CROWN CRAFTS INC
Form 10-Q
November 08, 2010

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

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

**For the quarterly period ended September 26, 2010**

o **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 þ No o

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 o No o

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 o | Accelerated filer o | Non-Accelerated filer o | Smaller Reporting Company þ |
|---|---|---|---|
| | | (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 o No þ

The number of shares of common stock, $0.01 par value, of the registrant outstanding as of October 28, 2010 was 9,554,424.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | September 26, 2010 (Unaudited) | March 28, 2010 |
|---|---|---|
| | (amounts in thousands, except share and per share amounts) | |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 13 | $ 75 |
| Accounts receivable (net of allowances of $1,097 at September 26, 2010 and $1,238 at March 28, 2010): | | |
| Due from factor | 15,536 | 17,633 |
| Other | 369 | 388 |
| Inventories | 17,620 | 10,453 |
| Prepaid expenses | 1,946 | 1,625 |
| Temporary investments restricted | | 505 |
| Assets held for sale | 396 | 396 |
| Deferred income taxes | 386 | 399 |
| **Total current assets** | 36,266 | 31,474 |
| **Property, plant and equipment at cost:** | | |
| Vehicles | 58 | 58 |
| Land, buildings and improvements | 215 | 212 |
| Machinery and equipment | 2,580 | 2,537 |
| Furniture and fixtures | 784 | 764 |
| | 3,637 | 3,571 |
| Less accumulated depreciation | 3,127 | 3,020 |
| **Property, plant and equipment net** | 510 | 551 |
| **Intangible assets at cost:** | | |
| Goodwill | 1,154 | 864 |
| Customer relationships | 5,411 | 5,083 |
| Other intangible assets | 6,695 | 5,496 |
| | 13,260 | 11,443 |
| Less accumulated amortization | 4,684 | 4,086 |
| **Intangible assets net** | 8,576 | 7,357 |
| **Other assets:** | | |
| Deferred income taxes | 1,793 | 1,904 |
| Other | 104 | 106 |

| | | |
|---|---|---|
| **Total other assets** | 1,897 | 2,010 |
| **Total Assets** | $ 47,249 | $ 41,392 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 7,539 | $ 5,563 |
| Accrued wages and benefits | 963 | 838 |
| Accrued royalties | 1,626 | 1,051 |
| Income taxes currently payable | 22 | 1,048 |
| Other accrued liabilities | 207 | 205 |
| Current maturities of long-term debt | 1,883 | 1,952 |
| **Total current liabilities** | 12,240 | 10,657 |
| **Non-current liabilities:** | | |
| Long-term debt | 5,850 | 3,238 |
| **Commitments and contingencies** | | |
| **Shareholders equity:** | | |
| Preferred stock $0.01 par value per share; Authorized 1,000,000 shares; No shares issued at September 26, 2010 and March 28, 2010 | | |
| Common stock $0.01 par value per share; Authorized 74,000,000 shares; Issued 10,772,272 shares at September 26, 2010 and 10,288,940 shares at March 28, 2010 | 108 | 103 |
| Additional paid-in capital | 41,755 | 41,007 |
| Treasury stock at cost 1,225,180 shares at September 26, 2010 and 1,074,025 shares at March 28, 2010 | (4,235) | (3,580) |
| Accumulated deficit | (8,469) | (10,033) |
| **Total shareholders equity** | 29,159 | 27,497 |
| **Total Liabilities and Shareholders Equity** | $ 47,249 | $ 41,392 |

