



CROWN CRAFTS, INC.
2017
ANNUAL REPORT



TO OUR FELLOW STOCKHOLDERS

Crown Crafts remained strong in both its financial and market position in fiscal 2017, despite facing many external challenges during the year. Of course, challenges are nothing new to us. As I have stated in my letters to you in past annual reports, one of our key strengths is our ability to manage our business to generate strong cash flow and consistent long-term value in all market environments. That ability – and our commitment to it – has not changed.

This focus was demonstrated by the great work of all of our employees to deliver another profitable year in fiscal 2017. For the year, we reported net income of \$5.6 million, or \$0.55 per diluted share, on net sales of \$66.0 million. As a percentage of net sales, net income increased to 8.4% in fiscal 2017, compared with 8.1% for the prior year.

Gross profit as a percentage of net sales also continued to improve, increasing to 29.4% in fiscal 2017 from 28.2% for the prior-year period. We remain debt-free, and we finished the year with just under \$8 million in cash after paying substantial dividends. For the full year, the Company generated \$10 million in cash flow, and we returned \$9.7 million to shareholders in the form of quarterly and special dividends. With our most recently announced quarterly dividend of \$0.08 per share to be paid on July 7, 2017, we will have returned more than \$30.5 million to stockholders since 2010.

While our achievements were substantial, and we did what we could to control costs and maintain our strong position in the market by offering innovative products that are aligned with the changing preferences of the consumer, we are not satisfied with the year-over-year declines in net sales and net income from fiscal 2016 to fiscal 2017. These declines resulted largely from previously reported factors, including the credit difficulties of a major customer and a Black Friday event that was not repeated in fiscal 2017, as well as the overall softness of the retail environment.

As noted, we are working to offset trends in the marketplace that have affected the demand for some of our products. In response to the switch in preferences of today's millennial parents toward the "naked crib," which does not include traditional bedding items such

as bumpers and comforters, we have expanded our offerings with exciting new products in areas such as separates and infant bedroom décor.

We will continue our efforts to further strengthen our leadership position in the industry, and we are confident in our prospects for long-term sales growth and profitability. We are always working hard to introduce innovative and appealing new products to the marketplace, to build on our reputation for offering attractive lines of leading name-brand and private-label merchandise, and to maintain our strong licensing and retail relationships.

Our commitment to returning consistent value to our stockholders has not changed – and it never will. We are well positioned to deliver on that commitment, based on our continued financial and market strength, persistent efforts to keep costs down, and ongoing ability to serve the marketplace competitively in a challenging business environment. As always, we believe the best way to generate value for shareholders is through our disciplined, conservative and profit-oriented strategy, which enables us to deliver steady profitability along with strong and consistent cash flow.

Our thanks go out to our employees for their hard work, loyalty and commitment; to our customers and suppliers for our productive partnerships; and to you, our stockholders, for your continued support.

Sincerely,
E. Randall Chestnut
Chairman, President and Chief Executive Officer



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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 2, 2017

OR

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

Commission File No. 1-7604

Crown Crafts, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

58-0678148

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

916 S. Burnside Ave.

Gonzales, Louisiana

(Address of principal executive offices)

70737

(Zip Code)

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

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

Title of class

Common Stock, \$0.01 par value

Name of exchange on which registered

The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-Accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter) was \$86.7 million.

As of May 5, 2017, 10,057,764 shares of the registrant's common stock were outstanding.

Documents Incorporated by Reference:

Portions of the registrant's Proxy Statement for its 2017 Annual Meeting of Stockholders are incorporated into Part III hereof by reference.

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Cautionary Notice Regarding Forward-Looking Statements

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

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

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

PART I

ITEM 1. *Business*

Description of Business

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

The Company’s fiscal year ends on the Sunday nearest to or on March 31. References herein to “fiscal year 2017” or “2017” represent the 52-week period ended April 2, 2017 and references to “fiscal year 2016” or “2016” represent the 53-week period ended April 3, 2016.

Products

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

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

Government Regulation and Environmental Control

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

Sales and Marketing

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

Product Sourcing

The Company's products are produced by foreign and domestic manufacturers, with the largest concentration being in China. The Company makes sourcing decisions on the basis of quality, timeliness of delivery and price, including the impact of ocean freight and duties. Although the Company maintains relationships with a limited number of suppliers, the Company believes that its products may be readily manufactured by several alternative sources in quantities sufficient to meet the Company's requirements. The Company's management and quality assurance personnel visit the third-party facilities regularly to monitor and audit product quality and to ensure compliance with labor requirements and social and environmental standards. In addition, the Company closely monitors the currency exchange rate. The impact of future fluctuations in the exchange rate or changes in safeguards cannot be predicted with certainty.

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

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

Product Design and Styling

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

Competition

The infant and toddler consumer products industry is highly competitive. The Company competes with a variety of distributors and manufacturers (both branded and private label), including large infant and juvenile product companies and specialty infant and juvenile product manufacturers, on the basis of quality, design, price, brand name recognition, service and packaging. The Company's ability to compete depends principally on styling, price, service to the retailer and continued high regard for the Company's products and trade names.

Employees

At May 5, 2017, the Company had 119 employees, none of whom is represented by a labor union or is otherwise a party to a collective bargaining agreement. The Company attracts and maintains qualified personnel by paying competitive salaries and benefits and offering opportunities for advancement. The Company considers its relationship with its employees to be good.

Customers

The Company's customers consist principally of mass merchants, mid-tier retailers, juvenile specialty stores, value channel stores, grocery and drug stores, restaurants, internet accounts and wholesale clubs. The Company does not enter into long-term or other purchase agreements with its customers. The table below sets forth those customers that represented at least 10% of the Company's gross sales in fiscal years 2017 and 2016.

	Fiscal Year	
	2017	2016
Wal-Mart Stores, Inc.	42%	42%
Toys R Us	19%	23%

Seasonality and Inventory Management

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

Trademarks, Copyrights and Patents

The Company considers its intellectual property to be of material importance to its business. Sales of products marketed under the Company's trademarks, primarily NoJo® and Neat Solutions®, accounted for 23% of the Company's total gross sales during each of fiscal years 2017 and 2016, respectively. Protection for these trademarks is obtained through domestic and foreign registrations. The Company also markets designs which are subject to copyrights and design patents owned by the Company.

International Sales

Sales to customers in countries other than the United States represented 3% of the Company's total gross sales during each of fiscal years 2017 and 2016, which included 1% of sales to the customers set forth above that represented more than 10% of the Company's gross sales during fiscal year 2017. International sales are based upon the location that predominately represents what the Company believes to be the final destination of the products delivered to the Company's customers.

Licensed Products

Certain products are manufactured and sold pursuant to licensing agreements for trademarks. Also, many of the designs used by the Company are copyrighted by other parties, including trademark licensors, and are available to the Company through copyright license agreements. The licensing agreements are generally for an initial term of one to three years and may or may not be subject to renewal or extension. Sales of licensed products represented 62% of the Company's gross sales in fiscal year 2017, which included 43% of sales under the Company's license agreements with affiliated companies of The Walt Disney Company ("Disney"), which expire on December 31, 2017.

ITEM 1A. Risk Factors

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

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

The Company's top two customers represented approximately 61% of gross sales in fiscal year 2017. Although the Company does not enter into contracts with its key customers, it expects them to continue to be a significant portion of its gross sales in the future. The loss of, or a decline in orders from, one or more of these customers could result in a material decrease in the Company's revenue and operating income.

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

Sales of licensed products represented 62% of the Company's gross sales in fiscal year 2017, which included 43% of sales associated with the Company's license agreements with Disney. The Company could experience a material loss of revenues if it is unable to renew its major license agreements or obtain new licenses. Additionally, the volume of sales of licensed products is inherently tied to the success of the characters, films and other licensed programs of the Company's licensors. A decline in the popularity of these licensed programs or the inability of the licensors to develop new properties for licensing could also result in a material loss of revenues to the Company.

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

The Company's growth is largely dependent upon growth in the birthrate, and in particular, the rate of first births. Economic conditions, including the real and perceived threat of a recession, could lead individuals to decide to forgo or delay having children. Even under optimal economic conditions, shifts in demographic trends and preferences could have the consequence of individuals starting to have children later in life and/or having fewer children. These conditions could result in reduced demand for some of the Company's products, increased order cancellations and

returns, an increased risk of excess and obsolete inventories and increased pressure on the prices of the Company's products. Also, although the Company's use of a commercial factor significantly reduces the risk associated with collecting accounts receivable, the factor may at any time terminate or limit its approval of shipments to a particular customer, and the likelihood of the factor doing so may increase due to a change in economic conditions. Such an action by the factor could result in the loss of future sales to the affected customer.

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

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

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

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

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

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

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

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

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

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

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

The Company's credit facility contains usual and customary covenants regarding significant transactions, including restrictions on other indebtedness, liens, transfers of assets, investments and acquisitions, merger or consolidation transactions, transactions with affiliates and changes in or amendments to the organizational documents for the Company and its subsidiaries. Unless waived by the Company's lender, these covenants could limit the Company's ability to pursue opportunities to expand its business operations, respond to changes in business and economic conditions and obtain additional financing, or otherwise engage in transactions that the Company considers beneficial.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company could experience losses associated with its intellectual property.

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

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

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

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

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

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

ITEM 2. Properties

The Company's headquarters are located in Gonzales, Louisiana. The Company rents 17,761 square feet at this location under a lease that expires January 31, 2021. Management believes that its properties are suitable for the purposes for which they are used, are in generally good condition and provide adequate capacity for current and anticipated future operations. The table below sets forth certain information regarding the Company's principal real property as of May 5, 2017.

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

ITEM 3. Legal Proceedings

The Company is, from time to time, involved in various legal proceedings relating to claims arising in the ordinary course of its business. Neither the Company nor any of its subsidiaries is a party to any such legal proceeding the outcome of which, individually or in the aggregate, is expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

PART II

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

Description of Securities

The Company is authorized to issue up to 40,000,000 shares of capital stock, all of which are classified as common stock with a par value of \$0.01 per share. On May 5, 2017, there were 12,465,789 shares of the Company's common stock issued, 10,057,764 of which were outstanding.

Market Information and Price

The Company's common stock is traded on the NASDAQ Capital Market under the symbol "CRWS". On May 5, 2017, the closing price of the Company's common stock was \$7.85 per share. The table below sets forth the high and low closing price per share of the Company's common stock and the cash dividends per share declared on the Company's common stock during each quarter of fiscal years 2017 and 2016.

Quarter	Closing Price		Cash Dividends Declared
	High	Low	
Fiscal Year 2017			
First Quarter	\$ 9.80	\$ 9.11	\$ 0.08
Second Quarter.....	10.20	9.66	0.08
Third Quarter	10.24	7.60	0.48
Fourth Quarter	8.65	7.25	0.08
Fiscal Year 2016			
First Quarter	\$ 8.61	\$ 7.74	\$ 0.08
Second Quarter.....	8.22	7.88	0.08
Third Quarter	8.85	7.91	0.08
Fourth Quarter	9.50	7.87	0.33

Holder of Common Stock

As of May 5, 2017, there were approximately 181 registered holders of the Company's common stock.

