income tax returns only if those positions are more likely than not to be sustained. 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 a tax position which reflects opportunities for the application of more favorable state apportionment percentages for the past few 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 during fiscal year 2016 a gross reserve for unrecognized tax benefits of \$773,000, less an offset of \$573,000 to reflect state income tax overpayments net of the federal income tax impact, for a net reserve for unrecognized tax benefits of \$200,000 in the accompanying consolidated financial statements. The Company's policy is to accrue interest expense and penalties as appropriate on any estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income. As of April 3, 2016, the Company had accrued \$11,000 for accrued interest expense and penalties on the portion of the unrecognized tax benefit that has been refunded to the Company but for which the relevant statute of limitations remained unexpired. No interest expense or penalties is accrued with respect to estimated unrecognized tax benefits that are associated with state income tax overpayments that remain receivable.

### **Recently Issued Accounting Standards**

On May 28, 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, ASU No. 2014-09 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 permits early adoption in the first interim period of the fiscal year beginning after December 15, 2016. The Company is currently evaluating the effect that its adoption of ASUs 2014-09 and 2015-14 on April 3, 2017 will have on its financial position, results of operations and related disclosures.

On July 22, 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which will clarify 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 will become effective for the first interim period of the fiscal year beginning after December 15, 2016. The ASU should be applied prospectively, and early adoption is permitted. The Company intends to adopt ASU No. 2015-11 on April 3, 2017, 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 November 20, 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which will simplify the presentation of deferred taxes by requiring all deferred tax assets and liabilities to be classified as noncurrent on an entity's balance sheet. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2016. The ASU may be applied prospectively or retrospectively, and early adoption is permitted. The Company intends to early-adopt ASU No. 2015-17 effective as of April 4, 2016. The adoption of ASU No. 2015-17 will not have a material impact on the Company's financial position, results of operations and related disclosures. If ASU No. 2015-17 had been in effect on April 3, 2016, the current portion of the Company's deferred income taxes in the amount of \$888,000 as reported on the Company's consolidated balance sheet would have been classified as non-current, and the Company would have reported \$1.9 million as non-current deferred income taxes.

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. Although the Company has not yet decided if it will early-adopt ASU No. 2016-02 or determined the full impact of the adoption of ASU No. 2016-02, the Company believes that because of the nature and extent of its leasing arrangements, the adoption by the Company of ASU No. 2016-02 will have a significant impact on the Company's financial position and related disclosures. The Company does not, however, believe that its adoption of ASU No. 2016-02 will have a material impact on its results of operations.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which will seek to simplify the accounting for share-based compensation transactions while maintaining or improving the usefulness of the related disclosures. The provisions of ASU No. 2016-09 that are applicable to the Company include the following:

- Under current GAAP, upon the exercise of an option or the vesting of non-vested stock, the Company must recognize the tax effect of the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes in additional paid-in capital. The provisions of ASU No. 2016-09 will require recognition of the excess tax deficiency or benefit as income tax expense or benefit, respectively, in the Company's income statement. If ASU No. 2016-09 had been in effect beginning on March 30, 2015, the Company's income tax expense for fiscal year 2016 would have been \$273,000 lower and its net income would have been \$273,000 higher.
- Under current GAAP, excess tax benefits are classified as a financing activity in the Company's statement of cash flows. The provisions of ASU No. 2016-09 will require that excess tax benefits be classified as an operating activity in the Company's statement of cash flows. If ASU No. 2016-09 had been in effect beginning on March 30, 2015, the amount of the Company's cash provided by operating activities during fiscal year 2016 would have been \$278,000 higher and its cash used in financing activities would have been \$278,000 higher.
- The provisions of ASU No. 2016-09 clarify that cash paid by the Company to taxing authorities on behalf of an employee to reflect the value of shares withheld from the exercise of options or the vesting of non-vested stock to satisfy the income tax withholding obligations arising from such exercise or vesting should be classified as a financing activity in the Company's statement of cash flows. As this treatment is consistent with the Company's long-standing practice, if ASU No. 2016-09 had been in effect beginning on March 30, 2015, there would have been no difference in the amount of the Company's cash used in financing activities during 2016 as a result of this provision in the ASU.

The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. The Company intends to early-adopt ASU No. 2016-09 effective as of April 4, 2016. The adoption of the ASU will not have a material impact on the Company's financial position and related disclosures. The effect of the adoption of the ASU on the Company's results of operations will depend on such factors as the timing and extent of the future exercise of stock options and the future vesting of non-vested stock, as well as the closing price per share of the Company's common stock on the dates of such events.

The Company has determined that all other ASU's issued which had become effective as of May 10, 2016, or which will become effective at some future date, are not expected to have a material impact on the Company's consolidated financial statements.

#### **ITEM 8. *Financial Statements and Supplementary Data***

See pages 18 and F-1 through F-18 hereof.

## **ITEM 9A. Controls and Procedures**

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

### **Management's Annual Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework and the criteria established in *Internal Control — Integrated Framework*, issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of April 3, 2016.

The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only a reasonable, rather than absolute, assurance that the Company's financial statements are free of any material misstatement, whether caused by error or fraud.

### **Changes in Internal Control Over Financial Reporting**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the Company's internal control over financial reporting as required by Rule 13a-15(d) under the Exchange Act and, in connection with such evaluation, determined that no changes occurred during the Company's fiscal quarter ended April 3, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART III**

### **ITEM 10. Directors, Executive Officers and Corporate Governance**

The information with respect to the Company's directors and executive officers will be set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held in 2016 (the "Proxy Statement") under the captions "Proposal 1 – Election of Directors" and "Executive Officers" and is incorporated herein by reference. The information with respect to Item 405 of Regulation S-K will be set forth in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference. The information with respect to Item 406 of Regulation S-K will be set forth in the Proxy Statement under the caption "Code of Business Conduct and Ethics" and is incorporated herein by reference. The information with respect to Item 407 of Regulation S-K will be set forth in the Proxy Statement under the captions "Board Committees and Meetings" and "Report of the Audit Committee" and is incorporated herein by reference.

### **ITEM 11. Executive Compensation**

The information set forth under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

### **ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

## Securities Authorized for Issuance under Equity Compensation Plans

The table below sets forth information regarding shares of the Company's common stock that may be issued upon the exercise of options, warrants and other rights granted to employees, consultants or directors under all of the Company's existing equity compensation plans as of April 3, 2016.

| <b>Plan Category</b>   | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans</b> |
|--|--|--|---|
| <b>Equity compensation plans approved by security holders:</b> |  |  |   |
| 2006 Omnibus Incentive Plan                                    | 195,000  | \$ 7.22  | 0   |
| 2014 Omnibus Equity Compensation Plan                          | 110,000  | \$ 8.38  | 1,003,468   |

### ITEM 13. *Certain Relationships and Related Transactions, and Director Independence*

The information set forth under the captions "Director Independence" and "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

### ITEM 14. *Principal Accountant Fees and Services*

The information set forth under the caption "Proposal 2 – Ratification of Appointment of Independent Auditor" in the Proxy Statement is incorporated herein by reference.

