

CROWN CRAFTS INC  
Form 10-Q  
August 14, 2012

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 July 1, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-7604

CROWN CRAFTS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

58-0678148  
(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)

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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 July 31, 2012 was 9,747,304.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
 JULY 1, 2012 AND APRIL 1, 2012

|  | July 1, 2012<br>(Unaudited) | April 1, 2012    |
|--|-----------------------------|------------------|
| (amounts in thousands, except<br>share and per share amounts)                                  |                             |                  |
| <b>ASSETS</b>  |                             |                  |
| Current assets:  |                             |                  |
| Cash and cash equivalents  | \$ 3,561                    | \$ 214           |
| Accounts receivable (net of allowances of \$771 at July 1, 2012 and \$1,062 at April 1, 2012): |                             |                  |
| Due from factor  | 14,509                      | 19,441           |
| Other  | 656                         | 882              |
| Inventories  | 14,519                      | 11,839           |
| Prepaid expenses   | 2,110                       | 2,427            |
| Assets held for sale   | -                           | 275              |
| Deferred income taxes  | 35                          | -                |
| <b>Total current assets</b>  | <b>35,390</b>               | <b>35,078</b>    |
| Property, plant and equipment - at cost:   |                             |                  |
| Vehicles   | 187                         | 187              |
| Land, buildings and leasehold improvements   | 491                         | 217              |
| Machinery and equipment  | 2,388                       | 2,351            |
| Furniture and fixtures   | 747                         | 747              |
| <b>Property, plant and equipment - gross</b>   | <b>3,813</b>                | <b>3,502</b>     |
| Less accumulated depreciation  | 3,043                       | 2,988            |
| <b>Property, plant and equipment - net</b>   | <b>770</b>                  | <b>514</b>       |
| Finite-lived intangible assets - at cost:  |                             |                  |
| Customer relationships   | 5,411                       | 5,411            |
| Other finite-lived intangible assets   | 7,112                       | 6,858            |
| <b>Finite-lived intangible assets - gross</b>  | <b>12,523</b>               | <b>12,269</b>    |
| Less accumulated amortization  | 6,484                       | 6,297            |
| <b>Finite-lived intangible assets - net</b>  | <b>6,039</b>                | <b>5,972</b>     |
| Goodwill   | 1,126                       | 1,126            |
| Deferred income taxes  | 1,650                       | 1,864            |
| Other  | 102                         | 107              |
| <b>Total Assets</b>  | <b>\$ 45,077</b>            | <b>\$ 44,661</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                             |                  |
| Current liabilities:   |                             |                  |
| Accounts payable   | \$ 5,940                    | \$ 6,092         |
| Accrued wages and benefits   | 785                         | 896              |
| Accrued royalties  | 1,427                       | 1,337            |
| Dividends payable  | 780                         | 1,160            |

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|   |           |           |
|---|-----------|-----------|
| Other accrued liabilities   | 553       | 333       |
| Deferred income taxes   | -         | 127       |
| Total current liabilities   | 9,485     | 9,945     |
| Commitments and contingencies   | -         | -         |
| Shareholders' equity:   |           |           |
| Common stock - \$0.01 par value per share; Authorized<br>40,000,000 shares at July 1, 2012 and April 1, 2012;<br>Issued 11,393,522 shares at July 1, 2012 and 11,132,272<br>shares at April 1, 2012 | 114       | 111       |
| Additional paid-in capital  | 44,648    | 43,664    |
| Treasury stock - at cost - 1,646,218 shares at July 1, 2012<br>and 1,465,780 shares at April 1, 2012  | (6,393 )  | (5,391 )  |
| Accumulated deficit   | (2,777 )  | (3,668 )  |
| Total shareholders' equity  | 35,592    | 34,716    |
| Total Liabilities and Shareholders' Equity  | \$ 45,077 | \$ 44,661 |

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 FOR THE THREE-MONTH PERIODS ENDED JULY 1, 2012 AND JULY 3, 2011

|  | Three-Month Periods Ended                           |              |
|--|---|--------------|
|  | July 1, 2012  | July 3, 2011 |
|  | (amounts in thousands,<br>except per share amounts) |              |
| Net sales  | \$17,453  | \$17,499     |
| Cost of products sold                                  | 13,028  | 13,716       |
| Gross profit   | 4,425   | 3,783        |
| Marketing and administrative expenses                  | 2,985   | 2,855        |
| Income from operations                                 | 1,440   | 928          |
| Other income (expense):                                |   |              |
| Interest and amortization of debt discount and expense | (19   | ) (78        |
| Other - net  | 7   | 8            |
| Income before income tax expense                       | 1,428   | 858          |
| Income tax expense                                     | 531   | 328          |
| Net income   | \$897   | \$530        |
| Weighted average shares outstanding:                   |   |              |
| Basic  | 9,725   | 9,619        |
| Effect of dilutive securities                          | 77  | 137          |
| Diluted  | 9,802   | 9,756        |
| Earnings per share:                                    |   |              |
| Basic  | \$0.09  | \$0.06       |
| Diluted  | \$0.09  | \$0.05       |
| Cash dividends declared per share                      | \$-   | \$0.03       |

