CROWN CRAFTS INC
Form 10-Q
February 07, 2019

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 30, 2018

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)

Registrant's telephone number, including area code: **(225) 647-9100**

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, 2019 was 10,122,558.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
DECEMBER 30, 2018 (UNAUDITED) AND APRIL 1, 2018
(amounts in thousands, except share and per share amounts)

	December 30, 2018	April 1, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ *63*	$ *215*
Accounts receivable (net of allowances of $614 at December 30, 2018 and $565 at April 1, 2018):		
Due from factor	*14,129*	*15,447*
Other	*880*	*3,051*
Inventories	*22,165*	*19,788*
Prepaid expenses	*1,566*	*1,253*
Total current assets	*38,803*	*39,754*
Property, plant and equipment - at cost:		
Vehicles	*257*	*268*
Leasehold improvements	*282*	*272*
Machinery and equipment	*4,159*	*4,010*
Furniture and fixtures	*799*	*799*
Property, plant and equipment - gross	*5,497*	*5,349*
Less accumulated depreciation	*3,571*	*3,571*

Property, plant and equipment - net	*1,926*	*1,778*
Finite-lived intangible assets - at cost:		
Tradename and trademarks	*3,667*	*3,667*
Customer relationships	*7,374*	*7,374*
Other finite-lived intangible assets	*3,159*	*3,159*
Finite-lived intangible assets - gross	*14,200*	*14,200*
Less accumulated amortization	*7,556*	*6,928*
Finite-lived intangible assets - net	*6,644*	*7,272*
Goodwill	*7,125*	*7,125*
Deferred income taxes	*359*	*532*
Other	*97*	*120*
Total Assets	$ *54,954*	$ *56,581*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ *7,684*	$ *3,766*
Accrued wages and benefits	*1,277*	*842*
Accrued royalties	*915*	*793*
Dividends payable	*808*	*807*
Income taxes payable	*164*	*40*
Other accrued liabilities	*381*	*540*
Total current liabilities	*11,229*	*6,788*
Non-current liabilities:		
Long-term debt	*1,865*	*9,458*
Reserve for unrecognized tax liabilities	*1,150*	*1,017*
Total non-current liabilities	*3,015*	*10,475*
Shareholders' equity:		
Common stock - $0.01 par value per share; Authorized 40,000,000 shares at December 30, 2018 and April 1, 2018; Issued 12,521,789 shares at December 30, 2018 and 12,493,789 shares at April 1, 2018	*125*	*125*
Additional paid-in capital	*53,155*	*52,874*
Treasury stock - at cost - 2,424,231 shares at December 30, 2018 and 2,408,025 shares at April 1, 2018	*(12,326*)	*(12,231*)
Accumulated Deficit	*(244*)	*(1,450*)
Total shareholders' equity	*40,710*	*39,318*
Total Liabilities and Shareholders' Equity	$ *54,954*	$ *56,581*

See notes to unaudited condensed consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE AND NINE-MONTH PERIODS ENDED DECEMBER 30, 2018 AND DECEMBER 31, 2017
(amounts in thousands, except per share amounts)

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 30, 2018	December 31, 2017	December 30, 2018	December 31, 2017
Net sales	$ *18,668*	$ *17,476*	$ *54,664*	$ *47,584*
Cost of products sold	*13,071*	*12,207*	*38,569*	*33,691*
Gross profit	*5,597*	*5,269*	*16,095*	*13,893*
Marketing and administrative expenses	*3,446*	*3,656*	*10,958*	*10,364*
Income from operations	*2,151*	*1,613*	*5,137*	*3,529*
Other income (expense):				
Interest expense	*(62*)	*(47*)	*(249*)	*(85*)
Interest income	*-*	*11*	*-*	*80*
Other - net	*2*	*1*	*3*	*-*
Income before income tax expense	*2,091*	*1,578*	*4,891*	*3,524*
Income tax expense	*537*	*1,047*	*1,264*	*1,750*
Net income	$ *1,554*	$ *531*	$ *3,627*	$ *1,774*
Weighted average shares outstanding:				
Basic	*10,098*	*10,086*	*10,084*	*10,068*
Effect of dilutive securities	*1*	*4*	*2*	*7*
Diluted	*10,099*	*10,090*	*10,086*	*10,075*
Earnings per share:				
Basic	$ *0.15*	$ *0.05*	$ *0.36*	$ *0.18*
Diluted	$ *0.15*	$ *0.05*	$ *0.36*	$ *0.18*

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
NINE-MONTH PERIOD ENDED DECEMBER 30, 2018 (UNAUDITED) AND FISCAL YEAR ENDED APRIL 1, 2018

