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

FORM 10-Q

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

For the quarterly period ended December 26, 2021

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

For the transition period from______to______

Commission File No. 1-7604

Crown Crafts, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**58-0678148**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
916 South Burnside Avenue, Gonzales, LA	**70737**
(Address of principal executive offices)	(Zip Code)

(225) 647-9100

Registrant's telephone number, including area code

Former name, former address and former fiscal year, if changed since last report

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	CRWS	Nasdaq Capital Market

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 every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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	☑	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 number of shares of common stock, $0.01 par value, of the registrant outstanding as of January 25, 2022 was10,080,220.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
DECEMBER 26, 2021 (UNAUDITED) AND MARCH 28, 2021
(amounts in thousands, except share and per share amounts)

	December 26, 2021	March 28, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,052	$ 613
Accounts receivable (net of allowances of $1,525 at December 26, 2021 and $723 at March 28, 2021):		
Due from factor	19,779	18,604
Other	1,223	734
Inventories	24,467	20,335
Prepaid expenses	1,394	1,184
Total current assets	48,915	41,470
Operating lease right of use assets	2,838	4,068
Property, plant and equipment - at cost:		
Vehicles	171	171
Leasehold improvements	429	425
Machinery and equipment	3,517	3,152
Furniture and fixtures	345	345
Property, plant and equipment - gross	4,462	4,093
Less accumulated depreciation	3,110	2,635
Property, plant and equipment - net	1,352	1,458
Finite-lived intangible assets - at cost:		
Customer relationships	7,374	7,374
Other finite-lived intangible assets	4,266	4,266
Finite-lived intangible assets - gross	11,640	11,640
Less accumulated amortization	8,866	8,477
Finite-lived intangible assets - net	2,774	3,163
Goodwill	7,125	7,125
Deferred income taxes	386	706
Other	89	92
Total Assets	$ 63,479	$ 58,082
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,773	$ 5,539
Accrued wages and benefits	1,764	2,216
Accrued royalties	1,266	410
Dividends payable	4,338	800
Operating lease liabilities, current	1,816	1,802
Other accrued liabilities	612	215
Current maturities of long-term debt	-	1,964
Total current liabilities	17,569	12,946
Non-current liabilities:		
Operating lease liabilities, noncurrent	1,274	2,641
Reserve for unrecognized tax liabilities	734	630
Total non-current liabilities	2,008	3,271
Shareholders' equity:		
Common stock - $0.01 par value per share; Authorized 40,000,000 shares at December 26, 2021 and March 28, 2021; Issued 12,944,918 shares at December 26, 2021 and 12,809,753 shares at March 28, 2021	129	128
Additional paid-in capital	55,655	54,748
Treasury stock - at cost - 2,864,698 shares at December 26, 2021 and 2,811,446 shares at March 28, 2021	(15,614)	(15,202)
Retained Earnings	3,732	2,191
Total shareholders' equity	43,902	41,865
Total Liabilities and Shareholders' Equity	$ 63,479	$ 58,082

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE- AND NINE-MONTH PERIODS ENDED DECEMBER 26, 2021 AND DECEMBER 27, 2020
(amounts in thousands, except per share amounts)

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
Net sales	$ 22,742	$ 19,476	$ 61,674	$ 57,340
Cost of products sold	16,572	13,323	44,780	39,070
Gross profit	6,170	6,153	16,894	18,270
Marketing and administrative expenses	3,094	3,420	9,624	10,602
Income from operations	3,076	2,733	7,270	7,668
Other (expense) income:				
Interest expense - net of interest income	(14)	(3)	(30)	(8)
Gain on extinguishment of debt	-	-	1,985	-
Loss on sale of property, plant and equipment	-	(4)	(3)	(4)
Other - net	(25)	(3)	67	(3)
Income before income tax expense	3,037	2,723	9,289	7,653
Income tax expense	605	582	1,806	1,810
Net income	$ 2,432	$ 2,141	$ 7,483	$ 5,843
Weighted average shares outstanding:				
Basic	10,078	10,208	10,045	10,195
Effect of dilutive securities	29	16	30	5
Diluted	10,107	10,224	10,075	10,200
Earnings per share - basic and diluted	$ 0.24	$ 0.21	$ 0.74	$ 0.57

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
THREE- AND NINE-MONTH PERIODS ENDED DECEMBER 26, 2021 AND DECEMBER 27, 2020

	Common Shares		Treasury Shares				
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
	(Dollar amounts in thousands)						
	Three-Month Periods						
Balances - September 27, 2020	12,664,753	$ 127	(2,436,494)	$ (12,408)	$ 53,796	$ 3,992	$ 45,507
Issuance of shares	95,000	1	-	-	519	-	520
Stock-based compensation	-	-	-	-	103	-	103
Acquisition of treasury stock	-	-	(330,095)	(2,450)	-	-	(2,450)
Net income	-	-	-	-	-	2,141	2,141
Dividend declared on common stock -$0.33 per share	-	-	-	-	-	(3,380)	(3,380)
Balances - December 27, 2020	12,759,753	$ 128	(2,766,589)	$ (14,858)	$ 54,418	$ 2,753	$ 42,441
Balances - September 26, 2021	12,924,918	$ 129	(2,849,846)	$ (15,498)	$ 55,335	$ 5,634	$ 45,600
Issuance of shares	20,000	-	-	-	96	-	96
Stock-based compensation	-	-	-	-	224	-	224
Acquisition of treasury stock	-	-	(14,852)	(116)	-	-	(116)
Net income	-	-	-	-	-	2,432	2,432
Dividend declared on common stock -$0.43 per share	-	-	-	-	-	(4,334)	(4,334)
Balances - December 26, 2021	12,944,918	$ 129	(2,864,698)	$ (15,614)	$ 55,655	$ 3,732	$ 43,902
	Nine-Month Periods						
Balances - March 29, 2020	12,603,301	$ 126	(2,436,494)	$ (12,408)	$ 53,610	$ 1,108	$ 42,436
Issuance of shares	156,452	2	-	-	519	-	521
Stock-based compensation	-	-	-	-	289	-	289
Acquisition of treasury stock	-	-	(330,095)	(2,450)	-	-	(2,450)
Net income	-	-	-	-	-	5,843	5,843
Dividend declared on common stock -$0.41 per share	-	-	-	-	-	(4,198)	(4,198)
Balances - December 27, 2020	12,759,753	$ 128	(2,766,589)	$ (14,858)	$ 54,418	$ 2,753	$ 42,441
Balances - March 28, 2021	12,809,753	$ 128	(2,811,446)	$ (15,202)	$ 54,748	$ 2,191	$ 41,865
Issuance of shares	135,165	1	-	-	343	-	344
Stock-based compensation	-	-	-	-	564	-	564
Acquisition of treasury stock	-	-	(53,252)	(412)	-	-	(412)
Net income	-	-	-	-	-	7,483	7,483
Dividends declared on common stock -$0.59 per share	-	-	-	-	-	(5,942)	(5,942)
Balances - December 26, 2021	12,944,918	$ 129	(2,864,698)	$ (15,614)	$ 55,655	$ 3,732	$ 43,902

