

CROWN CRAFTS INC
Form 10-Q
November 10, 2009

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

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

For the quarterly period ended September 27, 2009

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

For the transition period from _____ to _____

Commission File No. 1-7604

CROWN CRAFTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

58-0678148

(State or other jurisdiction of
incorporation or organization)

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

916 South Burnside Avenue, Gonzales, Louisiana 70737

(Address of principal executive offices)

(225) 647-9100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☐

Non-Accelerated filer ☐

Smaller Reporting Company ☒

(Do not check if a smaller reporting company)

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

The number of shares of common stock, \$0.01 par value, of the registrant outstanding as of November 3, 2009 was 9,154,969.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CROWN CRAFTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

September 27, 2009 and March 29, 2009

(amounts in thousands, except share and per share amounts)

| | September 27, 2009 (Unaudited) | March 29, 2009 |
|---|--------------------------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 11,967 | \$ 15,249 |
| Accounts receivable (net of allowances of \$1,378 at September 27, 2009 and \$1,581 at March 29, 2009): | | |
| Due from factor | 13,322 | 17,341 |
| Other | 1,568 | 1,613 |
| Inventories, net | 13,428 | 11,751 |
| Prepaid expenses | 946 | 1,070 |
| Temporary investments restricted | 502 | |
| Assets held for sale | 550 | 550 |
| Deferred income taxes | 787 | 921 |
| Total current assets | 43,070 | 48,495 |
| Property, plant and equipment at cost: | | |
| Vehicles | 58 | 44 |
| Land, buildings and improvements | 206 | 205 |
| Machinery and equipment | 2,579 | 2,476 |
| Furniture and fixtures | 779 | 765 |
| | 3,622 | 3,490 |
| Less accumulated depreciation | 2,995 | 2,816 |
| Property, plant and equipment net | 627 | 674 |
| Other assets: | | |
| Goodwill | 864 | |
| Intangible assets, net | 7,096 | 5,515 |
| Deferred income taxes | 1,809 | 1,655 |
| Other | 113 | 188 |
| Total other assets | 9,882 | 7,358 |
| Total Assets | \$ 53,579 | \$ 56,527 |

LIABILITIES AND SHAREHOLDERS EQUITY

| | | |
|-----------------------------|----------|----------|
| Current liabilities: | | |
| Accounts payable | \$ 4,315 | \$ 6,118 |

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| | | |
|---|------------------|------------------|
| Accrued wages and benefits | 568 | 894 |
| Accrued royalties | 1,475 | 1,056 |
| Other accrued liabilities | 192 | 813 |
| Current maturities of long-term debt | 21,320 | 1,667 |
| Total current liabilities | 27,870 | 10,548 |
| Non-current liabilities: | | |
| Long-term debt | 1,752 | 23,568 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock \$0.01 par value per share; Authorized 1,000,000 shares; No shares issued at September 27, 2009 and March 29, 2009 | | |
| Common stock \$0.01 par value per share; Authorized 74,000,000 shares; Issued 10,136,940 shares at September 27, 2009 and 10,098,441 shares at March 29, 2009 | 101 | 101 |
| Additional paid-in capital | 40,477 | 39,995 |
| Treasury stock at cost - 981,971 shares at September 27, 2009 and 889,051 shares at March 29, 2009 | (3,333) | (3,056) |
| Accumulated deficit | (13,288) | (14,629) |
| Total shareholders' equity | 23,957 | 22,411 |
| Total Liabilities and Shareholders' Equity | \$ 53,579 | \$ 56,527 |