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE THREE-MONTH PERIODS ENDED JULY 1, 2012 AND JULY 3, 2011

|  | Three-Month Periods Ended |              |
|--|---------------------------|--------------|
|  | July 1, 2012              | July 3, 2011 |
|  | (amounts in thousands)    |              |
| <b>Operating activities:</b>   |                           |              |
| Net income   | \$897                     | \$530        |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                           |              |
| Depreciation of property, plant and equipment  | 55                        | 67           |
| Amortization of intangibles  | 187                       | 308          |
| Deferred income taxes  | 52                        | 133          |
| Gain on sale of property, plant and equipment  | -                         | (5 )         |
| Accretion of interest expense to original issue discount                                 | -                         | 36           |
| Stock-based compensation   | 147                       | 137          |
| Tax shortfall from stock-based compensation  | (58 )                     | (27 )        |
| <b>Changes in assets and liabilities:</b>  |                           |              |
| Accounts receivable  | 5,158                     | 5,309        |
| Inventories  | (2,680 )                  | (4,823 )     |
| Prepaid expenses   | 318                       | 519          |
| Other assets   | 5                         | 14           |
| Accounts payable   | (153 )                    | 2,730        |
| Accrued liabilities  | 200                       | (755 )       |
| Net cash provided by operating activities  | 4,128                     | 4,173        |
| <b>Investing activities:</b>   |                           |              |
| Capital expenditures for property, plant and equipment                                   | (37 )                     | (79 )        |
| Proceeds from disposition of assets  | -                         | 5            |
| Capitalized costs of internally developed intangible assets                              | (253 )                    | (1 )         |
| Net cash used in investing activities  | (290 )                    | (75 )        |
| <b>Financing activities:</b>   |                           |              |
| Repayments under revolving line of credit, net   | -                         | (3,909 )     |
| Purchase of treasury stock   | (1,002 )                  | (735 )       |
| Issuance of common stock   | 798                       | 628          |
| Excess tax benefit from stock-based compensation   | 100                       | 11           |
| Dividends paid   | (387 )                    | (287 )       |
| Net cash used in financing activities  | (491 )                    | (4,292 )     |
| Net increase (decrease) in cash and cash equivalents                                     | 3,347                     | (194 )       |
| Cash and cash equivalents at beginning of period   | 214                       | 205          |
| Cash and cash equivalents at end of period   | \$3,561                   | \$11         |
| <b>Supplemental cash flow information:</b>   |                           |              |
| Income taxes paid, net of refunds received   | \$104                     | \$440        |
| Interest paid, net of interest received  | 11                        | 38           |
| <b>Noncash financing activity:</b>   |                           |              |
| Dividends declared but unpaid  | (780 )                    | (289 )       |

See notes to unaudited condensed consolidated financial statements.



CROWN CRAFTS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIODS ENDED JULY 1, 2012 AND JULY 3, 2011

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 U.S. generally accepted accounting principles (“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 July 1, 2012 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-month period ended July 1, 2012 are not necessarily indicative of the results that may be expected by the Company for its fiscal year ending March 31, 2013. 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 1, 2012.

**Fiscal Year:** The Company’s fiscal year ends on the Sunday that is nearest to or on March 31. References herein to “fiscal year 2013” represent the 52-week period ending March 31, 2013 and references herein to “fiscal year 2012” represent the 52-week period ended April 1, 2012.

**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 also has a certain amount of discontinued finished goods which necessitate the establishment of inventory reserves and allocates indirect costs to inventory based on an estimated percentage of the supplier purchase price, each of which are highly subjective. 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.

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

**Segment and Related Information:** The Company operates primarily in one principal segment, infant, toddler and juvenile products. These products consist of crib and toddler bedding, nursery accessories, room décor, infant bibs and related soft goods. Net sales of bedding, blankets and accessories amounted to \$12.2 million and \$13.0 million for the three-month periods ended July 1, 2012 and July 3, 2011, respectively, and net sales of bibs, bath and disposable products amounted to \$5.3 million and \$4.5 million for the three-month periods ended July 1, 2012 and July 3, 2011, respectively.



**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 in the accompanying consolidated statements of income and amounted to \$1.5 million and \$1.3 million for the three-month periods ended July 1, 2012 and July 3, 2011, respectively.

**Advertising Costs:** The Company's advertising costs are primarily associated with cooperative advertising arrangements with certain of the Company's customers and are recognized using the straight-line method based upon aggregate annual estimated amounts for those customers, with periodic adjustments to the actual amounts of authorized agreements. Advertising expense is included in marketing and administrative expenses in the accompanying consolidated statements of income and amounted to \$309,000 and \$291,000 for the three-month periods ended July 1, 2012 and July 3, 2011, respectively.