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE-MONTH PERIODS ENDED DECEMBER 26, 2021 AND DECEMBER 27, 2020
(amounts in thousands)

	Nine-Month Periods Ended	
	December 26, 2021	December 27, 2020
Operating activities:		
Net income	$ 7,483	$ 5,843
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	475	548
Amortization of intangibles	389	596
Amortization of right of use assets	1,320	1,421
Deferred income taxes	320	331
Gain on extinguishment of debt	(1,985)	-
Loss on sale of property, plant and equipment	3	4
Reserve for unrecognized tax liabilities	104	104
Stock-based compensation	564	289
Changes in assets and liabilities:		
Accounts receivable	(1,664)	(446)
Inventories	(4,132)	(5,110)
Prepaid expenses	(210)	(968)
Other assets	3	3
Lease liabilities	(1,443)	(1,305)
Accounts payable	2,217	5,865
Accrued liabilities	822	904
Net cash provided by operating activities	4,266	8,079
Cash used in investing activities:		
Capital expenditures for property, plant and equipment	(375)	(528)
Proceeds from sale of property, plant and equipment	20	-
Net cash used in investing activities	(355)	(528)
Financing activities:		
Repayments under revolving line of credit	(5,809)	(4,598)
Borrowings under revolving line of credit	5,809	2,020
Proceeds from long-term debt	-	1,964
Purchase of treasury stock from related parties	(412)	(2,450)
Issuance of common stock	344	521
Dividends paid	(2,404)	(1,632)
Net cash used in financing activities	(2,472)	(4,175)
Net increase in cash and cash equivalents	1,439	3,376
Cash and cash equivalents at beginning of period	613	282
Cash and cash equivalents at end of period	$ 2,052	$ 3,658
Supplemental cash flow information:		
Income taxes paid	$ 934	$ 1,959
Interest paid	9	15
Noncash activities:		
Property, plant and equipment purchased but unpaid	(17)	(55)
Dividends declared but unpaid	(4,338)	(3,380)

See notes to unaudited condensed consolidated financial statements.

Note 1 – Interim Financial Statements

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

In the opinion of the Company's management, the interim unaudited consolidated financial statements contained herein include all adjustments necessary to present fairly the financial position of the Company as of December 26, 2021 and the results of its operations and cash flows for the periods presented. Such adjustments include normal, recurring accruals, as well as the elimination of all significant intercompany balances and transactions. Operating results for the three and nine months ended December 26, 2021 are not necessarily indicative of the results that may be expected by the Company for its fiscal year ending April 3, 2022. For further information, refer to the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 2021.

Fiscal Year: The Company's fiscal year ends on the Sunday that is nearest to or on March 31. References herein to "fiscal year 2022" or "2022" represent the 53-week period ending April 3, 2022 and references herein to "fiscal year 2021" or "2021" represent the 52-week period ended March 28, 2021.

Reclassifications: The Company has classified 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.

Recently-Issued Accounting Standards: In June 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 is to be applied using a modified retrospective approach, and the ASU could have been early-adopted in the fiscal year that began after December 15, 2018. When issued, ASU No. 2016-13 was required to be adopted no later than the fiscal year beginning after December 15, 2019, but on November 15, 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which provided for the deferral of the effective date of ASU No. 2016-13 for a registrant that is a smaller reporting company to the first interim period of the fiscal year beginning after December 15, 2022. Accordingly, the Company intends to adopt ASU No. 2016-13 effective as of April 3, 2023. Although the Company has not determined the full impact of the adoption of ASU No. 2016-13, because the Company assigns substantially all of its trade accounts receivable under factoring agreements with The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group Inc., the Company does not believe that the adoption of the ASU will have a significant impact on the Company's financial position, results of operations and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*, the objective of which is to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The ASU amended the FASB ASC in order to improve the consistent application of, and simplify GAAP for, other areas of Topic 740 by clarifying and amending the existing guidance. The amendments contained in the ASU are required to be adopted for public entities in the first interim period of the fiscal year beginning after December 15, 2020. Accordingly, the Company adopted ASU No. 2019-12 effective as of March 29, 2021, which did not have a significant impact on the Company's financial position, results of operations and related disclosures.

The Company has determined that all other ASUs issued which had become effective as of December 26, 2021, 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 2 – 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 marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income and amounted to $105,000 and $283,000 for the three months ended December 26, 2021 and December 27, 2020, respectively, and amounted to $455,000 and $942,000 for the nine months ended December 26, 2021 and December 27, 2020, respectively.

Note 3 – Other Accrued Liabilities

Amounts of $612,000 and $215,000 were recorded as other accrued liabilities atDecember 26, 2021 and March 28, 2021, respectively. Of these amounts, $26,000 and $85,000 at December 26, 2021 and March 28, 2021, respectively, reflected unearned revenue recorded for payments from customers that were received before the products ordered were received by the customers.