Dividends

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

Issuer Purchases of Equity Securities.

The table below sets forth information regarding the Company's repurchase of its outstanding common stock during the three months ended April 2, 2017.

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
January 2, 2017 through February 5, 2017	0	\$ 0	0	\$ 0
February 6, 2017 through March 5, 2017	0	\$ 0	0	\$ 0
March 6, 2017 through April 2, 2017	10,488	\$ 8.20	0	\$ 0
Total.....	10,488	\$ 8.20	0	\$ 0

- (1) The shares purchased from March 6, 2017 through April 2, 2017 consist of shares of common stock surrendered to the Company in payment of the income tax withholding obligations relating to the vesting of non-vested stock.

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

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

Results of Operations

The following table contains results of operations for fiscal years 2017 and 2016 and the dollar and percentage changes for those periods (in thousands, except percentages).

	2017	2016	Change	
			\$	%
Net sales by category				
Bedding, blankets and accessories	\$ 42,381	\$ 59,020	\$ (16,639)	-28.2%
Bibs, bath and disposable products	23,597	25,322	(1,725)	-6.8%
Total net sales.....	65,978	84,342	(18,364)	-21.8%
Cost of products sold	46,567	60,529	(13,962)	-23.1%
Gross profit.....	19,411	23,813	(4,402)	-18.5%
% of net sales	29.4%	28.2%		
Marketing and administrative expenses	10,711	13,025	(2,314)	-17.8%
% of net sales	16.2%	15.4%		
Interest expense	68	58	10	17.2%
Other income.....	164	14	150	1071.4%
Income tax expense	3,224	3,915	(691)	-17.7%
Net income	5,572	6,829	(1,257)	-18.4%
% of net sales	8.4%	8.1%		

Net Sales: Sales of \$66.0 million for 2017 were lower than 2016, having decreased 21.8%, or \$18.4 million. A portion of the sales decrease was due to a Black Friday promotion in the prior year that was not repeated in the current year and reduced product shipments to a customer that experienced credit problems. Additionally, due to the increased value of the U.S. Dollar relative to the Chinese Renminbi, the Company has received a series of price reductions from most of its suppliers, which have been partially passed along to the Company's customers. Also affecting sales is the continuing overall sluggish retail environment, coupled with a change in the infant bedding marketplace. Specifically, on the advice of pediatricians, parents are moving more to the concept of a "naked crib", whereby only a fitted sheet is used in a crib. Bumper pads, sheets, blankets, comforters and other loose bedding and soft objects, such as stuffed toys, wedges and positioners, are recommended to be kept out of the crib. This has resulted in parents purchasing fewer bedding sets in favor of separates and leading to a lower average price point for the Company's infant bedding products. This trend has been partially offset by the Company's expanded offerings of separates and infant bedroom décor.

Gross Profit: Gross profit decreased in amount by \$4.4 million but increased as a percentage of net sales from 28.2% to 29.4%. The increase as a percentage of net sales can be attributed to the improved product costs from China, which were the result of favorable exchange rate fluctuations.

Marketing and Administrative Expenses: Marketing and administrative expenses for fiscal year 2017 declined by \$2.3 million compared with fiscal year 2016. The decrease is primarily related to lower overall compensation costs, which declined in fiscal 2017 by \$1.4 million as compared with fiscal 2016.

Income Tax Expense: The Company's provision for income taxes increased slightly to 36.7% during 2017 from 36.4% in 2016. The Company's effective tax rate for the current year was beneficially impacted by the early adoption of Accounting Standards Update ("ASU") No. 2016-09, which resulted in the recognition of discrete income tax benefits amounting to \$248,000 to reflect the effect of net excess tax benefits arising from the exercise of stock options and the vesting of non-vested stock during the year. The Company recorded during the prior year discrete net income tax benefits of approximately \$260,000, primarily resulting from the application of more favorable state apportionment percentages to state income tax returns for several prior fiscal years.

Known Trends and Uncertainties

The Company's financial results are closely tied to sales to the Company's top two customers, which represented approximately 61% of the Company's gross sales in fiscal year 2017. A significant downturn experienced by either or both of these customers could lead to pressure on the Company's revenues. At times, the Company has also faced higher raw material costs, as well as increases in labor and transportation costs associated with the Company's sourcing activities in China. Increases in these costs could adversely affect the profitability of the Company if it cannot pass the cost increases along to its customers in the form of price increases or if the timing of price increases does not closely match the cost increases. For additional discussion of trends, uncertainties and other factors that could impact the Company's operating results, see "Risk Factors" in Item 1A. of Part I. of this Annual Report on Form 10-K.

Financial Position, Liquidity and Capital Resources

Net cash provided by operating activities decreased from \$11.0 million for the fiscal year ended April 3, 2016 to \$10.4 million for the fiscal year ended April 2, 2017. In the current year, the Company experienced a decrease in its accounts receivable balances that was \$3.5 million higher than the decrease in the prior year. Offsetting this decrease was an increase in inventory in the current year that was \$1.7 million higher than the prior year, as well as net income that was \$1.3 million lower in the current year as compared with the prior year.

Net cash used in investing activities was \$191,000 in fiscal year 2017 compared with \$324,000 in the prior year. The decrease in the current year was primarily due to \$123,000 used in the prior year to purchase certain intangible assets.

Net cash used in financing activities increased by \$5.0 million to \$9.9 million in the current year. The increase was primarily associated with an increase in dividends paid in the current year of \$6.5 million as compared with the prior year. Offsetting this amount was a \$1.9 million decrease in the current year as compared with the prior year that were associated with the surrender to the Company's treasury of a portion of the shares of non-vested stock that vested and

from shares issued upon the exercise of options, which was in consideration of the Company remitting the income tax withholding obligations to the appropriate taxing authorities on behalf of the employees of the Company that exercised options and had non-vested stock that vested.

The Company's future performance is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors beyond its control. Based upon the current level of operations, the Company believes that its cash flow from operations and availability on its revolving line of credit will be adequate to meet its liquidity needs.

The Company's credit facility at April 2, 2017 consisted of a revolving line of credit under a financing agreement with The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group Inc., of up to \$26.0 million, which includes a \$1.5 million sub-limit for letters of credit, bearing interest at the rate of prime minus 0.5% or LIBOR plus 2.0%. The financing agreement matures on July 11, 2019 and is secured by a first lien on all assets of the Company. At April 2, 2017, the Company had elected to pay interest on balances owed under the revolving line of credit, if any, under the LIBOR option. The financing agreement also provides for the payment by CIT to the Company of interest at the rate of prime minus 2.0%, which was 2.0% at April 2, 2017, on daily negative balances held at CIT.

The financing agreement as in effect prior to December 28, 2015 provided for a monthly fee, which was assessed based on 0.125% of the average unused portion of the \$26.0 million revolving line of credit, less any outstanding letters of credit (the "Commitment Fee"). The Commitment Fee amounted to \$25,000 during fiscal year 2016. The financing agreement was amended on December 28, 2015 to eliminate the Commitment Fee. At April 2, 2017 and April 3, 2016, there was no balance owed on the revolving line of credit, there was no letter of credit outstanding and \$21.4 million and \$25.6 million, respectively, was available under the revolving line of credit based on the Company's eligible accounts receivable and inventory balances.

The financing agreement contains usual and customary covenants for agreements of that type, including limitations on other indebtedness, liens, transfers of assets, investments and acquisitions, merger or consolidation transactions, transactions with affiliates, and changes in or amendments to the organizational documents for the Company and its subsidiaries. The Company believes it was in compliance with these covenants as of April 2, 2017.

To reduce its exposure to credit losses, the Company assigns the majority of its trade accounts receivable to CIT pursuant to factoring agreements, which have expiration dates that are coterminous with that of the financing agreement described above. Under the terms of the factoring agreements, CIT remits customer payments to the Company as such payments are received by CIT.

CIT bears credit losses with respect to assigned accounts receivable from approved shipments, while the Company bears the responsibility for adjustments from customers related to returns, allowances, claims and discounts. CIT may at any time terminate or limit its approval of shipments to a particular customer. If such a termination or limitation occurs, the Company either assumes (and may seek to mitigate) the credit risk for shipments to the customer after the date of such termination or limitation or discontinues shipments to the customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying consolidated statements of income, were \$395,000 and \$556,000 during fiscal years 2017 and 2016, respectively. There were no advances on the factoring agreements at either April 2, 2017 or April 3, 2016.

Critical Accounting Policies and Estimates

The Company prepares its financial statements to conform with accounting principles generally accepted in the United States of America ("GAAP") as promulgated by the Financial Accounting Standards Board ("FASB"). References herein to GAAP are to topics within the FASB Accounting Standards Codification (the "FASB ASC"), which has been established by the FASB as the authoritative source for GAAP recognized by the FASB to be applied by nongovernmental entities.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated balance sheets and the reported amounts of revenues and expenses during the reporting period. The listing below, while not inclusive of all of the Company's accounting policies, sets forth those

accounting policies which the Company's management believes embody the most significant judgments due to the uncertainties affecting their application and the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

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

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

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

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

Allowances Against Accounts Receivable: The Company's allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as cooperative advertising and warehouse allowances, placement fees and volume rebates. These deductions are recorded throughout the year commensurate with sales activity or using the straight-line method, as appropriate. Funding of the majority of the Company's allowances occurs on a per-invoice basis. The allowances for customer deductions, which are netted against accounts receivable in the consolidated balance sheets, consist of agreed-upon cooperative advertising support, placement fees, markdowns and warehouse and other allowances. All such allowances are recorded as direct offsets to sales, and such costs are accrued commensurate with sales activities or as a straight-line amortization charge of an agreed-upon fixed amount, as appropriate to the circumstances for each arrangement. When a customer requests deductions, the allowances are reduced to reflect such payments or credits issued against the customer's account balance. The Company analyzes the components of the allowances for customer deductions monthly and adjusts the allowances to the appropriate levels. The timing of the customer-initiated funding requests for advertising support can cause the net balance in the allowance account to fluctuate from period to period. The timing of such funding requests has a minimal impact on the consolidated statements of income since such costs are accrued commensurate with sales activity or using the straight-line method, as appropriate.

To reduce its exposure to credit losses, the Company assigns the majority of its receivables under factoring agreements with CIT. In the event a factored receivable becomes uncollectible due to creditworthiness, CIT bears the risk of loss. The Company's management must make estimates of the uncollectibility of its non-factored accounts receivable when evaluating the adequacy of its allowance for doubtful accounts, which it accomplishes by specifically analyzing accounts receivable, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers' payment terms.