## PART IV

### ITEM 15. *Exhibits and Financial Statement Schedules*

#### (a)(1). **Financial Statements**

The following consolidated financial statements of the Company are filed with this report and included in Part II, Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of April 3, 2016 and March 29, 2015
- Consolidated Statements of Income for the Fiscal Years Ended April 3, 2016 and March 29, 2015
- Consolidated Statements of Changes in Shareholders' Equity for the Fiscal Years Ended April 3, 2016 and March 29, 2015
- Consolidated Statements of Cash Flows for the Fiscal Years Ended April 3, 2016 and March 29, 2015
- Notes to Consolidated Financial Statements

#### (a)(2). **Financial Statement Schedule**

The following financial statement schedule of the Company is filed with this report:

Schedule II — Valuation and Qualifying Accounts

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All other schedules not listed above have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

## CROWN CRAFTS, INC. AND SUBSIDIARIES

## ANNUAL REPORT ON FORM 10-K

## Valuation and Qualifying Accounts

| Column A                                       | Column B                             | Column C               | Column D   | Column E                       |
|--|--------------------------------------|------------------------|------------|--------------------------------|
|  | Balance at<br>Beginning<br>of Period | Charged to<br>Expenses | Deductions | Balance at<br>End of<br>Period |
|  | (in thousands)                       |                        |            |                                |
| <b>Accounts Receivable Valuation Accounts:</b> |                                      |                        |            |                                |
| <b>Year Ended March 29, 2015</b>               |                                      |                        |            |                                |
| Allowance for doubtful accounts                | \$ 73                                | \$ 9                   | \$ 82      | \$ 0                           |
| Allowance for customer deductions              | \$ 645                               | \$ 4,543               | \$ 4,188   | \$ 1,000                       |
| <b>Year Ended April 3, 2016</b>                |                                      |                        |            |                                |
| Allowance for customer deductions              | \$ 1,000                             | \$ 3,495               | \$ 3,750   | \$ 745                         |

**(a)(3). Exhibits**

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

| <b>Exhibit<br/>Number</b> | <b>Description of Exhibits</b>   |
|---------------------------|--|
| 3.1                       | — Amended and Restated Certificate of Incorporation of the Company. (2)  |
| 3.2                       | — Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company. (12)   |
| 3.3                       | — Amended and Restated Bylaws of the Company. (11)   |
| 4.1                       | — Instruments defining the rights of security holders are contained in the Amended and Restated Certificate of Incorporation of the Company. (2)   |
| 4.2                       | — Instruments defining the rights of security holders are contained in the Amended and Restated Bylaws of the Company. (11)  |
| 4.3*                      | — Crown Crafts, Inc. 2014 Omnibus Equity Compensation Plan. (17)   |
| 4.4*                      | — Form of Incentive Stock Option Grant Agreement. (18)   |
| 4.5*                      | — Form of Non-Qualified Stock Option Grant Agreement. (18)   |
| 4.6*                      | — Form of Restricted Stock Grant Agreement. (18)   |
| 10.1*                     | — Employment Agreement dated July 23, 2001 by and between the Company and E. Randall Chestnut. (1)   |
| 10.2*                     | — Amended and Restated Severance Protection Agreement dated April 20, 2004 by and between the Company and E. Randall Chestnut. (3)   |
| 10.3*                     | — Amended and Restated Employment Agreement dated April 20, 2004 by and between the Company and Nanci Freeman. (3)   |
| 10.4                      | — Financing Agreement dated as of July 11, 2006 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (4)                       |
| 10.5                      | — Stock Pledge Agreement dated as of July 11, 2006 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (4)                    |
| 10.6                      | — First Amendment to Financing Agreement dated as of November 5, 2007 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (5) |
| 10.7*                     | — Employment Agreement dated November 6, 2008 by and between the Company and Olivia W. Elliott (6)   |
| 10.8*                     | — First Amendment to Employment Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut. (7)   |
| 10.9*                     | — First Amendment to Amended and Restated Severance Protection Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut. (7)  |
| 10.10*                    | — First Amendment to Amended and Restated Employment Agreement dated November 6, 2008 by and between the Company and Nanci Freeman. (7)  |
| 10.11                     | — Third Amendment to Financing Agreement dated as of July 2, 2009 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (8)     |
| 10.12                     | — Sixth Amendment to Financing Agreement dated as of March 5, 2010 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (9)    |
| 10.13                     | — Seventh Amendment to Financing Agreement dated as of May 27, 2010 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (10)  |
| 10.14                     | — Eighth Amendment to Financing Agreement dated as of March 26, 2012 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (13) |
| 10.15*                    | — Second Amendment to Amended and Restated Employment Agreement dated March 26, 2012 by and between the Company and Nanci Freeman. (14)  |

- 10.16 — Ninth Amendment to Financing Agreement dated May 21, 2013 by and among the Company, Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (16)
- 10.17 — Tenth Amendment to Financing Agreement dated as of December 28, 2015 by and among the Company, Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (19)
- 10.18 — Eleventh Amendment to Financing Agreement dated as of March 31, 2016 by and among the Company, Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (20)
- 14.1 — Code of Ethics. (3)
- 21.1 — Subsidiaries of the Company. (21)
- 23.1 — Consent of KPMG LLP. (21)
- 31.1 — Rule 13a-14(a)/15d-14(a) Certification by the Company’s Chief Executive Officer. (21)
- 31.2 — Rule 13a-14(a)/15d-14(a) Certification by the Company’s Chief Financial Officer. (21)
- 32.1 — Section 1350 Certification by the Company’s Chief Executive Officer. (21)
- 32.2 — Section 1350 Certification by the Company’s Chief Financial Officer. (21)
  
- 101 — The following information from the Registrant’s Annual Report on Form 10-K for the fiscal year ended April 3, 2016, formatted as interactive data files in XBRL (eXtensible Business Reporting Language):
  - (i) Consolidated Statements of Income;
  - (ii) Consolidated Balance Sheets;
  - (iii) Consolidated Statements of Changes in Shareholders’ Equity;
  - (iv) Consolidated Statements of Cash Flows; and
  - (v) Notes to Consolidated Financial Statements.

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\* Management contract or a compensatory plan or arrangement.

- (1) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated July 23, 2001.
- (2) Incorporated herein by reference to Registrant’s Quarterly Report on Form 10-Q for the quarter ended December 28, 2003.
- (3) Incorporated herein by reference to Registrant’s Annual Report on Form 10-K for the fiscal year ended March 28, 2004.
- (4) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated July 17, 2006.
- (5) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated November 9, 2007.
- (6) Incorporated herein by reference to Registrant’s Current Report on Form 8-K/A dated November 7, 2008.
- (7) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated November 7, 2008.
- (8) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated July 6, 2009.
- (9) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated March 8, 2010.
- (10) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated May 27, 2010.
- (11) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated April 4, 2011.
- (12) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated August 9, 2011.
- (13) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated March 27, 2012.
- (14) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated March 30, 2012.
- (15) Incorporated herein by reference to Registrant’s Registration Statement on Form S-8 dated August 14, 2012.
- (16) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated May 21, 2013.
- (17) Incorporated herein by reference to Appendix A to the Registrant’s Definitive Proxy Statement on Schedule 14A filed on June 27, 2014.
- (18) Incorporated herein by reference to Registrant’s Registration Statement on Form S-8 dated November 10, 2014.
- (19) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated December 28, 2015.
- (20) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated April 4, 2016.
- (21) Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ E. Randall Chestnut

E. Randall Chestnut

*Chairman of the Board, President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| <u>Signatures</u>                                     | <u>Title</u>  | <u>Date</u>  |
|---|---|--------------|
| <u>/s/ E. Randall Chestnut</u><br>E. Randall Chestnut | Chairman of the Board,<br>President and Chief<br>Executive Officer<br>(Principal Executive<br>Officer)                | June 7, 2016 |
| <u>/s/ Sidney Kirschner</u><br>Sidney Kirschner       | Director  | June 7, 2016 |
| <u>/s/ Zenon S. Nie</u><br>Zenon S. Nie               | Director  | June 7, 2016 |
| <u>/s/ Donald Ratajczak</u><br>Donald Ratajczak       | Director  | June 7, 2016 |
| <u>/s/ Patricia Stensrud</u><br>Patricia Stensrud     | Director  | June 7, 2016 |
| <u>/s/ Olivia W. Elliott</u><br>Olivia W. Elliott     | Vice President and Chief<br>Financial Officer (Principal<br>Financial Officer and<br>Principal Accounting<br>Officer) | June 7, 2016 |

**ITEM 8. Financial Statements and Supplementary Data**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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| Audited Financial Statements:  |                    |
| Report of Independent Registered Public Accounting Firm  | F-1                |
| Consolidated Balance Sheets as of April 3, 2016 and March 29, 2015   | F-2                |
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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Crown Crafts, Inc.:

We have audited the accompanying consolidated balance sheets of Crown Crafts, Inc. and subsidiaries as of April 3, 2016 and March 29, 2015, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. In connection with our audits of the consolidated financial statements, we also have audited financial statement Schedule II included in Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crown Crafts, Inc. and subsidiaries as of April 3, 2016 and March 29, 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Baton Rouge, Louisiana  
June 9, 2016

