

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

- (X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 1996

- () 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)

Georgia

58-0678148

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1600 Riveredge Parkway, Suite 200, Atlanta, Georgia 30328

(Address of principal executive offices)

(770) 644-6400

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares of common Stock, \$1.00 par value, of the Registrant outstanding as of November 11, 1996 was 7,944,201.

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CROWN CRAFTS, INC. AND SUBSIDIARIES

PART 1 - FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 29, 1996 (UNAUDITED) AND MARCH 31, 1996

<TABLE>
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(dollars in thousands)	September 29, 1996	March 31, 1996	
<S>	<C>	<C>	
ASSETS			
CURRENT ASSETS			
Cash	\$ 414	\$ 517	
Accounts receivable, net:			
Due from factor	35,330	27,943	
Other	5,664	12,901	
Inventories	57,846	47,269	
Deferred income taxes	1,487	1,510	
Other current assets	3,167	3,474	
	-----	-----	
Total Current Assets	103,908	93,614	
	-----	-----	
PROPERTY, PLANT AND EQUIPMENT - at cost:			
Land, buildings and improvements	45,855	44,274	
Machinery and equipment	65,739	65,782	
Furniture and fixtures	1,596	1,544	
	-----	-----	
	113,190	111,600	
Less accumulated depreciation		38,092	34,265
	-----	-----	
Property, Plant and Equipment - net	75,098	77,335	
	-----	-----	
OTHER ASSETS			
Goodwill	13,240	13,526	
Other	1,588	1,223	
	-----	-----	
Total Other Assets	14,828	14,749	
	-----	-----	
TOTAL	\$193,834	\$185,698	
	=====	=====	

</TABLE>

See notes to interim consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS (continued)

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 29, 1996 (UNAUDITED) AND MARCH 31, 1996

<TABLE>
<CAPTION>

(dollars in thousands)	September 29, 1996	March 31, 1996
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		

CURRENT LIABILITIES:

Notes payable	\$ 3,450	\$ 1,180
Accounts payable	19,371	12,480

Income taxes payable	851	46
Accrued wages and benefits	4,474	3,607
Other accrued liabilities	5,007	3,332
Current maturities of long-term debt	2,600	5,100
	-----	-----
Total Current Liabilities	35,753	25,745
	-----	-----
LONG-TERM DEBT	67,300	69,300
	-----	-----
DEFERRED INCOME TAXES	6,937	6,936
	-----	-----
OTHER LIABILITIES	726	700
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock - par value \$1.00 per share; 50,000,000 shares authorized; 9,050,636 shares issued	9,051	9,051
Paid-in capital	34,438	34,438
Retained earnings	54,428	54,327
Less:		
1,106,435 shares of common stock held in treasury	(14,799)	(14,799)
	-----	-----
Total Shareholders' Equity	83,118	83,017
	-----	-----
TOTAL	\$193,834	\$185,698
	=====	=====

</TABLE>

See notes to interim consolidated financial statements.

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FORM 10-Q

CROWN CRAFTS, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF EARNINGS
SEPTEMBER 29, 1996 (UNAUDITED) AND OCTOBER 1, 1995

(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	Sept. 29, 1996	Oct. 1, 1995	Sept. 29, 1996	Oct. 1, 1995
(dollars in thousands, except per share data)				
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
NET SALES	\$ 74,848	\$ 57,330	\$ 119,248	\$ 96,537
COST OF PRODUCTS SOLD		59,469	45,087	96,957
	-----	-----	-----	-----
GROSS PROFIT	15,379	12,243	22,291	19,794
MARKETING AND ADMINISTRATIVE EXPENSES		10,760	7,650	18,974
	-----	-----	-----	-----
EARNINGS FROM OPERATIONS		4,619	4,593	3,317
				5,598

OTHER INCOME (EXPENSE):				
Interest expense	(1,308)	(684)	(2,567)	(1,213)
Other - net	98	(527)	292	(275)

EARNINGS BEFORE INCOME				
TAXES	3,409	3,382	1,042	4,110
PROVISIONS FOR INCOME				
TAXES	1,488	1,264	464	1,536

NET EARNINGS	\$ 1,921	\$ 2,118	\$ 578	\$ 2,574
=====				
NET EARNINGS PER SHARE	\$ 0.24	\$ 0.26	\$ 0.07	\$ 0.31
=====				
AVERAGE SHARES				
OUTSTANDING	7,944,201	8,046,468	7,944,201	8,305,949
=====				
DIVIDENDS DECLARED PER				
SHARE	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06
=====				