See notes to unaudited condensed consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six-Month Periods Ended September 27, 2009 and September 28, 2008
(amounts in thousands, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 27, 2009 | September 28, 2008 | September 27, 2009 | September 28, 2008 |
| Net sales | \$ 21,713 | \$ 23,759 | \$ 39,448 | \$ 43,514 |
| Cost of products sold | 17,205 | 18,904 | 30,965 | 34,421 |
| Gross profit | 4,508 | 4,855 | 8,483 | 9,093 |
| Marketing and administrative expenses | 2,993 | 2,973 | 5,879 | 5,879 |
| Income from operations | 1,515 | 1,882 | 2,604 | 3,214 |
| Other income (expense): | | | | |
| Interest and amortization of debt discount and expense | (204) | (308) | (400) | (635) |
| Other net | (45) | 38 | (39) | 50 |
| Income before income tax expense | 1,266 | 1,612 | 2,165 | 2,629 |
| Income tax expense | 471 | 614 | 811 | 1,006 |
| Income from continuing operations | 795 | 998 | 1,354 | 1,623 |
| Income (loss) from discontinued operations net of income taxes | 8 | 37 | (13) | 31 |
| Net income | \$ 803 | \$ 1,035 | \$ 1,341 | \$ 1,654 |
| Weighted average shares outstanding basic | 9,182 | 9,379 | 9,196 | 9,397 |
| Weighted average shares outstanding diluted | 9,384 | 9,650 | 9,381 | 9,670 |
| Basic earnings per share: | | | | |
| Income from continuing operations | \$ 0.09 | \$ 0.11 | \$ 0.15 | \$ 0.18 |
| Income (loss) from discontinued operations net of income taxes | | | | |
| Total basic earnings per share | \$ 0.09 | \$ 0.11 | \$ 0.15 | \$ 0.18 |
| Diluted earnings per share: | | | | |
| Income from continuing operations | \$ 0.08 | \$ 0.11 | \$ 0.14 | \$ 0.17 |

Income (loss) from discontinued operations
net of income taxes

| | | | | | | | | |
|----------------------------------|----|------|----|------|----|------|----|------|
| Total diluted earnings per share | \$ | 0.08 | \$ | 0.11 | \$ | 0.14 | \$ | 0.17 |
|----------------------------------|----|------|----|------|----|------|----|------|

See notes to unaudited condensed consolidated financial statements.

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CROWN CRAFTS, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Six-Month Periods Ended September 27, 2009 and September 28, 2008
 (amounts in thousands)

| | Six Months Ended | |
|---|-----------------------|--------------------|
| | September 27, 2009 | September 28, 2008 |
| Operating activities: | | |
| Net income | \$ 1,341 | \$ 1,654 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property, plant and equipment | 148 | 161 |
| Amortization of intangibles | 919 | 877 |
| Deferred income taxes | (20) | (197) |
| Gain on sale of property, plant and equipment | | (66) |
| Discount accretion | 129 | 120 |
| Stock-based compensation | 476 | 382 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 4,901 | (191) |
| Inventories, net | (1,129) | (1,106) |
| Prepaid expenses | 176 | 245 |
| Temporary investments restricted | (2) | |
| Other assets | 45 | (70) |
| Accounts payable | (2,152) | 74 |
| Accrued liabilities | (528) | 165 |
| Net cash provided by operating activities | 4,304 | 2,048 |
| Investing activities: | | |
| Capital expenditures | (89) | (135) |
| Purchase of temporary investments | (500) | |
| Proceeds from disposition of assets | | 86 |
| Payment to acquire the assets of Neat Solutions, Inc., net of liabilities assumed | (4,434) | |
| Net cash used in investing activities | (5,023) | (49) |
| Financing activities: | | |
| Payments on long-term debt | (1,250) | (1,254) |
| (Repayments) borrowings under revolving line of credit, net | (1,042) | 3,837 |
| Purchase of treasury stock | (277) | (422) |
| Issuance of common stock | 6 | 6 |
| Net cash (used in) provided by financing activities | (2,563) | 2,167 |
| Net (decrease) increase in cash and cash equivalents | (3,282) | 4,166 |
| Cash and cash equivalents at beginning of period | 15,249 | 7,930 |

| | | | | |
|--|----|--------|----|--------|
| Cash and cash equivalents at end of period | \$ | 11,967 | \$ | 12,096 |
| Supplemental cash flow information: | | | | |
| Income taxes paid | \$ | 1,843 | \$ | 1,218 |
| Interest paid | | 257 | | 439 |
| Noncash investing activity: | | | | |
| Adjustment to purchase price of Springs Baby Products from resolution of pre-acquisition contingency | | | | (58) |
| <i>See notes to unaudited condensed consolidated financial statements.</i> | | | | |

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CROWN CRAFTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX-MONTH PERIODS ENDED SEPTEMBER 27, 2009 AND
SEPTEMBER 28, 2008

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Crown Crafts, Inc. and its subsidiaries (collectively, the Company) and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to interim financial information as promulgated by the Financial Accounting Standards Board (FASB) and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In the opinion of management, these interim consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of September 27, 2009 and the results of its operations and cash flows for the periods presented. Such adjustments include normal, recurring accruals, as well as the elimination of all significant intercompany balances and transactions. Operating results for the three and six-month periods ended September 27, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending March 28, 2010. Effective for periods ending on or after September 15, 2009, references to GAAP issued by the FASB must be to the Topics contained within the *FASB Accounting Standards Codification* (the FASB ASC). For further information, refer to the Company's consolidated financial statements and notes thereto included in the annual report on Form 10-K for the year ended March 29, 2009.