	Common Shares		Treasury Shares				Total
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Shareholders' Equity
	(Dollar amounts in thousands)						
Balances - April 2, 2017	*12,423,539*	$ *124*	*(2,401,066)*	$*(12,175)*	$ *52,220*	$ *(1,246)*	$ *38,923*
Issuance of shares	*70,250*	*1*			*115*		*116*
Stock-based compensation					*539*		*539*
Acquisition of treasury stock			*(6,959)*	*(56)*			*(56)*
Net income						*3,021*	*3,021*
Dividends declared on common stock - $0.32 per share						*(3,225)*	*(3,225)*
Balances - April 1, 2018	*12,493,789*	*125*	*(2,408,025)*	*(12,231)*	*52,874*	*(1,450)*	*39,318*
Issuance of shares	*28,000*	-			-		-
Stock-based compensation					*281*		*281*
Acquisition of treasury stock			*(16,206)*	*(95)*			*(95)*
Net income						*3,627*	*3,627*
Dividends declared on common stock - $0.24 per share						*(2,421)*	*(2,421)*
Balances - December 30, 2018	*12,521,789*	$ *125*	*(2,424,231)*	$*(12,326)*	$ *53,155*	$ *(244)*	$ *40,710*

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 30, 2018 AND DECEMBER 31, 2017
(amounts in thousands)

	Nine-Month Periods Ended December 30, 2018	December 31, 2017
Operating activities:		
Net income	$ *3,627*	$ *1,774*
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	*460*	*183*
Amortization of intangibles	*628*	*618*
Deferred income taxes	*173*	*585*
Reserve for unrecognized tax benefits	*133*	*268*
Stock-based compensation	*281*	*406*
Changes in assets and liabilities:		
Accounts receivable	*3,489*	*2,850*
Inventories	*(2,377*)	*(2,759*)
Prepaid expenses	*(313*)	*(198*)
Other assets	*23*	*9*
Accounts payable	*3,869*	*3,435*
Accrued liabilities	*522*	*1,463*

Net cash provided by operating activities		*10,515*			*8,634*	
Investing activities:						
Capital expenditures for property, plant and equipment		*(560*	)		*(160*	)
Payments for acquisitions, net of liabilities assumed		-			*(15,245*	)
Net cash used in investing activities		*(560*	)		*(15,405*	)
Financing activities:						
Repayments under revolving line of credit		*(47,080*	)		*(2,909*	)
Borrowings under revolving line of credit		*39,487*			*5,220*	
Purchase of treasury stock		*(95*	)		*(56*	)
Payments on capital leases		-			*(845*	)
Dividends paid		*(2,419*	)		*(2,414*	)
Net cash used in financing activities		*(10,107*	)		*(1,004*	)
Net decrease in cash and cash equivalents		*(152*	)		*(7,775*	)
Cash and cash equivalents at beginning of period		*215*			*7,892*	
Cash and cash equivalents at end of period	$	*63*		$	*117*	
Supplemental cash flow information:						
Income taxes paid	$	*900*		$	*1,068*	
Interest paid		*174*			*8*	
Noncash financing activities:						
Property, plant and equipment purchased but unpaid		*(48*	)		-	
Dividends declared but unpaid		*(808*	)		*(807*	)
Compensation paid as common stock		-			*116*	

See notes to unaudited condensed consolidated financial statements.

CROWN CRAFTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE-MONTH PERIODS ENDED DECEMBER 30, 2018 AND DECEMBER 31, 2017

Note *1* – Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Crown Crafts, Inc. (the "Company") and its subsidiaries and have been prepared in accordance with 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 has been established by the FASB as the authoritative source for GAAP to be applied by nongovernmental entities.

In the opinion of 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 30, 2018* and the results of its operations and cash flows for the period presented. Such adjustments include normal, recurring accruals, as well as the elimination of all significant intercompany balances and transactions. Operating results for the *three* and *nine*-month periods ended *December 30, 2018* are *not* necessarily indicative of the results that *may* be expected by the Company for its fiscal year ending *March 31, 2019.* For further information, refer to the Company's consolidated financial statements and notes thereto included in the Company's annual report on Form *10*-K for the fiscal year ended *April 1, 2018.*

Fiscal Year: The Company's fiscal year ends on the Sunday that is nearest to or on *March 31.* References herein to "fiscal year *2019"* or *"2019"* represent the *52*-week period ending *March 31, 2019* and references herein to "fiscal year *2018"* or *"2018"* represent the *52*-week period ended *April 1, 2018.*

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the accompanying condensed consolidated balance sheets and the reported amounts of revenues and expenses during the periods presented on the accompanying unaudited 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 products which necessitates the establishment of inventory reserves and allocates indirect costs to inventory based on an estimated percentage of the supplier purchase price, each of which is highly subjective. The Company has also established estimated reserves in connection with the uncertainty concerning the amount of income tax recognized. Actual results could differ from those estimates.

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

The Company's credit facility consists of a revolving line of credit under a certain Financing Agreement with The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group, Inc. (the "CIT Financing Agreement"). The Company classifies a negative balance outstanding under the 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. There are *no* compensating balance requirements or other restrictions on the transfer of amounts associated with the Company's depository accounts.

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 the fair value.

Advertising Costs: The Company's advertising costs are primarily associated with cooperative advertising arrangements with certain of the Company's customers and are recognized using the straight-line method based upon aggregate annual estimated amounts for those customers, with periodic adjustments to the actual amounts of authorized agreements. Costs associated with advertising on websites such as Facebook and Google and which are related to the Company's online business are recorded as incurred. Advertising expense is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income and amounted to *$295,000* and *$534,000* for the *three* months ended *December 30, 2018* and *December 31, 2017,* respectively, and amounted to *$968,000* and *$1.1* million for the *nine* months ended *December 30, 2018* and *December 31, 2017,* respectively.