CROWN CRAFTS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
APRIL 3, 2016 AND MARCH 29, 2015

|  | April 3, 2016    | March 29, 2015   |
|--|------------------|------------------|
| (amounts in thousands, except share and per share amounts)   |                  |                  |
| <b>ASSETS</b>  |                  |                  |
| <b>Current assets:</b>   |                  |                  |
| Cash and cash equivalents  | \$ 7,574         | \$ 1,807         |
| Accounts receivable (net of allowances of \$745 at April 3, 2016 and \$1,000 at March 29, 2015):   |                  |                  |
| Due from factor  | 20,125           | 21,563           |
| Other  | 671              | 807              |
| Inventories  | 14,785           | 15,468           |
| Prepaid expenses   | 1,689            | 1,906            |
| Deferred income taxes  | 888              | 968              |
| <b>Total current assets</b>  | <b>45,732</b>    | <b>42,519</b>    |
| <b>Property, plant and equipment - at cost:</b>  |                  |                  |
| Vehicles   | 247              | 235              |
| Leasehold improvements   | 239              | 230              |
| Machinery and equipment  | 2,879            | 2,836            |
| Furniture and fixtures   | 808              | 755              |
| <b>Property, plant and equipment - gross</b>   | <b>4,173</b>     | <b>4,056</b>     |
| Less accumulated depreciation  | 3,740            | 3,528            |
| <b>Property, plant and equipment - net</b>   | <b>433</b>       | <b>528</b>       |
| <b>Finite-lived intangible assets - at cost:</b>   |                  |                  |
| Customer relationships   | 5,534            | 5,411            |
| Other finite-lived intangible assets   | 3,686            | 7,613            |
| <b>Finite-lived intangible assets - gross</b>  | <b>9,220</b>     | <b>13,024</b>    |
| Less accumulated amortization  | 5,338            | 8,517            |
| <b>Finite-lived intangible assets - net</b>  | <b>3,882</b>     | <b>4,507</b>     |
| Goodwill   | 1,126            | 1,126            |
| Deferred income taxes  | 1,049            | 1,133            |
| Other  | 193              | 133              |
| <b>Total Assets</b>  | <b>\$ 52,415</b> | <b>\$ 49,946</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                  |                  |
| <b>Current liabilities:</b>  |                  |                  |
| Accounts payable   | \$ 4,640         | \$ 4,472         |
| Accrued wages and benefits   | 1,988            | 2,265            |
| Accrued royalties  | 1,172            | 1,581            |
| Dividends payable  | 3,303            | 805              |
| Income taxes payable   | 806              | 1,021            |
| Other accrued liabilities  | 276              | 230              |
| <b>Total current liabilities</b>   | <b>12,185</b>    | <b>10,374</b>    |
| <b>Non-current liabilities:</b>  |                  |                  |
| Reserve for unrecognized tax benefits  | 211              | -                |
| <b>Shareholders' equity:</b>   |                  |                  |
| Common stock - \$0.01 par value per share; Authorized 40,000,000 shares at April 3, 2016 and March 29, 2015; Issued 12,251,834 shares at April 3, 2016 and 12,030,302 shares at March 29, 2015 | 123              | 120              |
| Additional paid-in capital   | 50,723           | 48,561           |
| Treasury stock - at cost - 2,302,191 shares at April 3, 2016 and 1,964,886 shares at March 29, 2015  | (11,228)         | (8,390)          |
| Retained Earnings (Accumulated deficit)  | 401              | (719)            |
| <b>Total shareholders' equity</b>  | <b>40,019</b>    | <b>39,572</b>    |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>\$ 52,415</b> | <b>\$ 49,946</b> |

*See notes to consolidated financial statements.*



CROWN CRAFTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
FISCAL YEARS ENDED APRIL 3, 2016 AND MARCH 29, 2015  
(amounts in thousands, except per share amounts)

|   | <u>2016</u>     | <u>2015</u>     |
|---|-----------------|-----------------|
| Net sales                                   | \$ 84,342       | \$ 85,978       |
| Cost of products sold                       | <u>60,529</u>   | <u>62,428</u>   |
| Gross profit                                | 23,813          | 23,550          |
| Legal expense                               | 107             | 1,368           |
| Other marketing and administrative expenses | <u>12,918</u>   | <u>12,962</u>   |
| Income from operations                      | 10,788          | 9,220           |
| Other income (expense):                     |                 |                 |
| Interest expense                            | (58)            | (37)            |
| Interest income                             | 69              | 19              |
| Foreign exchange loss                       | (62)            | (49)            |
| Other - net                                 | <u>7</u>        | <u>7</u>        |
| Income before income tax expense            | 10,744          | 9,160           |
| Income tax expense                          | <u>3,915</u>    | <u>3,442</u>    |
| Net income                                  | <u>\$ 6,829</u> | <u>\$ 5,718</u> |
| Weighted average shares outstanding:        |                 |                 |
| Basic                                       | 10,017          | 10,047          |
| Effect of dilutive securities               | 21              | 33              |
| Diluted                                     | <u>10,038</u>   | <u>10,080</u>   |
| Earnings per share:                         |                 |                 |
| Basic                                       | <u>\$ 0.68</u>  | <u>\$ 0.57</u>  |
| Diluted                                     | <u>\$ 0.68</u>  | <u>\$ 0.57</u>  |
| Cash dividends declared per share           | <u>\$ 0.57</u>  | <u>\$ 0.32</u>  |

*See notes to consolidated financial statements.*

CROWN CRAFTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FISCAL YEARS ENDED APRIL 3, 2016 AND MARCH 29, 2015

|   | Common Shares                 |        | Treasury Shares     |             | Additional<br>Paid-<br>in Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Total<br>Shareholders'<br>Equity |
|---|-------------------------------|--------|---------------------|-------------|-----------------------------------|--|----------------------------------|
|   | Number of<br>Shares           | Amount | Number of<br>Shares | Amount      |                                   |  |                                  |
|   | (Dollar amounts in thousands) |        |                     |             |                                   |  |                                  |
| <b>Balances - March 30, 2014</b>                      | 11,794,070                    | \$ 118 | (1,932,744)         | \$ (8,147)  | \$ 47,162                         | \$ (3,216)                                       | \$ 35,917                        |
| Issuance of shares                                    | 236,232                       | 2      |                     |             | 468                               |  | 470                              |
| Stock-based compensation                              |                               |        |                     |             | 862                               |  | 862                              |
| Net tax effect of stock-based compensation            |                               |        |                     |             | 69                                |  | 69                               |
| Acquisition of treasury stock                         |                               |        | (32,142)            | (243)       |                                   |  | (243)                            |
| Net income  |                               |        |                     |             |                                   | 5,718  | 5,718                            |
| Dividends declared on common stock - \$0.32 per share |                               |        |                     |             |                                   | (3,221)  | (3,221)                          |
| <b>Balances - March 29, 2015</b>                      | 12,030,302                    | 120    | (1,964,886)         | (8,390)     | 48,561                            | (719)  | 39,572                           |
| Issuance of shares                                    | 221,532                       | 3      |                     |             | 983                               |  | 986                              |
| Stock-based compensation                              |                               |        |                     |             | 906                               |  | 906                              |
| Net tax effect of stock-based compensation            |                               |        |                     |             | 273                               |  | 273                              |
| Acquisition of treasury stock                         |                               |        | (337,305)           | (2,838)     |                                   |  | (2,838)                          |
| Net income  |                               |        |                     |             |                                   | 6,829  | 6,829                            |
| Dividends declared on common stock - \$0.57 per share |                               |        |                     |             |                                   | (5,709)  | (5,709)                          |
| <b>Balances - April 3, 2016</b>                       | 12,251,834                    | \$ 123 | (2,302,191)         | \$ (11,228) | \$ 50,723                         | \$ 401   | \$ 40,019                        |