*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 Six-Month Periods Ended September 26, 2010 and September 27, 2009

| | Three-Month Periods Ended | | Six-Month Periods Ended | |
|---|---|---|---|---|
| | September 26, 2010 | September 27, 2009 | September 26, 2010 | September 27, 2009 |
| | (amounts in thousands, except per share amounts) | | | |
| Net sales | $ 23,711 | $ 21,713 | $ 40,878 | $ 39,448 |
| Cost of products sold | 18,056 | 17,205 | 30,932 | 30,965 |
| Gross profit | 5,655 | 4,508 | 9,946 | 8,483 |
| Marketing and administrative expenses | 3,519 | 2,993 | 6,534 | 5,879 |
| Income from operations | 2,136 | 1,515 | 3,412 | 2,604 |
| Other income (expense): | | | | |
| Interest and amortization of debt discount and expense | (125) | (204) | (222) | (400) |
| Other net | 2 | (45) | 9 | (39) |
| Income before income tax expense | 2,013 | 1,266 | 3,199 | 2,165 |
| Income tax expense | 796 | 471 | 1,251 | 811 |
| Income from continuing operations | 1,217 | 795 | 1,948 | 1,354 |
| (Loss) income from discontinued operations net of income taxes | (3) | 8 | (8) | (13) |
| Net income | $ 1,214 | $ 803 | $ 1,940 | $ 1,341 |
| Weighted average shares outstanding basic | 9,587 | 9,182 | 9,417 | 9,196 |
| Weighted average shares outstanding diluted | 9,748 | 9,384 | 9,555 | 9,381 |
| Basic earnings per share: | | | | |
| Income from continuing operations | $ 0.13 | $ 0.09 | $ 0.21 | $ 0.15 |
| (Loss) income from discontinued operations net of income taxes | | | | |
| Total basic earnings per share | $ 0.13 | $ 0.09 | $ 0.21 | $ 0.15 |
| Diluted earnings per share: | | | | |
| Income from continuing operations | $ 0.12 | $ 0.08 | $ 0.20 | $ 0.14 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Loss) income from discontinued operations net of income taxes | | | | | | | | |
| Total diluted earnings per share | $ | 0.12 | $ | 0.08 | $ | 0.20 | $ | 0.14 |
| Cash dividends declared per share | $ | 0.02 | $ | | $ | 0.04 | $ | |

*See notes to unaudited condensed consolidated financial statements.*

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

| | Six-Month Periods Ended | |
|---|---|---|
| | September 26, 2010 | September 27, 2009 |
| | (amounts in thousands) | |
| **Operating activities:** | | |
| Net income | $ 1,940 | $ 1,341 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property, plant and equipment | 128 | 148 |
| Amortization of intangibles | 598 | 919 |
| Deferred income taxes | 124 | (20) |
| Gain on sale of property, plant and equipment | (2) | |
| Accretion of interest expense to original issue discount | 115 | 129 |
| Accretion of interest income to temporary investment restricted | | (2) |
| Stock-based compensation | 484 | 476 |
| Tax shortfall from stock-based compensation | (33) | |
| Changes in assets and liabilities: | | |
| Accounts receivable | 2,116 | 4,901 |
| Inventories | (6,895) | (1,129) |
| Prepaid expenses | (321) | 176 |
| Other assets | (15) | 45 |
| Accounts payable | 1,969 | (2,152) |
| Accrued liabilities | (324) | (528) |
| **Net cash (used in) provided by operating activities** | (116) | 4,304 |
| **Investing activities:** | | |
| Capital expenditures | (87) | (89) |
| 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** | (1,652) | (5,023) |
| **Financing activities:** | | |
| Payments on long-term debt | (2,000) | (1,250) |
| Borrowings (repayments) under revolving line of credit, net | 4,428 | (1,042) |
| Purchase of treasury stock | (655) | (277) |
| Issuance of common stock | 158 | 6 |
| Excess tax benefit from stock-based compensation | 144 | |
| Dividends paid | (369) | |
| **Net cash provided by (used in) financing activities** | 1,706 | (2,563) |

| | | |
|---|---|---|
| **Net decrease in cash and cash equivalents** | (62) | (3,282) |
| Cash and cash equivalents at beginning of period | 75 | 15,249 |
| **Cash and cash equivalents at end of period** | $ 13 | $ 11,967 |
| **Supplemental cash flow information:** | | |
| Income taxes paid | $ 2,039 | $ 1,843 |
| Interest paid, net of interest received | 96 | 257 |
| **Noncash financing activity:** | | |
| Dividends declared but unpaid | 191 | |

*See notes to unaudited condensed consolidated financial statements.*

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CROWN CRAFTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX-MONTH PERIODS ENDED SEPTEMBER 26, 2010 AND SEPTEMBER 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 September 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 six-month periods ended September 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 $29.9 million and $30.8 million for the six-month periods ended

September 26, 2010 and September 27, 2009, respectively. Net sales of bibs, bath and disposable products amounted to $11.0 million and $8.6 million for the six-month periods ended September 26, 2010 and September 27, 2009, 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, 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 September 26, 2010 amounted to $15.9 million, net of allowances of $1.1 million. Of this amount, $15.5 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.