Note 4 – Segment and Related Information

The Company operates primarily in one principal segment, infant, toddler and juvenile products. These products consist of infant and toddler bedding and blankets, bibs, soft bath products, disposable products, developmental and bath toys and accessories. Net sales of bedding, blankets and accessories and net sales of bibs, bath, developmental toy, feeding, baby care and disposable products for the three- and nine-month periods ended December 26, 2021 and December 27, 2020 are as follows (in thousands):

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
Bedding, blankets and accessories	$ 11,780	$ 11,431	$ 32,838	$ 34,490
Bibs, bath, developmental toy, feeding, baby care and disposable products	10,962	8,045	28,836	22,850
Total net sales	$ 22,742	$ 19,476	$ 61,674	$ 57,340

Note 5 – Licensing Agreements

The Company has entered into licensing 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 in the accompanying unaudited consolidated statements of income and amounted to $1.5 million and $1.4 million for the three months ended December 26, 2021 and December 27, 2020, respectively, and amounted to $4.2 million for each of the nine months ended December 26, 2021 and December 27, 2020.

Note 6 – Income Taxes

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 audit or other adjustment as of December 26, 2021 were the fiscal years ended March 28, 2021, March 29, 2020, March 31, 2019, April 1, 2018 and April 2, 2017.

After considering all relevant information regarding the calculation of the state portion of its income tax provision, the Company believes that the technical merits of the tax position that the Company has taken with respect to state apportionment percentages would more likely than not be sustained. However, the Company also realizes that the ultimate resolution of such tax position could result in a tax charge that is more than the amount realized based upon the application of the tax position taken. Therefore, the Company's measurement regarding the tax impact of the revised state apportionment percentages resulted in the Company recording discrete reserves for unrecognized tax liabilities of $22,000 and $25,000 during the three months ended December 26, 2021 and December 27, 2020, respectively, and $67,000 and $58,000 during the nine months ended December 26, 2021 and December 27, 2020, respectively, in the accompanying unaudited condensed consolidated statements of income.

The Company's policy is to accrue interest expense and penalties as appropriate on any estimated unrecognized tax liabilities as a charge to interest expense in the Company's consolidated statements of income. The Company accrued interest expense and penalties on the unrecognized tax liabilities for which the relevant statute of limitations remained unexpired of $11,000 and $15,000 during the three-month periods ended December 26, 2021 and December 27, 2020, respectively, and $37,000 and $46,000 during the nine-month periods ended December 26, 2021 and December 27, 2020, respectively, in the accompanying unaudited condensed consolidated statements of income.

In August 2020, the Company was notified by the Franchise Tax Board of the State of California of its intention to examine the Company's California income tax returns for the fiscal years ended March 31, 2019, April 1, 2018 and April 2, 2017. Further, in February 2021, the Company was notified by the U.S. Internal Revenue Service of its intention to examine the Company's amended federal income tax return for the fiscal year ended April 2, 2017. The ultimate resolution of these examinations could include administrative or legal proceedings. Although management believes that the calculations and positions taken on these income tax returns and all other filed income tax returns are reasonable and justifiable, the outcome of these or any other examination could result in an adjustment to the position that the Company took on such income tax returns.

The Company recorded discrete income tax benefits of $11,000 and $16,000 during the three-month periods ended December 26, 2021 and December 27, 2020, respectively, and $83,000 and $12,000 during the nine-month periods ended December 26, 2021 and December 27, 2020, respectively, to reflect the net effects of the excess tax benefits and tax shortfalls arising from the exercise of stock options and the vesting of non-vested stock.

Note 7 – **Carousel Designs**

The accompanying unaudited condensed consolidated statements of income include income, expenses and losses recognized in respect of the operating activities of Carousel Designs, LLC ("Carousel"), a wholly-owned subsidiary that manufactured and marketed infant and toddler bedding directly to consumers online from a facility in Douglasville, Georgia. On May 5, 2021, the Company's Board of Directors (the "Board") approved the closure of Carousel due to its high costs, declining sales and operating and cash flow losses, as well as management's determination that, due to post-COVID-19 competitive pressures in the infant, toddler and juvenile products segment within the consumer products industry, such losses were likely to continue. Accordingly, the operations of Carousel ceased on May 21, 2021.

During the three- and nine-month periods ended December 26, 2021, Carousel experienced a gross loss of $1,000 and $689,000, respectively. The gross loss was the result of the sale of inventory below cost and, for the three-month period ended June 27, 2021 and the nine-month period ended December 26, 2021, the recognition of charges of $334,000 related to the settlement with a supplier of a commitment to purchase fabric and $265,000 associated with the liquidation of Carousel's remaining inventory upon the closure of the business.

Note 8 – **Financing Arrangements**

Factoring Agreements: To reduce its exposure to credit losses, the Company assigns substantially all 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. As such, the Company does not take advances on the factoring agreements.

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, then 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 unaudited condensed consolidated statements of income, amounted to $99,000 and $79,000 during the three-month periods ended December 26, 2021 and December 27, 2020, respectively, and $248,000 and $209,000 during the nine-month periods ended December 26, 2021 and December 27, 2020, respectively.

Credit Facility: The Company's credit facility as of December 26, 2021 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 1.0% or LIBOR plus 1.5%, and which is secured by a first lien on all assets of the Company. On May 13, 2021, the Company and CIT entered into an agreement whereby CIT's lien on Carousel's assets would be automatically released upon the sale of such assets.

The financing agreement was scheduled to mature on July 11, 2022, but on May 31, 2021 the financing agreement was amended to extend the maturity date to July 11, 2025 and to change the interest rates as reflected in the preceding paragraph. The financing agreement was also amended to provide for a transition from the LIBOR reference rate to its replacement at the appropriate time. At December 26, 2021, the Company had elected to pay interest on balances owed under the revolving line of credit, if any, under the LIBOR option, which was 1.59% as of December 26, 2021. The financing agreement also provides for the payment by CIT to the Company of interest at the rate of prime as of the beginning of the calendar month minus 2.0%, which was 1.25% as of December 26, 2021, on daily negative balances, if any, held at CIT.

At December 26, 2021 and March 28, 2021, there was no balance owed on the revolving line of credit, there was no letter of credit outstanding and $26.0 million 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 December 26, 2021.

Credit Concentration: The Company's accounts receivable as of December 26, 2021 amounted to $21.0 million, net of allowances of $1.5 million. Of this amount, $19.8 million was due from CIT under the factoring agreements; an additional amount of $2.0 million was due from CIT as a negative balance outstanding under the revolving line of credit. The combined amount of $21.8 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. The Company's accounts receivable at March 28, 2021 amounted to $19.3 million, net of allowances of $723,000. Of this amount, $18.6 million was due from CIT under the factoring agreements; an additional amount of $602,000 was due from CIT as a negative balance outstanding under the revolving line of credit. The combined amount of $19.2 million represented the maximum loss that the Company could have incurred if CIT had failed completely to perform its obligations under the factoring agreements and the revolving line of credit.