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

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

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

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

Royalty Payments: The Company has entered into agreements that provide for royalty payments based on a percentage of sales with certain minimum guaranteed amounts. These royalty amounts are accrued based upon historical sales rates adjusted for current sales trends by customers. Royalty expense is included in cost of products sold and amounted to \$7.0 million and \$9.0 million for fiscal years 2017 and 2016, respectively.

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

Management evaluates items of income, deductions and credits reported on the Company's various federal and state income tax returns filed and recognizes the effect of positions taken on those income tax returns only if those positions are more likely than not to be sustained. The Company applies the provisions of FASB ASC Sub-topic 740-10-25, which requires a minimum recognition threshold that a tax benefit must meet before being recognized in the financial statements. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During fiscal year 2016, an evaluation was made of the Company's process regarding the calculation

of the state portion of its income tax provision. This evaluation resulted in a tax position that reflects opportunities for the application of more favorable state apportionment percentages for several prior fiscal years. After considering all relevant information, the Company believes that the technical merits of this tax position would more likely than not be sustained. However, the Company also believes that the ultimate resolution of the tax position will result in a tax benefit that is less than the full amount being sought. Therefore, the Company's measurement regarding the tax impact of the revised state apportionment percentages resulted in the Company recording during fiscal year 2017 a reserve for unrecognized tax benefits of \$134,000 in the accompanying consolidated financial statements. During fiscal year 2016, the Company recorded a gross reserve for unrecognized tax benefits of \$773,000, less an offset of \$573,000 to reflect state income tax overpayments net of the federal income tax impact, for a net reserve for unrecognized tax benefits of \$200,000.

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. During fiscal years 2017 and 2016, the Company had accrued \$65,000 and \$11,000, respectively, for interest expense and penalties on the portion of the unrecognized tax benefit that has been refunded to the Company but for which the relevant statute of limitations remained unexpired. No interest expense or penalties is accrued with respect to estimated unrecognized tax benefits that are associated with state income tax overpayments that remain receivable.

Recently Issued Accounting Standards

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace most existing GAAP guidance on revenue recognition and which will require the use of more estimates and judgments, as well as additional disclosures. When issued, ASU No. 2014-09 was to become effective in the fiscal year beginning after December 15, 2016, but on August 12, 2015 the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which provided for a one-year deferral to apply the guidance of ASU No. 2014-09. Early adoption was originally not permitted in ASU No. 2014-09, but ASU No. 2015-14 permits early adoption in the first interim period of the fiscal year beginning after December 15, 2016. The ASU permits the use of either the retrospective or cumulative effect transition method. The Company is currently reviewing its existing revenue contract arrangements and expects its review to be complete in fiscal year 2018. At this time, the Company has not yet determined whether it will adopt the provisions of ASU 2014-09 on a retrospective basis or through a cumulative adjustment to equity.

On July 22, 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which will clarify that after an entity determines the cost of its inventory, the subsequent measurement and presentation of such inventory should be at the lower of cost or net realizable value. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2016. The ASU should be applied prospectively, and early adoption is permitted. The Company intends to adopt ASU No. 2015-11 on April 3, 2017, and is currently evaluating the effect that the adoption of the ASU will have on its financial position, results of operations and related disclosures.

On November 20, 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, the intent of which was to simplify the presentation of deferred taxes by requiring all deferred tax assets and liabilities to be classified as noncurrent on an entity's balance sheet. The ASU was to have become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. Upon adoption, the ASU may be applied prospectively or retrospectively. The Company elected to early-adopt ASU No. 2015-17 effective as of April 4, 2016 using a prospective application. As such, the consolidated balance sheet presented as of April 3, 2016 in the accompanying consolidated financial statements has not been adjusted. The adoption of ASU No. 2015-17 on April 4, 2016 resulted in the reclassification in the accompanying consolidated balance sheet as of April 2, 2017 of \$397,000 in net deferred tax assets from current to noncurrent. The adoption of ASU No. 2015-17 did not have an impact on the Company's results of operations and related disclosures.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will increase transparency and comparability by requiring an entity to recognize lease assets and lease liabilities on its balance sheet and by requiring the disclosure of key information about leasing arrangements. Under the provisions of ASU No. 2016-02, the Company will be required to capitalize most of its current operating lease obligations as right-of-use assets with corresponding liabilities based upon the present value of the future cash outflows associated with such operating lease obligations. The

ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2018. The ASU is to be applied using a modified retrospective approach, and early adoption is permitted. The Company has not yet decided if it will early-adopt ASU No. 2016-02 and is currently evaluating the effect that its adoption of the ASU will have on its financial position, results of operations and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, the intent of which was to simplify the accounting for share-based compensation transactions while maintaining or improving the usefulness of the related disclosures. ASU No. 2016-09 was to have become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. Upon adoption, the ASU may be applied prospectively or retrospectively. The Company elected to early-adopt the ASU effective as of April 4, 2016 using a prospective application. Accordingly, the consolidated statement of income, changes in shareholders' equity and cash flows in the accompanying consolidated financial statements for the fiscal year ended April 3, 2016 have not been adjusted.

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

- Under previous GAAP, upon the exercise of an option or the vesting of non-vested stock, the Company was required to recognize the tax effect of the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes in additional paid-in capital. The provisions of ASU No. 2016-09 require the recognition of the excess tax deficiency or benefit as an income tax expense or benefit, respectively, in the Company's statement of income. The Company's election to early-adopt the ASU effective as of April 4, 2016 resulted in the recognition of net excess tax benefits amounting to \$248,000 as a reduction to the Company's reported income tax expense for fiscal year 2017. If ASU No. 2016-09 had been in effect on March 30, 2015, the Company's income tax expense for fiscal year 2016 would have been \$273,000 lower. The effect of the adoption of the ASU on the Company's future results of operations will depend on such factors as the timing and extent of the future exercise of stock options and the future vesting of non-vested stock, as well as the closing price per share of the Company's common stock on the dates of such events. The inherent uncertainty surrounding the details of these factors dictates that the future effects of the adoption of ASU No. 2016-09 on the Company's results of operations cannot be reasonably estimated.
- Under previous GAAP, excess tax benefits were classified as a financing activity in the Company's statement of cash flows. The provisions of ASU No. 2016-09 require that excess tax benefits be classified as an operating activity in the Company's statement of cash flows. The Company's election to early-adopt ASU No. 2016-09 effective as of April 4, 2016 resulted in the classification of excess tax benefits amounting to \$250,000 as cash provided by operating activities during fiscal year 2017. If ASU No. 2016-09 had been in effect on March 30, 2015, the amount of the Company's cash provided by operating activities during fiscal year 2016 would have been \$278,000 higher and its cash used in financing activities would have been \$278,000 higher.
- The provisions of ASU No. 2016-09 clarify that cash paid by the Company to taxing authorities on behalf of an employee to reflect the value of shares withheld from the exercise of options or the vesting of non-vested stock to satisfy the income tax withholding obligations arising from such exercise or vesting should be classified as a financing activity in the Company's statement of cash flows. As this treatment is consistent with the Company's long-standing practice, if ASU No. 2016-09 had been in effect beginning on March 30, 2015, there would have been no difference in the amount of the Company's cash used in financing activities during either 2017 or 2016 as a result of this provision in the ASU.

On June 16, 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the objective of which is to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity. Current GAAP requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable that a loss has been incurred. Because this methodology restricted the recognition of credit losses that are expected, but did not yet meet the "probable" threshold, ASU No. 2016-13 was issued to require the consideration of a broader range of reasonable and supportable information when determining estimates of credit

losses. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2019. The ASU is to be applied using a modified retrospective approach, and the ASU may be early-adopted as of the first interim period of the fiscal year beginning after December 15, 2018. Although the Company has not yet decided whether to adopt ASU No. 2016-13 early or determined the full impact of the adoption of the ASU, because the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT, the Company does not believe that its adoption of ASU No. 2016-13 will have a significant impact on the Company's financial position, results of operations and related disclosures.

On January 26, 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Under current GAAP, the test for the impairment of goodwill requires a two-step approach, which is outlined in Note 6 to the accompanying consolidated financial statements. The intent of ASU No. 2017-04 is to simplify this process by eliminating the second step from the goodwill impairment test. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2019. The ASU is to be applied on a prospective basis, and the ASU may be early-adopted as of the first interim or annual goodwill impairment test performed on or after January 1, 2017. The Company intends to early-adopt the ASU effective as of April 3, 2017 and is currently evaluating the effect that the adoption of the ASU will have on its financial position, results of operations and related disclosures.

The Company has determined that all other ASU's issued which had become effective as of May 5, 2017, or which will become effective at some future date, are not expected to have a material impact on the Company's consolidated financial statements.

ITEM 8. Financial Statements and Supplementary Data

See pages 20 and F-1 through F-20 hereof.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework and the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of April 2, 2017. The Company's internal control over financial reporting as of April 2, 2017 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8. of this Annual Report on Form 10-K.

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

Changes in Internal Control over Financial Reporting

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the Company's internal control over financial reporting as required by Rule 13a-15(d) under the Exchange Act and, in connection with such evaluation, determined that no changes occurred during the Company's fiscal quarter ended April 2, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

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

The information with respect to the Company's directors and executive officers will be set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held in 2017 (the "Proxy Statement") under the captions "Proposal 1 – Election of Directors" and "Executive Officers" and is incorporated herein by reference. The information with respect to Item 405 of Regulation S-K will be set forth in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference. The information with respect to Item 406 of Regulation S-K will be set forth in the Proxy Statement under the caption "Code of Business Conduct and Ethics" and is incorporated herein by reference. The information with respect to Item 407 of Regulation S-K will be set forth in the Proxy Statement under the captions "Board Committees and Meetings" and "Report of the Audit Committee" and is incorporated herein by reference.