*See notes to consolidated financial statements.*

CROWN CRAFTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FISCAL YEARS ENDED APRIL 3, 2016 AND MARCH 29, 2015

|   | 2016                   | 2015            |
|---|------------------------|-----------------|
|   | (amounts in thousands) |                 |
| <b>Operating activities:</b>  |                        |                 |
| Net income  | \$ 6,829               | \$ 5,718        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |                 |
| Depreciation of property, plant and equipment                                     | 310                    | 314             |
| Amortization of intangibles   | 748                    | 741             |
| Deferred income taxes   | 165                    | (193)           |
| Gain on sale of property, plant and equipment                                     | (15)                   | -               |
| Reserve for unrecognized tax benefits   | 211                    | -               |
| Stock-based compensation  | 906                    | 862             |
| Tax shortfall from stock-based compensation                                       | (5)                    | -               |
| Changes in assets and liabilities:  |                        |                 |
| Accounts receivable   | 1,575                  | (658)           |
| Inventories   | 683                    | (1,861)         |
| Prepaid expenses  | 217                    | (515)           |
| Other assets  | (60)                   | (56)            |
| Accounts payable  | 168                    | (594)           |
| Accrued liabilities   | (716)                  | 1,008           |
| <b>Net cash provided by operating activities</b>                                  | <b>11,016</b>          | <b>4,766</b>    |
| <b>Investing activities:</b>  |                        |                 |
| Capital expenditures for property, plant and equipment                            | (232)                  | (256)           |
| Proceeds from sale of property, plant and equipment                               | 31                     | -               |
| Capital expenditures for purchased intangible assets                              | (123)                  | -               |
| <b>Net cash used in investing activities</b>                                      | <b>(324)</b>           | <b>(256)</b>    |
| <b>Financing activities:</b>  |                        |                 |
| Repayments under revolving line of credit   | -                      | (7,839)         |
| Borrowings under revolving line of credit   | -                      | 7,839           |
| Purchase of treasury stock  | (2,838)                | (243)           |
| Issuance of common stock  | 846                    | 116             |
| Excess tax benefit from stock-based compensation                                  | 278                    | 69              |
| Dividends paid  | (3,211)                | (3,205)         |
| <b>Net cash used in financing activities</b>                                      | <b>(4,925)</b>         | <b>(3,263)</b>  |
| <b>Net increase in cash and cash equivalents</b>                                  | <b>5,767</b>           | <b>1,247</b>    |
| Cash and cash equivalents at beginning of period                                  | 1,807                  | 560             |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 7,574</b>        | <b>\$ 1,807</b> |
| <b>Supplemental cash flow information:</b>  |                        |                 |
| Income taxes paid   | \$ 4,107               | \$ 3,386        |
| Interest paid   | 56                     | 37              |
| <b>Noncash financing activities:</b>  |                        |                 |
| Dividends declared but unpaid   | (3,303)                | (805)           |
| Compensation paid as common stock   | 140                    | 354             |

*See notes to consolidated financial statements.*

**Crown Crafts, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**Fiscal Years Ended April 3, 2016 and March 29, 2015**

**Note 1 – Description of Business**

Crown Crafts, Inc. (the “Company”) operates indirectly through its wholly-owned subsidiaries, Hamco, Inc. (“Hamco”) and Crown Crafts Infant Products, Inc. (“CCIP”), in the infant and toddler products segment within the consumer products industry. The infant and toddler products segment consists of infant and toddler bedding, bibs, soft bath products, disposable products and accessories. Sales of the Company’s products are generally made directly to retailers, which are primarily mass merchants, mid-tier retailers, juvenile specialty stores, value channel stores, grocery and drug stores, restaurants, internet accounts and wholesale clubs. The Company’s products are manufactured primarily in Asia and marketed under a variety of Company-owned trademarks, under trademarks licensed from others and as private label goods.

**Note 2 - Summary of Significant Accounting Policies**

*Basis of Presentation:* The accompanying consolidated financial statements include the accounts of the Company and have been prepared pursuant to accounting principles generally accepted in the United States (“GAAP”) as promulgated by the Financial Accounting Standards Board (“FASB”). All significant intercompany balances and transactions have been eliminated in consolidation. 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 recognized by the FASB to be applied by nongovernmental entities.

*Reclassifications:* The Company has reclassified certain prior year information to conform to the amounts presented in the current year. None of the changes impact the Company’s previously reported financial position or results of operations.

*Fiscal Year:* The Company's fiscal year ends on the Sunday nearest to or on March 31. References herein to “fiscal year 2016” or “2016” represent the 53-week period ended April 3, 2016 and references to “fiscal year 2015” or “2015” represent the 52-week period ended March 29, 2015.

*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 disclosure of contingent assets and liabilities as of the date of the consolidated balance sheets and the reported amounts of revenues and expenses during the periods presented on the consolidated statements of income and cash flows. Significant estimates are made with respect to the allowances related to accounts receivable for customer deductions for returns, allowances and disputes. The Company also has a certain amount of discontinued finished goods which necessitates the establishment of inventory reserves that are highly subjective. Actual results could differ materially from those estimates.

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

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

*Segments and Related Information:* The Company operates primarily in one principal segment, infant and toddler 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 2016 and 2015 are as follows (in thousands):

|                                    | 2016      | 2015      |
|------------------------------------|-----------|-----------|
| Bedding, blankets and accessories  | \$ 59,020 | \$ 64,038 |
| Bibs, bath and disposable products | 25,322    | 21,940    |
| Total net sales                    | \$ 84,342 | \$ 85,978 |

*Revenue Recognition:* Sales are recorded when goods are shipped to customers and are reported net of allowances for estimated returns and allowances in the accompanying consolidated statements of income. Allowances for returns are estimated based on historical rates. Allowances for returns, cooperative advertising allowances, warehouse allowances, placement fees and volume rebates are recorded commensurate with sales activity or using the straight-line method, as appropriate, and the cost of such allowances is netted against sales in reporting the results of operations. Shipping and handling costs, net of amounts reimbursed by customers, are not material and are included in net sales.

*Allowances Against Accounts Receivable:* The Company's allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as cooperative advertising and warehouse allowances, placement fees and volume rebates. These deductions are recorded throughout the year commensurate with sales activity or using the straight-line method, as appropriate. Funding of the majority of the Company's allowances occurs on a per-invoice basis. The allowances for customer deductions, which are netted against accounts receivable in the accompanying consolidated balance sheets, consist of agreed-upon cooperative 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 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 the 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 a minimal 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 its exposure to credit losses, 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, which it accomplishes by specifically analyzing accounts receivable, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers' payment terms. The Company did not record a provision for doubtful accounts for fiscal year 2016, and the Company's provision for doubtful accounts for fiscal year 2015 is included in other marketing and administrative expenses in the accompanying consolidated statements of income and amounted to \$9,000.

The Company's accounts receivable at April 3, 2016 amounted to \$20.8 million, net of allowances of \$745,000. Of this amount, \$20.1 million was due from CIT under the factoring agreements, \$7.4 million was due from CIT as a negative balance outstanding under the revolving line of credit, and \$147,000 was due from CIT as the United States Dollar equivalent of amounts that had been collected, but not yet remitted, under Canadian factoring agreements with CIT. The combined amount of \$27.7 million represents the maximum loss that the Company could incur if CIT failed completely to perform its obligations under the factoring agreements and the revolving line of credit.

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

*Valuation of Long-Lived Assets and Identifiable Intangible Assets:* In addition to the depreciation and amortization procedures set forth above, the Company reviews for impairment long-lived assets and certain identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. In the event of impairment, the asset is written down to its fair market value.

*Patent Costs:* The Company incurs certain legal and related costs in connection with patent applications. The Company capitalizes such costs to be amortized over the expected life of the patent to the extent that an economic benefit is anticipated from the resulting patent or an alternative future use is available to the Company. The Company also capitalizes legal and other costs incurred in the protection or defense of the Company's patents when it is believed that the future economic benefit of the patent will be maintained or increased and a successful defense is probable. Capitalized patent defense costs are amortized over the remaining expected life of the related patent. The Company's assessment of 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 dollar amount of the Company's inventory balances. Such amount is presented as a current asset in the accompanying consolidated balance sheets and is a direct determinant of cost of products sold in the accompanying consolidated statements of income and, therefore, has a significant impact on the amount of net income in the reported accounting periods. The basis of accounting for inventories is cost, which includes the direct supplier acquisition cost, duties, taxes and freight, and the indirect costs to design, develop, source and store the product until it is sold. Once cost has been determined, the Company's inventory is then stated at the lower of cost or market, with cost determined using the first-in, first-out ("FIFO") method, which assumes that inventory quantities are sold in the order in which they are acquired.

The determination of the indirect charges and their allocation to the Company's finished goods inventories is complex and requires significant management judgment and estimates. If management made different judgments or utilized different estimates, then differences would result in the valuation of the Company's inventories and in the amount and timing of the Company's cost of products sold and the resulting net income for the reporting period.

