

CROWN CRAFTS INC
Form 10-Q
February 09, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q**

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

For the quarterly period ended December 26, 2010

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

For the transition period from _____ to _____

Commission File No. 1-7604

CROWN CRAFTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

58-0678148

(State or other jurisdiction of
incorporation or organization)

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

916 South Burnside Avenue, Gonzales, Louisiana 70737

(Address of principal executive offices)

(225) 647-9100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ○ Accelerated filer ○ Non-Accelerated filer ○ Smaller Reporting Company ☐

(Do not check if a smaller reporting company)

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

The number of shares of common stock, \$0.01 par value, of the registrant outstanding as of January 28, 2011 was 9,581,446.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

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

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

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

Shareholders equity:

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

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

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

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

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

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

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Loss from discontinued operations net of
income taxes

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

See notes to unaudited condensed consolidated financial statements.

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

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

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

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

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Crown Crafts, Inc. and its subsidiaries (collectively, the Company) and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to interim financial information as promulgated by the Financial Accounting Standards Board (FASB) and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. References herein to GAAP are to topics within the FASB Accounting Standards Codification (the FASB ASC), which the FASB periodically revises through the issuance of an Accounting Standards Update (ASU) and which has been established by the FASB as the authoritative source for GAAP recognized by the FASB to be applied by nongovernmental entities. In the opinion of management, these interim consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of December 26, 2010 and the results of its operations and cash flows for the periods presented. Such adjustments include normal, recurring accruals, as well as the elimination of all significant intercompany balances and transactions. Operating results for the three and nine-month periods ended December 26, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending April 3, 2011. For further information, refer to the Company's consolidated financial statements and notes thereto included in the annual report on Form 10-K for the year ended March 28, 2010.

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

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated balance sheets and the reported amounts of revenues and expenses during the periods presented on the consolidated statements of income and cash flows. Significant estimates are made with respect to the allowances related to accounts receivable for customer deductions for returns, allowances and disputes. The Company has a certain amount of discontinued finished goods which necessitate the establishment of inventory reserves that are highly subjective. Actual results could differ from those estimates.

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

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

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

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

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

Segment and Related Information: The Company operates primarily in one principal segment, infant and toddler products. These products consist of infant and toddler bedding, infant bibs and related soft goods. Net sales of

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

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

Allowances Against Accounts Receivable: The Company's allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as advertising and warehouse allowances and volume rebates. These deductions are recorded throughout the year commensurate with sales activity. Funding of the majority of the Company's allowances occurs on a per-invoice basis. The allowances for customer deductions, which are netted against accounts receivable in the consolidated balance sheets, consist of agreed upon advertising support, markdowns and warehouse and other allowances. All such allowances are recorded as direct offsets to sales and such costs are accrued commensurate with sales activities. When a customer requests deductions, the allowances are reduced to reflect such payments or credits issued against the customer's account balance. The Company analyzes the components of the allowances for customer deductions monthly and adjusts the allowances to the appropriate levels. The timing of customer-initiated funding requests for advertising support can cause the net balance in the allowance account to fluctuate from period to period. The timing of funding requests should have no impact on the consolidated statements of income since such costs are accrued commensurate with sales activity.

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

Inventory Valuation: The preparation of the Company's financial statements requires careful determination of the appropriate dollar amount of the Company's inventory balances. Such amount is presented as a current asset in the accompanying consolidated balance sheets and is a direct determinant of cost of goods sold in the accompanying consolidated statements of income and, therefore, has a significant impact on the amount of net income in the accounting periods reported. The basis of accounting for inventories is cost, which is the sum of expenditures and charges, both direct and indirect, incurred to acquire inventory, bring it to a condition suitable for sale, and store it until it is sold. Once cost has been determined, the Company's inventory is then stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method, which assumes that inventory quantities are sold in the order in which they are acquired. The determination of the indirect charges and their allocation to the Company's finished goods inventories is complex and requires significant management judgment and estimates. If management made different judgments or utilized different estimates, then differences would result in the valuation of the Company's inventories, the amount and timing of the Company's cost of goods sold and the resulting net income for any accounting period.