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

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

Financial Instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, accounts receivable and accounts payable For those short-term instruments, the carrying value is a reasonable estimate of fair value.

Long-term debt The carrying value of the Company's long-term debt approximates fair value because interest rates under the Company's borrowings are variable, based on prevailing market rates.

Provisions for Income Taxes: The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. The provisions for income taxes include all currently payable federal, state and local taxes that are based upon the Company's taxable income and the changes during the fiscal year in net deferred income tax assets and liabilities. The Company provides for deferred income taxes based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates that will be in effect when the differences are expected to reverse.

Beginning with the Company's adoption on April 2, 2007 of FASB ASC Topic 740-10, the Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Based on its recent evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's consolidated financial statements. Tax years still open to federal or state general examination or other adjustment as of September 27, 2009 include tax years ended April 2, 2006, April 1, 2007, March 30, 2008 and March 29, 2009, as well as the tax year ended April 3, 2005 for several states. The Company's policy is to accrue

interest expense and penalties as appropriate on any estimated unrecognized tax benefits as a charge to interest expense in the Company's consolidated statements of income.

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Segment and Related Information: The Company operates primarily in one principal segment, infant and toddler products. These products consist of infant and toddler bedding, infant bibs and related soft goods.

Revenue Recognition: Sales are recorded when goods are shipped to customers and are reported net of allowances for estimated returns and allowances in the consolidated statements of income. Allowances for returns are estimated based on historical rates. Allowances for returns, advertising allowances, warehouse allowances and volume rebates are recorded commensurate with sales activity and the cost of such allowances are netted against sales in reporting the results of operations. Shipping and handling costs, net of amounts reimbursed by customers, are included in net sales.

Allowances Against Accounts Receivable: The Company's allowances against accounts receivable are primarily contractually agreed-upon deductions for items such as advertising and warehouse allowances and volume rebates. These deductions are recorded throughout the year commensurate with sales activity. Funding of the majority of the Company's allowances occurs on a per-invoice basis.

The allowances for customer deductions, which are netted against accounts receivable in the consolidated balance sheets, consist of agreed upon advertising support, markdowns and warehouse and other allowances. All such allowances are recorded as direct offsets to sales and such costs are accrued commensurate with sales activities. When a customer requests deductions, the allowances are reduced to reflect such payments.

The Company analyzes the components of the allowances for customer deductions monthly and adjusts the allowances to appropriate levels. The timing of the customer initiated funding requests for advertising support can cause the net balance in the allowance account to fluctuate from period to period. The timing of such funding requests should have no impact on the consolidated statements of income since such costs are accrued commensurate with sales activity.

The Company factors the majority of its receivables with The CIT Group/Commercial Services, Inc. ("CIT"), a subsidiary of CIT Group, Inc., pursuant to factoring agreements. In the event a factored receivable becomes uncollectible due to creditworthiness, CIT bears the risk of loss. The Company's management must make estimates of the uncollectibility of its non-factored accounts receivable. Management specifically analyzes accounts receivable, bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customers payment terms when evaluating the adequacy of its allowance for doubtful accounts. The Company's accounts receivable at September 27, 2009 amounted to \$14.9 million, net of allowances of \$1.4 million. Of this amount, \$13.3 million is due from CIT under the factoring agreements. The Company believes that the factored amounts could be offset against the Company's liability to CIT under its revolving line of credit and term loan if CIT failed completely to perform according to the terms of the factoring agreements.

Depreciation and Amortization: Depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives are three to seven and one-half years for machinery and equipment, five years for data processing equipment and eight years for furniture and fixtures. The cost of improvements to leased premises is amortized over the shorter of the estimated life of the improvement or the term of the lease.

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

Royalty Payments: The Company has entered into agreements that provide for royalty payments based on a percentage of sales with certain minimum guaranteed amounts. These royalty amounts are accrued based upon historical sales rates adjusted for current sales trends by customers. Total royalty expenses, net of royalty income, are included in cost of sales and amounted to \$3.0 million for each of the six-month periods ended September 27, 2009 and September 28, 2008.