On a periodic basis, management reviews its 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 Company's normal operating cycle. 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 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.

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

Management evaluates items of income, deductions and credits reported on the Company's various federal and state income tax returns filed and recognizes the effect of positions taken on those income tax returns only if those positions are more likely than not to be sustained. 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. The Company's policy is to accrue interest expense and penalties as appropriate on any estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income. No interest expense or penalties is accrued with respect to estimated unrecognized tax benefits that are associated with state income tax overpayments that remain receivable.

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

*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 and amounted to \$9.0 million and \$8.7 million for fiscal years 2016 and 2015, respectively.

*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 these customers, with periodic adjustments to the actual amounts of authorized agreements. Advertising expense is included in other marketing and administrative expenses in the consolidated statements of income and amounted to \$931,000 and \$1.1 million for fiscal years 2016 and 2015, respectively.

*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 exercisable options, which are added to basic shares to arrive at diluted shares.

*Recently Issued Accounting Standards:* In May 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, ASU No. 2014-09 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 permits early adoption in the first interim period of the fiscal year beginning after December 15, 2016. The Company is currently evaluating the effect that its adoption of ASUs 2014-09 and 2015-14 on April 3, 2017 will have on its financial position, results of operations and related disclosures.

On July 22, 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which will clarify 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 will become effective for the first interim period of the fiscal year beginning after December 15, 2016. The ASU should be applied prospectively, and early adoption is permitted. The Company intends to adopt ASU No. 2015-11 on April 3, 2017, 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 November 20, 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which will simplify the presentation of deferred taxes by requiring all deferred tax assets and liabilities to be classified as noncurrent on an entity’s balance sheet. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2016. The ASU may be applied prospectively or retrospectively, and early adoption is permitted. The Company intends to early-adopt ASU No. 2015-17 effective as of April 4, 2016. The adoption of ASU No. 2015-17 will not have a material impact on the Company’s financial position, results of operations and related disclosures. If the ASU had been in effect on April 3, 2016, the current portion of the Company’s deferred income taxes in the amount of \$888,000 as reported on the Company’s consolidated balance sheet would have been classified as non-current, and the Company would have reported \$1.9 million as non-current deferred income taxes.

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. Although the Company has not yet decided if it will early-adopt ASU No. 2016-02 or determined the full impact of the adoption of ASU No. 2016-02, the Company believes that because of the nature and extent of its leasing arrangements, the adoption by the Company of ASU No. 2016-02 will have a significant impact on the Company’s financial position and related disclosures. The Company does not, however, believe that its adoption of ASU No. 2016-02 will have a material impact on its results of operations.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which will seek to simplify the accounting for share-based compensation transactions while maintaining or improving the usefulness of the related disclosures. The provisions of ASU No. 2016-09 that are applicable to the Company include the following:

- Under current GAAP, upon the exercise of an option or the vesting of non-vested stock, the Company must recognize the tax effect of the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes in additional paid-in capital. The provisions of ASU No. 2016-09 will require recognition of the excess tax deficiency or benefit as income tax expense or benefit, respectively, in the Company’s income statement. If ASU No. 2016-09 had been in effect beginning on March 30, 2015, the Company’s income tax expense for fiscal year 2016 would have been \$273,000 lower and its net income would have been \$273,000 higher.

- Under current GAAP, excess tax benefits are classified as a financing activity in the Company's statement of cash flows. The provisions of ASU No. 2016-09 will require that excess tax benefits be classified as an operating activity in the Company's statement of cash flows. If ASU No. 2016-09 had been in effect beginning on March 30, 2015, the amount of the Company's cash provided by operating activities during fiscal year 2016 would have been \$278,000 higher and its cash used in financing activities would have been \$278,000 higher.
- The provisions of ASU No. 2016-09 clarify that cash paid by the Company to taxing authorities on behalf of an employee to reflect the value of shares withheld from the exercise of options or the vesting of non-vested stock to satisfy the income tax withholding obligations arising from such exercise or vesting should be classified as a financing activity in the Company's statement of cash flows. As this treatment is consistent with the Company's long-standing practice, if ASU No. 2016-09 had been in effect beginning on March 30, 2015, there would have been no difference in the amount of the Company's cash used in financing activities during 2016 as a result of this provision in the ASU.

The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. The Company intends to early-adopt ASU No. 2016-09 effective as of April 4, 2016. The adoption of the ASU will not have a material impact on the Company's financial position and related disclosures. The effect of the adoption of the ASU on the Company's results of operations will depend on such factors as the timing and extent of the future exercise of stock options and the future vesting of non-vested stock, as well as the closing price per share of the Company's common stock on the dates of such events. The inherent uncertainty surrounding the details of these factors dictates that the effect of the adoption of ASU No. 2016-09 on the Company's results of operations cannot be reasonably estimated.

The Company has determined that all other ASU's issued which had become effective as of April 3, 2016, 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 3 - Financing Arrangements**

*Factoring Agreements:* The Company assigns the majority of its trade accounts receivable to CIT pursuant to factoring agreements, which have expiration dates that 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 shipments, 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 were to occur, the Company would either assume the credit risk for shipments to the customer after the date of such termination or limitation or cease shipments to the customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying consolidated statements of income, were \$556,000 and \$673,000 during fiscal years 2016 and 2015, respectively. There were no advances on the factoring agreements at either April 3, 2016 or March 29, 2015.

*Credit Facility:* The Company's credit facility at April 3, 2016 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, bearing interest at the rate of prime minus 0.5% or LIBOR plus 2.0%. The financing agreement matures on July 11, 2019 and is secured by a first lien on all assets of the Company. At April 3, 2016, the Company had elected to pay interest on balances owed under the revolving line of credit, if any, under the LIBOR option. The financing agreement also provides for the payment by CIT to the Company of interest at the rate of prime minus 2.0%, which was 1.5% at April 3, 2016, on daily negative balances held at CIT.

The financing agreement as in effect prior to December 28, 2015 provided for a monthly fee, which was assessed based on 0.125% of the average unused portion of the \$26.0 million revolving line of credit, less any outstanding letters of credit (the "Commitment Fee"). The Commitment Fee amounted to \$25,000 and \$33,000 during 2016 and 2015, respectively. The financing agreement was amended on December 28, 2015 to eliminate the Commitment Fee. At April 3, 2016 and March 29, 2015, there was no balance owed on the revolving line of credit and there was no letter of credit outstanding. As of April 3, 2016 and March 29, 2015, \$25.6 million and \$26.0 million, respectively, was available under the revolving line of credit based on the Company's eligible accounts receivable and inventory balances.

The financing agreement 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 believes it was in compliance with these covenants as of April 3, 2016.

#### Note 4 – Retirement Plan

The Company sponsors a defined contribution retirement savings plan with a cash or deferred arrangement (the “401(k) Plan”), as provided by Section 401(k) of the Internal Revenue Code (“Code”). The 401(k) Plan covers substantially all employees, who may elect to contribute a portion of their compensation to the 401(k) Plan, subject to maximum amounts and percentages as prescribed in the Code. Each calendar year, the Company’s Board of Directors (the “Board”) determines the portion, if any, of employee contributions that will be matched by the Company. For calendar years 2015 and 2014, the employer matching contributions represented an amount equal to 100% of the first 2% of employee contributions and 50% of the next 1% of employee contributions to the 401(k) Plan. For calendar year 2016, the Board has established that the employer matching contributions will be equal to 100% of the first 2% of employee contributions and 50% of the next 3% of employee contributions to the 401(k) Plan. If an employee separates from the Company prior to the full vesting of the funds in their account, then the unvested portion of the matching employer amount in their account is forfeited when the employee receives a distribution from their account. The Company utilizes such forfeitures as an offset to the aggregate matching contributions. The Company’s matching contributions to the 401(k) Plan, net of the utilization of forfeitures, were \$203,000 and \$171,000 for fiscal years 2016 and 2015, respectively.

#### Note 5 – 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 Board, which selects eligible employees, non-employee directors and other individuals to participate in the 2014 Plan and determines the type, amount, duration (such duration not to exceed a term of ten (10) years for grants of options) and other terms of individual awards. At April 3, 2016, 1.0 million shares of the Company’s common stock were available for future issuance under the 2014 Plan.