Revenue Recognition: Revenue is recognized upon the satisfaction of all contractual performance obligations and the transfer of control of the products sold to the customer. The majority of the Company’s sales consists of single performance obligation arrangements for which the transaction price for a given product sold is equivalent to the price quoted for the product, net of any stated discounts applicable at a point in time. Each sales transaction results in an implicit contract with the customer to deliver a product as directed by the customer. Shipping and handling costs that are charged to customers are included in net sales, and the Company’s costs associated with shipping and handling activities are included in cost of products sold.

A provision for anticipated returns, which are based upon historical returns and claims, is provided through a reduction of net sales and cost of products sold in the reporting period within which the related sales are recorded. Actual returns and claims experienced in a future period *may* differ from historical experience, and thus, the Company’s provision for anticipated returns at any given point in time *may* be over-funded or under-funded.

The Company recognizes revenue associated with unredeemed store credits and gift certificates at the earlier of their redemption by customers, their expiration or when their likelihood of redemption becomes remote, which is generally *two* years from the date of issuance.

Revenue from sales made directly to consumers is recorded when the shipped products have been received by customers, and excludes sales taxes collected on behalf of governmental entities. Revenue from sales made to retailers is recorded when legal title has been passed to the customer based upon the terms of the customer’s purchase order, the Company’s sales invoice, or other associated relevant documents. Such terms usually stipulate that legal title will pass when the shipped products are *no* longer under the control of the Company, such as when the products are picked up at the Company’s facility by the customer or by a common carrier. Payment terms can vary from prepayment for sales made directly to consumers to payment due in arrears (generally, *60* days of being invoiced) for sales made to retailers. A disaggregation of the Company’s revenue is set forth below under the heading *“Segment and Related Information”* in this Note *1* disclosure.

Allowances Against Accounts Receivable: Revenue from sales made to retailers is reported net of allowances for anticipated returns and other allowances, including cooperative advertising allowances, warehouse allowances, placement fees, volume rebates, coupons and discounts. Such allowances 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. The provision for the majority of the Company’s allowances occurs on a per-invoice basis. When a customer requests to have an agreed-upon deduction applied against the customer’s outstanding balance due to the Company, the allowances are correspondingly 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 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 *no* impact on the consolidated statements of income since such costs are accrued commensurate with sales activity or using the straight-line method, as appropriate.

Uncollectible Accounts: To reduce the exposure to credit losses and to enhance the predictability of its cash flows, the Company assigns the majority of its trade accounts receivable under factoring agreements with CIT. In the event a factored receivable becomes uncollectible due to creditworthiness, CIT bears the risk of loss. For reporting periods beginning on or after *April 2, 2018,* the Company recognizes revenue net of the amount of its non-factored accounts receivable that is expected to be uncollectible, which is estimated by specifically analyzing accounts receivable, historical trends of uncollected accounts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers' payment terms. For reporting periods that ended prior to *April 2, 2018,* the Company instead recorded a provision for its expected uncollectible accounts in the form of a bad debt expense, which was included in marketing and administrative expenses in the unaudited condensed consolidated statements of income. During the *nine*-month period ended *December 31, 2017,* the Company recorded such charges for bad debt expense of *$25,000.*

Credit Concentration: The Company's accounts receivable as of *December 30, 2018* was *$15.0* million, net of allowances of *$614,000.* Of this amount, *$14.1* million was due from CIT under the factoring agreements, which represents the maximum loss that the Company could incur if CIT failed completely to perform its obligations thereunder.

Other Accrued Liabilities: An amount of *$381,000* was recorded as other accrued liabilities as of *December 30, 2018.* Of this amount, *$202,000* reflected unearned revenue recorded for payments from customers that were received before products were shipped. Other accrued liabilities as of *December 30, 2018* also includes a reserve for anticipated returns of *$22,000* and unredeemed store credits and gift certificates totaling *$9,000.*

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, bibs, soft bath products, disposable products 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 30, 2018* and *December 31, 2017* are as follows (in thousands):

	Three-Month Periods Ended		**Nine-Month Periods Ended**	
	December 30, 2018	**December 31, 2017**	**December 30, 2018**	**December 31, 2017**
Bedding, blankets and accessories	$*9,817*	$ *11,558*	$*29,873*	$ *30,414*
Bibs, bath, developmental toy, feeding, baby care and disposable products	*8,851*	*5,918*	*24,791*	*17,170*
Total net sales	$*18,668*	$ *17,476*	$*54,664*	$ *47,584*

Inventory Valuation: The preparation of the Company's financial statements requires careful determination of the appropriate value of the Company's inventory balances. Such amounts are presented as a current asset in the accompanying condensed consolidated balance sheets and are a direct determinant of cost of products sold in the accompanying unaudited consolidated statements of income and, therefore, have a significant impact on the amount of net income in the accounting periods reported. The basis of accounting for inventories is cost, which includes the direct supplier acquisition cost, duties, taxes and freight, and the indirect costs incurred to design, develop, source and store the products until they are sold. Once cost has been determined, the Company's inventory is then stated at the lower of cost or net realizable value, 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, and the average cost method for a portion of the Company's inventory.