</TABLE>

See notes to interim consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED SEPTEMBER 29, 1996 AND
OCTOBER 1, 1995(UNAUDITED)

<TABLE>
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(dollars in thousands)	September 29, 1996	October 1, 1995
	<C>	<C>

<S>		
OPERATING ACTIVITIES:		
Net earnings	\$ 578	\$ 2,574
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation and amortization of property, plant and equipment	4,927	4,284
Amortization of goodwill	286	103
Deferred income taxes	24	2
Gain on disposal of property, plant and equipment		(118)
		(66)
Changes in assets and liabilities:		
Accounts receivable	(150)	(5,813)
Inventories	(10,577)	(13,713)
Other current assets	307	(850)
Other assets	(365)	(73)
Accounts payable	6,891	1,483
Income taxes payable	805	1,086
Accrued liabilities	2,542	1,575
Other liabilities	26	25
	-----	-----
Net Cash Provided by (Used for) Operating Activities	5,176	(9,383)

INVESTING ACTIVITIES:		
Capital expenditures	(2,908)	(15,540)
Acquisition, net of cash acquired		(3,958)

Proceeds from sale of property, plant and equipment	336	333
Net Cash Used for Investing Activities	(2,572)	(19,165)
FINANCING ACTIVITIES:		
Payment of long-term debt	(2,500)	(2,850)
Decrease in bank revolving credit	(2,000)	
Long-term borrowings		53,860
Increase (decrease) in notes payable	2,270	(15,070)
Purchase of common stock for treasury		(7,534)
Exercise of stock options		508
Cash dividends	(477)	(496)
Net Cash Provided (Used for) by Financing Activities	(2,707)	28,418
NET DECREASE IN CASH (carried forward)	\$ (103)	\$ (130)

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FORM 10-Q

CROWN CRAFTS, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED SEPTEMBER 29, 1996 AND
OCTOBER 1, 1995
(UNAUDITED)

<TABLE>
<CAPTION>

(dollars in thousands)	September 29, 1996	October 1, 1995
NET DECREASE IN CASH (brought forward)	\$ (103)	\$ (130)
CASH, beginning of period	517	567
CASH, end of period	\$ 414	\$ 437
Supplemental Cash Flow Information:		
Income taxes paid	\$ 79	\$ 449
Interest paid net of amounts capitalized	\$1,187	\$1,020

</TABLE>

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CROWN CRAFTS, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. The accompanying interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, such interim consolidated financial statements contain all adjustments necessary to present fairly the Company's financial position as of September 29, 1996 and the results of its operations and its cash flows for the periods ended September 29, 1996 and October 1, 1995. Such adjustments include normal recurring accruals and a pro rata portion of certain estimated annual expenses.
2. The computations of net earnings per share for the three-month and six-month periods ended September 29, 1996 and October 1, 1995 are based on the simple average shares outstanding. Stock options outstanding did not have a material dilutive effect during any of the periods presented.
3. Major classes of inventory were as follows (in thousands):

<TABLE>
<CAPTION>

	Sept. 29, 1996	March 31, 1996
<S>	<C>	<C>
Raw materials	\$27,974	\$23,076
Work in process	5,389	2,916
Finished goods	24,483	21,277
	-----	-----
	\$57,846	\$47,269
	=====	=====

</TABLE>

4. On October 28, 1996, Hans Benjamin Furniture, Inc., a 51-percent-owned subsidiary of the Company, was notified by the California Bureau of Home Furnishings that its juvenile foam furniture products had been tested and found not to comply with California flammability standards for upholstered furniture. The Bureau issued a statewide off-sale order for these products. On the same day, Hans Benjamin received a letter from the Office of the District Attorney in Sacramento, California stating that the products also appear to be mislabeled and stating that the law allows it to bring a lawsuit for an injunction and civil penalties. The letter also requests representatives of Hans Benjamin to meet and provide certain information. Hans Benjamin is cooperating with the District Attorney's Office and the Bureau of Home Furnishings and with retailers to remove the subject products from sale. Hans Benjamin has also notified the U.S. Consumer Product Safety Commission that the labeling on these products may be inaccurate and is considering the possible need for corrective action nationally. However, the Company does not believe that the products pose a substantial risk of hazard as the label warns consumers to avoid an open flame or contact with burning cigarettes. Since it began conducting business in 1993, Hans Benjamin has sold approximately \$4.0 million of the subject products. The Company is unable to assess with any degree of certainty at this time the impact that these matters may have on the Company's financial condition or results of operations.
5. Operating results of interim periods are not necessarily indicative of results to be expected for the year.