Stock-based compensation is calculated according to FASB ASC Topic 718, *Compensation – Stock Compensation*, which requires stock-based compensation to be accounted for using a fair-value-based measurement. The Company recorded \$906,000 and \$862,000 of stock-based compensation during fiscal years 2016 and 2015, respectively. The Company records the compensation expense associated with stock-based awards granted to individuals in the same expense classifications as the cash compensation paid to those same individuals. No stock-based compensation costs were capitalized as part of the cost of an asset as of April 3, 2016.

*Stock Options:* The following table represents stock option activity for fiscal years 2016 and 2015:

|                                    | Fiscal Year Ended<br>April 3, 2016        |                                     | Fiscal Year Ended<br>March 29, 2015       |                                     |
|------------------------------------|---|-------------------------------------|---|-------------------------------------|
|                                    | Weighted-<br>Average<br>Exercise<br>Price | Number of<br>Options<br>Outstanding | Weighted-<br>Average<br>Exercise<br>Price | Number of<br>Options<br>Outstanding |
| Outstanding at Beginning of Period | \$ 6.83                                   | 330,000                             | \$ 5.76                                   | 185,000                             |
| Granted                            | 8.38                                      | 110,000                             | 7.90                                      | 165,000                             |
| Exercised                          | 6.27                                      | (135,000)                           | 5.78                                      | (20,000)                            |
| Outstanding at End of Period       | 7.64                                      | 305,000                             | 6.83                                      | 330,000                             |
| Exercisable at End of Period       | 6.72                                      | 112,500                             | 5.59                                      | 115,000                             |

The total intrinsic value of the stock options exercised during fiscal years 2016 and 2015 was \$300,000 and \$42,000, respectively. As of April 3, 2016, the intrinsic value of the outstanding and exercisable stock options was \$532,000 and \$300,000, respectively.

The Company received no cash from the exercise of stock options during either fiscal year 2016 or 2015. 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” 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 of \$118,000 and \$17,000 to remit the required income tax withholding amounts from “cashless” option exercises during fiscal years 2016 and 2015, 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 which were awarded to certain employees during fiscal years 2016 and 2015, which options vest over a two-year period, assuming continued service.

|  | 2016          | 2015          |
|--|---------------|---------------|
| Options issued                                       | 110,000       | 165,000       |
| Grant date   | June 12, 2015 | June 18, 2014 |
| Dividend yield                                       | 3.82%         | 4.05%         |
| Expected volatility                                  | 20.00%        | 30.00%        |
| Risk free interest rate                              | 1.12%         | 0.95%         |
| Contractual term (years)                             | 10.00         | 10.00         |
| Expected term (years)                                | 3.00          | 3.00          |
| Forfeiture rate                                      | 5.00%         | 5.00%         |
| Exercise price (grant-date closing price) per option | \$ 8.38       | \$ 7.90       |
| Fair value per option                                | \$ 0.77       | \$ 1.19       |

For the fiscal years ended April 3, 2016 and March 29, 2015, the Company recognized compensation expense associated with stock options as follows (in thousands):

| Options Granted in Fiscal Year  | Fiscal Year Ended April 3, 2016 |   |                  |
|---------------------------------|---------------------------------|---|------------------|
|                                 | Cost of<br>Products<br>Sold     | Other Marketing<br>& Administrative<br>Expenses | Total<br>Expense |
| 2014                            | \$ 7                            | \$ 7  | \$ 14            |
| 2015                            | 54                              | 45  | 99               |
| 2016                            | 17                              | 14  | 31               |
| Total stock option compensation | \$ 78                           | \$ 66   | \$ 144           |

| Options Granted in Fiscal Year  | Fiscal Year Ended March 29, 2015 |   |                  |
|---------------------------------|----------------------------------|---|------------------|
|                                 | Cost of<br>Products<br>Sold      | Other Marketing<br>& Administrative<br>Expenses | Total<br>Expense |
| 2013                            | \$ 12                            | \$ 12   | \$ 24            |
| 2014                            | 24                               | 24  | 48               |
| 2015                            | 39                               | 32  | 71               |
| Total stock option compensation | \$ 75                            | \$ 68   | \$ 143           |

A summary of stock options outstanding and exercisable at April 3, 2016 is as follows:

| Exercise Price | Number of Options Outstanding | Weighted-Avg. Remaining Contractual Life in Years | Weighted-Avg. Exercise Price of Options Outstanding | Number of Options Exercisable | Weighted-Avg. Exercise Price of Options Exercisable |
|----------------|-------------------------------|---|---|-------------------------------|---|
| \$ 4.81        | 10,000                        | 5.19  | \$ 4.81   | 10,000                        | \$ 4.81   |
| \$ 5.42        | 20,000                        | 6.19  | \$ 5.42   | 20,000                        | \$ 5.42   |
| \$ 6.14        | 30,000                        | 7.20  | \$ 6.14   | 30,000                        | \$ 6.14   |
| \$ 7.90        | 135,000                       | 8.21  | \$ 7.90   | 52,500                        | \$ 7.90   |
| \$ 8.38        | 110,000                       | 9.19  | \$ 8.38   | -                             | -   |
|                | <u>305,000</u>                | 8.23  | \$ 7.64   | <u>112,500</u>                | \$ 6.72   |

As of April 3, 2016, total unrecognized stock-option compensation costs amounted to \$79,000, which will be recognized as the underlying stock options vest over a weighted-average period of 5.8 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 employee or director who has 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           | \$ 8.20              | August 12, 2015 |
| 28,000           | 7.97                 | August 11, 2014 |
| 28,000           | 6.67                 | August 14, 2013 |
| 42,000           | 5.62                 | August 15, 2012 |

These shares vest over a two-year period, assuming continued service. The fair value of 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 2015 and 2014, 28,000 shares that had been granted to the Company's non-employee directors vested, having an aggregate value of \$226,000 and \$223,000, respectively.

*Non-vested Stock Granted to Employees:* During the three-month period ended June 27, 2010, the Board awarded 345,000 shares of non-vested stock to certain employees in a series of grants, each of which will vest only if (i) the closing price of the Company's common stock is at or above certain target levels for any ten trading days out of any period of 30 consecutive trading days and (ii) the respective employees remain employed through July 29, 2015. The Company, with the assistance of an independent third party, determined that the aggregate grant date fair value of the awards amounted to \$1.2 million.

With the closing price conditions having been met for these awards, the Board at various times approved the acceleration of the vesting of 105,000 shares from these grants. The vesting of these awards was accelerated in order to maximize the deductibility of the compensation expense associated with the grants by the Company for income tax purposes. On July 29, 2015, the remaining 240,000 of these shares vested, with such shares having an aggregate value of \$1.9 million. 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, and the Company remitted \$948,000 to the appropriate taxing authorities on behalf of such individuals.

*Performance Bonus Plan:* The Company maintains a performance bonus plan for certain executive officers that provides for awards of cash or 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 an insufficient number of 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. Thus, 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, during fiscal year 2016, the Company, in respect of fiscal year 2015, granted to certain executive officers 58,532 shares of common stock at a fair value of \$7.18 per share. In connection with these awards, the Company recognized compensation expense of \$140,000 during each of fiscal years 2015 and 2016, and will recognize \$140,000 in compensation expense during fiscal year 2017. On March 29, 2016, 29,267 of these shares vested, with such shares having an aggregate value of \$275,000. 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 share vesting, and the Company remitted \$138,000 to the appropriate taxing authorities on behalf of such individuals.

In connection with the performance bonus plan, during fiscal year 2015, the Company, in respect of fiscal year 2014, granted to certain executive officers 188,232 shares of common stock at a fair value of \$5.65 per share. In connection with these awards, the Company recognized compensation expense of \$354,000 during each of fiscal years 2014, 2015 and 2016. On each of March 30, 2015 and March 30, 2016, 94,116 of these shares vested, with such shares having an aggregate value of \$735,000 and \$883,000, respectively. 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 share vesting, and the Company, in respect of the shares that vested on March 30, 2015 and March 30, 2016, remitted \$429,000 and \$360,000, respectively, to the appropriate taxing authorities on behalf of such individuals.