The indirect charges and their allocation to the Company's finished goods inventory are determined as a percentage of projected annual supplier purchases and can impact the Company's results of operations as purchase volumes fluctuate from quarter to quarter and year to year. The difference between indirect costs incurred and the indirect costs allocated to inventory creates a burden variance, which is generally favorable when actual inventory purchases exceed planned inventory purchases, and is generally unfavorable when actual inventory purchases are lower than planned inventory purchases.

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

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 in the accompanying unaudited condensed consolidated statements of income and amounted to *$1.3* million and *$1.8* million for the *three* months ended *December 30, 2018* and *December 31, 2017,* respectively, and amounted to *$3.7* million and *$5.0* million for the *nine* months ended *December 30, 2018* and *December 31, 2017,* respectively.

Depreciation and Amortization: The accompanying condensed 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 amortizable intangible assets. 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 associated costs in connection with applications for patents, which are classified within other finite-lived intangible assets in the accompanying condensed consolidated balance sheets. 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 for the underlying product is available to the Company. The Company also capitalizes legal and other costs incurred in the protection or defense of the Company's patents to the extent that 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 the 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.

Purchase Price Allocations and the Resulting Goodwill: The Company's strategy includes, when appropriate, entering into transactions accounted for as business combinations. In connection with a business combination, the Company prepares an allocation of the cost of the acquisition to the identifiable assets acquired and liabilities assumed, based on estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the identifiable net assets acquired is recorded as goodwill.

The amount of goodwill recorded in a business combination can vary significantly depending upon the values attributed to the assets acquired and liabilities assumed. Although goodwill has *no* useful life and is *not* subject to a systematic annual amortization against earnings, the Company performs a measurement for impairment of 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 annual or interim measurement for impairment of goodwill is performed at the reporting unit level. A reporting unit is either an operating segment or *one* level below an operating segment. In its annual or interim measurement for impairment of goodwill, the Company conducts a qualitative assessment by examining relevant events and circumstances which could have a negative impact on the Company's goodwill, which includes macroeconomic conditions, industry and market conditions, commodity prices, cost factors, overall financial performance, reporting unit dispositions and acquisitions, the market capitalization of the Company and other relevant events specific to the Company.

If, after assessing the totality of events or circumstances described above, the Company determines that it is more likely than *not* that the fair value of either of the Company's reporting units is less than its carrying amount, then a quantitative goodwill test is performed. The quantitative goodwill impairment test is also performed whenever events or changes in circumstances indicate that the carrying value *may not* be recoverable. If, after performing the quantitative goodwill test, it is determined that the carrying value of goodwill is impaired, the amount of goodwill is

reduced and a corresponding charge is made to earnings in the period in which the goodwill is determined to be impaired.

Provision for Income Taxes: The Company’s provision for income taxes includes all currently payable federal, state, local and foreign taxes and is based upon the Company’s estimated annual effective tax rate (“ETR”), which is based on the Company’s forecasted annual pre-tax income, as adjusted for certain expenses within the consolidated statements of income that will never be deductible on the Company’s tax returns and certain charges expected to be deducted on the Company’s tax returns that will never be deducted on the consolidated statements of income, multiplied by the statutory tax rates for the various jurisdictions in which the Company operates. The Company’s provisions for income taxes for the *nine*-month periods ended *December 30, 2018* and *December 31, 2017* are based upon an estimated annual ETR from continuing operations of *24.2%* and *33.0%,* respectively.

The Company files income tax returns in the many jurisdictions within which it operates, including the U.S., several U.S. states and the People’s Republic of China. The statute of limitations for the Company’s filed income tax returns varies by jurisdiction; tax years open to federal or state audit or other adjustment as of *December 30, 2018* were the fiscal years ended *April 1, 2018, April 2, 2017, April 3, 2016, March 29, 2015, March 30, 2014, March 31, 2013, April 1, 2012* and *April 3, 2011.*

On *December 22, 2017,* the President of the United States signed into law comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”), which included a provision to lower the federal corporate income tax rate to *21%* effective as of *January 1, 2018.* As the Company’s fiscal year *2018* ended on *April 1, 2018,* the lower corporate income tax rate was phased in, resulting in a blended federal statutory rate of *30.75%* for fiscal year *2018.*

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 in which the tax rates are changed. The Company recognized the effect of the TCJA on the Company's net deferred income tax assets, which had previously been recorded based upon the pre-TCJA enacted composite federal, state and foreign income tax rate of approximately *37.5%* that would have been applied as the financial statement and tax differences began to reverse. Because most of these differences are now expected to reverse at a composite rate of approximately *23.5%,* the Company was required to revalue its net deferred income tax assets. This revaluation resulted in a discrete charge to income tax expense of *$409,000* during the *three* and *nine*-month periods ended *December 31, 2017.*

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.

In evaluating the process regarding the calculation of the state portion of its income tax provision, the Company has taken a tax position that reflects opportunities for more favorable state apportionment percentages, which were then applied to several prior fiscal years and to succeeding 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 realized through the application of the more favorable state apportionment percentages. Therefore, the Company's measurement regarding the tax impact of the revised state apportionment percentages has resulted in the Company recording a reserve for unrecognized tax benefits of *$7,000* and *$31,000* during the *three*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively, and *$66,000* and *$60,000* during the *nine*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively, in the accompanying unaudited condensed consolidated statements of income.