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

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

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

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

Royalty Payments: The Company has entered into agreements that provide for royalty payments based on a percentage of sales with certain minimum guaranteed amounts. These royalties are accrued based upon historical sales rates adjusted for current sales trends by customers. Royalty expense is included in cost of sales and amounted to \$4.9 million and \$4.7 million for the nine-month periods ended December 26, 2010 and December 27, 2009, respectively.

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

Management evaluates items of income, deductions and credits reported on the Company's various federal and state income tax returns filed, and recognizes the effect of positions taken on those income tax returns only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Based on its recent evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the accompanying consolidated financial statements. Tax years open to federal or state general examination or other adjustment as of December 26, 2010 were the tax years ended March 30, 2008, March 29, 2009 and March 28, 2010, as well as the tax year ended April 1, 2007 for several states. The Company's policy is to accrue interest expense and penalties as appropriate on any estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income.

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

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

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

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

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

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

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

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

	Amount
Tangible assets:	
Accounts receivable	\$ 837
Inventory	548
Prepaid expenses	52
Fixed assets	12
Other assets	2
Total tangible assets	1,451
Amortizable intangible assets:	
Trademarks	892
Designs	33
Non-compete covenant	241
Customer relationships	1,302
Total amortizable intangible assets	2,468
Goodwill	864
Total acquired assets	4,783
Liabilities assumed – accounts payable	349
Net acquisition cost	\$ 4,434

Bibsters®: On May 27, 2010, Hamco paid \$1.8 million to The Procter & Gamble Company (*P&G*) to acquire certain intellectual property related to P&G's line of Bibsters® disposable infant bibs. In a separate but related transaction, Hamco also acquired the inventory associated with the Bibsters® product line from the exclusive licensee of Bibsters® for P&G, whose license was terminated to coincide with the closing (collectively, the two transactions represent the *Bibsters*® Acquisition). Hamco also recognized as expense \$92,000 of direct costs associated with the acquisition, which were included in marketing and administrative expenses during the nine-month period ended December 26, 2010.

The *Bibsters*® Acquisition resulted in an increase of \$368,000 and \$1.2 million in net sales of bibs, bath and disposable products for the three and nine-month periods ended December 26, 2010, respectively. Because the operations of the *Bibsters*® product line have been integrated with Hamco, and because the assets acquired do not exist as a discrete entity within the Company's internal corporate structure, it is impracticable to determine the earnings generated by the assets acquired from the *Bibsters*® product line since the acquisition date. The Company believes that the pro forma impact of the acquisition is not material.

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

	Amount
Amortizable intangible assets:	
Trademarks	\$ 629
Patents	553
Customer relationships	328
Total amortizable intangible assets	1,510
Goodwill	290
Total intangible assets	1,800
Tangible assets inventory	272
Total acquisition cost	\$ 2,072

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The Company has two incentive stock plans, the 1995 Stock Option Plan (1995 Plan) and the 2006 Omnibus Incentive Plan (2006 Plan). The Company granted non-qualified stock options to employees and non-employee directors from the 1995 Plan through the fiscal year ended April 2, 2006. In conjunction with the approval of the 2006 Plan by the Company's stockholders at its Annual Meeting in August 2006, options may no longer be issued from the 1995 Plan. The 2006 Plan is intended to attract and retain directors, officers and employees of the Company and to motivate these persons to achieve performance objectives related to the Company's overall goal of increasing stockholder value. The principal reason for adopting the 2006 Plan was to ensure that the Company has a mechanism for long-term, equity-based incentive compensation to directors, officers and employees. Awards granted under the 2006 Plan may be in the form of qualified or non-qualified stock options, restricted stock, stock appreciation rights, long-term incentive compensation units consisting of a combination of cash and shares of the Company's common stock, or any combination thereof within the limitations set forth in the 2006 Plan. The 2006 Plan is administered by the compensation committee of the Company's Board of Directors (the Board), which selects eligible employees and non-employee directors to participate in the 2006 Plan and determines the type, amount, duration and other terms of individual awards. At December 26, 2010, 337,000 shares of the Company's common stock were available for future issuance under the 2006 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 \$121,000 and \$605,000 of stock-based compensation expense during the three and nine-month periods ended December 26, 2010, respectively, and recorded \$141,000 and \$617,000 of stock-based compensation expense during the three and nine-month periods ended December 27, 2009, 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 have been capitalized as part of the cost of an asset as of December 26, 2010.