ITEM 11. *Executive Compensation*

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

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

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

Securities Authorized for Issuance under Equity Compensation Plans

The table below sets forth information regarding shares of the Company's common stock that may be issued upon the exercise of options, warrants and other rights granted to employees, consultants or directors under all of the Company's existing equity compensation plans as of April 2, 2017.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders:			
2006 Omnibus Incentive Plan.....	112,500	\$ 7.01	0
2014 Omnibus Equity Compensation Plan.....	210,000	\$ 9.08	814,263

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

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

ITEM 14. *Principal Accountant Fees and Services*

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

PART IV

ITEM 15. *Exhibits and Financial Statement Schedules*

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

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

- Reports of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of April 2, 2017 and April 3, 2016
- Consolidated Statements of Income for the Fiscal Years Ended April 2, 2017 and April 3, 2016
- Consolidated Statements of Changes in Shareholders' Equity for the Fiscal Years Ended April 2, 2017 and April 3, 2016
- Consolidated Statements of Cash Flows for the Fiscal Years Ended April 2, 2017 and April 3, 2016
- Notes to Consolidated Financial Statements

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

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

Schedule II — Valuation and Qualifying Accounts..... Page 20

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

CROWN CRAFTS, INC. AND SUBSIDIARIES

ANNUAL REPORT ON FORM 10-K

<u>Column A</u>	<u>Valuation and Qualifying Accounts</u>			
	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
	<u>Balance at Beginning of Period</u>	<u>Charged to Expenses</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
	(in thousands)			
Accounts Receivable Valuation Accounts:				
Year Ended April 3, 2016				
Allowance for customer deductions.....	\$ 1,000	\$ 3,495	\$ 3,750	\$ 745
Year Ended April 2, 2017				
Allowance for customer deductions.....	\$ 745	\$ 3,695	\$ 3,665	\$ 775

(a)(3). Exhibits

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

Exhibit Number	Description of Exhibits
3.1	— Amended and Restated Certificate of Incorporation of the Company. (2)
3.2	— Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company. (12)
3.3	— Bylaws of the Company, as amended and restated through November 15, 2016. (22)
4.1 *	— Crown Crafts, Inc. 2006 Omnibus Incentive Plan (As Amended August 14, 2012). (15)
4.2 *	— Form of Non-Qualified Stock Option Agreement (Employees). (5)
4.3 *	— Crown Crafts, Inc. 2014 Omnibus Equity Compensation Plan. (17)
4.4 *	— Form of Incentive Stock Option Grant Agreement. (18)
4.5 *	— Form of Non-Qualified Stock Option Grant Agreement. (18)
4.6 *	— Form of Restricted Stock Grant Agreement. (18)
10.1 *	— Employment Agreement dated July 23, 2001 by and between the Company and E. Randall Chestnut. (1)
10.2 *	— Amended and Restated Severance Protection Agreement dated April 20, 2004 by and between the Company and E. Randall Chestnut. (3)
10.3 *	— Amended and Restated Employment Agreement dated April 20, 2004 by and between the Company and Nanci Freeman. (3)
10.4	— Financing Agreement dated as of July 11, 2006 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (4)
10.5	— Stock Pledge Agreement dated as of July 11, 2006 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (4)
10.6	— First Amendment to Financing Agreement dated as of November 5, 2007 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (6)
10.7 *	— Employment Agreement dated November 6, 2008 by and between the Company and Olivia W. Elliott (7)
10.8 *	— First Amendment to Employment Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut. (8)
10.9 *	— First Amendment to Amended and Restated Severance Protection Agreement dated November 6, 2008 by and between the Company and E. Randall Chestnut. (8)
10.10*	— First Amendment to Amended and Restated Employment Agreement dated November 6, 2008 by and between the Company and Nanci Freeman. (8)
10.11	— Third Amendment to Financing Agreement dated as of July 2, 2009 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (9)
10.12	— Sixth Amendment to Financing Agreement dated as of March 5, 2010 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (10)
10.13	— Seventh Amendment to Financing Agreement dated as of May 27, 2010 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (11)
10.14	— Eighth Amendment to Financing Agreement dated as of March 26, 2012 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (13)
10.15*	— Second Amendment to Amended and Restated Employment Agreement dated March 26, 2012 by and between the Company and Nanci Freeman. (14)
10.16	— Ninth Amendment to Financing Agreement dated May 21, 2013 by and among the Company, Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (16)
10.17	— Tenth Amendment to Financing Agreement dated as of December 28, 2015 by and among the Company, Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (19)

- 10.18 — Eleventh Amendment to Financing Agreement dated as of March 31, 2016 by and among the Company, Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (20)
- 10.19* — Amendment No. 1 to the Crown Crafts, Inc. 2014 Omnibus Equity Compensation Plan. (21)
- 10.20* — Form of Incentive Stock Option Grant Agreement (effective November 2016). (21)
- 10.21* — Form of Nonqualified Stock Option Grant Agreement (effective November 2016). (21)
- 10.22* — Form of Restricted Stock Grant Agreement (effective November 2016). (21)
- 14.1 — Code of Ethics. (3)
- 21.1 — Subsidiaries of the Company. (23)
- 23.1 — Consent of KPMG LLP. (23)
- 31.1 — Rule 13a-14(a)/15d-14(a) Certification by the Company’s Chief Executive Officer. (23)
- 31.2 — Rule 13a-14(a)/15d-14(a) Certification by the Company’s Chief Financial Officer. (23)
- 32.1 — Section 1350 Certification by the Company’s Chief Executive Officer. (24)
- 32.2 — Section 1350 Certification by the Company’s Chief Financial Officer. (24)

- 101 — The following information from the Registrant’s Annual Report on Form 10-K for the fiscal year ended April 2, 2017, formatted as interactive data files in XBRL (eXtensible Business Reporting Language):
 - (i) Consolidated Statements of Income;
 - (ii) Consolidated Balance Sheets;
 - (iii) Consolidated Statements of Changes in Shareholders’ Equity;
 - (iv) Consolidated Statements of Cash Flows; and
 - (v) Notes to Consolidated Financial Statements.

* Management contract or a compensatory plan or arrangement.

- (1) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated July 23, 2001.
- (2) Incorporated herein by reference to Registrant’s Quarterly Report on Form 10-Q for the quarter ended December 28, 2003.
- (3) Incorporated herein by reference to Registrant’s Annual Report on Form 10-K for the fiscal year ended March 28, 2004.
- (4) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated July 17, 2006.
- (5) Incorporated herein by reference to Registrant’s Registration Statement on Form S-8 dated August 24, 2006.
- (6) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated November 9, 2007.
- (7) Incorporated herein by reference to Registrant’s Current Report on Form 8-K/A dated November 7, 2008.
- (8) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated November 7, 2008.
- (9) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated July 6, 2009.
- (10) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated March 8, 2010.
- (11) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated May 27, 2010.
- (12) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated August 9, 2011.
- (13) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated March 27, 2012.
- (14) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated March 30, 2012.
- (15) Incorporated herein by reference to Registrant’s Registration Statement on Form S-8 dated August 14, 2012.
- (16) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated May 21, 2013.
- (17) Incorporated herein by reference to Appendix A to the Registrant’s Definitive Proxy Statement on Schedule 14A filed on June 27, 2014.
- (18) Incorporated herein by reference to Registrant’s Registration Statement on Form S-8 dated November 10, 2014.
- (19) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated December 28, 2015.
- (20) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated April 4, 2016.
- (21) Incorporated herein by reference to Registrant’s Quarterly Report on Form 10-Q for the quarter ended October 2, 2016.
- (22) Incorporated herein by reference to Registrant’s Current Report on Form 8-K dated November 16, 2016.
- (23) Filed herewith.
- (24) Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CROWN CRAFTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut

Chairman of the Board, President and Chief Executive Officer

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

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ E. Randall Chestnut</u> E. Randall Chestnut	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	June 14, 2017
<u>/s/ Sidney Kirschner</u> Sidney Kirschner	Director	June 14, 2017
<u>/s/ Zenon S. Nie</u> Zenon S. Nie	Director	June 14, 2017
<u>/s/ Donald Ratajczak</u> Donald Ratajczak	Director	June 14, 2017
<u>/s/ Patricia Stensrud</u> Patricia Stensrud	Director	June 14, 2017
<u>/s/ Olivia W. Elliott</u> Olivia W. Elliott	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 14, 2017

ITEM 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Crown Crafts, Inc. and subsidiaries (the Company) as of April 2, 2017 and April 3, 2016, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended April 2, 2017. In connection with our audits of the consolidated financial statements, we also have audited financial statement Schedule II included in Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crown Crafts, Inc. and subsidiaries as of April 2, 2017 and April 3, 2016, and the results of their operations and their cash flows for each of the years in the two-year period ended April 2, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Crown Crafts, Inc.'s internal control over financial reporting as of April 2, 2017, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 14, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Baton Rouge, Louisiana
June 14, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited Crown Crafts, Inc.'s internal control over financial reporting as of April 2, 2017, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Crown Crafts, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Crown Crafts, Inc. maintained, in all material respects, effective internal control over financial reporting as of April 2, 2017 based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Crown Crafts, Inc. and subsidiaries as of April 2, 2017 and April 3, 2016, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended April 2, 2017, and our report dated June 14, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Baton Rouge, Louisiana
June 14, 2017

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
APRIL 2, 2017 AND APRIL 3, 2016

	April 2, 2017	April 3, 2016
(amounts in thousands, except share and per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 7,892	\$ 7,574
Accounts receivable (net of allowances of \$775 at April 2, 2017 and \$745 at April 3, 2016):		
Due from factor.....	14,921	20,125
Other	693	671
Inventories	15,821	14,785
Prepaid expenses.....	1,783	1,689
Deferred income taxes	-	888
Total current assets	41,110	45,732
Property, plant and equipment - at cost:		
Vehicles	247	247
Leasehold improvements.....	248	239
Machinery and equipment	2,396	2,879
Furniture and fixtures	789	808
Property, plant and equipment - gross	3,680	4,173
Less accumulated depreciation	3,239	3,740
Property, plant and equipment - net	441	433
Finite-lived intangible assets - at cost:		
Customer relationships	5,534	5,534
Other finite-lived intangible assets.....	3,686	3,686
Finite-lived intangible assets - gross	9,220	9,220
Less accumulated amortization	6,092	5,338
Finite-lived intangible assets - net	3,128	3,882
Goodwill.....	1,126	1,126
Deferred income taxes	1,240	1,049
Other.....	139	193
Total Assets	\$ 47,184	\$ 52,415
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,149	\$ 4,640
Accrued wages and benefits.....	799	1,988
Accrued royalties.....	353	1,172
Dividends payable.....	803	3,303
Income taxes payable	224	806
Other accrued liabilities	245	276
Total current liabilities	7,573	12,185
Non-current liabilities:		
Reserve for unrecognized tax benefits.....	688	211
Shareholders' equity:		
Common stock - \$0.01 par value per share; Authorized 40,000,000 shares at April 2, 2017 and April 3, 2016; Issued 12,423,539 shares at April 2, 2017 and 12,251,834 shares at April 3, 2016.....	124	123
Additional paid-in capital.....	52,220	50,723
Treasury stock - at cost - 2,401,066 shares at April 2, 2017 and 2,302,191 shares at April 3, 2016.....	(12,175)	(11,228)
(Accumulated Deficit) Retained Earnings	(1,246)	401
Total shareholders' equity	38,923	40,019
Total Liabilities and Shareholders' Equity	\$ 47,184	\$ 52,415

See notes to consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FISCAL YEARS ENDED APRIL 2, 2017 AND APRIL 3, 2016
(amounts in thousands, except per share amounts)

	2017	2016
Net sales	\$ 65,978	\$ 84,342
Cost of products sold	46,567	60,529
Gross profit	19,411	23,813
Marketing and administrative expenses	10,711	13,025
Income from operations	8,700	10,788
Other income (expense):		
Interest expense	(68)	(58)
Interest income	134	69
Foreign exchange gain (loss)	26	(62)
Other – net	4	7
Income before income tax expense	8,796	10,744
Income tax expense	3,224	3,915
Net income	\$ 5,572	\$ 6,829
Weighted average shares outstanding:		
Basic	10,013	10,017
Effect of dilutive securities	28	21
Diluted	10,041	10,038
Earnings per share:		
Basic	\$ 0.56	\$ 0.68
Diluted	\$ 0.55	\$ 0.68
Cash dividends declared per share	\$ 0.72	\$ 0.57