*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 $3.0 million for each of the six-month periods ended September 26, 2010 and September 27, 2009.

*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.

The Company recognizes the effect of income tax positions 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 September 26, 2010 were the tax years ended April 1, 2007, March 30, 2008, March 29, 2009 and March 28, 2010, as well as the tax year ended April 2, 2006 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 six-month periods ended September 26, 2010 and September 27, 2009.

| | Three-Month Periods Ended | | Six-Month Periods Ended | |
|---|---|---|---|---|
| | **September 26, 2010** | **September 27, 2009** | **September 26, 2010** | **September 27, 2009** |
| | (Amounts in thousands, except per share data) | | | |
| Income from continuing operations | $ 1,217 | $ 795 | $ 1,948 | $ 1,354 |
| (Loss) income from discontinued operations, net of taxes | (3) | 8 | (8) | (13) |
| Net income | $ 1,214 | $ 803 | $ 1,940 | $ 1,341 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 9,587 | 9,182 | 9,417 | 9,196 |
| Effect of dilutive securities | 161 | 202 | 138 | 185 |
| Diluted | 9,748 | 9,384 | 9,555 | 9,381 |
| Basic earnings per common share: | | | | |
| Continuing operations | $ 0.13 | $ 0.09 | $ 0.21 | $ 0.15 |
| Discontinued operations | | | | |
| Total | $ 0.13 | $ 0.09 | $ 0.21 | $ 0.15 |
| Diluted earnings per common share: | | | | |
| Continuing operations | $ 0.12 | $ 0.08 | $ 0.20 | $ 0.14 |
| Discontinued operations | | | | |
| Total | $ 0.12 | $ 0.08 | $ 0.20 | $ 0.14 |

*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 will become effective as of the end of the first interim or annual reporting period ending 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 does not anticipate that the adoption by the Company of ASU No. 2010-20 on December 26, 2010 will materially impact its consolidated financial statements.

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**Note 2 Discontinued Operations**

During the first quarter of fiscal year 2008, 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.

**Note 3 Subsequent Events**

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

**Note 4 Acquisitions**

*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 in interim reporting periods during the fiscal year ended March 28, 2010, $150,000 of which were recognized during the three-month period ended September 27, 2009.

The Neat Solutions Acquisition resulted in an increase of $1.2 million in net sales of bibs, bath and disposable products for the three-month period ended June 27, 2010 and an increase of $1.1 million in net sales for the three-month period ended September 27, 2009. Because the operations of Neat Solutions have been integrated with those of Hamco, and because the assets acquired from Neat Solutions 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 Neat Solutions since the acquisition date. The Company believes that the pro forma impact of the acquisition is not material.

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):

| Tangible assets: | **Amount** |
|---|---|
| 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 $88,000 of direct costs associated with the acquisition, which were included in marketing and administrative expenses during the six-month period ended September 26, 2010.

The Bibsters® Acquisition resulted in an increase of $646,000 and $879,000 in net sales of bibs, bath and disposable products for the three and six-month periods ended September 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.

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):

| Amortizable intangible assets: | | **Amount** |
|---|---|---|
| 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 |

**Note 5 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 September 26, 2010, 322,000 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 $321,000 and $484,000 of stock-based compensation expense during the three and six-month periods ended September 26, 2010, respectively, and recorded $298,000 and $476,000 of stock-based compensation expense during the three and six-month periods ended September 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 September 26, 2010.