Because the tax impact of the revised state apportionment percentages are measured net of federal income taxes, the provision in the TCJA that lowered the federal corporate income tax rate to *21%* required the Company to revalue its reserve for unrecognized tax benefits. This revaluation resulted in a net discrete charge to income tax expense of *$132,000* during the *three* and *nine*-month periods ended *December 31, 2017.*

The Company's policy is to accrue interest expense and penalties as appropriate on estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income. Interest expense and penalties are *not* accrued with respect to estimated unrecognized tax benefits that are associated with claims for income tax refunds as long as the overpayments are receivable. The Company accrued interest and penalties

associated with its reserve for unrecognized tax benefits of *$22,000* and *$16,000* during the *three*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively, and *$68,000* and *$52,000* during the *nine*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively, in the accompanying unaudited condensed consolidated statements of income. The revaluation the Company's reserve for unrecognized tax benefits set forth in the preceding paragraph resulted in an additional accrual for interest and penalties with respect to the revalued reserve for unrecognized tax benefits of *$25,000* during the *three* and *nine*-month periods ended *December 31, 2017.*

During the *nine*-month periods ended *December 30, 2018* and *December 31, 2017,* the Company recorded a discrete income tax charge of *$12,000* and a discrete income tax benefit of *$23,000,* respectively, to reflect the net effects of the tax shortfalls and the excess tax benefits arising from the vesting of non-vested stock during the periods.

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 *25.8%* and *49.7%* for the *nine*-month periods ended *December 30, 2018* and *December 31, 2017,* 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 options, which are added to basic shares to arrive at diluted shares.

Recently-Issued Accounting Standards: In *2014,* the FASB issued Accounting Standards Update ("ASU") *No. 2014-09, Revenue from Contracts with Customers (Topic 606)*, which has replaced most previous GAAP guidance on revenue recognition, and which now requires the use of more estimates and judgments. 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.* Thus, the Company adopted ASU *No. 2014-09* effective as of *April 2, 2018* on a modified retrospective basis.

ASU *No. 2014-09* requires that revenue be recognized by an entity when a customer obtains control of promised products in an amount that reflects the consideration that the entity expects to receive in exchange for those products. A further description of the GAAP guidance in effect subsequent to the Company's adoption of ASU *No. 2014-09* is set forth above under the headings *"Revenue Recognition," "Allowances Against Accounts Receivable"* and *"Uncollectible Accounts"* in this Note *1* disclosure. The Company performed an evaluation of its revenue contract arrangements and determined that, although the disclosures related to the Company's accounting policies and practices associated with the amount and timing of revenue recognition have been enhanced, the adoption of ASU *No. 2014-09* did *not* have a material effect on the Company's financial position or results of operations.

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. ASU *No. 2016-02* will become effective for the *first* interim period of the fiscal year beginning after *December 15, 2018.*

When issued, ASU *No. 2016-02* was to have been applied using a modified retrospective approach, but on *July 30, 2018* the FASB issued ASU *No. 2018-11, Leases (Topic 842): Targeted Improvements*, which will allow an alternative optional transition method with which to adopt ASU *No. 2016-02.* Upon adoption, in lieu of the modified retrospective approach, an entity will be allowed to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

Although early adoption of ASU *No. 2016-02* (as modified by ASU *No. 2018-11*) is permitted, the Company intends to adopt ASU *No. 2016-02* effective as of *April 1, 2019.* The Company has *not* yet decided whether it will use the modified retrospective approach or the cumulative-effect adjustment approach and is currently evaluating the effect that the adoption of ASU *No. 2016-02* will have on its financial position, results of operations and related disclosures.

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" threshhold, 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 material impact on the Company's financial position, results of operations and related disclosures.

The Company has determined that all other ASUs which had become effective as of *December 30, 2018,* 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* – Acquisitions

Carousel: On *August 4, 2017,* Carousel Acquisition, LLC, a wholly-owned subsidiary of the Company, acquired substantially all of the assets and business, and assumed certain specified liabilities, of a privately held manufacturer and online retailer of premium infant and toddler bedding and nursery décor based in Douglasville, Georgia, which was at the time named Carousel Designs, LLC (the "Carousel Acquisition"). On *August 11, 2017,* the seller of such assets having relinquished its rights to its name under the terms of the acquisition, Carousel Acquisition, LLC changed its name to Carousel Designs, LLC ("Carousel").

The Company anticipates that certain synergies, including administrative and capital efficiencies, *may* be achieved as a result of the Company's control of the combined assets and that the Company will benefit from the direct-to-consumer opportunities that will result from the Carousel Acquisition. Carousel paid an acquisition cost of *$8.7* million from cash on hand and assumed certain specified liabilities relating to the business. In connection with the Carousel Acquisition, Carousel paid off capital leases amounting to *$845,000* that were associated with certain fixed assets that were acquired.