Stock Options: The following table represents stock option activity for fiscal year 2011:

	Weighted-Average Exercise Price	Number of Options Outstanding
Outstanding at March 28, 2010	\$ 2.94	825,832
Granted	4.23	110,000
Exercised	(2.04)	(166,832)
Forfeited	(3.86)	(17,000)
Outstanding at December 26, 2010	3.31	752,000
Exercisable at December 26, 2010	3.19	572,000

The total intrinsic value of the stock options exercised during the three and nine-month periods ended December 26, 2010 was \$104,000 and \$408,000, respectively. As of December 26, 2010, the intrinsic value of the outstanding and exercisable stock options was \$1.5 million and \$1.2 million, 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, and the resulting grant-date fair value per option, of the non-qualified stock options which were awarded to certain employees during the nine-month period ended December 26, 2010, which options vest over a two-year period, assuming continued service.

Options issued	110,000
Grant Date	June 23, 2010

Dividend yield		1.89%
Expected volatility		55.00%
Risk free interest rate		2.17%
Expected life in years		5.75
Forfeiture rate		5.00%
Exercise price (grant-date closing price)	\$	4.23
Fair value	\$	1.88

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For the three and nine-month periods ended December 26, 2010, the Company recognized compensation expense associated with stock options as follows (in thousands):

Options Granted in Fiscal Year	Three-month Period			Nine-month Period		
	Cost of Products Sold	Marketing & Administrative Expenses	Total Expense	Cost of Products Sold	Marketing & Administrative Expenses	Total Expense
2009	\$	\$	\$	\$ 13	\$ 38	\$ 51
2010	9	18	27	28	66	94
2011	11	9	20	22	23	45
Total stock option compensation	\$ 20	\$ 27	\$ 47	\$ 63	\$ 127	\$ 190

For the three and nine-month periods ended December 27, 2009, the Company recognized compensation expense associated with stock options as follows (in thousands):

Options Granted in Fiscal Year	Three-month Period			Nine-month Period		
	Cost of Products Sold	Marketing & Administrative Expenses	Total Expense	Cost of Products Sold	Marketing & Administrative Expenses	Total Expense
2008	\$	\$	\$	\$ 16	\$ 41	\$ 57
2009	11	33	44	37	111	148
2010	9	20	29	13	31	44
Total stock option compensation	\$ 20	\$ 53	\$ 73	\$ 66	\$ 183	\$ 249

As of December 26, 2010, total unrecognized stock option compensation expense amounted to \$221,000, which will be recognized as the underlying stock options vest over a period of up to two years. 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: On August 25, 2006, the Board granted 375,000 shares of non-vested stock to certain employees with a fair value of \$3.15 per share, which was the closing price of the Company's common stock on that date. These shares vested upon four years of continued service, except as set forth below.

During the quarter ended September 27, 2009, the Company amended the non-vested stock grant that had been awarded in 2006 to E. Randall Chestnut, Chairman, Chief Executive Officer and President of the Company. Under the terms of the amended non-vested stock grant, the vesting of 160,000 of the 320,000 shares awarded to Mr. Chestnut was accelerated from August 25, 2010 to August 12, 2009. During the nine-month period ended December 26, 2010, the acceleration of the vesting of these shares resulted in the recognition of compensation expense of \$53,000 less than that which would have been recognized if the acceleration of the vesting had not occurred. On August 25, 2010, the remaining 215,000 shares vested that had been awarded to certain employees in 2006 at an aggregate value of \$968,000.

The Board granted 30,000 shares of non-vested stock to its non-employee directors during each of the quarters ended September 26, 2010, September 27, 2009 and September 28, 2008 with a weighted-average fair value of \$4.36, \$3.02 and \$3.87, respectively, based upon the closing prices of the Company's common stock on the date of each of the grants. These shares vest over a two-year period, assuming continued service, except as set forth below.

On May 27, 2010, the Company amended the stock grants that had been awarded to Sidney Kirschner in 2008 and 2009 to induce Mr. Kirschner to resign from the Board. Under the terms of the amended non-vested stock grants, the vesting of 2,500 of the 5,000 shares awarded in 2008 and all 5,000 of the shares awarded in 2009 was accelerated to May 27, 2010. The total value of Mr. Kirschner's 7,500 shares that vested on May 27, 2010 amounted to \$30,000.