Paycheck Protection Program Loan: On April 19, 2020, the Company executed a Note (the "Note") in connection with a loan made pursuant to the Paycheck Protection Program (the "PPP Loan"), which is administered by the U.S. Small Business Administration (the "SBA") under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and the Paycheck Protection Program Flexibility Act of 2020. The Note was entered into with CIT Bank, N.A. (the "Lender") for the principal amount of $1,963,800 and accrued interest at 1.0% per year.

As authorized by the provisions of the CARES Act, the Company applied to the Lender for forgiveness of all or a portion of the PPP Loan. The Note would have matured on April 20, 2022, but on May 20, 2021, the PPP Loan was forgiven in full and the SBA remitted to the Lender on that date the principal amount of the Note of $1,963,800 and interest of $21,000 that had accrued from the funding date of April 20, 2020 through the forgiveness date of May 20, 2021. During the three months ended June 27, 2021 and the nine months ended December 26, 2021, the Company recorded a gain on extinguishment of debt in the amount of $1,985,000 associated with the forgiveness of the PPP Loan, which has been presented below income from operations in the accompanying unaudited condensed consolidated statements of income.

Note 9 – Goodwill

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in business combinations. For the purpose of presenting and measuring for the impairment of goodwill, the Company has two reporting units: one that produces and markets infant and toddler bedding, blankets and accessories and another that produces and markets infant and toddler bibs, developmental toys, bath care and disposable products. The goodwill of the reporting units of the Company as of December 26, 2021 and March 28, 2021 amounted to $30.0 million, which is reflected in the accompanying condensed consolidated balance sheets net of accumulated impairment charges of $22.9 million, for a net reported balance of $7.1 million.

The Company measures for impairment the goodwill within its reporting units annually as of thefirst day of the Company's fiscal year. An additional interim measurement for impairment is performed during the year whenever an event or change in circumstances occurs that suggests that the fair value of either of the reporting units of the Company has more likely than not (defined as having a likelihood of greater than50%) fallen below its carrying value. The annual or interim measurement for impairment is performed by first assessing qualitative factors to determine whether it is more likely thannot that the fair value of a reporting unit is less than its carrying amount. If such qualitative factors so indicate, then the measurement for impairment is continued by calculating an estimate of the fair value of each reporting unit and comparing the estimated fair value to the carrying value of the reporting unit. If the carrying value exceeds the estimated fair value of the reporting unit, then an impairment charge is calculated as the difference between the carrying value of the reporting unit and its estimated fair value, not to exceed the goodwill of the reporting unit.

On March 29, 2021, the Company performed the annual measurement for impairment of the goodwill of its reporting units and concluded that the estimated fair value of each of the Company's reporting units exceeded their carrying values, and thus the goodwill of the Company's reporting units was not impaired as of that date.

Note 10 – Other Intangible Assets

Other intangible assets as of December 26, 2021 and March 28, 2021 consisted primarily of the fair value of identifiable assets acquired in business combinations other than tangible assets and goodwill. The gross amount and accumulated amortization of the Company's other intangible assets as of December 26, 2021 and March 28, 2021, the amortization expense for the three- and nine-month periods ended December 26, 2021 and December 27, 2020, and the classification of such amortization expense within the accompanying unaudited condensed consolidated statements of income are as follows (in thousands):

	Gross Amount		Accumulated Amortization		Amortization Expense: Three-Month Periods Ended		Amortization Expense: Nine-Month Periods Ended	
	December 26, 2021	March 28, 2021	December 26, 2021	March 28, 2021	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
Tradename and trademarks	$ 2,567	$ 2,567	$ 1,850	$ 1,722	$ 43	$ 61	$ 128	$ 183
Developed technology	-	-	-	-	-	28	-	83
Non-compete covenants	98	98	98	93	2	19	5	59
Patents	1,601	1,601	990	950	13	13	40	48
Customer relationships	7,374	7,374	5,928	5,712	72	72	216	223
Total other intangible assets	$ 11,640	$ 11,640	$ 8,866	$ 8,477	$ 130	$ 193	$ 389	$ 596
Classification within the accompanying unaudited condensed consolidated statements of income:								
Cost of products sold					$ 2	$ 2	$ 5	$ 5
Marketing and administrative expenses					128	191	384	591
Total amortization expense					$ 130	$ 193	$ 389	$ 596

Note 11 – Inventories

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

	December 26, 2021	March 28, 2021
Raw Materials	$ 27	$ 453
Work in Process	-	19
Finished Goods	24,440	19,863
Total inventory	$ 24,467	$ 20,335

Note 12 – Leases

The Company made cash payments related to its recognized operating leases of $460,000 and $493,000 during the three months ended December 26, 2021 and December 27, 2020, respectively, and $1.4 million and $1.3 million during the nine months ended December 26, 2021 and December 27, 2020, respectively. Such payments reduced the operating lease liabilities and were included in the cash flows provided by operating activities in the accompanying unaudited condensed consolidated statements of cash flows. As of December 26, 2021, the Company's operating leases have a weighted-average remaining lease term of 2.0 years and the weighted-average discount rate is 3.6%.