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

**Allowances Against Accounts Receivable:** The Company's allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as cooperative advertising and warehouse allowances, placement fees and volume rebates. These deductions are recorded throughout the year commensurate with sales activity or using the straight-line method, as appropriate. Funding of the majority of the Company's allowances occurs on a per-invoice basis. The allowances for customer deductions, which are netted against accounts receivable in the 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 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 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 The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group, Inc. 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 July 1, 2012 amounted to \$15.2 million, net of allowances of \$771,000. Of this amount, \$14.5 million was due from CIT under the factoring agreements and the Company held \$3.4 million in cash at CIT; such amounts together represented the maximum loss that the Company could incur if CIT failed completely to perform its obligations under its agreements with the Company.

**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 twenty-one years for property, plant and equipment, and one to twenty years for intangible assets other than goodwill. The Company amortizes improvements to its leased facilities over the term of the lease or the estimated useful life of the asset, whichever is shorter.

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

Goodwill: The Company tests the fair value of the goodwill, if any, carried 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.

**Patent Costs:** The Company incurs certain legal and related costs in connection with patent applications. If a future economic benefit is anticipated from the resulting patent or an alternative future use is available to the Company, then the Company may capitalize such costs to be amortized over the expected life of the patent. The Company may also capitalize legal costs incurred in the defense of the Company's patents when it is believed that the future economic benefit of the patent will be maintained or increased and a successful defense is probable. Capitalized patent defense costs are amortized over the remaining expected life of the related patent. The Company's assessment of future economic benefit or a successful defense of its patents involves considerable management judgment, and a different conclusion could result in a material impairment charge amounting to the carrying value of these assets.

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

The 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 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.

**Provisions 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 by certain expenses within the financial statements that will never be deductible on the Company's tax returns (or vice versa), 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.

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 prescription period for the income tax returns varies by jurisdiction; tax years open to federal or state general examination or other adjustment as of July 1, 2012 were the fiscal years ended March 29, 2009, March 28, 2010, April 3, 2011 and April 1, 2012, as well as the fiscal year ended March 30, 2008 for several states.

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.

#### Note 2 – Churchill Property

During the three-months ended July 1, 2007, the operations of Churchill Weavers, Inc. (“Churchill”), a wholly-owned subsidiary of the Company, ceased and all employees were terminated. The Company has since that time been actively marketing Churchill’s land and building for sale and had, through April 1, 2012, recorded the Churchill property at fair value, less cost to sell, had classified the property as assets held for sale in the Company’s consolidated balance sheets and had classified the costs to maintain the property as discontinued operations in the consolidated statements of income.

The Company also recorded impairment charges associated with the Churchill property during fiscal years 2009, 2010 and 2011, as the Company made successive determinations that the fair value of the property had fallen below its carrying value. Although the Company continues to actively market the property for sale and the property remains dormant, accounting guidelines have required the Company, effective as of April 2, 2012, to reclassify the property as held and used in its consolidated balance sheet, to resume periodic depreciation of the carrying value of the property of \$275,000 (less an allocation of \$23,000 to land) on a straight-line basis over 21 years, and to classify the costs to maintain the property within continuing operations in the accompanying condensed consolidated statements of income for the three-month periods ended July 1, 2012 and July 3, 2011.

#### Note 3 – Financing Arrangements

Factoring Agreements: The Company assigns the majority of its trade accounts receivable to CIT under factoring agreements which expire in July 2013. Under the terms of the factoring agreements in effect prior to April 2, 2012, CIT would remit payments to the Company on the average due date of each group of invoices assigned. If a customer failed to pay CIT by the due date, the Company would be charged interest at prime plus 1.0% until payment was received. The Company incurred interest expense of \$17,000 for the three-month period ended July 3, 2011 as a result of the failure of the Company’s customers to pay CIT by the due date. The factoring agreements were amended effective as of April 2, 2012 to provide that CIT will remit 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. 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 \$95,000 and \$83,000 for the three-month periods ended July 1, 2012 and July 3, 2011, respectively. There were no advances from the factor at either July 1, 2012 or April 1, 2012.

Credit Facility: The Company’s credit facility as of July 1, 2012 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 plus 1.00% or LIBOR plus 3.00%, maturing on July 11, 2013 and secured by a first lien on all assets of the Company. As of July 1, 2012, the Company had elected to pay interest on balances owed under the revolving line of credit, if any, under the LIBOR option. The financing agreement also provides for the payment by

CIT to the Company of interest at the rate of prime minus 1%, which was 2.25% at July 1, 2012, on daily cash balances held at CIT.

Under the financing agreement, a 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 \$16,000 for each of the three months ended July 1, 2012 and July 3, 2011. As of July 1, 2012, there was no balance owed on the revolving line of credit, there was no letter of credit outstanding and the Company had \$21.2 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 and transactions with affiliates. The Company was in compliance with these covenants as of July 1, 2012.

