CROWN CRAFTS INC
Form 10-Q
November 16, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 2, 2016

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

For the transition period from _____to_____

Commission File No. 1-7604

Crown Crafts, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**58-0678148**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

916 South Burnside Avenue, Gonzales, LA **70737**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(225) 647-9100**

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

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

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

The number of shares of common stock, $0.01 par value, of the registrant outstanding as of November 15, 2016 was 10,029,761.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

OCTOBER 2, 2016 AND APRIL 3, 2016

	October 2, 2016 (Unaudited)	April 3, 2016
	(amounts in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$10,219	$7,574
Accounts receivable (net of allowances of $786 at October 2, 2016 and $745 at April 3, 2016):		
Due from factor	15,278	20,125
Other	621	671
Inventories	15,532	14,785
Prepaid expenses	1,045	1,689
Deferred income taxes	-	888
Total current assets	42,695	45,732
Property, plant and equipment - at cost:		
Vehicles	247	247
Leasehold improvements	242	239
Machinery and equipment	3,028	2,879
Furniture and fixtures	808	808
Property, plant and equipment - gross	4,325	4,173
Less accumulated depreciation	3,834	3,740
Property, plant and equipment - net	491	433
Finite-lived intangible assets - at cost:		
Customer relationships	5,534	5,534
Other finite-lived intangible assets	3,686	3,686
Finite-lived intangible assets - gross	9,220	9,220
Less accumulated amortization	5,715	5,338

Finite-lived intangible assets - net	3,505	3,882
Goodwill	1,126	1,126
Deferred income taxes	1,258	1,049
Other	187	193
Total Assets	$49,262	$52,415
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$4,687	$4,640
Accrued wages and benefits	675	1,988
Accrued royalties	1,412	1,172
Dividends payable	802	3,303
Income taxes payable	26	806
Other accrued liabilities	208	276
Total current liabilities	7,810	12,185
Non-current liabilities:		
Reserve for unrecognized tax benefits	578	211
Shareholders' equity:		
Common stock - $0.01 par value per share; Authorized 40,000,000 shares at October 2, 2016 and April 3, 2016; Issued 12,398,539 shares at October 2, 2016 and 12,251,834 shares at April 3, 2016	124	123
Additional paid-in capital	51,732	50,723
Treasury stock - at cost - 2,368,778 shares at October 2, 2016 and 2,302,191 shares at April 3, 2016	(11,884)	(11,228)
Retained Earnings	902	401
Total shareholders' equity	40,874	40,019
Total Liabilities and Shareholders' Equity	$49,262	$52,415

See notes to unaudited condensed consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE AND SIX-MONTH PERIODS ENDED OCTOBER 2, 2016 AND SEPTEMBER 27, 2015

(amounts in thousands, except per share amounts)

	Three-Month Periods Ended		Six-Month Periods Ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Net sales	$15,809	$ 20,716	$31,408	$ 38,574
Cost of products sold	11,500	15,010	22,812	28,087
Gross profit	4,309	5,706	8,596	10,487
Marketing and administrative expenses	2,761	3,108	5,600	6,369
Income from operations	1,548	2,598	2,996	4,118
Other income (expense):				
Interest expense	(23)	(31)	(42)	(39)
Interest income	34	15	63	30
Gain on sale of property, plant and equipment	-	15	-	15
Foreign exchange (loss) gain	(2)	(10)	29	(9)
Other - net	1	(1)	2	3
Income before income tax expense	1,558	2,586	3,048	4,118
Income tax expense	559	1,021	946	1,626
Net income	$999	$ 1,565	$2,102	$ 2,492
Weighted average shares outstanding:				
Basic	10,011	10,017	9,995	10,038
Effect of dilutive securities	45	45	41	45
Diluted	10,056	10,062	10,036	10,083
Earnings per share:				
Basic	$0.10	$ 0.16	$0.21	$ 0.25
Diluted	$0.10	$ 0.16	$0.21	$ 0.25
Cash dividends declared per share	$0.08	$ 0.08	$0.16	$ 0.16