In August 2010, 25,000 shares vested that had been granted to non-employee directors, having an aggregate value of \$113,000, and 5,000 shares were forfeited upon the departure from the Board of two non-employee directors prior to the vesting of their shares.

The Board awarded 345,000 shares of non-vested stock to certain employees as of June 23, 2010 (the Grant Date) in a series of grants which will vest only if 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 (the Market Condition), assuming continued service through the date the Market Condition is achieved.

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As of July 29, 2010 (the Modification Date), the Company amended these non-vested stock grants to require as a condition to vesting a five-year period of continuous service after the Modification Date in addition to the achievement of the Market Condition. The amendment of these non-vested stock grants will be accounted for as a modification. As such, the initial aggregate Grant Date fair value and the incremental cost resulting from the modification, if any, will be recognized as compensation expense over the vesting term of the modified awards. The Company, with the assistance of an independent third party, has determined that the aggregate Grant Date fair value of the original awards amounted to \$1.2 million, and has further determined that there is no incremental cost resulting from the modification. Therefore, the aggregate Grant Date fair value of \$1.2 million will be recognized as compensation expense over a period beginning on the Grant Date and ending on the fifth anniversary of the Modification Date.

For the three and nine-month periods ended December 26, 2010, the Company recognized compensation expense associated with non-vested stock grants, which is included in marketing and administrative expenses in the accompanying consolidated statements of income, as follows (in thousands):

Stock Granted in Fiscal Year	Three-month Period			Nine-month Period		
	Employees	Non-employee Directors	Total Expense	Employees	Non-employee Directors	Total Expense
2007	\$	\$	\$	\$ 70	\$	\$ 70
2009					19	19
2010		6	6		38	38
2011	52	16	68	261	27	288
Total stock grant compensation	\$ 52	\$ 22	\$ 74	\$ 331	\$ 84	\$ 415

For the three and nine-month periods ended December 27, 2009, the Company recognized compensation expense associated with non-vested stock grants, which is included in marketing and administrative expenses in the accompanying consolidated statements of income, as follows (in thousands):

Stock Granted in Fiscal Year	Three-month Period			Nine-month Period		
	Employees	Non-employee Directors	Total Expense	Employees	Non-employee Directors	Total Expense
2007	\$ 42	\$	\$ 42	\$ 305	\$	\$ 305
2009		15	15		44	44
2010		11	11		19	19
Total stock grant compensation	\$ 42	\$ 26	\$ 68	\$ 305	\$ 63	\$ 368

As of December 26, 2010, total unrecognized compensation expense related to the Company's non-vested stock grants amounted to \$1.1 million, which will be recognized over the respective vesting terms associated with each block of grants as indicated above. 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 received non-vested stock grants that remain non-vested as of such individual's separation date.

Note 4 Inventories

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

December 26, 2010	March 28, 2010
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Raw Materials	\$	35	\$	66
Finished Goods		19,317		10,387
Total inventory	\$	19,352	\$	10,453

Note 5 Discontinued Operations

In June 2007, the operations of Churchill Weavers, Inc. (Churchill), a wholly-owned subsidiary of the Company, ceased and all employees were terminated. The Company is actively marketing Churchill s land and building for sale. The Churchill property is recorded at fair value, less cost to sell, and is classified as assets held for sale in the accompanying consolidated balance sheets. The costs to maintain the Churchill property are classified as discontinued operations in the accompanying consolidated statements of income.

Table of Contents**Note 6 Financing Arrangements**

Factoring Agreement: The Company assigns the majority of its trade accounts receivable to CIT under factoring agreements. Under the terms of the factoring agreements, which expire in July 2013, CIT remits payments to the Company on the average due date of each group of invoices assigned. If a customer fails to pay CIT on the due date, then the Company is charged interest at prime plus 1.0%, which was 4.25% at December 26, 2010, until payment is received. The Company incurred interest expense of \$19,000 and \$15,000 for the three-month periods ended December 26, 2010 and December 27, 2009, respectively, and \$54,000 and \$50,000 for the nine-month periods ended December 26, 2010 and December 27, 2009, respectively, as a result of the failure of the Company's customers to pay CIT by the due date. CIT bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits. 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 cease shipments to such customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying consolidated statements of income, were \$114,000 and \$144,000 for the three-month periods ended December 26, 2010 and December 27, 2009, respectively, and were \$401,000 and \$428,000 for the nine-month periods ended December 26, 2010 and December 27, 2009, respectively. There were no advances from the factor at either December 26, 2010 or December 27, 2009.