For the fiscal years ended April 3, 2016 and March 29, 2015, the Company recognized compensation expense associated with non-vested stock grants, which is included in other marketing and administrative expenses in the accompanying consolidated statements of income, as follows (in thousands):

| Stock Granted in Fiscal Year   | Fiscal Year Ended April 3, 2016 |                        |               |
|--------------------------------|---------------------------------|------------------------|---------------|
|                                | Employees                       | Non-employee Directors | Total Expense |
| 2011                           | \$ 49                           | \$ -                   | \$ 49         |
| 2014                           | -                               | 31                     | 31            |
| 2015                           | 354                             | 112                    | 466           |
| 2016                           | 140                             | 76                     | 216           |
| Total stock grant compensation | \$ 543                          | \$ 219                 | \$ 762        |

| Stock Granted in Fiscal Year   | Fiscal Year Ended March 29, 2015 |                        |               |
|--------------------------------|----------------------------------|------------------------|---------------|
|                                | Employees                        | Non-employee Directors | Total Expense |
| 2011                           | \$ 170                           | \$ -                   | \$ 170        |
| 2013                           | -                                | 26                     | 26            |
| 2014                           | -                                | 94                     | 94            |
| 2015                           | 354                              | 75                     | 429           |
| Total stock grant compensation | \$ 524                           | \$ 195                 | \$ 719        |

As of April 3, 2016, total unrecognized compensation expense related to the Company's non-vested stock grants was \$330,000, which will be recognized over the remaining portion of the respective vesting periods associated with each block of grants, such grants having a weighted average vesting term of 7.2 months. The amount of future compensation expense related to 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 unvested grants as of such individual's separation date.

#### Note 6 – Goodwill, Customer Relationships and Other Intangible Assets

*Goodwill:* Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired by the Company in business combinations. The Company considers CCIP and Hamco to each be a reporting unit of the Company for the purpose of presenting and testing for the impairment of goodwill. The goodwill of the reporting units of the Company at April 3, 2016 and March 29, 2015 amounted to \$24.0 million and is reported in the accompanying consolidated balance sheets net of accumulated impairment charges of \$22.9 million, for a net reported balance of \$1.1 million.

The Company tests the fair value of the goodwill, if any, within its reporting units annually as of the first day of the Company's fiscal year. An additional interim impairment test must be performed during the year whenever an event or change in circumstances occurs that suggest that the fair value of the goodwill of either of the reporting units of the Company has more likely than not (defined as having a likelihood of greater than 50%) fallen below its carrying value. The annual or interim impairment test 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 impairment test is continued in a two-step approach. The first step is the estimation of the fair value of each reporting unit. If step one indicates that the fair value of the reporting unit exceeds its carrying value, then a potential impairment exists, and the second step is then performed to measure the amount of an impairment charge, if any. In the second step, these estimated fair values are used as the hypothetical purchase price for the reporting units, and an allocation of such hypothetical purchase price is made to the identifiable tangible and intangible assets and assigned liabilities of the reporting units. The impairment charge is calculated as the amount, if any, by which the carrying value of the goodwill exceeds the implied amount of goodwill that results from this hypothetical purchase price allocation. The annual impairment test of the fair value of the goodwill of the reporting units of the Company was performed as of March 30, 2015 and the Company concluded that the fair value of the goodwill of the Company's reporting units substantially exceeded their carrying values as of that date.

*Other Intangible Assets:* Other intangible assets as of April 3, 2016 consisted primarily of the capitalized costs of acquired businesses, other than tangible assets, goodwill and assumed liabilities. The carrying amount and accumulated amortization of the Company's other intangible assets as of April 3, 2016 and March 29, 2015, the amortization expense for the fiscal years then ended and the classification of such amortization expense within the accompanying consolidated statements of income are as follows (in thousands):

|                               | <u>Gross Amount</u>  |                       | <u>Accumulated Amortization</u> |                       | <u>Amortization Expense Fiscal Year Ended</u> |                       |
|-------------------------------|----------------------|-----------------------|---------------------------------|-----------------------|---|-----------------------|
|                               | <u>April 3, 2016</u> | <u>March 29, 2015</u> | <u>April 3, 2016</u>            | <u>March 29, 2015</u> | <u>April 3, 2016</u>                          | <u>March 29, 2015</u> |
| Tradename and trademarks      | \$ 1,987             | \$ 1,987              | \$ 933                          | \$ 801                | \$ 132  | \$ 132                |
| Licenses and designs          | -                    | 3,571                 | -                               | 3,571                 | -   | -                     |
| Non-compete covenants         | 98                   | 454                   | 60                              | 410                   | 7   | 19                    |
| Patents                       | 1,601                | 1,601                 | 458                             | 350                   | 108   | 108                   |
| Customer relationships        | 5,534                | 5,411                 | 3,887                           | 3,385                 | 501   | 482                   |
| Total other intangible assets | <u>\$ 9,220</u>      | <u>\$ 13,024</u>      | <u>\$ 5,338</u>                 | <u>\$ 8,517</u>       | <u>\$ 748</u>                                 | <u>\$ 741</u>         |

Classification within the accompanying consolidated statements of income:

|   |               |               |
|---|---------------|---------------|
| Cost of products sold                       | \$ 7          | \$ 19         |
| Other marketing and administrative expenses | 741           | 722           |
| Total amortization expense                  | <u>\$ 748</u> | <u>\$ 741</u> |

The Company estimates that its amortization expense will be \$754,000, \$597,000, \$376,000, \$376,000 and \$311,000 in fiscal years 2017, 2018, 2019, 2020 and 2021, respectively.

#### Note 7 – Inventories

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

|                 | <u>April 3, 2016</u> | <u>March 29, 2015</u> |
|-----------------|----------------------|-----------------------|
| Raw Materials   | \$ 35                | \$ 36                 |
| Finished Goods  | 14,750               | 15,432                |
| Total inventory | <u>\$ 14,785</u>     | <u>\$ 15,468</u>      |

#### Note 8 – Income Taxes

The Company's income tax provision for fiscal year 2016 is summarized below (in thousands):

|   | <u>Fiscal year ended April 3, 2016</u> |                 |                 |
|---|--|-----------------|-----------------|
|   | <u>Current</u>                         | <u>Deferred</u> | <u>Total</u>    |
| Federal   | \$ 3,540                               | \$ 133          | \$ 3,673        |
| State   | 271                                    | 32              | 303             |
| Other - net, including foreign  | (61)                                   | -               | (61)            |
| Income tax expense  | 3,750                                  | 165             | 3,915           |
| Income tax reported in stockholders' equity related to stock-based compensation | (273)                                  | -               | (273)           |
| Total   | <u>\$ 3,477</u>                        | <u>\$ 165</u>   | <u>\$ 3,642</u> |

The Company's income tax provision for fiscal year 2015 is summarized below (in thousands):

|   | <b>Fiscal year ended March 29, 2015</b> |                 |                 |
|---|---|-----------------|-----------------|
|   | <b>Current</b>                          | <b>Deferred</b> | <b>Total</b>    |
| Federal   | \$ 3,255                                | \$ (280)        | \$ 2,975        |
| State   | 574                                     | (48)            | 526             |
| Other - net, including foreign  | (194)                                   | 135             | (59)            |
| Income tax expense (benefit)  | 3,635                                   | (193)           | 3,442           |
| Income tax reported in stockholders' equity related to stock-based compensation | (69)                                    | -               | (69)            |
| <b>Total</b>  | <b>\$ 3,566</b>                         | <b>\$ (193)</b> | <b>\$ 3,373</b> |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of April 3, 2016 and March 29, 2015 are as follows (in thousands):

|   | <b>April 3, 2016</b> | <b>March 29, 2015</b> |
|---|----------------------|-----------------------|
| <b>Deferred tax assets:</b>                   |                      |                       |
| Employee wage and benefit accruals            | \$ 740               | \$ 787                |
| Accounts receivable and inventory reserves    | 319                  | 485                   |
| Deferred rent                                 | 67                   | 48                    |
| Intangible assets                             | 647                  | 704                   |
| State net operating loss carryforwards        | 775                  | 824                   |
| Stock-based compensation                      | 478                  | 556                   |
| Total gross deferred tax assets               | 3,026                | 3,404                 |
| Less valuation allowance                      | (775)                | (824)                 |
| Deferred tax assets after valuation allowance | 2,251                | 2,580                 |
| <b>Deferred tax liabilities:</b>              |                      |                       |
| Prepaid expenses                              | (234)                | (352)                 |
| Property, plant and equipment                 | (80)                 | (127)                 |
| Total deferred tax liabilities                | (314)                | (479)                 |
| Net deferred income tax assets                | \$ 1,937             | \$ 2,101              |

In assessing the probability that the Company's deferred tax assets will be realized, management of the Company has considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of taxable income during the future periods in which the temporary differences giving rise to the deferred tax assets will become deductible. The Company has also considered the scheduled inclusion into taxable income in future periods of the temporary differences giving rise to the Company's deferred tax liabilities. The valuation allowance as of April 3, 2016 and March 29, 2015 was related to state net operating loss carryforwards that the Company does not expect to be realized. Based upon the Company's expectations of the generation of sufficient taxable income during future periods, the Company believes that it is more likely than not that the Company will realize its deferred tax assets, net of the valuation allowance and the deferred tax liabilities.