Earnings Per Share: Earnings per share are calculated in accordance with FASB ASC Topic 260, *Earnings per Share*, which requires dual presentation of basic and diluted earnings per share on the face of the consolidated statements of income for all entities with complex capital structures. Earnings per common share are based on the weighted average

number of shares outstanding during the period. Basic and diluted weighted average shares are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all options would be used to repurchase common shares at market value. The number of shares remaining after the exercise proceeds are exhausted represents the potentially dilutive effect of the options.

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The following table sets forth the computation of basic and diluted net income per common share for the three and six-month periods ended September 27, 2009 and September 28, 2008.

| | Three-Months Ended | | Six-Months Ended | |
|---|---|-------------------------------|-------------------------------|-------------------------------|
| | September 27, 2009 | September 28, 2008 | September 27, 2009 | September 28, 2008 |
| | (Amounts in thousands, except per share data) | | | |
| Income from continuing operations | \$ 795 | \$ 998 | \$ 1,354 | \$ 1,623 |
| Income (loss) from discontinued operations | 8 | 37 | (13) | 31 |
| Net income | \$ 803 | \$ 1,035 | \$ 1,341 | \$ 1,654 |
| Weighted average number of common shares outstanding | | | | |
| Basic | 9,182 | 9,379 | 9,196 | 9,397 |
| Effect of dilutive securities | 202 | 271 | 185 | 273 |
| Diluted | 9,384 | 9,650 | 9,381 | 9,670 |
| Basic earnings per common share | | | | |
| Continuing operations | \$ 0.09 | \$ 0.11 | \$ 0.15 | \$ 0.18 |
| Discontinued operations | | | | |
| Total | \$ 0.09 | \$ 0.11 | \$ 0.15 | \$ 0.18 |
| Diluted earnings per common share | | | | |
| Continuing operations | \$ 0.08 | \$ 0.11 | \$ 0.14 | \$ 0.17 |
| Discontinued operations | | | | |
| Total | \$ 0.08 | \$ 0.11 | \$ 0.14 | \$ 0.17 |

Recently Issued Accounting Standards: In September 2006, the FASB issued FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This standard became effective for financial statements issued for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. In February 2008, the FASB delayed the effective date of FASB ASC Topic 820 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Company's adoption of FASB ASC Topic 820 did not materially impact the Company's consolidated financial statements.

In February 2007, the FASB issued FASB ASC Topic 825, *Financial Instruments*. This standard provides companies an option to report selected financial assets and liabilities at fair value. FASB ASC Topic 825 became effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, on March 31, 2008, the Company adopted FASB ASC Topic 825. Upon adoption, the Company did not elect the fair value option for any items within the scope of FASB ASC Topic 825; therefore, the adoption of FASB ASC Topic 825 did not have an impact on the Company's consolidated financial statements.

In December 2007, the FASB issued FASB ASC Topic 805-10-65-1, which contains revisions to FASB ASC Topic 805, *Business Combinations*, and is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. FASB ASC Topic 805 establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This standard also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. The Company adopted FASB ASC Topic 805, as revised, on March 30, 2009, and applied its provisions to the acquisition on July 2, 2009 of substantially all of the assets of Neat Solutions, Inc. Relative to this acquisition, the revisions to FASB ASC Topic 805 impacted the Company's consolidated financial statements in that the Company was required to recognize as expense \$194,000 of direct costs associated with the acquisition that would have previously been capitalized under the provisions of FASB ASC Topic 805 in effect prior to its revision.

In May 2009, the FASB issued FASB ASC Topic 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard also requires the Company to disclose the date through which subsequent events have been evaluated, which is intended to provide guidance to readers of the Company's financial statements that the Company has not evaluated subsequent events after that date. FASB ASC Topic 855 is effective for interim and annual periods ending after June 15, 2009 and must be applied prospectively. The Company has adopted FASB ASC Topic 855 and has made the required disclosures pursuant to the standard. The Company's adoption on March 30, 2009 of FASB ASC Topic 855 did not impact the Company's consolidated financial statements.

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In June 2009, the FASB issued FASB ASC Topic 105, *Generally Accepted Accounting Principles*, which is effective for financial statements issued for interim and annual periods ending after September 15, 2009. FASB ASC Topic 105 establishes the FASB ASC as the authoritative source for nongovernmental U.S. GAAP recognized by the FASB. The statement also provides that rules and interpretive releases of the SEC are also sources of authoritative GAAP for SEC registrants. The FASB now issues Accounting Standards Updates, which the FASB does not consider as authoritative in their own right, but serve only to update the FASB ASC, to provide background information and to provide the basis for conclusion on the change in the FASB ASC. The Company has updated references to GAAP to the Topics contained within the FASB ASC. The Company's adoption on June 29, 2009 of ASC Topic 105 did not impact the Company's consolidated financial statements.