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX-MONTH PERIODS ENDED OCTOBER 2, 2016 AND SEPTEMBER 27, 2015

	Six-Month Periods Ended	
	October 2, 2016	September 27, 2015
	(amounts in thousands)	
Operating activities:		
Net income	$2,102	$ 2,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	94	157
Amortization of intangibles	377	371
Deferred income taxes	679	406
Gain on sale of property, plant and equipment	-	(15)
Reserve for unrecognized tax benefits	90	-
Stock-based compensation	307	479
Tax shortfall from stock-based compensation	-	(3)
Changes in assets and liabilities:		
Accounts receivable	4,897	4,452
Inventories	(747)	(2,096)
Prepaid expenses	644	721
Other assets	6	(24)
Accounts payable	(4)	1,909
Accrued liabilities	(1,536)	(1,598)
Net cash provided by operating activities	6,909	7,251
Investing activities:		
Capital expenditures for property, plant and equipment	(101)	(163)
Proceeds from sale of property, plant and equipment	-	31
Capital expenditures for purchased intangible assets	-	(123)
Net cash used in investing activities	(101)	(255)
Financing activities:		
Purchase of treasury stock	(656)	(1,467)
Issuance of common stock	595	147
Excess tax benefit from stock-based compensation	-	267
Dividends paid	(4,102)	(1,611)
Net cash used in financing activities	(4,163)	(2,664)
Net increase in cash and cash equivalents	2,645	4,332
Cash and cash equivalents at beginning of period	7,574	1,807
Cash and cash equivalents at end of period	$10,219	$ 6,139

Supplemental cash flow information:

Income taxes paid	$1,346	$ 2,548
Interest paid	2	9
Noncash financing activities:		
Property, plant and equipment purchased but unpaid	(51)	-
Dividends declared but unpaid	(802)	(799)
Compensation paid as common stock	108	140

See notes to unaudited condensed consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX-MONTH PERIODS ENDED OCTOBER 2, 2016 AND SEPTEMBER 27, 2015

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Crown Crafts, Inc. (the “Company”) and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) applicable to interim financial information as promulgated by the Financial Accounting Standards Board (“FASB”). Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. References herein to GAAP are to topics within the FASB Accounting Standards Codification (the “FASB ASC”), which has been established by the FASB as the authoritative source for GAAP to be applied by nongovernmental entities.

In the opinion of management, the interim unaudited consolidated financial statements contained herein include all adjustments necessary to present fairly the financial position of the Company as of October 2, 2016 and the results of its operations and cash flows for the periods presented. Such adjustments include normal, recurring accruals, as well as the elimination of all significant intercompany balances and transactions. Operating results for the three and six-month periods ended October 2, 2016 are not necessarily indicative of the results that may be expected by the Company for its fiscal year ending April 2, 2017. For further information, refer to the Company’s consolidated financial statements and notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended April 3, 2016.

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 that is nearest to or on March 31. References herein to “fiscal year 2017” or “2017” represent the 52-week period ending April 2, 2017 and references herein to “fiscal year 2016” or “2016” represent the 53-week period ended April 3, 2016.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the accompanying condensed consolidated balance sheets and the reported amounts of revenues and expenses during the periods presented on the accompanying unaudited consolidated statements of income and cash flows. Significant estimates are made with respect to the allowances related to accounts receivable for customer deductions for returns, allowances and disputes. The Company also has a certain amount of discontinued finished products which necessitates the establishment of inventory reserves and allocates indirect costs to inventory based on an estimated percentage of the supplier purchase price, each of which is highly subjective. The Company has also established estimated reserves in connection with the uncertainty concerning the amount of income tax recognized. Actual results could differ from those estimates.

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

The Company's credit facility consists of a revolving line of credit under a financing agreement with The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group, Inc. The Company classifies a negative balance outstanding under this revolving line of credit as cash, as these amounts are legally owed to the Company and are immediately available to be drawn upon by the Company. There are no compensating balance requirements or other restrictions on the transfer of amounts associated with the Company's depository accounts.

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

Royalty Payments: The Company has entered into agreements that provide for royalty payments based on a percentage of sales with certain minimum guaranteed amounts. These royalties are accrued based upon historical sales rates adjusted for current sales trends by customers. Royalty expense is included in cost of products sold in the accompanying unaudited condensed consolidated statements of income and amounted to $1.6 million and $2.2 million for the three-month periods ended October 2, 2016 and September 27, 2015, respectively, and $3.3 million and $4.0 million for the six-month periods ended October 2, 2016 and September 27, 2015, respectively.