## Note 4 – Goodwill, Customer Relationships and Other Intangible Assets

Goodwill: The Company reported goodwill of \$1.1 million at July 1, 2012 and April 1, 2012. 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 2, 2012, 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 July 1, 2012 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 July 1, 2012, their estimated useful life, the amortization expense for the three months ended July 1, 2012 and July 3, 2011 and the classification of such amortization expense within the accompanying consolidated statements of income are as follows (in thousands):

|   | Carrying<br>Amount | Estimated<br>Useful<br>Life | Accumulated<br>Amortization | Amortization Expense<br>Three-Month Periods<br>Ended |                 |
|---|--------------------|-----------------------------|-----------------------------|--|-----------------|
|   |                    |                             |                             | July 1,<br>2012                                      | July 3,<br>2011 |
| <b>Kimberly Grant Acquisition<br/>on December 29, 2006:</b>           |                    |                             |                             |  |                 |
| Tradename   | \$ 466             | 15 years                    | \$ 171                      | \$ 8   | \$ 8            |
| Existing designs  | 36                 | 1 year                      | 36                          | -  | -               |
| Non-compete covenant  | 98                 | 15 years                    | 36                          | 2  | 2               |
| <b>Total Kimberly Grant<br/>Acquisition</b>                           | <b>600</b>         | <b>14 years *</b>           | <b>243</b>                  | <b>10</b>  | <b>10</b>       |
| <b>Springs Baby Products<br/>Acquisition on November 5,<br/>2007:</b> |                    |                             |                             |  |                 |
| Licenses & existing designs   | 1,655              | 2 years                     | 1,655                       | -  | -               |
| Licenses & future designs   | 1,847              | 4 years                     | 1,847                       | -  | 115             |
| Non-compete covenant  | 115                | 4 years                     | 115                         | -  | 7               |
| Customer relationships  | 3,781              | 10 years                    | 1,764                       | 94   | 95              |



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|                                |       |           |       |    |     |
|--------------------------------|-------|-----------|-------|----|-----|
| Total Springs Baby Acquisition | 7,398 | 7 years * | 5,381 | 94 | 217 |
|--------------------------------|-------|-----------|-------|----|-----|

Neat Solutions Acquisition on July 2, 2009:

|                                  |       |            |     |    |    |
|----------------------------------|-------|------------|-----|----|----|
| Trademarks                       | 892   | 15 years   | 179 | 15 | 15 |
| Designs                          | 33    | 4 years    | 25  | 2  | 2  |
| Non-compete covenant             | 241   | 5 years    | 144 | 12 | 12 |
| Customer relationships           | 1,302 | 16 years   | 244 | 21 | 20 |
| Total Neat Solutions Acquisition | 2,468 | 14 years * | 592 | 50 | 49 |

Bibsters® Acquisition on May 27, 2010:

|                             |       |            |     |    |    |
|-----------------------------|-------|------------|-----|----|----|
| Trademarks                  | 629   | 15 years   | 87  | 10 | 10 |
| Patents                     | 553   | 10 years   | 115 | 14 | 14 |
| Customer relationships      | 328   | 14 years   | 49  | 6  | 6  |
| Total Bibsters® Acquisition | 1,510 | 13 years * | 251 | 30 | 30 |

Internally developed

|                               |           |          |          |        |        |
|-------------------------------|-----------|----------|----------|--------|--------|
| intangible assets             | 547       | 20 years | 17       | 3      | 2      |
| Total other intangible assets | \$ 12,523 |          | \$ 6,484 | \$ 187 | \$ 308 |

\* Weighted-Average

Classification within the accompanying consolidated statements of income:

|                                       |  |        |        |
|---------------------------------------|--|--------|--------|
| Cost of products sold                 |  | \$ 16  | \$ 138 |
| Marketing and administrative expenses |  | 171    | 170    |
| Total amortization expense            |  | \$ 187 | \$ 308 |

## Note 5 – Inventories

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

|                 | July 1, 2012 | April 1, 2012 |
|-----------------|--------------|---------------|
| Raw Materials   | \$ 42        | \$ 31         |
| Finished Goods  | 14,477       | 11,808        |
| Total inventory | \$ 14,519    | \$ 11,839     |

## Note 6 – Stock-based Compensation

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 July 1, 2012, 99,500 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 \$147,000 and \$137,000 of stock-based compensation expense during the three-months ended July 1, 2012 and July 3, 2011, respectively. The Company records the compensation expense related to 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 July 1, 2012.