See notes to consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FISCAL YEARS ENDED APRIL 2, 2017 AND APRIL 3, 2016

	<u>Common Shares</u>		<u>Treasury Shares</u>		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Total Shareholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
	(Dollar amounts in thousands)						
Balances - March 29, 2015	12,030,302	\$ 120	(1,964,886)	\$ (8,390)	\$ 48,561	\$ (719)	\$ 39,572
Issuance of shares	221,532	3			983		986
Stock-based compensation					906		906
Net tax effect of stock-based compensation.....					273		273
Acquisition of treasury stock.....			(337,305)	(2,838)			(2,838)
Net income						6,829	6,829
Dividends declared on common stock - \$0.57 per share						(5,709)	(5,709)
Balances - April 3, 2016	<u>12,251,834</u>	<u>123</u>	<u>(2,302,191)</u>	<u>(11,228)</u>	<u>50,723</u>	<u>401</u>	<u>40,019</u>
Issuance of shares	171,705	1			893		894
Stock-based compensation					604		604
Acquisition of treasury stock.....			(98,875)	(947)			(947)
Net income						5,572	5,572
Dividends declared on common stock - \$0.72 per share						(7,219)	(7,219)
Balances - April 2, 2017	<u>12,423,539</u>	<u>\$ 124</u>	<u>(2,401,066)</u>	<u>\$(12,175)</u>	<u>\$ 52,220</u>	<u>\$ (1,246)</u>	<u>\$ 38,923</u>

See notes to consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FISCAL YEARS ENDED APRIL 2, 2017 AND APRIL 3, 2016

	2017	2016
	(amounts in thousands)	
Operating activities:		
Net income	\$ 5,572	\$ 6,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	178	310
Amortization of intangibles	754	748
Deferred income taxes.....	697	165
Loss (gain) on sale of property, plant and equipment.....	5	(15)
Reserve for unrecognized tax benefits.....	199	211
Stock-based compensation	604	906
Tax shortfall from stock-based compensation	-	(5)
Changes in assets and liabilities:		
Accounts receivable	5,182	1,575
Inventories.....	(1,036)	683
Prepaid expenses	(94)	217
Other assets	54	(60)
Accounts payable	509	168
Accrued liabilities.....	(2,235)	(716)
Net cash provided by operating activities	10,389	11,016
Investing activities:		
Capital expenditures for property, plant and equipment.....	(191)	(232)
Proceeds from sale of property, plant and equipment	-	31
Capital expenditures for purchased intangible assets	-	(123)
Net cash used in investing activities	(191)	(324)
Financing activities:		
Purchase of treasury stock	(947)	(2,838)
Issuance of common stock.....	786	846
Excess tax benefit from stock-based compensation.....	-	278
Dividends paid	(9,719)	(3,211)
Net cash used in financing activities.....	(9,880)	(4,925)
Net increase in cash and cash equivalents.....	318	5,767
Cash and cash equivalents at beginning of period	7,574	1,807
Cash and cash equivalents at end of period.....	\$ 7,892	\$ 7,574
Supplemental cash flow information:		
Income taxes paid	\$ 3,037	\$ 4,107
Interest paid	2	56
Noncash financing activities:		
Dividends declared but unpaid.....	(803)	(3,303)
Compensation paid as common stock	108	140

See notes to consolidated financial statements.

Crown Crafts, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Fiscal Years Ended April 2, 2017 and April 3, 2016

Note 1 – Description of Business

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation: The accompanying consolidated financial statements include the accounts of the Company and have been prepared pursuant to accounting principles generally accepted in the United States (“GAAP”) as promulgated by the Financial Accounting Standards Board (“FASB”). All significant intercompany balances and transactions have been eliminated in consolidation. References herein to GAAP are to topics within the FASB Accounting Standards Codification (the “FASB ASC”), which has been established by the FASB as the authoritative source for GAAP recognized by the FASB to be applied by nongovernmental entities.

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

Fiscal Year: The Company’s fiscal year ends on the Sunday nearest to or on March 31. References herein to “fiscal year 2017” or “2017” represent the 52-week period ended April 2, 2017 and references to “fiscal year 2016” or “2016” represent the 53-week period ended April 3, 2016.

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

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

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

Segments and Related Information: The Company operates primarily in one principal segment, infant and toddler products. These products consist of infant and toddler bedding, bibs, soft bath products, disposable products and accessories. Net sales of bedding, blankets and accessories and net sales of bibs, bath and disposable products for 2017 and 2016 are as follows (in thousands):

	2017	2016
Bedding, blankets and accessories	\$ 42,381	\$ 59,020
Bibs, bath and disposable products	23,597	25,322
Total net sales	<u>\$ 65,978</u>	<u>\$ 84,342</u>

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

Allowances Against Accounts Receivable: The Company's allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as cooperative advertising and warehouse allowances, placement fees and volume rebates. These deductions are recorded throughout the year commensurate with sales activity or using the straight-line method, as appropriate. Funding of the majority of the Company's allowances occurs on a per-invoice basis. The allowances for customer deductions, which are netted against accounts receivable in the accompanying consolidated balance sheets, consist of agreed-upon cooperative advertising support, placement fees, markdowns and warehouse and other allowances. All such allowances are recorded as direct offsets to sales, and such costs are accrued commensurate with sales activities or as a straight-line amortization charge of an agreed-upon fixed amount, as appropriate to the circumstances for each arrangement. When a customer requests deductions, the allowances are reduced to reflect such payments or credits issued against the customer's account balance. The Company analyzes the components of the allowances for customer deductions monthly and adjusts the allowances to the appropriate levels. The timing of the funding requests for advertising support can cause the net balance in the allowance account to fluctuate from period to period. The timing of such funding requests should have a minimal impact on the consolidated statements of income since such costs are accrued commensurate with sales activity or using the straight-line method, as appropriate.

To reduce its exposure to credit losses, the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT. In the event a factored receivable becomes uncollectible due to creditworthiness, CIT bears the risk of loss. The Company's management must make estimates of the uncollectibility of its non-factored accounts receivable, which it accomplishes by specifically analyzing accounts receivable, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers' payment terms. The Company did not record a provision for doubtful accounts for either of fiscal years 2017 or 2016.

The Company's accounts receivable at April 2, 2017 amounted to \$15.6 million, net of allowances of \$775,000. Of this amount, \$14.9 million was due from CIT under the factoring agreements and \$7.7 million was due from CIT as a negative balance outstanding under the revolving line of credit. The combined amount of \$22.6 million represents the maximum loss that the Company could incur if CIT failed completely to perform its obligations under the factoring agreements and the revolving line of credit.

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

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

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

Advertising Costs: The Company's advertising costs are primarily associated with cooperative advertising arrangements with certain of the Company's customers and are recognized using the straight-line method based upon aggregate annual estimated amounts for these customers, with periodic adjustments to the actual amounts of authorized agreements. Advertising expense is included in other marketing and administrative expenses in the consolidated statements of income and amounted to \$742,000 and \$931,000 for fiscal years 2017 and 2016, respectively.

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

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

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

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

Management evaluates items of income, deductions and credits reported on the Company's various federal and state income tax returns filed and recognizes the effect of positions taken on those income tax returns only if those positions are more likely than not to be sustained. The Company applies the provisions of FASB ASC Sub-topic 740-10-25, which requires a minimum recognition threshold that a tax benefit must meet before being recognized in the financial statements. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company's policy is to accrue interest expense and penalties as appropriate on any estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income. No interest expense or penalties is accrued with respect to estimated unrecognized tax benefits that are associated with state income tax overpayments that remain receivable.

The Company files income tax returns in the many jurisdictions in which it operates, including the U.S., several U.S. states and the People's Republic of China. The statute of limitations varies by jurisdiction; tax years open to federal or state audit or other adjustment as of April 2, 2017 were the tax years ended March 30, 2014, March 29, 2015, April 3, 2016 and April 2, 2017, as well as the tax years ended March 31, 2013, April 1, 2012 and April 3, 2011 for several states.

In December 2016, the Company received notification from the State of California of its intention to examine the Company's consolidated income tax returns for the fiscal years ended April 3, 2011, April 1, 2012, March 31, 2013 and March 30, 2014. The ultimate resolution of the examination could include administrative or legal proceedings. Although management believes that the calculations and positions taken on these and all other filed income tax returns are reasonable and justifiable, the outcome of this or any other examination could result in an adjustment to the position that the Company took on such income tax returns. Such adjustment could also lead to adjustments to one or more other state income tax returns, or to income tax returns for subsequent fiscal years, or both. To the extent that the Company's reserve for unrecognized tax benefits is not adequate to support the cumulative effect of such adjustments, the Company could experience a material adverse impact on its future results of operations. Conversely, to the extent that the calculations and positions taken by the Company on the filed income tax returns under examination are sustained, the reversal of all or a portion of the Company's reserve for unrecognized tax benefits could result in a favorable impact on its future results of operations.

Royalty Payments: The Company has entered into agreements that provide for royalty payments based on a percentage of sales with certain minimum guaranteed amounts. These royalties are accrued based upon historical sales rates adjusted for current sales trends by customers. Royalty expense is included in cost of products sold and amounted to \$7.0 million and \$9.0 million for fiscal years 2017 and 2016, respectively.

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

Recently Issued Accounting Standards: On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace most existing GAAP guidance on revenue recognition and which will require the use of more estimates and judgments, as well as additional disclosures. When issued, ASU No. 2014-09 was to become effective in the fiscal year beginning after December 15, 2016, but on August 12, 2015 the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which provided for a one-year deferral of the effective date to apply the guidance of ASU No. 2014-09. Early adoption was originally not permitted in ASU No. 2014-09, but ASU No. 2015-14 permits early adoption in the first interim period of the fiscal year beginning after December 15, 2016. The ASU permits the use of either the retrospective or cumulative effect transition method. The Company is currently reviewing its existing revenue contract arrangements and expects its review to be complete in fiscal year 2018. At this time, the Company has not yet determined whether it will adopt the provisions of the ASU on a retrospective basis or through a cumulative adjustment to equity.

On July 22, 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which will clarify that after an entity determines the cost of its inventory, the subsequent measurement and presentation of such inventory should be at the lower of cost or net realizable value. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2016. The ASU should be applied prospectively,

and early adoption is permitted. The Company intends to adopt ASU No. 2015-11 on April 3, 2017, and is currently evaluating the effect that the adoption of the ASU will have on its financial position, results of operations and related disclosures.