Notes Payable and Other Credit Facilities: At December 26, 2010 and March 28, 2010, long-term debt of the Company consisted of (in thousands):

	December 26, 2010	March 28, 2010
Revolving line of credit	\$ 5,666	\$ 1,422
Non-interest bearing notes	2,000	4,000
Original issue discount	(83)	(232)
	7,583	5,190
Less current maturities	1,917	1,952
	\$ 5,666	\$ 3,238

The Company's credit facilities at December 26, 2010 consisted of the following:

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 plus 1.00%, which was 4.25% at December 26, 2010, or LIBOR plus 3.00%, which was 3.26% at December 26, 2010, maturing on July 11, 2013 and secured by a first lien on all assets of the Company. As of December 26, 2010, the Company had elected to pay interest on the revolving line of credit under the LIBOR option. Also under the financing agreement, a monthly fee is assessed based on 0.25% of the average unused portion of the \$26.0 million revolving line of credit, less any outstanding letters of credit. This unused line fee amounted to \$12,000 and \$4,000 for the three-month periods ended December 26, 2010 and December 27, 2009, respectively, and \$34,000 and \$9,000 for the nine-month periods ended December 26, 2010 and December 27, 2009, respectively. At December 26, 2010, there was a balance due on the revolving line of credit of \$5.7 million, there was a \$500,000 letter of credit outstanding and the Company had \$16.6 million available under the revolving line of credit based on its 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, dividends, transactions with affiliates and amendments to the organizational documents for the Company and its subsidiaries. The Company was in compliance with these covenants as of December 26, 2010.

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Subordinated Notes totaling \$2.0 million. The notes do not bear interest and are due on July 11, 2011. The original issue discount of \$83,000 on these non-interest bearing obligations at a market interest rate of 7.25% is being amortized over the life of the notes.

Minimum annual maturities as of December 26, 2010 are as follows (in thousands):

Fiscal Year	Revolver	Sub Notes	Total
2012	\$	\$ 2,000	\$ 2,000
2013			
2014	5,666		5,666
Total	\$ 5,666	\$ 2,000	\$ 7,666

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The Company has determined that there are no subsequent events that require disclosure pursuant to FASB ASC Topic 855, as revised.

Note 8 Goodwill, Customer Relationships and Other Intangible Assets

Goodwill: The Company reported goodwill of \$864,000 at March 28, 2010. The Company tests the fair value of the goodwill of its reporting units annually as of the first day of the Company's fiscal year. An additional interim impairment test is performed during the year whenever an event or change in circumstances occurs that suggests that the fair value of the goodwill of either of the reporting units of the Company has more likely than not fallen below its carrying value. The annual or interim impairment test is performed in a two-step approach. The first step is the estimation of the fair value of each reporting unit to ensure that its fair value exceeds its carrying value. If step one indicates that a potential impairment exists, then the second step is performed to measure the amount of an impairment charge, if any. In the second step, these estimated fair values are used as the hypothetical purchase price for the reporting units, and an allocation of such hypothetical purchase price is made to the identifiable tangible and intangible assets and assigned liabilities of the reporting units. The impairment charge is calculated as the amount, if any, by which the carrying value of the goodwill exceeds the implied amount of goodwill that results from this hypothetical purchase price allocation.

The Company has performed the annual impairment test of the fair value of the goodwill of its reporting units as of March 29, 2010, and has concluded that the fair value of the goodwill of the Company's reporting units exceeded their carrying values as of that date. During the three-month period ended June 27, 2010, the Company recorded goodwill of \$290,000 in connection with the Bibsters® Acquisition as the excess of the consideration paid over the fair value of the identifiable tangible and intangible assets acquired, the entirety of which is expected to be amortizable for tax purposes.