The following table sets forth the reconciliation of the beginning and ending amounts of unrecognized tax benefits for fiscal years 2016 and 2015 (in thousands):

|   | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|
| Balance at beginning of period                            | \$ -        | \$ -        |
| Additions related to current year positions               | 195         | -           |
| Additions related to prior year positions                 | 16          | -           |
| Reductions for tax positions of prior years               | -           | -           |
| Reductions due to the lapse of the statute of limitations | -           | -           |
| Payments pursuant to judgements and settlements           | -           | -           |
| Balance at end of period                                  | \$ 211      | \$ -        |

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 2015, 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 a tax position which reflects opportunities for the application of more favorable state apportionment percentages for the past few 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 during fiscal year 2016 a gross reserve for unrecognized tax benefits of \$773,000, less an offset of \$573,000 to reflect state income tax overpayments net of the federal income tax impact, for a net reserve for unrecognized tax benefits of \$200,000 in the accompanying consolidated financial statements. The Company's policy is to accrue interest expense and penalties as appropriate on any estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income. As of April 3, 2016, the Company had accrued \$11,000 for accrued interest expense and penalties on the portion of the unrecognized tax benefit that has been refunded to the Company but for which the relevant statute of limitations remained unexpired. No interest expense or penalties is accrued with respect to estimated unrecognized tax benefits that are associated with state income tax overpayments that remain receivable.

The Company's provision for income taxes is based upon effective tax rates of 36.4% and 37.6% in fiscal years 2016 and 2015, respectively. These effective tax rates are the sum of the top U.S. statutory federal income tax rate and a composite rate for state income taxes, net of federal tax benefit, in the various states in which the Company operates.

The following table reconciles income tax expense on income from continuing operations at the U.S. federal income tax statutory rate to the net income tax provision reported for fiscal years 2016 and 2015 (in thousands):

|   | <u>2016</u>     | <u>2015</u>     |
|---|-----------------|-----------------|
| Tax expense at statutory rate (34%)                         | \$ 3,653        | \$ 3,114        |
| State income taxes, net of Federal income tax benefit       | 200             | 347             |
| Tax credits   | (13)            | (24)            |
| Net tax effect of expenses deductible only for tax purposes | 132             | (6)             |
| Other - net, including foreign                              | (57)            | 11              |
| Income tax expense  | <u>\$ 3,915</u> | <u>\$ 3,442</u> |

#### Note 9 – Stockholders' Equity

*Dividends:* The holders of the Company's common stock are entitled to receive dividends when and as declared by the Board. Aggregate cash dividends of \$0.57 and \$0.32 per share, amounting to \$5.7 million and \$ 3.2 million, were declared during fiscal years 2016 and 2015, respectively. The dividends declared during fiscal year 2016 included a special cash dividend of \$0.25 per share. The Company's financing agreement with CIT permits the payment by the Company of cash dividends on its common stock without limitation, provided there is no default before or as a result of the payment of such dividends.

*Stock Repurchases:* The Company acquired treasury shares by way of the surrender to the Company from several employees shares of common stock to satisfy the exercise price and income tax withholding obligations relating to the exercise of stock options and the vesting of stock. In this manner, the Company acquired 337,000 treasury shares during the fiscal year ended April 3, 2016 at a weighted-average market value of \$8.41 per share and acquired 32,000 treasury shares during the fiscal year ended March 29, 2015 at a weighted-average market value of \$7.57 per share.

#### Note 10 - Major Customers

The table below sets forth those customers that represented more than 10% of the Company's gross sales during fiscal years ended April 3, 2016 and March 29, 2015.

|                       | <u>2016</u> | <u>2015</u> |
|-----------------------|-------------|-------------|
| Wal-Mart Stores, Inc. | 42%         | 36%         |
| Toys R Us             | 23%         | 25%         |

**Note 11 – Legal Settlement**

BreathableBaby, LLC (“BreathableBaby”) filed a complaint against the Company and CCIP on January 11, 2012 in the United States District Court for the District of Minnesota, which alleged that CCIP’s mesh crib liner infringed upon BreathableBaby’s patent rights relating to its air permeable infant bedding technology. On December 5, 2014, the Company reached a final settlement with BreathableBaby to resolve this matter under the terms of which the Company will be permitted to manufacture and sell a redesigned mesh crib liner product. In connection with the settlement, the Company made a one-time payment of \$850,000 to BreathableBaby on December 11, 2014, which has been classified as legal expense in the consolidated statements of income for fiscal year 2015.

**Note 12 – Commitments and Contingencies**

Total rent expense was \$1.5 million and \$1.4 million during fiscal years ended April 3, 2016 and March 29, 2015, respectively. The Company’s commitment for minimum guaranteed rental payments under its lease agreements as of April 3, 2016 is \$5.4 million, consisting of \$1.2 million due in fiscal year 2017, \$1.3 million in each of fiscal years 2018 and 2019, \$1.2 million in fiscal year 2020, and \$342,000 in fiscal year 2021.

Total royalty expense was \$9.0 million and \$8.7 million for fiscal years 2016 and 2015, respectively. The Company’s commitment for minimum guaranteed royalty payments under its license agreements as of April 3, 2016 is \$10.2 million, consisting of \$5.2 million, \$4.6 million and \$427,000 due in fiscal years 2017, 2018 and 2019, respectively.

The Company is, from time to time, involved in various legal 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 legal proceeding the outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company’s financial position, results of operations or cash flows.

**Note 13 – Subsequent Events**

The Company has evaluated events that have occurred between April 3, 2016 and the date that the accompanying financial statements were issued, and has determined that there are no material subsequent events that require disclosure.

**SUBSIDIARIES OF THE REGISTRANT**

| <u>SUBSIDIARY</u>                  | <u>STATE OR OTHER<br/>JURISDICTION OF INCORPORATION</u> |
|------------------------------------|---|
| Crown Crafts Infant Products, Inc. | Delaware  |
| Hamco, Inc.                        | Louisiana   |

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Crown Crafts, Inc.:

We consent to the incorporation by reference in the registration statements No. 333-136868, No. 333-183298 and No. 333-200037 on Form S-8 of Crown Crafts, Inc. and subsidiaries of our report dated June 9, 2016, with respect to the consolidated balance sheets of Crown Crafts, Inc. and subsidiaries as of April 3, 2016 and March 29, 2015 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years then ended, and the related financial statement schedule, which report appears in the April 3, 2016 annual report on Form 10-K of Crown Crafts, Inc. and subsidiaries.

/s/ KPMG LLP

Baton Rouge, Louisiana  
June 9, 2016

CERTIFICATION

I, E. Randall Chestnut, certify that:

1. I have reviewed this Annual Report on Form 10-K of Crown Crafts, Inc. for the period ended April 3, 2016;
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: June 9, 2016

/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 Annual Report on Form 10-K of Crown Crafts, Inc. for the period ended April 3, 2016;
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: June 9, 2016

/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 Annual Report on Form 10-K of the Company for the period ending April 3, 2016 (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: June 9, 2016

/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 Annual Report on Form 10-K of the Company for the period ending April 3, 2016 (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: June 9, 2016

/s/ Olivia W. Elliott

Olivia W. Elliott, Vice President and  
Chief Financial Officer