The Carousel Acquisition has been accounted for as a business combination in accordance with FASB ASC Topic *805, Business Combinations.* The Company determined the allocation of the acquisition cost with the assistance of an independent *third* party. The identifiable assets acquired were recorded at their estimated fair value, which was determined based on available information and the use of multiple valuation approaches. The estimated useful lives of the identifiable intangible assets acquired were determined based upon the remaining time that these assets are expected to directly or indirectly contribute to the future cash flow of the Company. In its allocation of the acquisition cost, the Company recognized of *$5.7* million of goodwill, the entirety of which was assigned to the reporting unit of the Company that produces and markets infant and toddler bedding, blankets and accessories, and the entirety of which is expected to be deductible for income tax purposes.

The following table represents the Company's allocation of the acquisition cost (in thousands) to the identifiable assets acquired and the liabilities assumed based on their respective estimated fair values as of the acquisition date. The excess of the acquisition cost over the estimated fair value of the identifiable net assets acquired is reflected as goodwill.

Tangible assets:	
Inventory	$ *967*
Prepaid expenses	*5*
Fixed assets	*1,068*
Total tangible assets	*2,040*
Amortizable intangible assets:	

Tradename	*1,100*
Developed technology	*1,100*
Non-compete covenants	*360*
Total amortizable intangible assets	*2,560*
Goodwill	*5,679*
Total acquired assets	*10,279*
Liabilities assumed:	
Accounts payable	*319*
Accrued wages and benefits	*59*
Unearned revenue	*271*
Other accrued liabilities	*60*
Capital leases	*845*
Total liabilities assumed	*1,554*
Net acquisition cost	$*8,725*

The Carousel Acquisition resulted in net sales of *$1.4* million and *$5.0* million of infant and toddler bedding, blankets and accessories during the *three* and *nine* months ended *December 30, 2018,* respectively. Carousel recorded amortization expense associated with the acquired amortizable intangible assets of *$64,000* and *$178,000* during the *three* and *nine* months ended *December 30, 2018,* respectively, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income. Amortization is computed for the acquired amortizable intangible assets using the straight-line method over the estimated useful lives of the assets, which are *15* years for the tradename, *10* years for the developed technology, *5* years for the non-compete agreements and *11* years on a weighted-average basis for the grouping taken together.

Sassy: On *December 15, 2017,* Sassy Baby, Inc. (formerly known as Hamco, Inc.) ("Sassy Baby"), a wholly-owned subsidiary of the Company, acquired certain assets associated with the Sassy®-branded developmental toy, feeding and baby care product line from Sassy *14,* LLC and assumed certain related liabilities (the "Sassy Acquisition"). Sassy Baby paid an acquisition cost of *$6.5* million from a combination of cash on hand and the revolving line of credit. The Company has achieved certain administrative and capital efficiencies as a result of its acquisition of the Sassy product line. For example, synergies were attained in *April 2018* when the Company transferred the remaining inventory acquired in the Sassy Acquisition from Grand Rapids, Michigan to the Company's distribution facility in Compton, California. The Company anticipates that it will benefit from the diversity added to the Company's portfolio of products and that the Sassy Acquisition will strengthen the Company's overall position in the infant and juvenile products market.

The Sassy Acquisition has been accounted for as a business combination in accordance with FASB ASC Topic *805, Business Combinations.* The Company determined the allocation of the acquisition cost with the assistance of an independent *third* party. The identifiable assets acquired were recorded at their estimated fair value, which was determined based on available information and the use of multiple valuation approaches. The estimated useful lives of the identifiable intangible assets acquired was determined based upon the remaining time that these assets are expected to directly or indirectly contribute to the future cash flow of the Company.

The following table represents the Company's allocation of the acquisition cost (in thousands) to the identifiable assets acquired and the liabilities assumed based on their respective estimated fair values as of the acquisition date. The excess of the acquisition cost over the estimated fair value of the identifiable net assets acquired is reflected as goodwill.

Tangible assets:	
Inventory	$*3,297*
Prepaid expenses	*120*
Fixed assets	*383*
Total tangible assets	*3,800*
Amortizable intangible assets:	
Tradename	*580*
Customer relationships	*1,840*
Total amortizable intangible assets	*2,420*
Goodwill	*320*
Total acquired assets	*6,540*
Liabilities assumed:	
Accrued wages	*20*
Net acquisition cost	$*6,520*

In its allocation of the acquisition cost, the Company recognized *$320,000* of goodwill, the entirety of which has been assigned to the reporting unit of the Company that produces and markets infant and toddler bibs, bath, developmental toys, feeding, baby care and disposable products, and the entirety of which is expected to be deductible for income tax

purposes. The Sassy Acquisition resulted in net sales of *$3.6* million and *$8.6* million of developmental toy, feeding and baby care products during the *three* and *nine*-month periods ended *December 30, 2018,* respectively. Sassy Baby recorded amortization expense associated with the amortizable intangible assets acquired in the Sassy Acquisition of *$56,000* and *$167,000* during the *three* and *nine*-month periods ended *December 30, 2018,* respectively, which is included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income. Amortization is computed for the acquired amortizable intangible assets using the straight-line method over their estimated useful lives, which are *15* years for the tradename, *10* years for the customer relationships and *11* years on a weighted-average basis for the grouping taken together.