*Stock Options:* The following table represents stock option activity for the six-month period ended September 26, 2010:

| | Weighted-Average Exercise Price | Number of Options Outstanding |
|---|---|---|
| Outstanding at March 28, 2010 | $ 2.94 | 825,832 |
| Granted | 4.23 | 110,000 |
| Exercised | (1.39) | (113,332) |
| Forfeited | (4.08) | (2,000) |
| Outstanding at September 26, 2010 | 3.32 | 820,500 |
| Exercisable at September 26, 2010 | 3.21 | 625,500 |

The total intrinsic value of the stock options exercised during the three and six-month periods ended September 26, 2010 was $33,000 and $304,000, respectively. As of September 26, 2010, the intrinsic value of the outstanding and exercisable stock options was $1.2 million and $1.0 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 six-month period ended September 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 |

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

| | Three-month Period | | | Six-month Period | | |
|---|---|---|---|---|---|---|
| Options Granted in Fiscal Year | Cost of Products Sold | Marketing & Administrative Expenses | Total Expense | Cost of Products Sold | Marketing & Administrative Expenses | Total Expense |
| 2009 | $ | $ | $ | $ 13 | $ 38 | $ 51 |
| 2010 | 11 | 27 | 38 | 19 | 48 | 67 |
| 2011 | 11 | 13 | 24 | 11 | 14 | 25 |
| Total stock option compensation | $ 22 | $ 40 | $ 62 | $ 43 | $ 100 | $ 143 |

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

| | Three-month Period | | | Six-month Period | | |
|---|---|---|---|---|---|---|
| Options Granted in Fiscal Year | Cost of Products Sold | Marketing & Administrative Expenses | Total Expense | Cost of Products Sold | Marketing & Administrative Expenses | Total Expense |
| 2008 | $ 7 | $ 19 | $ 26 | $ 16 | $ 41 | $ 57 |
| 2009 | 11 | 34 | 45 | 26 | 78 | 104 |
| 2010 | 4 | 11 | 15 | 4 | 11 | 15 |
| Total stock option compensation | $ 22 | $ 64 | $ 86 | $ 46 | $ 130 | $ 176 |

As of September 26, 2010, total unrecognized stock option compensation expense amounted to $294,000, 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 three and six-month periods ended September 26, 2010, the acceleration of the vesting of these shares resulted in the recognition of compensation expense of $21,000 and $53,000, respectively, 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.

During the three-month period ended September 26, 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.

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 six-month periods ended September 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):

| | Three-month Period | | | Six-month Period | | |
|---|---|---|---|---|---|---|
| **Stock Granted in Fiscal Year** | **Employees** | **Non-employee Directors** | **Total Expense** | **Employees** | **Non-employee Directors** | **Total Expense** |
| 2007 | $ 28 | $ | $ 28 | $ 70 | $ | $ 70 |
| 2009 | | 4 | 4 | | 19 | 19 |
| 2010 | | 7 | 7 | | 32 | 32 |
| 2011 | 209 | 11 | 220 | 209 | 11 | 220 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total stock grant compensation | $ | 237 | $ | 22 | $ | 259 | $ | 279 | $ | 62 | $ | 341 |

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For the three and six-month periods ended September 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):

| | Three-month Period | | | Six-month Period | | |
|---|---|---|---|---|---|---|
| **Stock Granted in Fiscal Year** | **Employees** | **Non-employee Directors** | **Total Expense** | **Employees** | **Non-employee Directors** | **Total Expense** |
| 2007 | $ 189 | $ | $ 189 | $ 263 | $ | $ 263 |
| 2009 | | 15 | 15 | | 29 | 29 |
| 2010 | | 8 | 8 | | 8 | 8 |
| Total stock grant compensation | $ 189 | $ 23 | $ 212 | $ 263 | $ 37 | $ 300 |

As of September 26, 2010, total unrecognized compensation expense related to the Company s non-vested stock grants amounted to $1.2 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 6 Inventories**

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

| | **September 26, 2010** | **March 28, 2010** |
|---|---|---|
| Raw Materials | $ 41 | $ 66 |
| Finished Goods | 17,579 | 10,387 |
| Total inventory | $ 17,620 | $ 10,453 |