Segment and Related Information: The Company operates primarily in one principal segment, infant, toddler and juvenile products. These products consist of infant and toddler bedding, bibs, soft bath products, disposable products and accessories. Net sales of bedding, blankets and accessories and net sales of bibs, bath and disposable products for the three and six months ended October 2, 2016 and September 27, 2015 are as follows (in thousands):

	Three-Month Periods Ended		**Six-Month Periods Ended**	
	October 2, 2016	**September 27, 2015**	**October 2, 2016**	**September 27, 2015**
Bedding, blankets and accessories	$10,090	$ 14,365	$20,402	$ 26,635
Bibs, bath and disposable products	5,719	6,351	11,006	11,939
Total net sales	$15,809	$ 20,716	$31,408	$ 38,574

Revenue Recognition: Sales are recorded when products are shipped to customers and are reported net of allowances for estimated returns and allowances in the accompanying unaudited condensed consolidated statements of income. Allowances for returns are estimated based on historical rates. Allowances for returns, cooperative advertising allowances, warehouse allowances, placement fees 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 condensed consolidated balance sheets, consist of agreed upon advertising support, placement fees, markdowns and warehouse and other allowances. All such allowances are recorded as direct offsets to sales, and such costs are accrued commensurate with sales activities or as a straight-line amortization charge of an agreed-upon fixed amount, as appropriate to the circumstances for each such arrangement. When a customer requests deductions, the allowances are reduced to reflect such payments or credits issued against the customer's account balance. The Company analyzes the components of the allowances for customer deductions monthly and adjusts the allowances to the appropriate levels. The timing of funding requests for advertising support can cause the net balance in the allowance account to fluctuate from period to period. The timing of such funding requests should have no impact on the accompanying unaudited condensed consolidated statements of income since such costs are accrued commensurate with sales activity or using the straight-line method, as appropriate.

To reduce the exposure to credit losses and to enhance the predictability of its cash flows, the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT. In the event a factored receivable

becomes uncollectible due to creditworthiness, CIT bears the risk of loss. The Company's management must make estimates of the uncollectibility of its non-factored accounts receivable to evaluate the adequacy of the Company's allowance for doubtful accounts, which is accomplished by specifically analyzing accounts receivable, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers' payment terms.

The Company's accounts receivable as of October 2, 2016 was $15.9 million, net of allowances of $786,000. Of this amount, $15.3 million was due from CIT under the factoring agreements. An additional $9.9 million was due from CIT as a negative balance outstanding under the revolving line of credit, which is included in cash and cash equivalents in the accompanying unaudited condensed consolidated balance sheet. The combined amount of $25.2 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 condensed consolidated balance sheets reflect property, plant and equipment, and intangible assets other than goodwill at cost less accumulated depreciation or amortization. The Company capitalizes additions and improvements and expenses maintenance and repairs as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are three to eight years for property, plant and equipment, and five to twenty years for 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 property, plant and equipment, and intangible assets other than goodwill 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 associated 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 an alternative future use for the underlying product is available to the Company. The Company also capitalizes legal and other costs incurred in the protection or defense of the Company’s patents to the extent that it is believed that the future economic benefit of the patent will be maintained or increased and a successful outcome of the litigation is probable. Capitalized patent protection or defense costs are amortized over the remaining expected life of the related patent. The Company’s assessment of the future economic benefit of its patents involves considerable management judgment, and a different conclusion could result in a material impairment charge up to the carrying value of these assets.

Inventory Valuation: The preparation of the Company's financial statements requires careful determination of the appropriate value of the Company's inventory balances. Such amounts are presented as a current asset in the accompanying condensed consolidated balance sheets and are a direct determinant of cost of products sold in the unaudited consolidated statements of income and, therefore, have a significant impact on the amount of net income in the accounting periods reported. The basis of accounting for inventories is cost, which includes the direct supplier acquisition cost, duties, taxes and freight, and the indirect costs incurred to design, develop, source and store the products until they are sold. 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 indirect costs allocated to inventory are done so as a percentage of projected annual supplier purchases and can impact the Company’s results of operations as purchase volume fluctuates from quarter to quarter and year to year. The difference between indirect costs incurred and the indirect costs allocated to inventory creates a burden variance, which is generally favorable when actual inventory purchases exceed planned inventory purchases, and is generally unfavorable when actual inventory purchases are lower than planned inventory purchases. While the burden variance can be significant during interim periods, it is generally not material by the end of each fiscal year. The determination of the indirect charges and their allocation to the Company's finished products inventories is complex and requires significant management judgment and estimates. If management made different judgments or utilized different estimates, then differences would result in the valuation of the Company's inventories, the amount and timing of the Company's cost of products sold and the resulting net income for any accounting period.