On November 20, 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, the intent of which was to simplify the presentation of deferred taxes by requiring all deferred tax assets and liabilities to be classified as noncurrent on an entity's balance sheet. The ASU was to have become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. Upon adoption, the ASU may be applied prospectively or retrospectively. The Company elected to early-adopt ASU No. 2015-17 effective as of April 4, 2016 using a prospective application. As such, the consolidated balance sheet presented as of April 3, 2016 in the accompanying consolidated financial statements has not been adjusted. The adoption of ASU No. 2015-17 on April 4, 2016 resulted in the reclassification in the accompanying consolidated balance sheet as of April 2, 2017 of \$397,000 in net deferred tax assets from current to noncurrent. The adoption of ASU No. 2015-17 did not have an impact on the Company's results of operations and related disclosures.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will increase transparency and comparability by requiring an entity to recognize lease assets and lease liabilities on its balance sheet and by requiring the disclosure of key information about leasing arrangements. Under the provisions of ASU No. 2016-02, the Company will be required to capitalize most of its current operating lease obligations as right-of-use assets with corresponding liabilities based upon the present value of the future cash outflows associated with such operating lease obligations. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2018. The ASU is to be applied using a modified retrospective approach, and early adoption is permitted. The Company has not yet decided if it will early-adopt ASU No. 2016-02 and is currently evaluating the effect that its adoption of the ASU will have on its financial position, results of operations and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, the intent of which was to simplify the accounting for share-based compensation transactions while maintaining or improving the usefulness of the related disclosures. ASU No. 2016-09 was to have become effective for the first interim period of the fiscal year beginning after December 15, 2016, and early adoption is permitted. Upon adoption, the ASU may be applied prospectively or retrospectively. The Company elected to early-adopt the ASU effective as of April 4, 2016 using a prospective application. Accordingly, the consolidated statement of income, changes in shareholders' equity and cash flows in the accompanying consolidated financial statements for the fiscal year ended April 3, 2016 have not been adjusted.

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

- Under previous GAAP, upon the exercise of an option or the vesting of non-vested stock, the Company was required to recognize the tax effect of the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes in additional paid-in capital. The provisions of ASU No. 2016-09 require the recognition of the excess tax deficiency or benefit as an income tax expense or benefit, respectively, in the Company's statement of income. The Company's election to early-adopt the ASU effective as of April 4, 2016 resulted in the recognition of net excess tax benefits amounting to \$248,000 as a reduction to the Company's reported income tax expense for fiscal year 2017. If ASU No. 2016-09 had been in effect on March 30, 2015, the Company's income tax expense for fiscal year 2016 would have been \$273,000 lower. The effect of the adoption of the ASU on the Company's future results of operations will depend on such factors as the timing and extent of the future exercise of stock options and the future vesting of non-vested stock, as well as the closing price per share of the Company's common stock on the dates of such events. The inherent uncertainty surrounding the details of these factors dictates that the future effects of the adoption of ASU No. 2016-09 on the Company's results of operations cannot be reasonably estimated.
- Under previous GAAP, excess tax benefits were classified as a financing activity in the Company's statement of cash flows. The provisions of ASU No. 2016-09 require that excess tax benefits be classified as an operating activity in the Company's statement of cash flows. The Company's election to early-adopt ASU No. 2016-09 effective as of April 4, 2016 resulted in the classification of excess tax benefits

amounting to \$250,000 as cash provided by operating activities during fiscal year 2017. If ASU No. 2016-09 had been in effect on March 30, 2015, the amount of the Company's cash provided by operating activities during fiscal year 2016 would have been \$278,000 higher and its cash used in financing activities would have been \$278,000 higher.

- The provisions of ASU No. 2016-09 clarify that cash paid by the Company to taxing authorities on behalf of an employee to reflect the value of shares withheld from the exercise of options or the vesting of non-vested stock to satisfy the income tax withholding obligations arising from such exercise or vesting should be classified as a financing activity in the Company's statement of cash flows. As this treatment is consistent with the Company's long-standing practice, if ASU No. 2016-09 had been in effect beginning on March 30, 2015, there would have been no difference in the amount of the Company's cash used in financing activities during either 2017 or 2016 as a result of this provision in the ASU.

On June 16, 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the objective of which is to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity. Current GAAP requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable that a loss has been incurred. Because this methodology restricted the recognition of credit losses that are expected, but did not yet meet the "probable" threshold, ASU No. 2016-13 was issued to require the consideration of a broader range of reasonable and supportable information when determining estimates of credit losses. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2019. The ASU is to be applied using a modified retrospective approach, and the ASU may be early-adopted as of the first interim period of the fiscal year beginning after December 15, 2018. Although the Company has not yet decided whether to adopt ASU No. 2016-13 early or determined the full impact of the adoption of the ASU, because the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT, the Company does not believe that its adoption of ASU No. 2016-13 will have a significant impact on the Company's financial position, results of operations and related disclosures.

On January 26, 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Under current GAAP, the test for the impairment of goodwill requires a two-step approach, which is outlined in Note 6 to the accompanying consolidated financial statements. The intent of ASU No. 2017-04 is to simplify this process by eliminating the second step from the goodwill impairment test. The ASU will become effective for the first interim period of the fiscal year beginning after December 15, 2019. The ASU is to be applied on a prospective basis, and the ASU may be early-adopted as of the first interim or annual goodwill impairment test performed on or after January 1, 2017. The Company intends to early-adopt the ASU effective as of April 3, 2017 and is currently evaluating the effect that the adoption of the ASU will have on its financial position, results of operations and related disclosures.

The Company has determined that all other ASU's issued which had become effective as of May 5, 2017, or which will become effective at some future date, are not expected to have a material impact on the Company's consolidated financial statements.

Note 3 - Financing Arrangements

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

CIT bears credit losses with respect to assigned accounts receivable from approved shipments, while the Company bears the responsibility for adjustments from customers related to returns, allowances, claims and discounts. CIT may at any time terminate or limit its approval of shipments to a particular customer. If such a termination or limitation occurs, the Company either assumes (and may seek to mitigate) the credit risk for shipments to the customer after the date of such termination or limitation or discontinues shipments to the customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying consolidated statements of income, were

\$395,000 and \$556,000 during fiscal years 2017 and 2016, respectively. There were no advances on the factoring agreements at either April 2, 2017 or April 3, 2016.

Credit Facility: The Company's credit facility at April 2, 2017 consisted of a revolving line of credit under a financing agreement with CIT of up to \$26.0 million, which includes a \$1.5 million sub-limit for letters of credit, bearing interest at the rate of prime minus 0.5% or LIBOR plus 2.0%. The financing agreement matures on July 11, 2019 and is secured by a first lien on all assets of the Company. At April 2, 2017, the Company had elected to pay interest on balances owed under the revolving line of credit, if any, under the LIBOR option. The financing agreement also provides for the payment by CIT to the Company of interest at the rate of prime minus 2.0%, which was 2.0% at April 2, 2017, on daily negative balances held at CIT.

The financing agreement as in effect prior to December 28, 2015 provided for a monthly fee, which was assessed based on 0.125% of the average unused portion of the \$26.0 million revolving line of credit, less any outstanding letters of credit (the "Commitment Fee"). The Commitment Fee amounted to \$25,000 during 2016. On December 28, 2015, the financing agreement was amended to eliminate the Commitment Fee. At April 2, 2017 and April 2, 2016, there was no balance owed on the revolving line of credit and there was no letter of credit outstanding. As of April 2, 2017 and April 3, 2016, \$21.4 million and \$25.6 million, respectively, was available under the revolving line of credit based on the Company's eligible accounts receivable and inventory balances.

The financing agreement contains usual and customary covenants for agreements of that type, including limitations on other indebtedness, liens, transfers of assets, investments and acquisitions, merger or consolidation transactions, transactions with affiliates, and changes in or amendments to the organizational documents for the Company and its subsidiaries. The Company believes it was in compliance with these covenants as of April 2, 2017.

Note 4 – Retirement Plan

The Company sponsors a defined contribution retirement savings plan with a cash or deferred arrangement (the "401(k) Plan"), as provided by Section 401(k) of the Internal Revenue Code ("Code"). The 401(k) Plan covers substantially all employees, who may elect to contribute a portion of their compensation to the 401(k) Plan, subject to maximum amounts and percentages as prescribed in the Code. Each calendar year, the Company's Board of Directors (the "Board") determines the portion, if any, of employee contributions that will be matched by the Company. For calendar year 2015, the employer matching contributions represented an amount equal to 100% of the first 2% of employee contributions and 50% of the next 1% of employee contributions to the 401(k) Plan. For calendar years 2017 and 2016, the employer matching contributions are equal to 100% of the first 2% of employee contributions and 50% of the next 3% of employee contributions to the 401(k) Plan. If an employee separates from the Company prior to the full vesting of the funds in their account, then the unvested portion of the matching employer amount in their account is forfeited when the employee receives a distribution from their account. The Company utilizes such forfeitures as an offset to the aggregate matching contributions. The Company's matching contributions to the 401(k) Plan, net of the utilization of forfeitures, were \$252,000 and \$203,000 for fiscal years 2017 and 2016, respectively.

Note 5 – Inventories

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

	<u>April 2, 2017</u>	<u>April 3, 2016</u>
Raw Materials.....	\$ 42	\$ 35
Finished Goods	15,779	14,750
Total inventory.....	<u>\$ 15,821</u>	<u>\$ 14,785</u>

Note 6 – Goodwill, Customer Relationships and Other Intangible Assets

Goodwill: Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired by the Company in business combinations. The Company considers CCIP and Hamco to each be a reporting unit of the Company for the purpose of presenting and testing for the impairment of goodwill. The goodwill of the reporting units of the Company at April 2, 2017 and April 3, 2016 amounted to \$24.0 million and is reported in the accompanying consolidated balance sheets net of accumulated impairment charges of \$22.9 million, for a net reported balance of \$1.1 million.

The Company tests the fair value of the goodwill, if any, within its reporting units annually as of the first day of the Company's fiscal year. An additional interim impairment test must be performed during the year whenever an event or change in circumstances occurs that suggest that the fair value of the goodwill of either of the reporting units of the Company has more likely than not (defined as having a likelihood of greater than 50%) fallen below its carrying value. The annual or interim impairment test is performed by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If such qualitative factors so indicate, then the impairment test is continued in a two-step approach. The first step is the estimation of the fair value of each reporting unit. If step one indicates that the fair value of the reporting unit exceeds its carrying value, then a potential impairment exists, and the second step is then performed to measure the amount of an impairment charge, if any. In the second step, these estimated fair values are used as the hypothetical purchase price for the reporting units, and an allocation of such hypothetical purchase price is made to the identifiable tangible and intangible assets and assigned liabilities of the reporting units. The impairment charge is calculated as the amount, if any, by which the carrying value of the goodwill exceeds the implied amount of goodwill that results from this hypothetical purchase price allocation. The annual impairment test of the fair value of the goodwill of the reporting units of the Company was performed as of April 4, 2016 and the Company concluded that the fair value of the goodwill of the Company's reporting units substantially exceeded their carrying values as of that date.