During the three- and nine-month periods ended December 26, 2021 and December 27, 2020, the Company classified its operating lease costs within the accompanying unaudited condensed consolidated statements of income as follows (in thousands):

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
Cost of products sold	$ 395	$ 422	$ 1,197	$ 1,269
Marketing and administrative expenses	32	50	123	152
Total operating lease costs	$ 427	$ 472	$ 1,320	$ 1,421

The maturities of the Company's operating lease liabilities as of December 26, 2021 are as follows (in thousands):

Fiscal Year	
2022	$ 475
2023	1,896
2024	491
2025	187
2026	158
Total undiscounted operating lease payments	3,207
Less imputed interest	117
Operating lease liabilities - net	$ 3,090

Note 13 – Stock-based Compensation

The Company has three incentive stock plans, the 2006 Omnibus Incentive Plan (the "2006 Plan"), the 2014 Omnibus Equity Compensation Plan (the "2014 Plan") and the 2021 Incentive Plan (the "2021 Plan"). As a result of the approval of the 2014 Plan by the Company's stockholders at the Company's 2014 annual meeting and the 2021 Plan by the Company's stockholders at the Company's 2021 annual meeting, grants may no longer be issued under either the 2006 Plan or the 2014 Plan. At December 26, 2021, 1,159,835 shares of the Company's common stock were available for future issuance under the 2021 Plan, which may be issued from authorized and unissued shares of the Company's common stock or treasury shares. The Company recorded stock-based compensation expense of $224,000 and $103,000 during the three-month periods ended December 26, 2021 and December 27, 2020, respectively, and $564,000 and $289,000 during the nine-month periods ended December 26, 2021 and December 27, 2020, 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 December 26, 2021.

Stock Options: The following table represents stock option activity for the nine-month periods ended December 26, 2021 and December 27, 2020:

	Nine-Month Periods Ended			
	December 26, 2021		December 27, 2020	
	Weighted-Average Exercise Price	Number of Options Outstanding	Weighted-Average Exercise Price	Number of Options Outstanding
Outstanding at Beginning of Period	$ 6.84	567,500	$ 6.86	517,500
Granted	7.98	158,000	4.92	110,000
Exercised	7.72	(70,000)	5.49	(95,000)
Forfeited	4.84	(20,000)	-	-
Outstanding at End of Period	7.39	635,500	6.71	532,500
Exercisable at End of Period	7.54	352,500	7.59	360,000

As of December 26, 2021, the intrinsic value of the outstanding and exercisable stock options was $283,000 and $177,000, respectively. The intrinsic value of the stock options exercised during the three and nine months ended December 26, 2021 was $58,000 and $196,000, respectively.

The Company did not receive any cash from the exercise of stock options during any of the three- or nine-month periods ended December 26, 2021 and December 27, 2020. Upon the exercise of stock options, participants may choose to surrender to the Company those shares from the option exercise necessary to satisfy the exercise amount and their income tax withholding obligations that arise from the option exercise. The effect on the cash flow of the Company from these "cashless" option exercises is that the Company remits cash on behalf of the participant to satisfy his or her income tax withholding obligations. The Company used cash to remit the required income tax withholding amounts from "cashless" option exercises of $19,000 and $67,000 during the three- and nine-month periods ended December 26, 2021, respectively, and $43,000 during each of the three- and nine-month periods ended December 27, 2020.

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. 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 the nine months ended December 26, 2021 and December 27, 2020, which options vest over a two-year period, assuming continued service.

	Nine-Month Periods Ended	
	December 26, 2021	**December 27, 2020**
Number of options issued	158,000	110,000
Grant date	June 9, 2021	June 10, 2020
Dividend yield	4.00%	6.50%
Expected volatility	35.00%	30.00%
Risk free interest rate	0.530%	0.275%
Contractual term (years)	10.00	10.00
Expected term (years)	4.00	4.00
Forfeiture rate	5.00%	5.00%
Exercise price (grant-date closing price) per option	$ 7.98	$ 4.92
Fair value per option	$ 1.61	$ 0.56

During the three- and nine-month periods ended December 26, 2021 and December 27, 2020, the Company classified its compensation expense associated with stock options within the accompanying unaudited condensed consolidated statements of income as follows (in thousands):

	Three-Month Period Ended December 26, 2021			Three-Month Period Ended December 27, 2020		
Options Granted in Fiscal Year	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**
2020	$ -	$ -	$ -	$ 3	$ 3	$ 6
2021	4	14	18	3	3	6
2022	9	20	29	-	-	-
Total stock option compensation	$ 13	$ 34	$ 47	$ 6	$ 6	$ 12

	Nine-Month Period Ended December 26, 2021			Nine-Month Period Ended December 27, 2020		
Options Granted in Fiscal Year	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**
2019	$ -	$ -	$ -	$ 3	$ 3	$ 6
2020	3	4	7	8	11	19
2021	11	37	48	7	8	15
2022	20	52	72	-	-	-
Total stock option compensation	$ 34	$ 93	$ 127	$ 18	$ 22	$ 40

As of December 26, 2021, total unrecognized stock option compensation expense amounted to $256,000, which will be recognized as the underlying stock options vest over a weighted-average period of 9.0 months. The amount of future stock option compensation expense could be affected by any future stock option grants and by the separation from the Company of any individual who has received stock options that are unvested as of such individual's separation date.

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

Number of Shares	Fair Value per Share	Grant Date	Vesting Period (Years)
40,165	$ 7.47	August 11, 2021	One
41,452	5.79	August 12, 2020	Two
46,512	5.16	August 14, 2019	Two
28,000	5.43	August 8, 2018	Two

These shares vest over the periods indicated, assuming continued service. The fair value of the non-vested stock granted to the Company's directors was based on the closing price of the Company's common stock on the date of each grant. In August 2021 and August 2020, 43,984 and 37,256 shares, respectively, that had been granted to the Company's directors vested, having an aggregate value of $327,000 and $179,000, respectively.

Non-vested Stock Granted to Employees: The following shares of non-vested stock were granted to certain of the Company's employees:

Number of Shares	Fair Value per Share	Grant Date	Vesting Date
25,000	$ 5.86	January 18, 2019	January 18, 2021
20,000	4.92	June 10, 2020	June 10, 2022
10,000	7.60	February 22, 2021	February 22, 2023
25,000	7.98	June 9, 2021	June 9, 2022

During the three- and nine-month periods ended December 26, 2021 and December 27, 2020, the Company recorded compensation expense associated with stock grants, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income, as follows (in thousands):

	Three-Month Periods Ended		Nine-Month Periods Ended	
Stock Granted in Fiscal Year	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
2019	$ -	$ 18	$ -	$ 80
2020	-	30	40	90
2021	52	43	156	79
2022	125	-	241	-
Total stock grant compensation	$ 177	$ 91	$ 437	$ 249

As of December 26, 2021, total unrecognized compensation expense related to the Company's non-vested stock grants amounted to $393,000, which will be recognized over the respective vesting terms associated with each block of non-vested stock indicated above, such grants having an aggregate weighted-average vesting term of 7.3 months. The amount of future compensation expense related to the Company's non-vested stock grants could be affected by any future non-vested stock grants and by the separation from the Company of any individual who has non-vested stock grants as of such individual's separation date.