Customer Relationships and Other Intangible Assets: Other intangible assets at December 26, 2010 consisted primarily of the capitalized costs of recent acquisitions, other than tangible assets, goodwill and assumed liabilities. The carrying amount and accumulated amortization of the Company's other intangible assets as of December 26, 2010, their estimated useful life and amortization expense for the three and nine-month periods ended December 26, 2010 and December 27, 2009 are as follows (dollar amounts in thousands):

	Estimated		Amortization Expense			
	Carrying Amount	Useful Life	Accumulated Amortization	Three-month Periods Ended December 26, 2010	Nine-month Periods Ended December 26, 2010	December 27, 2009
Kimberly Grant Acquisition on December 29, 2006:						
Tradename	\$ 466	15 years	\$ 124	\$ 7	\$ 8	\$ 24
Existing designs	36	1 year	36			
Non-compete covenant	98	15 years	26	2	2	5
Total Kimberly Grant Acquisition	600	14 years*	186	9	10	28

Springs Baby Products Acquisition on November 5,

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2007:

Licenses & existing designs	1,655	2 years	1,655		69		483
Licenses & future designs	1,847	4 years	1,462	115	115	346	346
Non-compete covenant	115	4 years	91	7	7	22	21
Customer relationships	3,781	10 years	1,198	95	95	284	284
Total Springs Baby Acquisition	7,398	7 years*	4,406	217	286	652	1,134

Neat Solutions Acquisition on July 2, 2009:

Trademarks	892	15 years	89	15	14	44	29
Designs	33	4 years	13	2	2	7	4
Non-compete covenant	241	5 years	72	12	12	36	24
Customer relationships	1,302	16 years	122	20	20	61	40
Total Neat Solutions Acquisition	2,468	14 years*	296	49	48	148	97

Bibsters® Acquisition on May 27, 2010:

Trademarks	629	15 years	25	11		25	
Patents	553	10 years	32	14		32	
Customer relationships	328	14 years	14	6		14	
Total Bibsters® Acquisition	1,510	13 years*	71	31		71	
Internally developed intangible assets	136	10 years	34	3	2	8	6
Total other intangible assets	\$ 12,112		\$ 4,993	\$ 309	\$ 346	\$ 907	\$ 1,265

* Weighted-Average

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The Company operates indirectly through its subsidiaries, Crown Crafts Infant Products, Inc. and Hamco, 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, disposable products, soft goods 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, wholesale clubs and catalog retailers. 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 Rogers, Arkansas. Products are also marketed by independent commissioned sales representatives located throughout the United States and Canada. Sales outside the United States and Canada are made primarily through distributors.

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

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.

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 the three and nine-month periods ended December 26, 2010 and December 27, 2009 and the dollar and percentage changes for those periods (in thousands, except percentages):

	Three-month Periods				Nine-month Periods			
	Ended		Change	Change	Ended		Change	Change
	December 26, 2010	December 27, 2009			December 26, 2010	December 27, 2009		
Net sales by category								
Bedding, blankets and accessories	\$ 16,718	\$ 15,802	\$ 916	5.8%	\$ 46,572	\$ 46,608	\$ (36)	-0.1%
Bibs, bath and disposable products	5,220	4,844	376	7.8%	16,244	13,486	2,758	20.5%
Total net sales	21,938	20,646	1,292	6.3%	62,816	60,094	2,722	4.5%
Cost of products sold	17,531	16,008	1,523	9.5%	48,463	46,973	1,490	3.2%
Gross profit	4,407	4,638	(231)	-5.0%	14,353	13,121	1,232	9.4%
<i>% of net sales</i>	<i>20.1%</i>	<i>22.5%</i>			<i>22.8%</i>	<i>21.8%</i>		
Marketing and administrative expenses	3,047	2,746	301	11.0%	9,581	8,625	956	11.1%
<i>% of net sales</i>	<i>13.9%</i>	<i>13.3%</i>			<i>15.3%</i>	<i>14.4%</i>		
Interest expense	112	181	(69)	-38.1%	334	581	(247)	-42.5%
Other income	(8)	9	(17)	-188.9%	1	(30)	31	-103.3%
Income tax expense	460	598	(138)	-23.1%	1,711	1,409	302	21.4%
Income from continuing operations	780	1,122	(342)	-30.5%	2,728	2,476	252	10.2%

after taxes								
Discontinued operations net of taxes	(5)	(9)	4	-44.4%	(13)	(22)	9	-40.9%
Net income	775	1,113	(338)	-30.4%	2,715	2,454	261	10.6%
<i>% of net sales</i>	3.5%	5.4%			4.3%	4.1%		

Net Sales: Sales of bedding, blankets and accessories increased by \$916,000 for the three-month period of fiscal 2011 as compared to the same period in fiscal 2010, resulting from the successes of new designs and promotions that exceeded the decreases related to programs that were discontinued and had lower replenishment orders.