On a periodic basis, management reviews the Company’s inventory quantities on hand for obsolescence, physical deterioration, changes in price levels and the existence of quantities on hand which may not reasonably be expected to be sold within the normal operating cycle of the Company's operations. To the extent that any of these conditions is believed to exist or the market value of the inventory expected to be realized in the ordinary course of business is otherwise no longer as great as its carrying value, an allowance against the inventory value is established. To the extent that this allowance is established or increased during an accounting period, an expense is recorded in cost of products sold in the Company's unaudited condensed consolidated statements of income. Only when inventory for which an allowance has been established is later sold or is otherwise disposed of is the allowance reduced accordingly. Significant management judgment is required in determining the amount and adequacy of this allowance. In the event that actual results differ from management's estimates or these estimates and judgments are revised in future periods, the Company may not fully realize the carrying value of its inventory or may need to establish additional allowances,

either of which could materially impact the Company's financial position and results of operations.

Advertising Costs: The Company’s advertising costs are primarily associated with cooperative advertising arrangements with certain of the Company’s customers and are recognized using the straight-line method based upon aggregate annual estimated amounts for those customers, with periodic adjustments to the actual amounts of authorized agreements. Advertising expense is included in marketing and administrative expenses in the accompanying unaudited consolidated statements of income and amounted to $243,000 and $264,000 for the three-month periods ended October 2, 2016 and September 27, 2015, respectively, and $498,000 and $569,000 for the six-month periods ended October 2, 2016 and September 27, 2015, respectively.

Provision for Income Taxes: The Company’s provision for income taxes includes all currently payable federal, state, local and foreign taxes and is based upon the Company’s estimated annual effective tax rate, which is based on the Company’s forecasted annual pre-tax income, as adjusted for certain expenses that will never be deductible on the Company’s tax returns and certain charges expected to be deducted on the Company’s tax returns that will never be deducted on the accompanying unaudited condensed consolidated statements of income, multiplied by the statutory tax rates for the various jurisdictions in which the Company operates and reduced by certain anticipated tax credits. The Company 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. Interest expense or penalties are not accrued with respect to estimated unrecognized tax benefits that are associated with claims for income tax refunds as long as the overpayments are receivable.

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

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

Recently-Issued Accounting Standards: In 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace most existing GAAP guidance on revenue recognition, and which will require the use of more estimates and judgments, as well as additional disclosures. When issued, the ASU was to become effective in the fiscal year beginning after December 15, 2016, but on August 12, 2015 the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which provides for a one-year deferral of the effective date to apply the guidance of ASU No. 2014-09. Early adoption was originally not permitted in ASU No. 2014-09, but ASU No. 2015-14 now permits early adoption in the first interim period of the fiscal year beginning after December 15, 2016. The Company is currently evaluating the effect that its adoption of ASU Nos. 2014-09 and 2015-14 on April 3, 2017 will have on its financial position, results of operations and related disclosures.

In July 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.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, the intent of which was to 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. ASU No. 2015-17 was to have become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. Upon adoption, the ASU may be applied prospectively or retrospectively. The Company elected to early-adopt ASU No. 2015-17 effective as of April 4, 2016 using a prospective application. As such, the condensed consolidated balance sheet presented as of April 3, 2016 in the accompanying consolidated financial statements has not been adjusted. The adoption of the ASU on April 4, 2016 resulted in the reclassification in the accompanying unaudited condensed consolidated balance sheet as of October 2, 2016 of $487,000 in deferred tax assets from current to non-current. The adoption of the ASU did not have an impact on the Company's results of operations.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will increase transparency and comparability by requiring an entity to recognize lease assets and lease liabilities on its balance sheet and by requiring the disclosure of key information about leasing arrangements. Under the provisions of ASU No. 2016-02, the Company will be required to capitalize most of its current operating lease obligations as right-of-use assets with corresponding liabilities based upon the present value of the future cash outflows associated with such operating lease obligations. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2018. The ASU is to be applied using a modified retrospective approach, and early adoption is permitted. The Company has not yet decided whether to adopt the ASU early 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 March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, the intent of which was to simplify the accounting for share-based compensation transactions while maintaining or improving the usefulness of the related disclosures. ASU No. 2016-09 was to have become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. Upon adoption, the ASU may be applied prospectively or retrospectively. The Company elected to early-adopt ASU No. 2016-09 effective as of April 4, 2016 using a prospective application. Accordingly, the prior periods presented in the accompanying unaudited consolidated financial statements have not been adjusted.

The provisions of ASU No. 2016-09 that are applicable to the Company and the effect of the adoption of the ASU on the Company’s unaudited consolidated financial statements include the following:

* Under previous GAAP, upon the exercise of a stock option or the vesting of non-vested stock, the Company was required to 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 the ASU require the recognition of the excess tax benefit or deficiency as an income tax benefit or expense, respectively, in the Company’s statement of income. The Company’s election to early-adopt the ASU effective as of April 4, 2016 resulted in the recognition of net excess tax benefits amounting to $43,000 and $242,000 as a reduction to the Company’s reported income tax expense for the three and six-month periods ended October 2, 2016, respectively. The effect of the adoption of the ASU on the Company’s future results of operations will depend on such factors as the timing and extent of the exercise of stock options and the 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 future effects of the adoption of ASU No. 2016-09 on the Company’s results of operations cannot be reasonably estimated.