Note 14 – Related Party Transaction

On December 16, 2020, the Company purchased 250,000 shares of its common stock from E. Randall Chestnut, the Company's Chief Executive Officer. The shares were purchased at a purchase price of $7.5435 per share, which represented the trailing 10-trading day volume weighted average closing price of the Company's common stock ending, and including December 16, 2020.

Note 15 – Subsequent Events

The Company has evaluated all events which have occurred between December 26, 2021 and the date that the accompanying unaudited condensed consolidated financial statements were issued, and has determined that there are no material subsequent events that require disclosure.

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

FORWARD-LOOKING INFORMATION

Certain of the statements made in this Quarterly Report on Form 10-Q (this “Quarterly Report”) within this Item 2. 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, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995. Such statements are based upon management’s current expectations, projections, estimates and assumptions. Words such as “expects,” “believes,” “anticipates,” “intends,” “may,” “will,” “could,” “would” and variations of such words and similar expressions may identify such forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that may cause future results to differ materially from those suggested by the forward-looking statements. These risks include, among others, the impact of the COVID-19 pandemic on the Company’s business operations, general economic conditions, including changes in interest rates, in the overall level of consumer spending and in the price of oil, cotton and other raw materials used in the Company’s products, changing competition, changes in the retail environment, the Company’s ability to successfully integrate newly acquired businesses, the level and pricing of future orders from the Company’s customers, the Company’s dependence upon third-party suppliers, including some located in foreign countries with unstable political situations, the Company’s ability to successfully implement new information technologies, customer acceptance of both new designs and newly-introduced product lines, actions of competitors that may impact the Company’s business, disruptions to transportation systems or shipping lanes used by the Company or its suppliers, and the Company’s dependence upon licenses from third parties. Reference is also made to the Company’s periodic filings with the Securities and Exchange Commission for additional factors that may impact the Company’s results of operations and financial condition. The Company does not undertake to update the forward-looking statements contained herein to conform to actual results or changes in the Company’s expectations, whether as a result of new information, future events or otherwise.

DESCRIPTION OF BUSINESS

The Company was originally formed as a Georgia corporation in 1957 and was reincorporated as a Delaware corporation in 2003. The Company operates indirectly through two of its wholly-owned subsidiaries, NoJo Baby & Kids, Inc. and Sassy Baby, Inc., in the infant, toddler and juvenile products segment within the consumer products industry. The infant, toddler and juvenile products segment consists of infant, toddler and juvenile bedding and blankets, bibs, soft bath products, disposable products, developmental toys and accessories. The Company’s products are marketed under Company-owned trademarks, under trademarks licensed from others and as private label goods. Sales of the Company’s products are made directly to retailers, such as mass merchants, large chain stores, juvenile specialty stores, value channel stores, grocery and drug stores, restaurants, wholesale clubs and internet-based retailers.

The accompanying unaudited condensed consolidated statements of income include income, expenses and losses recognized in respect of the operating activities of Carousel, a wholly-owned subsidiary that manufactured and marketed infant and toddler bedding directly to consumers online from a facility in Douglasville, Georgia. On May 5, 2021, the Board approved the closure of Carousel due to a history of high costs, declining sales and operating and cash flow losses, as well as management’s determination that such losses were likely to continue. Accordingly, the operations of Carousel ceased at the close of business on May 21, 2021.

The Company’s products are marketed to retailers through a national sales force consisting of salaried sales executives and employees located in Compton, California; Gonzales, Louisiana; Grand Rapids, Michigan; and Bentonville, Arkansas and by independent commissioned sales representatives located throughout the United States.

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

Foreign and domestic contract manufacturers produce most of the Company’s products, with the largest concentration being in China. The Company makes sourcing decisions based on 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.

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

RESULTS OF OPERATIONS

The following table contains the results of operations for the three- and nine-month periods ended December 26, 2021 and December 27, 2020 and the dollar and percentage changes for those periods (in thousands, except percentages):

	Three-Month Periods Ended		Change		Nine-Month Periods Ended		Change	
	December 26, 2021	December 27, 2020	$	%	December 26, 2021	December 27, 2020	$	%
Net sales by category:								
Bedding, blankets and accessories	$ 11,780	$ 11,431	$ 349	3.1%	$ 32,838	$ 34,490	$ (1,652)	-4.8%
Bibs, bath, developmental toy, feeding, baby care and disposable products	10,962	8,045	2,917	36.3%	28,836	22,850	5,986	26.2%
Total net sales	22,742	19,476	3,266	16.8%	61,674	57,340	4,334	7.6%
Cost of products sold	16,572	13,323	3,249	24.4%	44,780	39,070	5,710	14.6%
Gross profit	6,170	6,153	17	0.3%	16,894	18,270	(1,376)	-7.5%
% of net sales	*27.1%*	*31.6%*			*27.4%*	*31.9%*		
Marketing and administrative expenses	3,094	3,420	(326)	-9.5%	9,624	10,602	(978)	-9.2%
% of net sales	*13.6%*	*17.6%*			*15.6%*	*18.5%*		
Interest expense - net of interest income	14	3	11	366.7%	30	8	22	275.0%
Gain on extinguishment of debt	-	-	-	-	1,985	-	1,985	
Other expense (income) - net	25	7	18	257.1%	(64)	7	(71)	-1014.3%
Income tax expense	605	582	23	4.0%	1,806	1,810	(4)	-0.2%
Net income	2,432	2,141	291	13.6%	7,483	5,843	1,640	28.1%
% of net sales	*10.7%*	*11.0%*			*12.1%*	*10.2%*		

Net Sales: Sales increased to $22.7 million for the three months ended December 26, 2021, compared with $19.5 million for the three months ended December 27, 2020, an increase of $3.3 million, or 16.8%. Sales of bedding, blankets and accessories increased by $349,000, which is net of a decrease of $1.1 million due to the closure of Carousel. Sales of bibs, bath, developmental toys, feeding, baby care and disposable products increased by $2.9 million. During the nine-month period ended December 26, 2021, sales increased to $61.7 million, compared with $57.3 million for the nine-month period ended December 27, 2020, an increase of $4.3 million, or 7.6%. Sales of bibs, bath, developmental toys, feeding, baby care and disposable products increased by $6.0 million. This increase was partially offset by a decrease of $1.7 million in sales of bedding, blankets and accessories, which included a decrease of $3.5 million due to the closure of Carousel. The increases in sales during the comparable three- and nine-month periods are partially due to a strong new modular set and higher replenishment orders at a major retailer, and are somewhat offset by declines in sales to online retailers as consumers have begun to return to stores.