Sales of bedding, blankets and accessories were virtually the same for the nine-month periods of fiscal years 2011 and 2010 as the increases from new bedding and blanket programs were matched by decreases from discontinued programs and lower replenishment orders.

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Sales of bib, bath and disposable products increased for the three-month period of fiscal year 2011 as compared to the same period in fiscal year 2010 primarily as a result of the Bibsters® Acquisition.

Sales of bib, bath and disposable products increased for the nine-month period of fiscal year 2011 as compared to the same period in fiscal year 2010 primarily as a result of an increase of \$2.3 million in the aggregate due to the Neat Solutions Acquisition and the Bibsters® Acquisition.

Gross Profit: Gross profit decreased in amount and as a percentage of net sales for the three-month period of fiscal year 2011 as compared to the same period of fiscal year 2010. During the current year period, the Company made promotional sales to one of its major retail customers, resulting in a contribution margin from sales to that customer that was lower than in the prior year period. The Company incurred higher raw material, labor, transportation and currency costs in the current year period associated with the Company's sourcing operations in China, as well as a royalty shortfall from a major licensor that was \$95,000 higher than in the prior year period. Offsetting these increases was a decrease in amortization costs of \$69,000 in the current year period associated with the acquisition of the baby products line of Springs Global in November 2007.

Gross profit increased in amount and as a percentage of net sales for the nine-month period of fiscal year 2011 as compared to the same period of fiscal year 2010. The contributions from the Neat Solutions Acquisition and the Bibsters® Acquisition have provided incrementally higher margins by increasing sales without proportionately increasing fixed overhead costs. Also, amortization costs associated with the acquisition of the baby products line of Springs Global in November 2007 decreased by \$483,000 for the nine-month period of the current year.

Marketing and Administrative Expenses: Marketing and administrative expenses for the three and nine-month periods of fiscal year 2011 increased as compared to the same periods of fiscal year 2010. Advertising costs were \$64,000 and \$164,000 higher in the three and nine-month periods of the current year, respectively. The Company incurred approximately \$250,000 in non-recurring professional fees in connection with certain corporate governance matters in each of the three and nine-month periods of the current year that were not incurred in the prior year. The Company also incurred costs of \$401,000 for the nine-month period of the current year that were associated with the Company's proxy contest that were not incurred in the prior year.

Interest Expense: The decrease in interest expense for the three and nine-month periods of fiscal year 2011 as compared to the same period in fiscal year 2010 is due to lower balances on the Company's revolving line of credit and term loan.

Income Tax Expense: The Company's provision for income taxes on continuing operations is based upon an effective tax rate of 38.5% for the nine-month period of fiscal year 2011 as compared to 36.3% for the same period of fiscal year 2010.

The Company has traditionally attempted to increase its prices to offset inflation but cannot assure that it will be successful in this regard in the future.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash of \$216,000 was provided by operating activities for the nine-month period ended December 26, 2010, compared to \$10.9 million provided by operating activities for the nine-month period ended December 27, 2009. The decrease in cash provided by operating activities in the current year was due to a higher increase in inventory balances and a lower reduction of accounts receivable balances, offset by a higher increase in accounts payable balances.

Net cash used in investing activities was \$1.7 million in the current year compared to \$5.1 million in the prior year. Cash used in investing activities in the current year included \$2.1 million associated with the Bibsters® Acquisition, offset by proceeds of \$505,000 from the maturity of a certificate of deposit purchased in the prior year in connection with the issuance on behalf of the Company of a standby letter of credit to guarantee the payment of certain of the Company's royalty obligations. Cash used in investing activities in the prior year included \$4.4 million associated with the Neat Solutions Acquisition.