* Under previous GAAP, excess tax benefits were classified as a financing activity in the Company’s statement of cash flows. The provisions of ASU No. 2016-09 require that excess tax benefits be classified as an operating activity in the Company’s statement of cash flows. The Company’s election to early-adopt ASU No. 2016-09 effective as of April 4, 2016 resulted in the classification of excess tax benefits amounting to $244,000 as cash provided by operating activities during the six-month period ended October 2, 2016.

* 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, the Company’s adoption of ASU No. 2016-09 effective as of April 4, 2016 did not result in a difference in the reported amount of the Company’s cash used in financing activities during the six months ended October 2, 2016 as a result of this provision in the ASU.

On June 16, 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the objective of which is to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity. Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays

recognition until it is probable that a loss has been incurred. Because this methodology restricted the recognition of credit losses that are expected, but did not yet meet the “probable” threshhold, ASU No. 2016-13 was issued to require the consideration of a broader range of reasonable and supportable information when determining estimates of credit losses. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2019. The ASU is to be applied using a modified retrospective approach, and the ASU may be early-adopted as of the first interim period of the fiscal year beginning after December 15, 2018. Although the Company has not yet decided whether to adopt ASU No. 2016-13 early or determined the full impact of the adoption of the ASU, because the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT, the Company does not believe that its adoption of ASU No. 2016-13 will have a significant impact on the Company’s financial position, results of operations and related disclosures.

The Company has determined that all other ASUs which had become effective as of October 2, 2016, or which will become effective at some future date, are not expected to have a material impact on the Company’s unaudited consolidated financial statements.

Note 2 – Financing Arrangements

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

CIT bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits, while the Company bears the responsibility for adjustments from customers related to returns, allowances, claims and discounts. CIT may at any time terminate or limit its approval of shipments to a particular customer. If such a termination were to occur, the Company must either assume the credit risk for shipments after the date of such termination or limitation or cease shipments to such customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying statements of income, amounted to $112,000 and $156,000 for the three-month periods ended October 2, 2016 and September 27, 2015, respectively, and $206,000 and $272,000 for the six-month periods ended October 2, 2016 and September 27, 2015, respectively. There were no advances from the factor at October 2, 2016 and April 3, 2016.

Credit Facility: The Company's credit facility at October 2, 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, with an interest rate of prime minus 0.50% or LIBOR plus 2.00%. The financing agreement is scheduled to mature on July 11, 2019 and is secured by a first lien on all assets of the Company. As of October 2, 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 as of the beginning of the calendar month minus 2.00%, which was 1.25% at October 2, 2016, on daily cash 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 $8,000 and $16,000 for the three and six-month periods ended September 27, 2015, respectively. The financing agreement was amended on December 28, 2015 to eliminate the Commitment Fee. At October 2, 2016 and April 3, 2016, there was no balance owed on the revolving line of credit and there was no letter of credit outstanding. As of October 2, 2016 and April 3, 2016, $21.9 million and $25.6 million, respectively, was available under the revolving line of credit based on the Company's eligible accounts receivable and inventory balances.

The financing agreement for the revolving line of credit contains usual and customary covenants for agreements of that type, including limitations on other indebtedness, liens, transfers of assets, investments and acquisitions, merger or consolidation transactions, transactions with affiliates and changes in or amendments to the organizational documents for the Company and its subsidiaries. The Company was in compliance with these covenants as of October

2, 2016.

Note 3 – Goodwill, Customer Relationships and Other Intangible Assets

Goodwill: Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in business combinations. The Company considers its wholly-owned subsidiaries, Crown Crafts Infant Products, Inc. (“CCIP”) and Hamco, Inc. (“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 as of October 2, 2016 and April 3, 2016 amounted to $24.0 million, and is reflected in the accompanying condensed 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 is performed during the year whenever an event or change in circumstances occurs that suggests 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 to ensure that its fair value exceeds its carrying value. If step one indicates that a potential impairment exists, then the second step is performed to measure the amount of an impairment charge, if any. In the second step, these estimated fair values are used as the hypothetical purchase price for the reporting units, and an allocation of such hypothetical purchase price is made to the identifiable tangible and intangible assets and assigned liabilities of the reporting units. The impairment charge is calculated as the amount, if any, by which the carrying value of the goodwill exceeds the implied amount of goodwill that results from this hypothetical purchase price allocation.