Stock Options: The following table represents stock option activity for the three-month periods ended July 1, 2012 and July 3, 2011:

|                                    | Three-Month Period Ended July<br>1, 2012 |                                     | Three-Month Period Ended July<br>3, 2011 |                                     |
|------------------------------------|--|-------------------------------------|--|-------------------------------------|
|                                    | Weighted-Average<br>Exercise Price       | Number of<br>Options<br>Outstanding | Weighted-Average<br>Exercise Price       | Number of<br>Options<br>Outstanding |
| Outstanding at Beginning of Period | \$3.57                                   | 573,000                             | \$3.31                                   | 747,000                             |
| Granted                            | 5.42                                     | 110,000                             | 4.81                                     | 100,000                             |
| Exercised                          | 3.05                                     | (261,250 )                          | 3.24                                     | (193,500 )                          |
| Outstanding at End of Period       | 4.38                                     | 421,750                             | 3.56                                     | 653,500                             |
| Exercisable at End of Period       | 3.86                                     | 261,750                             | 3.28                                     | 423,500                             |

The total intrinsic value of the stock options exercised during the three-month periods ended July 1, 2012 and July 3, 2011 was \$645,000 and \$332,000 respectively. As of July 1, 2012, the intrinsic value of the outstanding and exercisable stock options was \$490,000 and \$440,000, respectively.

The Company received cash in the amount of \$64,000 and \$27,000 from the exercise of stock options during the three months ended July 1, 2012 and July 3, 2011, respectively. Upon the exercise of stock options, participants may choose to surrender to the Company those shares from the option exercise necessary to satisfy their income tax withholding obligations that arise from the option exercise and, in the case of the 2006 Plan, the exercise amount as well. 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 their income tax withholding obligations. The Company used cash of \$268,000 and \$134,000 to remit the required income tax withholding amounts from “cashless” option exercises during the three-month periods ended July 1, 2012 and July 3, 2011, respectively. The Company’s net outflow of cash upon the exercise of stock options was \$204,000 and \$107,000 during the three-month periods ended July 1, 2012 and July 3, 2011, 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 three-month periods ended July 1, 2012 and July 3, 2011, which options vest over a two-year period, assuming continued service.

|   | Three-Month Periods Ended |      |               |      |
|---|---------------------------|------|---------------|------|
|   | July 1, 2012              |      | July 3, 2011  |      |
| Options issued                            | 110,000                   |      | 100,000       |      |
| Grant Date                                | June 13, 2012             |      | June 10, 2011 |      |
| Dividend yield                            | 5.90                      | %    | 2.49          | %    |
| Expected volatility                       | 65.00                     | %    | 60.00         | %    |
| Risk free interest rate                   | 0.55                      | %    | 1.84          | %    |
| Contractual term (years)                  | 10.00                     |      | 10.00         |      |
| Expected term (years)                     | 4.00                      |      | 5.75          |      |
| Forfeiture rate                           | 5.00                      | %    | 5.00          | %    |
| Exercise price (grant-date closing price) | \$                        | 5.42 | \$            | 4.81 |
| Fair value                                | \$                        | 1.84 | \$            | 2.16 |

Although the Company's historical stock option exercise experience provided a reasonable basis upon which to estimate the expected term for the stock options granted during the three-month period ended July 1, 2012, this was not the case for the stock options granted during the three-month period ended July 3, 2011. In that period, the Company elected to use the simplified method to estimate the expected term of the stock options granted, as allowed by SEC Staff Accounting Bulletin No. 107 and the continued acceptance of the simplified method indicated in SEC Staff Accounting Bulletin No. 110.

For the three-month periods ended July 1, 2012 and July 3, 2011, the Company recognized compensation expense associated with stock options as follows (in thousands):

| Options Granted in Fiscal Year  | Three-Month Period Ended July 1, 2012 |                                     |               | Three-Month Period Ended July 3, 2011 |                                     |               |
|---------------------------------|---------------------------------------|-------------------------------------|---------------|---------------------------------------|-------------------------------------|---------------|
|                                 | Cost of Products Sold                 | Marketing & Administrative Expenses | Total Expense | Cost of Products Sold                 | Marketing & Administrative Expenses | Total Expense |
| 2010                            | \$-                                   | \$ -                                | \$-           | \$9                                   | \$ 19                               | \$28          |
| 2011                            | 14                                    | 13                                  | 27            | 14                                    | 15                                  | 29            |
| 2012                            | 17                                    | 16                                  | 33            | 3                                     | 3                                   | 6             |
| 2013                            | 2                                     | 3                                   | 5             | -                                     | -                                   | -             |
| Total stock option compensation | \$33                                  | \$ 32                               | \$65          | \$26                                  | \$ 37                               | \$63          |

As of July 1, 2012, total unrecognized stock option compensation expense amounted to \$299,000, which will be recognized as the underlying stock options vest over a weighted-average period of 1.29 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: The Board granted 30,000 shares of non-vested stock to its non-employee directors during each of the three-month periods ended October 2, 2011, September 26, 2010 and September 27, 2009 with a weighted-average fair value of \$4.44, \$4.36 and \$3.02, respectively. 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 determined based on the number of shares granted multiplied by the closing price of the Company's common stock on the date of the grant.