Note 2 Acquisition

On July 2, 2009, Hamco, Inc. (Hamco), a wholly-owned subsidiary of the Company, acquired substantially all of the assets of Neat Solutions, Inc., the privately-held developer of the Table Topper® Stay-in-Place Mat® (the Neat Solutions Acquisition). Hamco paid a purchase price of \$4.4 million, net of certain specified liabilities assumed. In accordance with FASB ASC Topic 805, as revised, Hamco also recognized as expense \$194,000 of direct costs associated with the acquisition. The fair values of the assets acquired and liabilities assumed were determined by the Company with the assistance of an independent third party. The Company's allocation of the acquisition cost is as follows (in thousands):

| | Amount |
|--|---------------|
| Tangible assets: | |
| Accounts receivable | \$ 837 |
| Inventory | 548 |
| Prepaid expenses | 52 |
| Fixed assets | 12 |
| Other assets | 2 |
| Total tangible assets | 1,451 |
| Amortizable intangible assets: | |
| Trademarks | 892 |
| Designs | 33 |
| Non-compete covenant | 241 |
| Customer relationships | 1,302 |
| Total amortizable intangible assets | 2,468 |
| Goodwill | 864 |
| Total acquired assets | 4,783 |
| Liabilities assumed — accounts payable | 349 |
| Net acquisition cost | \$ 4,434 |

Note 3 Temporary Investments Restricted

At September 27, 2009, the Company's restricted temporary investments consisted of a certificate of deposit in the amount of \$500,000 with a maturity date of April 9, 2010. The certificate of deposit was obtained in connection with the issuance on behalf of the Company of a standby letter of credit in favor of Disney Enterprises, Inc. (Disney) to guarantee the payment of the Company's royalty obligations with Disney. The certificate of deposit has been assigned

as collateral against an unfunded note payable, which would be funded in the event of a draw by Disney of all or a portion of the standby letter of credit.

Note 4 Stock-based Compensation

The Company has two incentive stock plans, the 1995 Stock Option Plan (1995 Plan) and the 2006 Omnibus Incentive Plan (2006 Plan). The Company granted non-qualified stock options to employees and non-employee directors from the 1995 Plan through the fiscal year ended April 2, 2006. In conjunction with the approval of the 2006 Plan by the Company's stockholders at its Annual Meeting in August 2006, options may no longer be issued from the 1995 Plan.

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The 2006 Plan is intended to attract and retain directors, officers and employees of the Company and to motivate these persons to achieve performance objectives related to the Company's overall goal of increasing stockholder value. The principal reason for adopting the 2006 Plan is to ensure that the Company has a mechanism for long-term, equity-based incentive compensation to directors, officers and employees. Awards granted under the 2006 Plan may be in the form of qualified or non-qualified stock options, restricted stock, stock appreciation rights, long-term incentive compensation units consisting of a combination of cash and shares of the Company's common stock, or any combination thereof within the limitations set forth in the 2006 Plan. The 2006 Plan is administered by the compensation committee of the board of directors, which selects eligible employees and non-employee directors to participate in the 2006 Plan and determines the type, amount and duration of individual awards.

Stock-based compensation is calculated according to FASB ASC Topic 718, *Compensation - Stock Compensation*, which requires a fair-value-based measurement method to account for stock-based compensation. The Company uses the Black-Scholes-Merton valuation formula, which is a closed-form model that uses an equation to determine the estimated fair value of stock options. The Company recorded \$298,000 and \$476,000 of stock-based compensation expense during the three and six-month periods ended September 27, 2009, respectively, and recorded \$217,000 and \$382,000 of stock-based compensation expense during the three and six-month periods ended September 28, 2008, respectively. No share-based compensation costs have been capitalized as part of the cost of an asset as of September 27, 2009.