6. Certain reclassifications have been made to the October 1, 1995 financial statements to conform to the September 29, 1996 presentation.

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FORM 10-Q

CROWN CRAFTS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 29, 1996 COMPARED TO THE THREE MONTHS ENDED
OCTOBER 1, 1995

Consolidated net sales increased \$17.5 million or 30.6% to \$74.8 million in the current year quarter. The increase was primarily attributable to incremental net sales of \$12.5 million from businesses acquired by the Company subsequent to the end of the comparable prior year quarter and an increase in net sales of throws, partially offset by declines in net sales of adult bedcovering products.

Gross profit as a percentage of net sales declined to 20.5% for the quarter ended September 29, 1996 from 21.4% for the quarter ended October 1, 1995, primarily due to underutilization of production capacity at the Company's comforter and accessories manufacturing facilities resulting from weaker demand during the second quarter of the current year compared to the same quarter last year.

Marketing and administrative expenses increased \$3.1 million or 40.7% in the current year quarter compared to the same quarter of last year. The incremental marketing and administrative expenses of the businesses acquired subsequent to the end of the comparable prior year quarter, accounted for \$1.9 million of the increase. The remainder of the increase was primarily attributable to increased promotion, bad debt, rent, and depreciation expenses.

Interest costs incurred increased to \$1.3 million in the current year quarter from \$1.0 million (including capitalized interest of \$269,000) in the prior year quarter. This increase was due to higher levels of debt outstanding. The higher debt levels are attributable to fiscal 1996 capital expenditures of \$23.7 million, acquisitions of \$20.5 million and purchases of treasury stock of \$7.5 million.

The effective income tax rate increased to 43.6% for the three month period ended September 29, 1996 from 37.4% for the three month period ended October 1, 1995. This increase is attributable to an increase of \$92,000 in financial statement expenses for nondeductible amortization of goodwill and higher state and local income tax rates applicable to acquired companies.

SIX MONTHS ENDED SEPTEMBER 29, 1996 COMPARED TO THE SIX MONTHS ENDED OCTOBER 1,
1995

Consolidated net sales increased \$22.7 million or 23.5% to \$119.2 million in the six months ended September 29, 1996. The increase was primarily attributable to incremental net sales of \$22.3 million from businesses acquired by the Company subsequent to the end of the same six month period in the prior year. Net sales of throws also increased during the six month period compared to the prior year while net sales of adult bedcovering products declined.

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Gross profit as a percentage of net sales declined to 18.7% for the six months ended September 29, 1996 from 20.5% for the same six months of last year, primarily due to underutilization of production capacity at the Company's primary manufacturing facilities. This underutilization resulted from particularly weak demand for throws and bedcovering products in the first quarter of the fiscal year. Capacity utilization at the Company's throw manufacturing facilities improved dramatically in the second fiscal quarter as demand strengthened. However, while demand for comforters and accessories products improved in the second quarter, the demand was not enough to fully utilize the Company's manufacturing facilities for these products.

Marketing and administrative expenses increased \$4.8 million or 33.7% to \$19.0 million in the current year six month period. The incremental marketing and administrative expenses of the businesses acquired subsequent to the end of the comparable prior year quarter, accounted for \$3.4 million of the increase. The remainder of the increase was primarily attributable to increased promotion, bad debt, rent, and depreciation expenses.

Interest costs incurred increased to \$2.6 million in the current year six month period from \$1.6 million (including capitalized interest of \$383,000) in the same period of the prior year. This increase was due to higher levels of debt outstanding. The higher debt levels are attributable to fiscal 1996 capital expenditures of \$23.7 million, acquisitions of \$20.5 million and purchases of treasury stock of \$7.5 million.