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

For the three-month periods ended July 1, 2012 and July 3, 2011, 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 Ended July 1, 2012 |                        |               | Three-Month Period Ended July 3, 2011 |                        |               |
|---------------------------------------|---------------------------------------|------------------------|---------------|---------------------------------------|------------------------|---------------|
|                                       | Employees                             | Non-employee Directors | Total Expense | Employees                             | Non-employee Directors | Total Expense |
| 2010                                  | \$-                                   | \$ -                   | \$-           | \$-                                   | \$ 6                   | \$6           |
| 2011                                  | 52                                    | 14                     | 66            | 52                                    | 16                     | 68            |
| 2012                                  | -                                     | 16                     | 16            | -                                     | -                      | -             |
| <b>Total stock grant compensation</b> | <b>\$52</b>                           | <b>\$ 30</b>           | <b>\$82</b>   | <b>\$52</b>                           | <b>\$ 22</b>           | <b>\$74</b>   |

As of July 1, 2012, total unrecognized compensation expense related to the Company's non-vested stock grants amounted to \$719,000, which will be recognized over the respective vesting terms associated with each block of grants as indicated above, such grants having an aggregate weighted-average vesting term of 2.76 years. 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 7 – Contingencies

BreathableBaby, LLC ("BreathableBaby") filed a complaint against the Company and Crown Crafts Infant Products, Inc. ("CCIP"), a wholly-owned subsidiary of the Company, on January 11, 2012 in the United States District Court for the District of Minnesota, alleging that CCIP's mesh crib liner infringes BreathableBaby's patent rights relating to its air permeable infant bedding technology. The Company believes that it has meritorious defenses to the claims asserted in the complaint, and the Company intends to defend itself vigorously against all such claims. The Company and CCIP filed a motion for summary judgment of non-infringement on May 14, 2012. On July 25, 2012, the Court entered an order denying that motion without prejudice to refile it at the close of discovery. In doing so, the Court did not rule on the merits of the Company's motion, but instead determined that further discovery was required before a motion for summary judgment could be decided.

CCIP has filed an application for a patent related to its mesh crib liner with the United States Patent and Trademark Office, and, along with other costs related to CCIP's patent application, the Company has capitalized the defense costs associated with the BreathableBaby litigation in the accompanying consolidated balance sheets. In the event of an unfavorable outcome with respect to the BreathableBaby litigation or a denial of CCIP's patent application, the Company would be required to recognize an impairment charge amounting to these accumulated costs.

On or about May 17, 2012, an alleged Maryland purchaser of a CCIP bedding set filed a complaint against the Company and CCIP in the United States District Court for the Central District of California, purportedly on behalf of herself and all others similarly situated. The complaint generally alleges that CCIP's crib bumper products put children at risk of suffocation or crib death and that the Company and CCIP concealed and failed to disclose these purported risks through allegedly false and misleading advertising and product packaging. The complaint does not allege that any child has actually been harmed by these products. The complaint alleges violations of various consumer protection laws in California, Maryland and numerous other states. The purported class is defined in the complaint as "All consumers who, within the applicable statute of limitations, purchased defendants' crib bumper products or bedding sets that include a crib bumper." The complaint alleges an alternative class that would be limited to residents of Maryland. The complaint seeks damages for the purported class in an unspecified amount, injunctive

relief, “restitution and disgorgement of all monies acquired by the defendants by means of any act or practice” the Court finds to be unlawful, a Court-ordered “corrective advertising campaign”, and an award of plaintiffs’ attorneys fees and costs. The Company believes that it has meritorious defenses to the claims asserted in the complaint, and the Company intends to defend itself vigorously against all such claims. On July 23, 2012, the Company and CCIP filed an answer to the complaint and a motion to dismiss certain of the stated claims. This motion is scheduled to be heard by the Court on August 27, 2012.

In addition to the foregoing civil complaints, the Company is, from time to time, involved in various other legal and regulatory proceedings relating to claims arising in the ordinary course of its business. Neither the Company nor any of its subsidiaries is a party to any such proceeding the outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

## Note 8 – Subsequent Events

In accordance with accounting guidelines, the Company has evaluated events which have occurred between July 1, 2012 and the date that the accompanying financial statements were issued. As set forth in Note 7 above, events associated with civil complaints to which the Company and CCIP are parties have occurred subsequent to July 1, 2012. The Company 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, Inc., 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 produced by contract manufacturers located 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. Sales outside the United States 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 overseeing 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 accompanying consolidated financial statements and related notes included elsewhere in this report.