Note *3* – Goodwill, Customer Relationships and Other Intangible Assets

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, bath, developmental toys, feeding, baby care and disposable products. The goodwill of the reporting units of the Company as of *December 30, 2018* and *April 1, 2018* 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 the *first* 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 than *50%*) 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 than *not* 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 *April 2, 2018,* 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.

Other Intangible Assets: Other intangible assets as of *December 30, 2018* and *April 1, 2018* 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 30, 2018* and *April 1, 2018,* the amortization expense for the *three* and *nine*-month periods ended *December 30, 2018* and *December 31, 2017* 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**		**Nine-Month Periods Ended**	
	December 30, 2018	**April 1, 2018**	**December 30, 2018**	**April 1, 2018**	**December 30, 2018**	**December 31, 2017**	**December 30, 2018**	**December 31, 2017**
Tradename and trademarks	$*3,667*	$*3,667*	$*1,441*	$*1,270*	$*62*	$ *50*	$ *171*	$ *138*
Developed technology	*1,100*	*1,100*	*156*	*73*	*28*	*28*	*83*	*46*
Non-compete covenants	*458*	*458*	*180*	*122*	*19*	*20*	*58*	*35*
Patents	*1,601*	*1,601*	*754*	*673*	*27*	*27*	*81*	*81*
Customer relationships	*7,374*	*7,374*	*5,025*	*4,790*	*78*	*64*	*235*	*318*
Total other intangible assets	$*14,200*	$*14,200*	$*7,556*	$*6,928*	$*214*	$ *189*	$ *628*	$ *618*
Classification within the accompanying unaudited condensed consolidated statements of income:								
Cost of products sold					$*2*	$ *2*	$ *5*	$ *5*
Marketing and administrative expenses					*212*	*187*	*623*	*613*
Total amortization expense					$*214*	$ *189*	$ *628*	$ *618*

Note *4* – Inventories

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

	December 30, 2018	**April 1, 2018**
Raw Materials	$ *758*	$ *875*
Work in Process	*62*	*134*
Finished Goods	*21,345*	*18,779*
Total inventory	$ *22,165*	$ *19,788*

Note *5* – Financing Arrangements

Master Stand-by Claims Purchase Agreements: On *May 16, 2017,* the Company entered into an agreement (the "First Agreement") with JPMorgan Chase Bank, N.A. ("Chase") wherein the Company had the right to sell, and Chase had the obligation to purchase, certain claims that could arise if accounts receivable amounts owed by Toys "R" Us-Delaware, Inc. ("Toys-Delaware"), an affiliated company of Toys "R" Us, Inc. ("TRU"), to the Company became uncollectible. The First Agreement would have expired on *September 20, 2018* and carried a fee of *1.65%* per month of the limit of *$1.8* million of accounts receivable due from Toys-Delaware. On *September 18, 2017,* TRU and Toys-Delaware filed petitions for relief under Chapter *11* of the U.S. Bankruptcy Code (the "Bankruptcy Filing"). Pursuant to the terms of the First Agreement, the Bankruptcy Filing allowed the Company to exercise its right to sell to Chase the claim that arose as a result of the Bankruptcy Filing (the "First Exercise"), which amounted to *$866,000* and which has been paid in full to the Company by Chase as of *December 30, 2018.* The First Exercise resulted in the acceleration of the recognition of the remaining unpaid fees owed under the First Agreement. During the *nine*-month period ended *December 31, 2017,* the Company recorded *$480,000* in fees under the First Agreement, which are included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income.

On *September 19, 2017,* the Company entered into an agreement (the "Second Agreement") with Chase wherein the Company had the right to sell, and Chase had the obligation to purchase, certain accounts receivable claims that could arise if TRU converted its Chapter *11* case to Chapter *7* of the U.S. Bankruptcy Code or had taken other specified actions. The Second Agreement carried a fee of *1.50%* per month of the limit of *$1.8* million of accounts receivable due from Toys-Delaware. During the *three* and *nine*-month periods ended *October 1, 2017,* the Company recorded *$81,000* and *$92,000,* respectively, in fees under the Second Agreement, which are included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income.

The Second Agreement was scheduled to have expired on *March 31, 2018,* but on *March 14, 2018,* TRU filed a motion with the Court seeking authority to close the remaining Toys-Delaware stores and distribution centers in the U.S., and to otherwise discontinue, liquidate and wind-down all U.S. operations of Toys-Delaware. Pursuant to the terms of the Second Agreement, the liquidation filing allowed the Company to exercise its right to sell to Chase the claim that arose as a result of the liquidation filing, which amounted to *$1.8* million and which has been paid in full by Chase as of *December 30, 2018.*

Factoring Agreements: The Company assigns the majority of its trade accounts receivable to CIT under factoring agreements whose expiration dates are coterminous with that of the CIT Financing Agreement. 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 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 occurs, the Company either assumes (and *may* seek to mitigate) the credit risk for shipments after the date of such termination or limitation or discontinues shipments to such customer. Factoring fees, which are included in marketing and administrative expenses in the accompanying unaudited condensed consolidated statements of income, amounted to *$64,000* and *$49,000* during the *three*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively, and *$192,000* and *$164,000* during the *nine*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively.