Gross Profit: Gross profit increased slightly in amount but decreased from 31.6% of net sales for the three-month period ended December 27, 2020 to 27.1% of net sales for the three-month period ended December 26, 2021. The increase in the gross profit amount is net of the effect of the closure of Carousel, which recognized a gross profit of $319,000 in the prior-year period. Gross profit decreased by $1.4 million and decreased from 31.9% of net sales for the nine-month period ended December 27, 2020 to 27.4% of net sales for the nine-month period ended December 26, 2021. The closure of Carousel resulted in a $2.2 million decrease in gross profit, which in the current-year period included the sale of inventory below cost and the recognition of charges of $334,000 associated with the settlement with a supplier of a commitment to purchase fabric and $265,000 associated with the liquidation of Carousel's remaining inventory upon the closure of the business. The Company's gross profit has also been impacted in both the three- and nine-month periods of the current year by increases in costs across the entire supply chain.

Marketing and Administrative Expenses: Marketing and administrative expenses decreased by $326,000, and decreased from 17.6% of net sales for the three-month period ended December 27, 2020 to 13.6% of net sales for the three-month period ended December 26, 2021. Marketing and administrative expenses decreased by $978,000, and decreased from 18.5% of net sales for the nine months ended December 27, 2020 to 15.6% of net sales for the nine months ended December 26, 2021. The decrease in amounts for the current-year periods included lower charges incurred by Carousel of $494,000 for the three-month period and $1.3 million for the nine-month period.

Gain on extinguishment of debt: On May 20, 2021, the PPP Loan was forgiven in full, which resulted in a gain on extinguishment of debt in the amount of $1,985,000 during the three-month period ended June 27, 2021 and the nine-month period ended December 26, 2021.

Income Tax Expense: The Company's provision for income taxes is based upon an estimated annual effective tax rate ("ETR") from continuing operations of 20.0% for the nine-month period ended December 26, 2021. This estimated annual ETR includes no income tax expense from the gain on extinguishment of debt associated with the forgiveness of the PPP Loan, which will be permitted to be excluded from taxable income, the effect of which lowers the estimated annual ETR for fiscal year 2022 by approximately four percentage points.

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. After considering all relevant information regarding the calculation of the state portion of its income tax provision, the Company believes that the technical merits of the tax position that the Company has taken with respect to state apportionment percentages would more likely than not be sustained. However, the Company also realizes that the ultimate resolution of such tax position could result in a tax charge that is more than the amount realized based upon the application of the tax position taken. Therefore, the Company's measurement regarding the tax impact of the revised state apportionment percentages resulted in the Company recording discrete reserves for unrecognized tax liabilities of $22,000 and $25,000 during the three months ended December 26, 2021 and December 27, 2020, respectively, and $67,000 and $58,000 during the nine months ended December 26, 2021 and December 27, 2020, respectively, in the accompanying unaudited condensed consolidated statements of income.

The Company recorded discrete income tax benefits of $11,000 and $16,000 during the three-month periods ended December 26, 2021 and December 27, 2020, respectively, and $83,000 and $12,000 during the nine-month periods ended December 26, 2021 and December 27, 2020, respectively, to reflect the net effects of the excess tax benefits and tax shortfalls arising from the exercise of stock options and the vesting of non-vested stock.

The Company recorded a discrete income tax benefit of $33,000 during each of the three- and nine-month periods ended December 26, 2021, and $74,000 during each of the three- and nine-month periods ended December 27, 2020, to reflect the aggregate effect of certain tax credits.

The ETR on continuing operations and the discrete income tax charges and benefits set forth above resulted in an overall provision for income taxes of 19.4% and 23.7% for the nine-month periods ended December 26, 2021 and December 27, 2020, respectively.

Although the Company does not anticipate a material change to the ETR from continuing operations for the remainder of fiscal year 2022, several factors could impact the ETR, including variations from the Company's estimates of the amount and source of its pre-tax income, and the actual ETR for the year could differ materially from the Company's estimates.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities decreased from $8.1 million for the nine-month period ended December 27, 2020 to $4.3 million for the nine-month period ended December 26, 2021. The decrease in the current year was the result of an increase in accounts payable in the current year that was $3.7 million lower than the increase in the prior year; the non-cash gain on extinguishment of debt of $1,985,000 in the current year that was associated with the forgiveness of the PPP Loan; and an increase in accounts receivable in the current year that was $1.2 million higher than the increase in the prior year. These items were partially offset by an increase in net income of $1.6 million and an increase of inventory in the current year that was $978,000 lower than the increase the prior year.

Net cash used in investing activities, which were primarily associated with capital expenditures for property, plant and equipment, decreased from $528,000 in the prior year to $352,000 in the current year.

Net cash used in financing activities decreased from $4.2 million in the prior year to $2.5 million in the current year. Financing activities included net repayments under the revolving line of credit in the prior year of $2.6 million that were not repeated in the current year and the purchase of treasury stock in the prior year from a related party amounting to $1.9 million that was not repeated in the current year. These financing activities were partially offset by the receipt in the prior year of $1,964,000 in proceeds from the PPP Loan that was not repeated in the current year and dividends paid in the current year were $772,000 higher than in the prior year.

At December 26, 2021, there was no balance owed on the Company's revolving line of credit with CIT, there was no letter of credit outstanding and $26.0 million was available under the revolving line of credit based on the Company's eligible accounts receivable and inventory balances.

To reduce its exposure to credit losses and to enhance the predictability of its cash flow, the Company assigns substantially all of its trade accounts receivable to CIT under factoring agreements. Under the terms of the factoring agreements, CIT remits customer payments to the Company as such payments are received by CIT. As such, the Company does not take advances on the factoring agreements.