## RESULTS OF OPERATIONS

The following table contains results of operations for the three-month periods ended July 1, 2012 and July 3, 2011 and the dollar and percentage changes for those periods (in thousands, except percentages):

|                                    | Three-Month Periods Ended |              | Change    | Change |   |
|------------------------------------|---------------------------|--------------|-----------|--------|---|
|                                    | July 1, 2012              | July 3, 2011 |           |        |   |
| Net sales by category              |                           |              |           |        |   |
| Bedding, blankets and accessories  | \$ 12,213                 | \$ 12,960    | \$ (747 ) | -5.8   | % |
| Bibs, bath and disposable products | 5,240                     | 4,539        | 701       | 15.4   | % |



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|                                       |        |        |        |       |   |
|---------------------------------------|--------|--------|--------|-------|---|
| Total net sales                       | 17,453 | 17,499 | (46 )  | -0.3  | % |
| Cost of products sold                 | 13,028 | 13,716 | (688 ) | -5.0  | % |
| Gross profit                          | 4,425  | 3,783  | 642    | 17.0  | % |
| % of net sales                        | 25.4   | %      | 21.6   | %     |   |
| Marketing and administrative expenses | 2,985  | 2,855  | 130    | 4.6   | % |
| % of net sales                        | 17.1   | %      | 16.3   | %     |   |
| Interest expense                      | 19     | 78     | (59 )  | -75.6 | % |
| Other income                          | 7      | 8      | (1 )   | -12.5 | % |
| Income tax expense                    | 531    | 328    | 203    | 61.9  | % |
| Net income                            | 897    | 530    | 367    | 69.2  | % |
| % of net sales                        | 5.1    | %      | 3.0    | %     |   |

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**Net Sales:** Sales of \$17.5 million were nearly unchanged for the three-month period ended July 1, 2012 compared with the same period in the prior year, having decreased 0.3%, or \$46,000. Sales decreased due to the transitioning away in the prior year from an unprofitable private label bedding program, which was offset by a shift of sales from the three-month period ending September 30, 2012 into the current quarter.

**Gross Profit:** Gross profit increased in amount by \$642,000, and as a percentage of net sales, from 21.6% to 25.4%, for the three-month period of fiscal year 2013 compared with the same period of fiscal year 2012, due to lower production costs resulting from the redesign, commenced in the prior year, of several product lines to reduce the Company's dependence on cotton, the cost of which reached record-setting levels in the prior year. The discontinuance of the unprofitable private label bedding program mentioned above also contributed to the higher gross margin percentage in the current year. The Company also in the current year experienced a decline in amortization costs related to the Company's acquisition of the baby products line of Springs Global US, Inc. on November 5, 2007, which were \$123,000 lower than in fiscal year 2012.

**Marketing and Administrative Expenses:** Marketing and administrative expenses experienced a slight increase for the three-month period of the current year compared with the same period of the prior year.

**Interest Expense:** The decrease in interest expense for the three-month period of fiscal year 2013 compared with the same period in fiscal year 2012 is due to lower balances on the Company's credit facility.

**Income Tax Expense:** The Company's provision for income taxes is based upon an estimated annual effective tax rate of 37.2% for fiscal year 2013, compared with 38.2% for fiscal year 2012. The decrease in the estimated annual effective tax rate in the current year is related to an increase in the current year in the amount of certain expenses which are deductible for tax purposes but not for book purposes, as well as an increase in projected state Enterprise Zone wage credits. Although the Company does not anticipate a material change to the effective tax rate for the balance of fiscal year 2013, several factors could impact the rate, including variations from the Company's estimates of the amount and source of its pre-tax income, the amount of certain expenses which are not deductible for tax purposes and the amount of certain tax credits.

**Inflation:** The Company has traditionally attempted to increase its prices to offset inflationary increases in its raw materials and other costs, but there is no assurance that the Company will be successful in the future in implementing such price increases or in effecting such price increases in a manner that will provide a timely match to the cost increases.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

There was a slight decrease in net cash provided by operating activities, from \$4.2 million to \$4.1 million, for the three months ended July 1, 2012 compared with the three months ended July 3, 2011. The Company experienced in the current year a lower increase in inventories, which was offset by a lower net increase in accounts payable and accrued liabilities.

Net cash used in investing activities was \$290,000 in the current year compared with \$75,000 in the prior year. Current year investing activities were primarily related to the capitalized costs of internally-developed intangible assets.

Net cash of \$491,000 was used in financing activities in the current year, primarily for the payment of dividends. This compares with \$4.3 million used in financing activities in the prior year, which was used primarily for net repayments on the Company's revolving line of credit.

From July 3, 2011 to July 1, 2012, the Company paid off \$2.4 million in debt owed under the Company's credit facilities before the reduction for the original issue discount on non-interest bearing subordinated notes, which consisted of net repayments of \$427,000 on the Company's revolving line of credit and payments made in July 2011 of \$2.0 million in the aggregate for the remaining balance due on subordinated notes payable. At July 1, 2012, there was no balance owed on the revolving line of credit, there was no letter of credit outstanding and the Company had \$21.2 million available under the revolving line of credit based on its eligible accounts receivable and inventory balances.