The annual impairment test of the fair value of the goodwill of the reporting units of the Company was performed as of April 4, 2016, 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 at October 2, 2016 and April 3, 2016 consisted primarily of the fair value of identifiable assets acquired in business combinations other than tangible assets and goodwill. The gross amount and accumulated amortization of the Company's other intangible assets as of October 2, 2016 and April 3, 2016, the amortization expense for the three and six-month periods ended October 2, 2016 and September 27, 2015 and the classification of such amortization expense within the accompanying unaudited condensed consolidated statements of income are as follows (in thousands):

	Gross Amount		**Accumulated Amortization**		**Amortization Expense Three-Month Periods Ended**		**Amortization Expense Six-Month Periods Ended**	
	October 2, 2016	**April 3, 2016**	**October 2, 2016**	**April 3, 2016**	**October 2, 2016**	**September 27, 2015**	**October 2, 2016**	**September 27, 2015**
Tradename and trademarks	$1,987	$1,987	$1,000	$933	$33	$ 33	$67	$ 66
Non-compete covenants	98	98	63	60	1	1	3	3
Patents	1,601	1,601	512	458	27	27	54	54
Customer relationships	5,534	5,534	4,140	3,887	127	128	253	248
Total other intangible assets	$9,220	$9,220	$5,715	$5,338	$188	$ 189	$377	$ 371
Classification within the accompanying unaudited condensed consolidated statements of income:								
Cost of products sold					$1	$ 1	$3	$ 3
Marketing and administrative expenses					187	188	374	368
Total amortization expense					$188	$ 189	$377	$ 371

Note 4 – Inventories

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

	October 2, 2016	**April 3, 2016**
Raw Materials	$35	$35

Finished Goods	15,497	14,750
Total inventory	$15,532	$14,785

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 Company’s Board of Directors (the “Board”), which selects eligible employees, non-employee directors and other individuals to participate in the 2014 Plan and determines the type, amount, duration and other terms of individual awards. Grants under the 2014 Plan are settled primarily through the issuance of new shares of the Company’s common stock, 814,000 shares of which were available for future issuance under the 2014 Plan as of October 2, 2016.

Stock-based compensation expense is calculated according to FASB ASC Topic 718, *Compensation – Stock Compensation*, which requires stock-based compensation expense to be accounted for using a fair-value-based measurement. The Company recorded stock-based compensation expense of $146,000 and $223,000 for the three-month periods ended October 2, 2016 and September 27, 2015, respectively, and recorded $307,000 and $479,000 for the six-month periods ended October 2, 2016 and September 27, 2015, respectively. The Company classifies the compensation expense associated with stock-based awards granted to individuals in the same classifications as the cash compensation paid to those same individuals. No stock-based compensation costs have been capitalized as part of the cost of an asset as of October 2, 2016.

Stock Options: The following table represents stock option activity for the six-month periods ended October 2, 2016 and September 27, 2015:

	Six-Month Period Ended October 2, 2016		Six-Month Period Ended September 27, 2015	
	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Exercise Price	Number of Options Outstanding
Outstanding at Beginning of Period	$7.64	305,000	$6.83	330,000
Granted	9.60	120,000	8.38	110,000
Exercised	7.68	(77,500)	6.57	(22,500)
Outstanding at End of Period	8.30	347,500	7.25	417,500
Exercisable at End of Period	7.38	172,500	6.46	225,000

As of October 2, 2016, the intrinsic value of the outstanding and exercisable stock options was $659,000 and $487,000, respectively. The intrinsic value of the stock options exercised during the three and six-month periods ended October 2, 2016 was $124,000 and $169,000, respectively. The Company did not receive any cash from the exercise of stock options during the three and six-month periods ended October 2, 2016 and September 27, 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 to remit the required income tax withholding amounts from “cashless” option exercises of $41,000 and $61,000 during the three and six-month periods ended October 2, 2016, respectively, and $12,000 during each of the three and six-month periods ended September 27, 2015.

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 the six-month periods ended October 2, 2016 and September 27, 2015, which options vest over a two-year period, assuming continued service.