The effective income tax rate increased to 44.5% for the six month period ended September 29, 1996 from 37.4% for the six month period ended October 1, 1995. This increase is attributable to an increase of \$183,000 in financial statement expenses for nondeductible amortization of goodwill and higher state and local income tax rates applicable to acquired companies.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company maintains uncommitted lines of credit totaling \$40 million with two banks at floating interest rates. Total borrowings outstanding under these lines at September 29, 1996 were \$3.5 million. The Company also has unsecured committed revolving credit agreements totaling \$30 million with two banks at interest rates based on the London Interbank Offered Rate (LIBOR). There were \$17.0 million in borrowings outstanding under these agreements at September 29, 1996.

Total debt outstanding decreased to \$73.3 million at September 29, 1996 from \$75.6 million at March 31, 1996. The ratio of debt to equity was 0.88:1 at September 29, 1996 compared to 0.91:1 at March 31, 1996. The decrease in total debt was attributable to cash flow provided by operating activities partially offset by additional borrowings to fund an increase in property, plant, and equipment.

Working capital increased slightly to \$68.2 million at September 29, 1996 from \$67.9 million at March 31, 1996. Total inventories increased \$10.5 million to \$57.8 million at September 29, 1996 from the \$47.3 million at March 31, 1996. This inventory buildup is a seasonal pattern to bring stock to adequate levels to meet heavier shipping demands in the third quarter of the fiscal year.

OTHER MATTERS

In March 1995, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS No. 121 addresses issues surrounding the measurement and recognition of losses when the value of certain assets has been deemed to be permanently

impaired. This Statement was effective for the Company beginning April 1, 1996 and had no impact on the Company's financial position as of September 29, 1996, or results of operations for the six month period then ended.

In October 1995, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation, which was effective for the Company beginning April 1, 1996. SFAS No. 123 establishes a method of accounting for stock compensation plans based on fair value, but also permits companies to continue to account for stock options under the intrinsic value method established by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The Company will continue to account for stock-based compensation following the intrinsic value method. SFAS No. 123 requires disclosure in the notes to financial statements of pro forma net income and earnings per share as if the alternative method established in SFAS No. 123 had been used to measure compensation cost. The Company will disclose the required pro forma information in the notes to its financial statements for the year ended March 30, 1997.

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CROWN CRAFTS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1- Legal Proceedings

On October 28, 1996, Hans Benjamin Furniture, Inc., a 51-percent-owned subsidiary of the Company, was notified by the California Bureau of Home Furnishings that its juvenile foam furniture products had been tested and found not to comply with California flammability standards for upholstered furniture. The Bureau issued a statewide off-sale order for these products. On the same day, Hans Benjamin received a letter from the Office of the District Attorney in Sacramento, California stating that the products also appear to be mislabeled and stating that the law allows it to bring a lawsuit for an injunction and civil penalties. The letter also requests representatives of Hans Benjamin to meet and provide certain information. Hans Benjamin is cooperating with the District Attorney's Office and the Bureau of Home Furnishings and with retailers to remove the subject products from sale. Hans Benjamin has also notified the U.S. Consumer Product Safety Commission that the labeling on these products may be inaccurate and is considering the possible need for corrective action nationally. However, the Company does not believe that the products pose a substantial risk of hazard as the label warns consumers to avoid an open flame or contact with burning cigarettes. Since it began conducting business in 1993, Hans Benjamin has sold approximately \$4.0 million of the subject products. The Company is unable to assess with any degree of certainty at this time the impact that these matters may have on the Company's financial condition or results of operations.

Item 2- Changes in Securities

None

Item 3- Defaults Upon Senior Securities

None

Item 4- Submission of Matters to Vote of Security Holders

The following directors of the registrant were elected for a three year term

Philip Bernstein
Rudolph J. Schmatz
Jane E. Shivers

Item 5- Other Information

None

Item 6- Exhibits and Reports on Form 8-K

27 Financial Data Schedule (for SEC use only)

There were no reports on Form 8-K during the quarter ended September 29, 1996.

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CROWN CRAFTS, INC. AND SUBSIDIARIES

SEPTEMBER 29, 1996

SIGNATURES

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

CROWN CRAFTS, INC.

Date: November 12, 1996 /s/ Robert E. Schnelle

ROBERT E. SCHNELLE
Treasurer
(Chief Accounting Officer)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF CROWN CRAFTS FOR THE SIX MONTHS ENDED SEPTEMBER 29, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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