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 balance, 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 which expire in July 2013. CIT approves customer accounts and credit lines and collects the Company's accounts receivable balances. 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. Under the terms of the factoring agreements in effect prior to April 2, 2012, CIT would remit payments to the Company on the average due date of each group of invoices assigned. If a customer failed to pay CIT by the due date, the Company would be charged interest at prime plus 1.0% until payment was received. The Company incurred interest expense of \$17,000 for the three-month period ended July 3, 2011 as a result of the failure of the Company's customers to pay CIT by the due date. The factoring agreements were amended effective as of April 2, 2012 to provide that CIT will remit payments to the Company as such payments are received by CIT.

#### 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 expectations, whether as a result of new information, future events or otherwise.

#### 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 July 1, 2012, 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

As reported in the Company's annual report on Form 10-K for the fiscal year ended April 1, 2012, BreathableBaby, LLC ("BreathableBaby") filed a complaint against the Company and CCIP on January 11, 2012 in the United States District Court for the District of Minnesota, alleging that CCIP's mesh crib liner infringes BreathableBaby's patent rights relating to its air permeable infant bedding technology. The Company believes that it has meritorious defenses to the claims asserted in the complaint, and the Company intends to defend itself vigorously against all such claims. The Company and CCIP filed a motion for summary judgment of non-infringement on May 14, 2012. On July 25, 2012, the Court entered an order denying that motion without prejudice to refile it at the close of discovery. In doing so, the Court did not rule on the merits of the Company's motion, but instead determined that further discovery was required before a motion for summary judgment could be decided.

Also as reported in the Company’s annual report on Form 10-K for the fiscal year ended April 1, 2012, on or about May 17, 2012, an alleged Maryland purchaser of a CCIP bedding set filed a complaint against the Company and CCIP in the United States District Court for the Central District of California, purportedly on behalf of herself and all others similarly situated. The complaint generally alleges that CCIP’s crib bumper products put children at risk of suffocation or crib death and that the Company and CCIP concealed and failed to disclose these purported risks through allegedly false and misleading advertising and product packaging. The complaint does not allege that any child has actually been harmed by these products. The complaint alleges violations of various consumer protection laws in California, Maryland and numerous other states. The purported class is defined in the complaint as “All consumers who, within the applicable statute of limitations, purchased defendants’ crib bumper products or bedding sets that include a crib bumper.” The complaint alleges an alternative class that would be limited to residents of Maryland. The complaint seeks damages for the purported class in an unspecified amount, injunctive relief, “restitution and disgorgement of all monies acquired by the defendants by means of any act or practice” the Court finds to be unlawful, a Court-ordered “corrective advertising campaign”, and an award of plaintiffs’ attorneys fees and costs. The Company believes that it has meritorious defenses to the claims asserted in the complaint, and the Company intends to defend itself vigorously against all such claims. On July 23, 2012, the Company and CCIP filed an answer to the complaint and a motion to dismiss certain of the stated claims. This motion is scheduled to be heard by the Court on August 27, 2012.

For further information related to the foregoing legal proceedings, refer to Item 3 of Part I of the Company’s annual report on Form 10-K for the fiscal year ended April 1, 2012.

In addition to the foregoing civil complaints, the Company is, from time to time, involved in various other legal and regulatory proceedings relating to claims arising in the ordinary course of its business. Neither the Company nor any of its subsidiaries is a party to any such proceeding the outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

#### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. of Part 1 of the Company’s annual report on Form 10-K for the year ended April 1, 2012.

#### 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 July 1, 2012.

| Period                            | Total Number<br>of Shares<br>Purchased (1) | Average Price<br>Paid Per Share | Total Number<br>of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar<br>Value of<br>Shares That<br>May Yet be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|-----------------------------------|--|---------------------------------|--|--|
| April 2, 2012 through May 6, 2012 | 136,864                                    | \$5.60                          | 0  | \$0  |
| May 7, 2012 through June 3, 2012  | 42,025                                     | \$5.39                          | 0  | \$0  |
| June 4, 2012 through July 1, 2012 | 1,549                                      | \$5.51                          | 0  | \$0  |

|       |         |        |   |     |
|-------|---------|--------|---|-----|
| Total | 180,438 | \$5.55 | 0 | \$0 |
|-------|---------|--------|---|-----|

(1) The shares purchased from April 2, 2012 through July 1, 2012 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

| Exhibit<br>Number | Description of 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)  |
| 101               | The following information from the Registrant's Form 10-Q for the quarterly period ended July 1, 2012, formatted as interactive data files in XBRL (eXtensible Business Reporting Language) (2):<br>(i) Unaudited Condensed Consolidated Statements of Income;<br>(ii) Unaudited Condensed Consolidated Balance Sheets;<br>(iii) Unaudited Condensed Consolidated Statements of Cash Flows;<br>and<br>(iv) Notes to Unaudited Condensed Consolidated Financial Statements. |

(1)

Filed herewith.

(2) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not to be filed for purposes of Section 18 of the Exchange Act, and otherwise are not subject to liability under those sections.

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: August 14, 2012

/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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