**Note 7 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 September 26, 2010, until payment is received. The Company incurred interest expense of $18,000 and $19,000 for the three-month periods ended September 26, 2010 and September 27, 2009, respectively, and $35,000 for each of the six-month periods ended September 26, 2010 and September 27, 2009, 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 $153,000 and $155,000 for the quarters ended September 26, 2010 and September 27, 2009, respectively, and were $287,000 and $284,000 for the six-months ended September 26, 2010 and September 27, 2009, respectively. There were no advances from the factor at either September 26, 2010 or September 27, 2009.

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

| | September 26, 2010 | March 28, 2010 |
|---|---|---|
| Revolving line of credit | $ 5,850 | $ 1,422 |
| Non-interest bearing notes | 2,000 | 4,000 |
| Original issue discount | (117) | (232) |
| | 7,733 | 5,190 |
| Less current maturities | 1,883 | 1,952 |
| | $ 5,850 | $ 3,238 |

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The Company s credit facilities at September 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 September 26, 2010, or LIBOR plus 3.00%, which was 3.26 at September 26, 2010, maturing on July 11, 2013 and secured by a first lien on all assets of the Company. As of September 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 $2,000 for the three-month periods ended September 26, 2010 and September 27, 2009, respectively, and $22,000 and $5,000 for the six-month periods ended September 26, 2010 and September 27, 2009, respectively. At September 26, 2010, there was a balance due on the revolving line of credit of $5.8 million, there was a $500,000 letter of credit outstanding and the Company had $17.2 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, 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 September 26, 2010.

*Subordinated Notes* totaling $2.0 million. The notes do not bear interest and are due on July 11, 2011. The original issue discount of $117,000 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 September 26, 2010 are as follows (in thousands):

| Fiscal Year | Revolver | Sub Notes | Total |
|---|---|---|---|
| 2012 | $ | $ 2,000 | $ 2,000 |
| 2013 | | | |
| 2014 | 5,850 | | 5,850 |
| Total | $ 5,850 | $ 2,000 | $ 7,850 |

**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.

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*Customer Relationships and Other Intangible Assets:* Other intangible assets at September 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 September 26, 2010, their estimated useful life and amortization expense for the three and six-month periods ended September 26, 2010 and September 27, 2009 are as follows (dollar amounts in thousands):

| | | Estimated | | Amortization Expense | | | |
|---|---|---|---|---|---|---|---|
| | | | | Three-month Periods Ended | | Six-month Periods Ended | |
| | Carrying Amount | Useful Life | Accumulated Amortization | September 26, 2010 | September 27, 2009 | September 26, 2010 | September 27, 2009 |
| Kimberly Grant Acquisition on December 29, 2006: | | | | | | | |
| Tradename | $ 466 | 15 years | $ 117 | $ 8 | $ 8 | $ 16 | $ 16 |
| Existing designs | 36 | 1 year | 36 | | | | |
| Non-compete covenant | 98 | 15 years | 24 | 1 | 1 | 3 | 2 |
| Total Kimberly Grant Acquisition | 600 | *14 years** | 177 | 9 | 9 | 19 | 18 |
| Springs Baby Products Acquisition on November 5, 2007: | | | | | | | |
| Licenses & existing designs | 1,655 | 2 years | 1,655 | | 207 | | 414 |
| Licenses & future designs | 1,847 | 4 years | 1,347 | 116 | 116 | 231 | 231 |
| Non-compete covenant | 115 | 4 years | 84 | 8 | 7 | 15 | 14 |
| Customer relationships | 3,781 | 10 years | 1,103 | 94 | 94 | 189 | 189 |
| Total Springs Baby Acquisition | 7,398 | *7 years** | 4,189 | 218 | 424 | 435 | 848 |
| Neat Solutions Acquisition on July 2, 2009: | | | | | | | |
| Trademarks | 892 | 15 years | 74 | 14 | 15 | 29 | 15 |
| Designs | 33 | 4 years | 11 | 3 | 2 | 5 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Non-compete covenant | 241 | 5 years | 60 | 12 | 12 | 24 | 12 |
| Customer relationships | 1,302 | 16 years | 102 | 21 | 20 | 41 | 20 |
| Total Neat Solutions Acquisition | 2,468 | *14 years** | 247 | 50 | 49 | 99 | 49 |
| Bibsters® Acquistion on May 27, 2010: | | | | | | | |
| Trademarks | 629 | 15 years | 14 | 10 | | 14 | |
| Patents | 553 | 10 years | 18 | 13 | | 18 | |
| Customer relationships | 328 | 14 years | 8 | 6 | | 8 | |
| Total Bibsters® Acquistion | 1,510 | *13 years** | 40 | 29 | | 40 | |
| Internally developed intangible assets | 130 | 10 years | 31 | 3 | 3 | 5 | 4 |
| Total other intangible assets | $ 12,106 | | $ 4,684 | $ 309 | $ 485 | $ 598 | $ 919 |