Other Intangible Assets: Other intangible assets as of April 2, 2017 consisted primarily of the capitalized costs of acquired businesses, other than tangible assets, goodwill and assumed liabilities. The carrying amount and accumulated amortization of the Company's other intangible assets as of April 2, 2017 and April 3, 2016, the amortization expense for the fiscal years then ended and the classification of such amortization expense within the accompanying consolidated statements of income are as follows (in thousands):

	Gross Amount		Accumulated Amortization		Amortization Expense Fiscal Year Ended	
	April 2, 2017	April 3, 2016	April 2, 2017	April 3, 2016	April 2, 2017	April 3, 2016
Tradename and trademarks	\$ 1,987	\$ 1,987	\$ 1,066	\$ 933	\$ 133	\$ 132
Non-compete covenants.....	98	98	67	60	7	7
Patents	1,601	1,601	565	458	107	108
Customer relationships.....	5,534	5,534	4,394	3,887	507	501
Total other intangible assets..	<u>\$ 9,220</u>	<u>\$ 9,220</u>	<u>\$ 6,092</u>	<u>\$ 5,338</u>	<u>\$ 754</u>	<u>\$ 748</u>

Classification within the accompanying consolidated statements of income:

Cost of products sold.....	\$ 7	\$ 7
Marketing and administrative expenses	747	741
Total amortization expense....	<u>\$ 754</u>	<u>\$ 748</u>

The Company estimates that its amortization expense will be \$597,000, \$376,000, \$376,000, \$311,000 and \$287,000 in fiscal years 2018, 2019, 2020, 2021 and 2022, respectively.

Note 7 – Stock-based Compensation

The Company has two incentive stock plans, the 2006 Omnibus Incentive Plan (the “2006 Plan”) and the 2014 Omnibus Equity Compensation Plan (the “2014 Plan”). As a result of the approval of the 2014 Plan by the Company’s stockholders at the Company’s 2014 annual meeting, grants may no longer be issued under the 2006 Plan.

The Company believes that awards of long-term, equity-based incentive compensation will attract and retain directors, officers and employees of the Company and will encourage these individuals to contribute to the successful performance of the Company, which will lead to the achievement of the Company’s overall goal of increasing stockholder value. Awards granted under the 2014 Plan may be in the form of incentive stock options, non-qualified stock options, shares of restricted or unrestricted stock, stock units, stock appreciation rights, or other stock-based awards. Awards may be granted subject to the achievement of performance goals or other conditions, and certain awards may be payable in stock or cash, or a combination of the two. The 2014 Plan is administered by the Compensation Committee of the Board, which selects eligible employees, non-employee directors and other individuals to participate in the 2014 Plan and determines the type, amount, duration (such duration not to exceed a term of ten (10) years for grants of options) and other terms of individual awards. At April 2, 2017, 814,000 shares of the Company’s common stock were available for future issuance under the 2014 Plan.

Stock-based compensation is calculated according to FASB ASC Topic 718, *Compensation – Stock Compensation*, which requires stock-based compensation to be accounted for using a fair-value-based measurement. The Company recorded \$604,000 and \$906,000 of stock-based compensation during fiscal years 2017 and 2016, respectively. The Company records the compensation expense associated with stock-based awards granted to individuals in the same expense classifications as the cash compensation paid to those same individuals. No stock-based compensation costs were capitalized as part of the cost of an asset as of April 2, 2017.

Stock Options: The following table represents stock option activity for fiscal years 2017 and 2016:

	Fiscal Year Ended April 2, 2017		Fiscal Year Ended April 3, 2016	
	Weighted- Average Exercise Price	Number of Options Outstanding	Weighted- Average Exercise Price	Number of Options Outstanding
Outstanding at Beginning of Period.....	\$ 7.64	305,000	\$ 6.83	330,000
Granted.....	9.60	120,000	8.38	110,000
Exercised	7.67	(102,500)	6.27	(135,000)
Outstanding at End of Period	8.35	<u>322,500</u>	7.64	<u>305,000</u>
Exercisable at End of Period	7.33	<u>147,500</u>	6.72	<u>112,500</u>

The total intrinsic value of the stock options exercised during fiscal years 2017 and 2016 was \$214,000 and \$300,000, respectively. As of April 2, 2017, the intrinsic value of both the outstanding and exercisable stock options was \$137,000.

The Company received no cash from the exercise of stock options during either fiscal year 2017 or 2016. Upon the exercise of stock options, participants may choose to surrender to the Company those shares from the option exercise necessary to satisfy the exercise amount and their income tax withholding obligations that arise from the option exercise. The effect on the cash flow of the Company from these “cashless” option exercises is that the Company remits cash on behalf of the participant to satisfy his or her income tax withholding obligations. The Company used cash of \$75,000 and \$118,000 to remit the required income tax withholding amounts from “cashless” option exercises during fiscal years 2017 and 2016, respectively.

To determine the estimated fair value of stock options granted, the Company uses the Black-Scholes-Merton valuation formula, which is a closed-form model that uses an equation to estimate fair value. The following table sets forth the assumptions used to determine the fair value of the non-qualified stock options that were awarded to certain employees during fiscal years 2017 and 2016, which options vest over a two-year period, assuming continued service.

	<u>2017</u>	<u>2016</u>
Options issued	120,000	110,000
Grant date.....	June 8, 2016	June 12, 2015
Dividend yield.....	3.33%	3.82%
Expected volatility	20.00%	20.00%
Risk free interest rate	0.93%	1.12%
Contractual term (years).....	10.00	10.00
Expected term (years).....	3.00	3.00
Forfeiture rate	5.00%	5.00%
Exercise price (grant-date closing price) per option.....	\$ 9.60	\$ 8.38
Fair value per option.....	\$ 0.94	\$ 0.77

For the fiscal years ended April 2, 2017 and April 3, 2016, the Company recognized compensation expense associated with stock options as follows (in thousands):

<u>Options Granted in Fiscal Year</u>	<u>Fiscal Year Ended April 2, 2017</u>		
	<u>Cost of Products Sold</u>	<u>Marketing & Administrative Expenses</u>	<u>Total Expense</u>
2015.....	\$ 14	\$ 12	\$ 26
2016.....	23	19	42
2017.....	25	17	42
Total stock option compensation.....	\$ 62	\$ 48	\$ 110

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

A summary of stock options outstanding and exercisable at April 2, 2017 is as follows:

<u>Exercise Price</u>	<u>Number of Options Outstanding</u>	<u>Weighted- Avg. Remaining Contractual Life in Years</u>	<u>Weighted- Avg. Exercise Price of Options Outstanding</u>	<u>Number of Options Exercisable</u>	<u>Weighted- Avg. Exercise Price of Options Exercisable</u>
\$ 4.81	5,000	4.19	\$ 4.81	5,000	\$ 4.81
\$ 5.42	20,000	5.20	\$ 5.42	20,000	\$ 5.42
\$ 6.14	20,000	6.20	\$ 6.14	20,000	\$ 6.14
\$ 7.90	67,500	7.21	\$ 7.90	67,500	\$ 7.90
\$ 8.38	90,000	8.19	\$ 8.38	35,000	\$ 8.38
\$ 9.60	120,000	9.18	\$ 9.60	-	-
	<u>322,500</u>	7.98	\$ 8.35	<u>147,500</u>	\$ 7.33

As of April 2, 2017, total unrecognized stock-option compensation costs amounted to \$80,000, which will be recognized as the underlying stock options vest over a weighted-average period of 6.4 months. The amount of future stock-option compensation expense could be affected by any future stock option grants and by the separation from the Company of any employee or director who has stock options that are unvested as of such individual's separation date.

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

Number of Shares	Fair Value per Share	Grant Date
28,000.....	\$ 10.08	August 10, 2016
28,000.....	8.20	August 12, 2015
28,000.....	7.97	August 11, 2014
28,000.....	6.67	August 14, 2013

These shares vest over a two-year period, assuming continued service. The fair value of non-vested stock granted to the Company's non-employee directors was based on the closing price of the Company's common stock on the date of each grant.

In each of August 2016 and 2015, 28,000 shares that had been granted to the Company's non-employee directors vested, having an aggregate value of \$281,000 and \$226,000, respectively.

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

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

Performance Bonus Plan: The Company maintains a performance bonus plan for certain executive officers that provides for awards of cash or shares of common stock in the event that the aggregate average market value of the common stock during the relevant fiscal year, plus the amount of cash dividends paid in respect of the common stock during such period, increases. These individuals may instead be awarded cash, if and to the extent that an insufficient number of shares of common stock are available for issuance from all shareholder-approved, equity-based plans or programs of the Company in effect. The performance bonus plan also imposes individual limits on awards and provides that shares of common stock that may be awarded will vest over a two-year period. Thus, compensation expense associated with performance bonus plan awards are recognized over a three-year period – the fiscal year in which the award is earned, plus the two-year vesting period.

In connection with the performance bonus plan, the Company granted shares of common stock and recognized or will recognize compensation expense as set forth below.

Fiscal Year Earned	Shares Granted	Fiscal Year Granted	Fair Value Per Share	Compensation expense recognized during fiscal year				
				2014	2015	2016	2017	2018
2014	188,232	2015	\$ 5.650	\$ 354,000	\$ 354,000	\$ 354,000	\$ -	\$ -
2015	58,532	2016	7.180	-	140,000	140,000	140,000	-
2016	41,205	2017	7.865	-	-	108,000	108,000	108,000

The below table sets forth the vesting of shares issued in connection with the grants of shares set forth in the above table. Each of the individuals holding shares that vested surrendered to the Company the number of shares necessary to satisfy the income tax withholding obligations that arose from the vesting of the shares. The below table also sets forth the taxes remitted to the appropriate taxing authorities on behalf of such individuals.

Fiscal Year Granted	Shares Granted	Vesting of shares during fiscal 2016			Vesting of shares during fiscal 2017		
		Shares Vested	Aggregate Value	Taxes Remitted	Shares Vested	Aggregate Value	Taxes Remitted
2015	188,232	188,532	\$ 1,618,000	\$ 789,000	-	\$ -	\$ -
2016	58,532	29,267	275,000	138,000	29,265	240,000	86,000

For the fiscal year ended April 2, 2017, 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	Fiscal Year Ended April 2, 2017		
	Employees	Non-employee Directors	Total Expense
2015.....	\$ -	\$ 37	\$ 37
2016.....	140	115	255
2017.....	108	94	202
Total stock grant compensation	\$ 248	\$ 246	\$ 494

For the fiscal year ended April 3, 2016, 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	Fiscal Year Ended April 3, 2016		
	Employees	Non-employee Directors	Total Expense
2011.....	\$ 49	\$ -	\$ 49
2014.....	-	31	31
2015.....	354	112	466
2016.....	140	76	216
Total stock grant compensation	\$ 543	\$ 219	\$ 762

As of April 2, 2017, total unrecognized compensation expense related to the Company's non-vested stock grants was \$334,000, which will be recognized over the remaining portion of the respective vesting periods associated with each block of grants, such grants having a weighted average vesting term of 7.1 months. The amount of future compensation expense related to non-vested stock grants could be affected by any future non-vested stock grants and by the separation from the Company of any individual who has unvested grants as of such individual's separation date.