Credit Facility: The Company's credit facility at *December 30, 2018* consisted of a revolving line of credit under the CIT Financing Agreement of up to *$26.0* million, which includes a *$1.5* million sub-limit for letters of credit, with an interest rate of prime minus *0.5%* or LIBOR plus *1.75%,* and which is secured by a *first* lien on all assets of the Company. The CIT Financing Agreement was scheduled to mature on *July 11, 2019,* but on *August 7, 2018* the CIT Financing Agreement was amended to extend the maturity date to *July 11, 2022.* As of *December 30, 2018,* the Company had elected to pay interest on balances owed under the revolving line of credit under the LIBOR option, which was *4.10%* as of *December 30, 2018.* The CIT 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%* on daily cash balances held at CIT.

At *December 30, 2018,* there was a balance due on the revolving line of credit of *$1.9* million, the entirety of which will mature during fiscal year *2023.* There was *no* letter of credit outstanding and *$20.9* million was available under the revolving line of credit based on the Company’s eligible accounts receivable and inventory balances. At *April 1, 2018,* there was a balance due on the revolving line of credit of *$9.5* million, there was *no* letter of credit outstanding and *$13.2* million was available under the revolving line of credit based on the Company’s eligible accounts receivable and inventory balances. The CIT 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 was in compliance with these covenants as of *December 30, 2018.*

Note *6* – 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 Company's Board of Directors (the "Board"), which selects eligible employees, non-employee directors and other individuals to participate in the *2014* Plan and determines the type, amount, duration (*not* to exceed *ten* (*10*) years for grants of options) and other terms of individual awards. Grants under the *2014* Plan are settled primarily through the issuance of new shares of the Company's common stock, *581,000* shares of which were available for future issuance under the *2014* Plan as of *December 30, 2018.*

Stock-based compensation expense is calculated according to FASB ASC Topic *718, Compensation – Stock Compensation*, which requires stock-based compensation expense to be accounted for using a fair-value-based measurement. The Company recorded stock-based compensation expense of *$84,000* and *$129,000* during the *three*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively, and *$281,000* and *$406,000* during the *nine*-month periods ended *December 30, 2018* and *December 31, 2017,* respectively. The Company records compensation expense related to stock-based awards granted to individuals in the same classifications in the accompanying unaudited condensed consolidated statements of income as the cash compensation paid to those same individuals. *No* stock-based compensation costs have been capitalized as part of the cost of an asset as of *December 30, 2018.*

Stock Options: The following table represents stock option activity for the *nine*-month periods ended *December 30, 2018* and *December 31, 2017:*

	Nine-Month Periods Ended			
	December 30, 2018		**December 31, 2017**	
	Weighted-Average Exercise Price	**Number of Options Outstanding**	**Weighted-Average Exercise Price**	**Number of Options Outstanding**
Outstanding at Beginning of Period	$*7.93*	*395,000*	$*8.35*	*322,500*
Granted	*5.90*	*110,000*	*7.35*	*140,000*
Forfeited	*7.83*	*(47,500*)	*9.05*	*(67,500*)
Outstanding at End of Period	*7.45*	*457,500*	*7.93*	*395,000*
Exercisable at End of Period	*8.03*	*292,500*	*7.94*	*220,000*

As of *December 30, 2018,* the intrinsic value of the outstanding and exercisable stock options was each *$4,000.* There were *no* options exercised during either of the *nine*-month periods ended *December 30, 2018* or *December 31, 2017.*

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*-month periods ended *December 30, 2018* and *December 31, 2017,* which options vest over

a *two*-year period, assuming continued service.

	Nine-Month Periods Ended			
	December 30, 2018	**December 31, 2017**		
Number of options issued	*110,000*	*10,000*	*20,000*	*110,000*
Grant date	*June 13, 2018*	*December 18, 2017*	*August 4, 2017*	*June 8, 2017*
Dividend yield	*5.42* %	*4.92* %	*5.77* %	*4.13* %
Expected volatility	*25.00* %	*25.00* %	*25.00* %	*25.00* %
Risk free interest rate	*2.78* %	*1.94* %	*1.51* %	*1.47* %
Contractual term (years)	*10.00*	*10.00*	*10.00*	*10.00*
Expected term (years)	*4.00*	*3.00*	*3.00*	*3.00*
Forfeiture rate	*5.00* %	*5.00* %	*5.00* %	*5.00* %
Exercise price (grant-date closing price) per option	$*5.90*	$*6.50*	$*5.55*	$*7.75*
Fair value per option	$*0.49*	$*0.59*	$*0.50*	$*0.85*

For the *three*-month periods ended *December 30, 2018* and *December 31, 2017,* the Company recorded compensation expense associated with stock options as follows (in thousands):

	Three-Month Period Ended December 30, 2018			**Three-Month Period Ended December 31, 2017**		
Options Granted in Fiscal Year	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**	**Cost of Products Sold**	**Marketing & Administrative Expenses**	**Total Expense**
2017	$ -	$ -	$ -	$ *4*	$ *4*	$ *8*
2018	*4*	*6*	*10*	*5*	*6*	*11*
2019	*2*	*4*	*6*	-		