* *Weighted-Average*

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

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.

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

| | **Three-month Periods Ended** | | | | **Six-month Periods Ended** | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 26, 2010** | **September 27, 2009** | **Change** | **Change** | **September 26, 2010** | **September 27, 2009** | **Change** | **Change** |
| Net sales by category | | | | | | | | |
| Bedding, blankets and accessories | $ 17,307 | $ 16,233 | $ 1,074 | 6.6% | $ 29,854 | $ 30,806 | $ (952) | -3.1% |
| Bibs, bath and disposable products | 6,404 | 5,480 | 924 | 16.9% | 11,024 | 8,642 | 2,382 | 27.6% |
| Total net sales | 23,711 | 21,713 | 1,998 | 9.2% | 40,878 | 39,448 | 1,430 | 3.6% |
| Cost of products sold | 18,056 | 17,205 | 851 | 4.9% | 30,932 | 30,965 | (33) | -0.1% |
| Gross profit | 5,655 | 4,508 | 1,147 | 25.4% | 9,946 | 8,483 | 1,463 | 17.2% |
| *% of net sales* | *23.8%* | *20.8%* | | | *24.3%* | *21.5%* | | |
| Marketing and administrative expenses | 3,519 | 2,993 | 526 | 17.6% | 6,534 | 5,879 | 655 | 11.1% |
| *% of net sales* | *14.8%* | *13.8%* | | | *16.0%* | *14.9%* | | |
| Interest expense | 125 | 204 | (79) | -38.7% | 222 | 400 | (178) | -44.5% |
| Other income | 2 | (45) | 47 | -104.4% | 9 | (39) | 48 | -123.1% |
| Income tax expense | 796 | 471 | 325 | 69.0% | 1,251 | 811 | 440 | 54.3% |
| Income from continuing operations after taxes | 1,217 | 795 | 422 | 53.1% | 1,948 | 1,354 | 594 | 43.9% |
| Discontinued operations net of taxes | (3) | 8 | (11) | -137.5% | (8) | (13) | 5 | -38.5% |
| Net income | 1,214 | 803 | 411 | 51.2% | 1,940 | 1,341 | 599 | 44.7% |
| *% of net sales* | *5.1%* | *3.7%* | | | *4.7%* | *3.4%* | | |

*Net Sales:* Sales of bedding, blankets and accessories increased for the three-month period of fiscal year 2011 as compared to the same period in fiscal year 2010. Sales increased by $4.5 million due to new bedding and blanket programs and higher replenishment orders. These increases were offset by $3.4 million in discontinued programs.

Sales of bedding, blankets and accessories decreased for the six-month period of fiscal year 2011 as compared to the same period in fiscal year 2010. Sales decreased by $7.6 million due to discontinued programs and lower replenishment orders. These decreases were offset by $6.6 million in new bedding and blanket programs.

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. Sales increased by $1.8 million due to sales of new designs and promotions and

increased by $646,000 due to the Bibsters® Acquisition. Offsetting these increases were decreases of $1.5 million related to programs that were discontinued and lower replenishment orders.