CIT bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits, while the Company bears the responsibility for adjustments from customers related to returns, allowances, claims and discounts. CIT may at any time terminate or limit its approval of shipments to a particular customer. If such a termination or limitation were to occur, then the Company must choose to either assume the credit risk for shipments after the date of such termination or limitation or discontinue shipments to the customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income, amounted to $99,000 and $79,000 during the three-month periods ended December 26, 2021 and December 27, 2020, respectively, and $248,000 and $209,000 during the nine-month periods ended December 26, 2021 and December 27, 2020, respectively.

The Company continues to monitor the impact of the COVID-19 pandemic on its supply chain, manufacturing and distribution operations, customers and employees, as well as the U.S. economy in general. However, due to the uncertainty as to the duration and widespread nature of the COVID-19 pandemic, the success rates of vaccines for COVID-19 and the variants thereof, and the extent to which the vaccines are accepted and effectively administered, the Company cannot currently predict the long-term impact of the COVID-19 pandemic on its operations and financial results.

The uncertainties associated with the COVID-19 pandemic include potential adverse effects on the overall economy, the Company's supply chain, transportation services, employees and customers, consumer sentiment in general, and traffic within the retail stores that carry the Company's products. The COVID-19 pandemic could adversely affect the Company's revenues, earnings, liquidity and cash flows and may require significant actions in response, including employee furloughs, closings of Company facilities, expense reductions or discounts of the pricing of the Company's products, all in an effort to mitigate such effects. Conditions surrounding COVID-19 change rapidly, and additional impacts of which the Company is not currently aware may arise. Based on past performance and current expectations, the Company believes that its anticipated cash flow from operations and the availability under its revolving line of credit are sufficient to fund the Company's requirements for working capital and capital expenditures for at least the next 12 months.

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 funds available under the revolving line of credit will be adequate to meet its liquidity needs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of market risks that could affect the Company, refer to the risk factors disclosed in Item 1A. of Part 1 of the Company's Annual Report on Form 10-K for the year ended March 28, 2021.

INTEREST RATE RISK

Although the Company could have an exposure to interest rate risk related to its floating rate debt, there was no balance outstanding on its floating rate debt as of December 26, 2021.

COMMODITY RATE RISK

The Company sources its products primarily from foreign contract manufacturers, with the largest concentration being in China. The Company's exposure to commodity price risk primarily relates to changes in the prices in China of cotton, oil and labor, which are the principal inputs used in a substantial number of the Company's products. In addition, although the Company pays its Chinese suppliers in U.S. dollars, an arbitrary strengthening of the rate of the Chinese currency versus the U.S. dollar could result in an increase in the cost of the Company's finished goods. There is no assurance that the Company could timely respond to such increases by proportionately increasing the prices at which its products are sold to the Company's customers.

MARKET CONCENTRATION RISK

The Company's financial results are closely tied to sales to its top two customers, which represented approximately 68% of the Company's gross sales in fiscal year 2021. In addition, 41% of the Company's gross sales in fiscal year 2021 consisted of licensed products, which included 34% of sales associated with the Company's license agreements with affiliated companies of the Walt Disney Company. The Company's results could be materially impacted by the loss of one or more of these licenses.

ITEM 4. CONTROLS AND PROCEDURES

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

During the three-month period ended December 26, 2021, there were no changes in the Company's internal control over financial reporting ("ICFR") identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A of Part 1 of the Company's Annual Report on Form 10-K for the year ended March 28, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of the Company (1)
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company (2)
3.3	Bylaws of the Company, as amended and restated through November 15, 2016 (3)
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer (4)
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer (4)
32.1	Section 1350 Certification by the Company's Chief Executive Officer (4)
32.2	Section 1350 Certification by the Company's Chief Financial Officer (4)
101	Interactive data files pursuant to Rule 405 of SEC Regulation S-T in connection with registrant's Form 10-Q for the quarterly period ended December 26, 2021, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets; (ii) Unaudited Condensed Consolidated Statements of Income; (iii) Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity; (iv) Unaudited Condensed Consolidated Statements of Cash Flows; and (v) Notes to Unaudited Condensed Consolidated Financial Statements.
104	Cover page Interactive Data File pursuant to Rule 406 of SEC Regulation S-T formatted in iXBRL (Inline eXtensible Business Reporting Language) and contained in Exhibit 101.

(1) Incorporated herein by reference to Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended December 28, 2003.

(2) Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated August 9, 2011.

(3) Incorporated herein by reference to Exhibit 3.3 to the registrant's Current Report on Form 8-K dated November 16, 2016.

(4) Filed herewith.

SIGNATURE

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

CROWN CRAFTS, INC.

Date: February 9, 2022

/s/ Craig J. Demarest
CRAIG J. DEMAREST
Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, E. Randall Chestnut, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Crown Crafts, Inc. for the period ended December 26, 2021;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2022

/s/ E. Randall Chestnut
E. Randall Chestnut,
Chairman of the Board and Chief Executive Officer,
Crown Crafts, Inc.

Exhibit 31.2

CERTIFICATION

I, Craig J. Demarest, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Crown Crafts, Inc. for the period ended December 26, 2021;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2022

/s/ Craig J. Demarest
Craig J. Demarest
Vice President and Chief Financial Officer,
Crown Crafts, Inc.

Exhibit 32.1

SECTION 1350 CERTIFICATION

I, E. Randall Chestnut, the Chairman of the Board and Chief Executive Officer of Crown Crafts, Inc. (the “Company”), do hereby certify, in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ended December 26, 2021 (the “Periodic Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 9, 2022

/s/ E. Randall Chestnut
E. Randall Chestnut,
Chairman of the Board and Chief Executive Officer,
Crown Crafts, Inc.

Exhibit 32.2

SECTION 1350 CERTIFICATION

I, Craig J. Demarest, a Vice President and the Chief Financial Officer of Crown Crafts, Inc. (the “Company”), do hereby certify, in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ended December 26, 2021 (the “Periodic Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 9, 2022

/s/ Craig J. Demarest
Craig J. Demarest,
Vice President and Chief Financial Officer,
Crown Crafts, Inc.