	Six-Month Periods Ended	
	October 2, 2016	September 27, 2015
Options issued	120,000	110,000
Grant date	June 8, 2016	June 12, 2015

Dividend yield	3.33	%	3.82	%
Expected volatility	20.00	%	20.00	%
Risk free interest rate	0.93	%	1.12	%
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	$9.60		$8.38	
Fair value per option	$0.94		$0.77	

For the three-month periods ended October 2, 2016 and September 27, 2015, the Company recognized compensation expense associated with stock options as follows (in thousands):

	Three-Month Period Ended October 2, 2016			**Three-Month Period Ended September 27, 2015**		
Options Granted in Fiscal Year	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**
2015	$-	$ -	$ -	$12	$ 11	$ 23
2016	5	4	9	5	4	9
2017	8	6	14	-	-	-
Total stock option compensation	$13	$ 10	$ 23	$17	$ 15	$ 32

For the six-month periods ended October 2, 2016 and September 27, 2015, the Company recognized compensation expense associated with stock options as follows (in thousands):

	Six-Month Period Ended October 2, 2016			Six-Month Period Ended September 27, 2015		
Options Granted in Fiscal Year	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**
2014	$-	$ -	$ -	$7	$ 7	$ 14
2015	14	12	26	28	24	52
2016	12	10	22	6	5	11
2017	10	7	17	-	-	-
Total stock option compensation	$36	$ 29	$ 65	$41	$ 36	$ 77

As of October 2, 2016, total unrecognized stock option compensation expense amounted to $126,000, which will be recognized as the underlying stock options vest over a weighted-average period of 12.5 months. The amount of future stock option compensation expense could be affected by any future stock option grants and by the separation from the Company of any individual who has received stock options that are unvested as of such individual's separation date.

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

Number of Shares	Fair Value per Share	Three-Month Period Ended
28,000	$10.08	October 2, 2016
28,000	$8.20	September 27, 2015
28,000	$7.97	September 28, 2014
28,000	$6.67	September 29, 2013

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

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 was to vest only if (i) the closing price of the Company's common stock was 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 remained 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 amendments to provide for the immediate vesting of all or a portion of several of the grants. The vesting of these awards was accelerated in order to maximize the deductibility of the associated compensation expense by the Company for income tax purposes. During the three-month period ended September 27, 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 shares of common stock in the event that the aggregate average market value of the common stock during the relevant fiscal year, plus the amount of cash dividends paid in respect of the common stock during such period, increases. These individuals may instead be awarded cash, if and to the extent that insufficient shares of common stock are available for issuance from all shareholder-approved, equity-based plans or programs of the Company in effect. The performance bonus plan also imposes individual limits on awards and provides that shares of common stock that may be awarded will vest over a two-year period. Compensation expense associated with performance bonus plan awards are recognized over a three-year period – the fiscal year in which the award is earned, plus the two-year vesting period.

In connection with the performance bonus plan, the Company, in respect of fiscal year 2016, awarded 41,205 shares of common stock with a fair value of $7.865 per share during the three-month period ended July 3, 2016. In connection with these awards, the Company recognized compensation expense of $108,000 during fiscal year 2016, and will recognize, on a straight-line basis, $108,000 in compensation expense during each of fiscal years 2017 and 2018.

In connection with the performance bonus plan, the Company, in respect of fiscal year 2015, awarded 58,532 shares of common stock with a fair value of $7.18 per share during the three-month period ended June 28, 2015. In connection with these awards, the Company recognized compensation expense of $140,000 during each of fiscal years 2015 and 2016, and will recognize, on a straight-line basis, $140,000 in compensation expense during fiscal year 2017.

In connection with the performance bonus plan, the Company, in respect of fiscal year 2014, awarded 188,232 shares of common stock with a fair value of $5.65 per share during the three-month period ended June 29, 2014. In connection with these awards, the Company recognized compensation expense of $354,000 during each of fiscal years 2014, 2015 and 2016. During the three-month period ended June 28, 2015, 94,116 of these shares vested, with such shares having an aggregate value of $735,000. 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 vesting of the shares, and the Company remitted $360,000 to the appropriate taxing authorities on behalf of such individuals.

For the three-month periods ended October 2, 2016 and September 27, 2015, the Company recognized compensation expense associated with stock grants, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income, as follows (in thousands):

	Three-Month Period Ended October 2, 2016			**Three-Month Period Ended September 27, 2015**		
Stock Granted in Fiscal Year	**Employees**	**Non-employee Directors**	**Total Expense**	**Employees**	**Non-employee Directors**	**Total Expense**
2011	$-	$ -	$ -	$12	$ -	$ 12
2014	-	-	-	-	8	8
2015	-	9	9	89	28	117
2016	35	28	63	35	19	54
2017	27	24	51	-	-	-
Total stock grant compensation	$62	$ 61	$ 123	$136	$ 55	$ 191

For the six-month periods ended October 2, 2016 and September 27, 2015, the Company recognized compensation expense associated with stock grants, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income, as follows (in thousands):