Sales of bib, bath and disposable products increased for the six-month period of fiscal year 2011 as compared to the same period in fiscal year 2010. Sales increased by $2.2 million due in the aggregate to the Neat Solutions Acquisition and the Bibsters® Acquisition. Sales also increased by $2.7 million due to sales of new designs and promotions. Offsetting these increases were decreases of $2.5 million related to programs that were discontinued and lower replenishment orders.

*Gross Profit:* Gross profit increased in amount and as a percentage of net sales for the three and six-month periods of fiscal year 2011 as compared to the same periods 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 $207,000 and $414,000 for the three and six-month periods of the current year, respectively. Finally, higher inventory purchases in the current quarter resulted in a greater absorption of costs to inventory as compared to prior periods.

*Marketing and Administrative Expenses:* Marketing and administrative expenses for the three and six-month periods of fiscal year 2011 increased as compared to the same periods of fiscal year 2010. In the current year, the Company incurred costs of $320,000 and $401,000 for the three and six-month periods, respectively, 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-month period 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 39.1% for the six-month period of fiscal year 2011 as compared to 37.5% for the same period of fiscal year 2010.

Management does not believe that inflation has had a material effect on the Company s operations. The Company has traditionally attempted to increase its prices to offset inflation. There is no assurance, however, that the Company will be able to adequately increase its prices in response to inflation.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was $116,000 for the six-month period ended September 26, 2010, compared to cash of $4.3 million provided by operating activities for the six-month period ended September 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 $5.0 million in the prior year. Cash used in investing activities in the current 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.

Net cash provided by financing activities in the current year was $1.7 million compared to cash of $2.6 million used in financing activities in the prior year. The increase in net cash provided by financing activities in the current year was primarily due to $5.5 million in higher net borrowings on the Company s revolving line of credit, offset by $750,000 in higher repayments of the Company s term debt obligations and $378,000 in higher treasury stock purchases.

Total debt outstanding under the Company s credit facilities before the reduction for the original issue discount on the non-interest bearing notes decreased from $23.4 million at September 27, 2009 to $7.9 million at September 26, 2010. The decrease is due primarily to net repayments on the revolving line of credit, the largest portion of which came from a reduction of the Company s cash reserves in December 2009, which were $12.0 million at September 27, 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. At September 26, 2010, there was a balance due on the revolving line of credit of $5.8 million, there was a $500,000 letter of credit outstanding and the Company had $17.2 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 September 26, 2010, until payment is received. The Company incurred interest expense of $18,000 and $19,000 for the three-month periods ended September 26, 2010 and September 27, 2009, respectively, and $35,000 for each of the six-month periods ended September 26, 2010 and September 27, 2009, 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.

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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.

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 September 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.

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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 September 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 |
|---|---|---|---|---|
| June 28, 2010 through August 1, 2010 | 1,464 | $ 4.02 | 0 | $ 0 |
| August 2, 2010 through August 29, 2010 | 107,134 | $ 4.50 | 0 | $ 0 |
| August 30, 2010 through September 26, 2010 | 0 | $ 0 | 0 | $ 0 |
| Total | 108,598 | $ 4.49 | 0 | $ 0 |

(1) The shares purchased from June 28, 2010 through September 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 and in payment of the income tax withholding obligations relating to the vesting of shares of non-vested

stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

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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 |
|---|---|
| 4.1 | Amendment No. 4 to Amended and Restated Rights Agreement dated as of July 27, 2010 between the Company and Computershare Trust Company, N.A. (1) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by the Company s Chief Executive Officer (2) |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by the Company s Chief Financial Officer (2) |
| 32.1 | Section 1350 Certification by the Company s Chief Executive Officer (2) |
| 32.2 | Section 1350 Certification by the Company s Chief Financial Officer (2) |

(1) Incorporated herein by reference to Registrant s Current Report on Form 8-K dated July 27, 2010.

(2) Filed herewith.

SIGNATURE

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

CROWN CRAFTS, INC.

Date: November 8, 2010

/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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