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Net cash provided by financing activities in the current year was \$1.4 million compared to cash of \$20.1 million used in financing activities in the prior year. There were net borrowings of \$4.2 million in the current year on the Company's revolving line of credit compared to \$18.1 million in net repayments in the prior year, the largest portion of which came from a reduction of the Company's cash reserves in December 2009. The Company had built up its cash reserves in the prior year by drawing upon its revolving line of credit in order to preserve the Company's ability to meet its working capital needs in the event that the Company's primary lender should suffer an adverse liquidity event that would jeopardize the Company's ability to draw upon its revolving line of credit. The Company also paid \$562,000 in dividends in the current year as compared to none in the prior year and had \$333,000 in higher repayments of the Company's term debt obligations in the current year as compared to the prior year.

Total debt outstanding under the Company's credit facilities before the reduction for the original issue discount on the non-interest bearing notes increased from \$5.9 million at December 27, 2009 to \$7.7 million at December 26, 2010. The increase is due primarily to outlays to fund the Bibsters® Acquisition. At December 26, 2010, there was a balance of \$5.7 million due on the revolving line of credit, there was a \$500,000 letter of credit outstanding and the Company had \$16.6 million available under the revolving line of credit based on its eligible accounts receivable and inventory balances.

The Company's ability to make scheduled payments of principal, to pay the interest on or 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. Based upon the current level of operations, the Company believes that its cash flow from operations and its availability from the revolving line of credit will be adequate to meet its liquidity needs.

To reduce its exposure to credit losses and to enhance the predictability of its cash flow, the Company assigns the majority of its trade accounts receivable to CIT pursuant to factoring agreements. CIT approves customer accounts and credit lines and collects the Company's accounts receivable balances. Under the terms of the factoring agreements, which expire in July 2013, CIT remits payments to the Company on the average due date of each group of invoices assigned. If a customer fails to pay CIT on the due date, the Company is charged interest on the unpaid balance at prime plus 1.0%, which was 4.25% at December 26, 2010, until payment is received. The Company incurred interest expense of \$19,000 and \$15,000 for the three-month periods ended December 26, 2010 and December 27, 2009, respectively, and \$54,000 and \$50,000 for the nine-month periods ended December 26, 2010 and December 27, 2009, respectively, as a result of the failure of the Company's customers to pay CIT by the due date. CIT bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits. The Company bears the responsibility for adjustments 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 cease shipments to such customer.

FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such statements are based upon management's current expectations, projections, estimates and assumptions. Words such as *expects*, *believes*, *anticipates* and variations of such words and similar expressions identify such forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that may cause future results to differ materially from those suggested by the forward-looking statements. These risks include, among others, general economic conditions, including changes in interest rates, in the overall level of consumer spending and in the price of oil, cotton and other raw materials used in the Company's products, changing competition, changes in the retail environment, the level and pricing of future orders from the Company's customers, the Company's dependence upon third-party suppliers, including some located in foreign countries with unstable political situations, the Company's ability to successfully implement new information technologies, customer acceptance of both new designs and newly-introduced product lines, actions of competitors that may impact the Company's business, disruptions to transportation systems or shipping lanes used by the Company or its suppliers, and the Company's dependence upon

licenses from third parties. Reference is also made to the Company's periodic filings with the SEC for additional factors that may impact the Company's results of operations and financial condition. The Company does not undertake to update the forward-looking statements contained herein to conform to actual results or changes in the Company's explanations, whether as a result of new information, future events or otherwise.

Table of Contents**ITEM 4. CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

During the three-month period ended December 26, 2010, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company is 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 condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. of Part 1 in the Company's annual report on Form 10-K for the year ended March 28, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**(c) Issuer Purchases of Equity Securities.**

The table below sets forth information regarding the Company's repurchase of its outstanding common stock during the three-month period ended December 26, 2010.

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
September 27, 2010 through October 31, 2010	12,668	\$ 5.41	0	\$ 0
November 1, 2010 through November 28, 2010	6,478	\$ 5.32	0	\$ 0
November 29, 2010 through December 26, 2010	0	\$ 0	0	\$ 0
Total	19,146	\$ 5.38	0	\$ 0

- (1) The shares purchased from September 27, 2010 through December 26, 2010 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 stock options.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit No.	Exhibit
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer (1)
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer (1)
32.1	Section 1350 Certification by the Company's Chief Executive Officer (1)
32.2	Section 1350 Certification by the Company's Chief Financial Officer (1)

(1) Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CROWN CRAFTS, INC.

Date: February 9, 2011

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

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Index to Exhibits

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