	Six-Month Period Ended October 2, 2016			**Six-Month Period Ended September 27, 2015**		
Stock Granted in Fiscal Year	**Employees**	**Non-employee Directors**	**Total Expense**	**Employees**	**Non-employee Directors**	**Total Expense**
2011	$-	$ -	$ -	$48	$ -	$ 48
2014	-	-	-	-	31	31

2015	-	37	37	178	56	234
2016	70	57	127	70	19	89
2017	54	24	78	-	-	-
Total stock grant compensation	$124	$ 118	$ 242	$296	$ 106	$ 402

As of October 2, 2016, total unrecognized compensation expense related to the Company's non-vested stock grants amounted to $586,000, which will be recognized over the respective vesting terms associated with each block of non-vested stock indicated above, such grants having an aggregate weighted-average vesting term of 11.2 months. The amount of future compensation expense related to the Company's non-vested stock grants could be affected by any future non-vested stock grants and by the separation from the Company of any individual who has non-vested stock grants as of such individual's separation date.

Note 6 – Subsequent Events

On November 15, 2016, the Board declared a special cash dividend on the Company's common stock of $0.40 per share, which is in addition to the declaration of the regular quarterly cash dividend of $0.08 per share. Both dividends will be paid on January 6, 2017 to stockholders of record at the close of business on December 16, 2016. The Company has evaluated events which have occurred between October 2, 2016 and the date that the accompanying unaudited consolidated financial statements were issued, and has determined that there are no other material subsequent events that require disclosure.

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

The Company operates indirectly through its wholly-owned subsidiaries, CCIP and Hamco, in the infant, toddler and juvenile products segment within the consumer products industry. The infant and toddler products segment consists of infant and toddler bedding and blankets, bibs, soft bath products, disposable products 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 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. Sales outside the United States are made primarily through distributors.

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

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

RESULTS OF OPERATIONS

The following table contains results of operations for the three and six-month periods ended October 2, 2016 and September 27, 2015 and the dollar and percentage changes for those periods (in thousands, except percentages):

	Three-Month Periods Ended		Change		Six-Month Periods Ended		Change	
	October 2, 2016	September 27, 2015	$	%	October 2, 2016	September 27, 2015	$	%
Net sales by category								
Bedding, blankets and accessories	$10,090	$ 14,365	$(4,275)	-29.8%	$20,402	$ 26,635	$(6,233)	-23.4 %
Bibs, bath and disposable products	5,719	6,351	(632)	-10.0%	11,006	11,939	(933)	-7.8 %
Total net sales	15,809	20,716	(4,907)	-23.7%	31,408	38,574	(7,166)	-18.6 %
Cost of products sold	11,500	15,010	(3,510)	-23.4%	22,812	28,087	(5,275)	-18.8 %
Gross profit	4,309	5,706	(1,397)	-24.5%	8,596	10,487	(1,891)	-18.0 %
% of net sales	*27.3 %*	*27.5 %*			*27.4 %*	*27.2 %*		
Marketing and administrative expenses	2,761	3,108	(347)	-11.2%	5,600	6,369	(769)	-12.1 %
% of net sales	*17.5 %*	*15.0 %*			*17.8 %*	*16.5 %*		
Interest expense	23	31	(8)	-25.8%	42	39	3	7.7 %
Other income	33	19	14	73.7 %	94	39	55	141.0%
Income tax expense	559	1,021	(462)	-45.2%	946	1,626	(680)	-41.8 %
Net income	999	1,565	(566)	-36.2%	2,102	2,492	(390)	-15.7 %
% of net sales	*6.3 %*	*7.6 %*			*6.7 %*	*6.5 %*		

Net Sales: Sales decreased by $4.9 million, or 23.7%, for the three-month period ended October 2, 2016 and $7.2 million, or 18.6%, for the six-month period ended October 2, 2016, compared with the same periods in the prior year. The decrease in sales is related to the continuing overall sluggish environment in addition to several other factors. The infant bedding marketplace is experiencing a change in which parents are purchasing fewer bedding sets in favor of separates, which often do not include bumpers and comforters (commonly referred to as the ‘naked crib’ in the infant bedding industry), resulting in a lower average price point for the Company’s products in this business. This trend has been partially offset by the Company’s expanded offerings of separates and infant bedroom décor. Additionally, due to the strength of the U.S. dollar, the Company has received price reductions from its global suppliers, which have been partially passed on to the Company’s customers. The Company has also reduced product shipments to a customer that is experiencing credit problems. Also, the timing of shipments, for both initial sets and replenishment, can cause comparisons between quarters to be difficult.