Note 8 – Income Taxes

The Company's income tax provisions for fiscal years 2017 and 2016 are summarized below (in thousands):

	Fiscal year ended April 2, 2017		
	Current	Deferred	Total
Income tax expense on current year income:			
Federal.....	\$ 2,422	\$ 588	\$ 3,010
State	200	105	305
Foreign	10	-	10
Total income tax expense on current year income	<u>2,632</u>	<u>693</u>	<u>3,325</u>
Income tax expense (benefit) - discrete items:			
Reserve for unrecognized tax benefits	134	-	134
Adjustment to prior year provision	9	4	13
Net excess tax benefit related to stock-based compensation	<u>(248)</u>	<u>-</u>	<u>(248)</u>
Income tax expense (benefit) - discrete items	<u>(105)</u>	<u>4</u>	<u>(101)</u>
Total income tax expense	<u>\$ 2,527</u>	<u>\$ 697</u>	<u>\$ 3,224</u>
	Fiscal year ended April 3, 2016		
	Current	Deferred	Total
Federal.....	\$ 3,540	\$ 133	\$ 3,673
State.....	271	32	303
Other - net, including foreign	<u>(61)</u>	<u>-</u>	<u>(61)</u>
Income tax expense	3,750	165	3,915
Income tax reported in stockholders' equity related to stock-based compensation.....	<u>(273)</u>	<u>-</u>	<u>(273)</u>
Total.....	<u>\$ 3,477</u>	<u>\$ 165</u>	<u>\$ 3,642</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of April 2, 2017 and April 3, 2016 are as follows (in thousands):

	April 2, 2017	April 3, 2016
Deferred tax assets:		
Employee wage and benefit accruals	\$ 319	\$ 740
Accounts receivable and inventory reserves.....	301	319
Deferred rent	67	67
Intangible assets	590	647
State net operating loss carryforwards	829	775
Stock-based compensation.....	<u>299</u>	<u>478</u>
Total gross deferred tax assets.....	2,405	3,026
Less valuation allowance	<u>(829)</u>	<u>(775)</u>
Deferred tax assets after valuation allowance.....	<u>\$ 1,576</u>	<u>\$ 2,251</u>
Deferred tax liabilities:		
Prepaid expenses.....	(265)	(234)
Property, plant and equipment	<u>(71)</u>	<u>(80)</u>
Total deferred tax liabilities.....	<u>(336)</u>	<u>(314)</u>
Net deferred income tax assets	<u>\$ 1,240</u>	<u>\$ 1,937</u>

In assessing the probability that the Company's deferred tax assets will be realized, management of the Company has considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of taxable income during the future periods in which the temporary differences giving rise to the deferred tax assets will become deductible. The Company has also considered the scheduled inclusion into taxable income in future periods of the temporary differences giving rise to the Company's deferred tax liabilities. The valuation allowance as of April 2, 2017 and April 3, 2016 was related to state net operating loss carryforwards that the Company does not expect to be realized. Based upon the Company's expectations of the generation of sufficient taxable income during future periods, the Company believes that it is more likely than not that the Company will realize its deferred tax assets, net of the valuation allowance and the deferred tax liabilities.

The following table sets forth the reconciliation of the beginning and ending amounts of unrecognized tax benefits for fiscal years 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Balance at beginning of period	\$ 211	\$ -
Additions related to current year positions	134	195
Additions related to prior year positions	343	16
Reductions for tax positions of prior years	-	-
Reductions due to the lapse of the statute of limitations	-	-
Payments pursuant to judgements and settlements	-	-
Balance at end of period	<u>\$ 688</u>	<u>\$ 211</u>

Management evaluates items of income, deductions and credits reported on the Company's various federal and state income tax returns filed and recognizes the effect of positions taken on those income tax returns only if those positions are more likely than not to be sustained. The Company applies the provisions of FASB ASC Sub-topic 740-10-25, which requires a minimum recognition threshold that a tax benefit must meet before being recognized in the financial statements. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During fiscal year 2016, an evaluation was made of the Company's process regarding the calculation of the state portion of its income tax provision. This evaluation resulted in a tax position that reflects opportunities for the application of more favorable state apportionment percentages for several prior fiscal years. After considering all relevant information, the Company believes that the technical merits of this tax position would more likely than not be sustained. However, the Company also believes that the ultimate resolution of the tax position will result in a tax benefit that is less than the full amount being sought. Therefore, the Company's measurement regarding the tax impact of the revised state apportionment percentages resulted in the Company recording during fiscal year 2017 a reserve for unrecognized tax benefits of \$134,000 in the accompanying consolidated financial statements. During fiscal year 2016, the Company recorded a gross reserve for unrecognized tax benefits of \$773,000, less an offset of \$573,000 to reflect state income tax overpayments net of the federal income tax impact, for a net reserve for unrecognized tax benefits of \$200,000.

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. During fiscal years 2017 and 2016, the Company had accrued \$65,000 and \$11,000, respectively, for interest expense and penalties on the portion of the unrecognized tax benefit that has been refunded to the Company but for which the relevant statute of limitations remained unexpired. No interest expense or penalties is accrued with respect to estimated unrecognized tax benefits that are associated with state income tax overpayments that remain receivable.

The Company's provision for income taxes is based upon effective tax rates of 36.7% and 36.4% in fiscal years 2017 and 2016, respectively. These effective tax rates are the sum of the top U.S. statutory federal income tax rate and a composite rate for state income taxes, net of federal tax benefit, in the various states in which the Company operates.

The following table reconciles income tax expense on income from continuing operations at the U.S. federal income tax statutory rate to the net income tax provision reported for fiscal years 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Tax expense at statutory rate (34%)	\$ 2,991	\$ 3,653
State income taxes, net of Federal income tax benefit	201	200
Tax credits.....	(10)	(13)
Discrete items.....	(105)	-
Net tax effect of book expenses not deductible for tax purposes.....	143	132
Other - net, including foreign	4	(57)
Income tax expense	<u>\$ 3,224</u>	<u>\$ 3,915</u>

Note 9 – Stockholders’ Equity

Dividends: The holders of the Company’s common stock are entitled to receive dividends when and as declared by the Board. Aggregate cash dividends of \$0.72 and \$0.57 per share, amounting to \$7.2 million and \$5.7 million, were declared during fiscal years 2017 and 2016, respectively. The dividends declared during fiscal years 2017 and 2016 included special cash dividends of \$0.40 and \$0.25 per share, respectively. The Company’s financing agreement with CIT permits the payment by the Company of cash dividends on its common stock without limitation, provided there is no default before or as a result of the payment of such dividends.

Stock Repurchases: The Company acquired treasury shares by way of the surrender to the Company from several employees shares of common stock to satisfy the exercise price and income tax withholding obligations relating to the exercise of stock options and the vesting of stock. In this manner, the Company acquired 99,000 treasury shares during the fiscal year ended April 3, 2016 at a weighted-average market value of \$9.58 per share and acquired 337,000 treasury shares during the fiscal year ended April 3, 2016 at a weighted-average market value of \$8.41 per share.

Note 10 - Major Customers

The table below sets forth those customers that represented more than 10% of the Company’s gross sales during fiscal years ended April 2, 2017 and April 3, 2016.

	<u>2017</u>	<u>2016</u>
Wal-Mart Stores, Inc.	42%	42%
Toys R Us.....	19%	23%

Note 11 – Commitments and Contingencies

Total rent expense was \$1.5 million during each of the fiscal years ended April 2, 2017 and April 3, 2016. The Company’s commitment for minimum guaranteed rental payments under its lease agreements as of April 2, 2017 is \$4.1 million, consisting of \$1.3 million in each of fiscal years 2018 and 2019, \$1.2 million in fiscal year 2020, and \$342,000 in fiscal year 2021.

Total royalty expense was \$7.0 million and \$9.0 million for fiscal years 2017 and 2016, respectively. The Company’s commitment for minimum guaranteed royalty payments under its license agreements as of April 2, 2017 is \$5.3 million, consisting of \$4.4 million, \$725,000 and \$178,000 due in fiscal years 2018, 2019 and 2020, respectively.

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

Note 12 – Subsequent Events

The Company has evaluated events that have occurred between April 2, 2017 and the date that the accompanying financial statements were issued, and has determined that there are no material subsequent events that require disclosure.

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CORPORATE INFORMATION

Board of Directors

E. Randall Chestnut

Chairman of the Board
President and
Chief Executive Officer
Crown Crafts, Inc.

Zenon S. Nie

Lead Independent Director
Chairman of the Board
and Chief Executive Officer
The C.E.O. Advisory Board

Sidney Kirschner

Executive Vice President
Piedmont Healthcare
Chief Philanthropy Officer
Piedmont Healthcare
Foundation

Donald Ratajczak

Consulting Economist

Patricia Stensrud

Founder and Managing Partner
Hudson River Partners LLC

Executive Officers

E. Randall Chestnut

President and
Chief Executive Officer

Olivia W. Elliott

Vice President and
Chief Financial Officer

Nanci Freeman

President and
Chief Executive Officer
Crown Crafts Infant Products, Inc.

Independent Registered Public Accounting Firm

KPMG LLP
One American Place
301 Main Street
Suite 2150
Baton Rouge, Louisiana 70801

Annual Meeting

The Annual Meeting of
Stockholders will take place on
Tuesday, August 8, 2017,
at 10 a.m. CDT at the Company's
Corporate Headquarters,
916 South Burnside Avenue,
Gonzales, Louisiana.

Stock Listing

The Company's common stock
is listed on The NASDAQ
Capital Market under the
trading symbol "CRWS."

Transfer Agent and Registrar

Broadridge Corporate
Issuer Solutions
1155 Long Island Avenue
Edgewood, New York 11717
Phone: (877) 830-4936

Stockholder Information & Form 10-K

A copy of the Company's Annual
Report on Form 10-K as filed
with the Securities and Exchange
Commission may be obtained
without charge by contacting:

Crown Crafts, Inc.
Investor Relations Department
P.O. Box 1028
Gonzales, Louisiana 70707-1028
Phone: (225) 647-9146
e-mail: investor@crowncrafts.com

Investor Relations Counsel

Halliburton Investor Relations
2140 Lake Park Blvd.
Suite 112
Richardson, Texas 75080
Phone: (972) 458-8000
www.halliburtonir.com
Twitter: HIR_Group

Crown Crafts on the Internet

Quarterly and annual financial
information and company
information may be accessed
at www.crowncrafts.com.



Crown Crafts, Inc.



Crown Crafts Infant Products, Inc.
A Crown Crafts Company





Crown Crafts Incorporated
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