Stock Options: The following table represents stock option activity for fiscal year 2010:

| | Weighted-Average Exercise Price | Number of Options Outstanding |
|-----------------------------------|--|--|
| Outstanding at March 29, 2009 | \$ 2.54 | 819,831 |
| Granted | 3.02 | 170,000 |
| Exercised | (0.77) | (8,499) |
| Forfeited | (0.53) | (3,500) |
| Outstanding at September 27, 2009 | 2.64 | 977,832 |
| Exercisable at September 27, 2009 | 2.42 | 707,832 |

During the quarter ended September 27, 2009, the Company granted 170,000 non-qualified stock options to certain employees at the closing price of the Company's common stock on the date of the grant, which options vest over a two-year period assuming continued service. The following assumptions were used for the stock options granted during the quarter ended September 27, 2009:

| | |
|-------------------------|---------|
| Options Issued | 170,000 |
| Dividend Yield | |
| Expected Volatility | 50.00% |
| Risk free interest rate | 2.70% |
| Expected life in years | 5.75 |
| Forfeiture rate | 5.00% |

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

| Three-month period | | | Six-month period | | |
|--------------------------------------|--|--------------------------|--------------------------------------|--|--------------------------|
| Cost of Products Sold | Marketing & Administrative Expenses | Total Expense | Cost of Products Sold | Marketing & Administrative Expenses | Total Expense |

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| | | | | | | | | | | | | |
|-------------------------------------|----|----|----|----|----|----|----|----|----|-----|----|-----|
| Options granted in fiscal year 2008 | \$ | 7 | \$ | 19 | \$ | 26 | \$ | 16 | \$ | 41 | \$ | 57 |
| Options granted in fiscal year 2009 | | 11 | | 34 | | 45 | | 26 | | 78 | | 104 |
| Options granted in fiscal year 2010 | | 4 | | 11 | | 15 | | 4 | | 11 | | 15 |
| Total stock option compensation | \$ | 22 | \$ | 64 | \$ | 86 | \$ | 46 | \$ | 130 | \$ | 176 |

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For the three and six-month periods ended September 28, 2008, the Company recognized compensation expense associated with stock options as follows (in thousands):

| | Three-month period | | | Six-month period | | |
|-------------------------------------|---------------------------|-----------------------|----------------|-------------------------|------------------------|----------------|
| | Cost of | Marketing | | Cost of | Marketing & | |
| | Products | & | Total | Products | Administrative | Total |
| | Sold | Administrative | Expense | Sold | Expenses | Expense |
| Options granted in fiscal year 2007 | \$ 12 | \$ 36 | \$ 48 | \$ 23 | \$ 73 | \$ 96 |
| Options granted in fiscal year 2008 | 11 | 26 | 37 | 20 | 49 | 69 |
| Options granted in fiscal year 2009 | 12 | 37 | 49 | 15 | 44 | 59 |
| Unvested Options at April 3, 2006 | | (1) | (1) | | | |
| Total stock option compensation | \$ 35 | \$ 98 | \$ 133 | \$ 58 | \$ 166 | \$ 224 |

Non-vested Stock: The fair value of non-vested stock granted is determined based on the number of shares granted multiplied by the closing price of the Company's common stock on the date of grant. All non-vested stock granted under the 2006 Plan vests based upon continued service.

During the quarter ended October 1, 2006, the Company granted 375,000 shares of non-vested stock to certain employees with a fair value of \$3.15 as of the date of the stock grants. These shares have four-year cliff vesting, except as set forth below. The Company recognized \$189,000 and \$74,000 of compensation expense related to these non-vested stock grants during the three-month periods ended September 27, 2009 and September 28, 2008, respectively, and recognized \$263,000 and \$148,000 of compensation expense related to these non-vested stock grants during the six-month periods ended September 27, 2009 and September 28, 2008, respectively, which was included in marketing and administrative expenses in the accompanying consolidated statements of income. On August 11, 2009, the Board of Directors of the Company authorized an amendment to the non-vested stock grant that had been awarded in 2006 to Mr. E. Randall Chestnut, Chairman, Chief Executive Officer and President of the Company. Pursuant to the terms of the amended non-vested stock grant, the vesting of 160,000 of the 320,000 shares awarded to Mr. Chestnut was accelerated from August 25, 2010 to August 12, 2009. In accordance with FASB ASC Topic 718-20-35-3, the acceleration of the vesting of these shares resulted in the recognition of \$115,000 in net additional compensation expense during the quarter ended September 27, 2009 over that which would have been recognized if the acceleration of vesting had not occurred.

During the quarter ended September 28, 2008, the Company granted 30,000 shares of non-vested stock to its non-employee directors with a fair value of \$3.87 as of the date of the stock grants. These shares vest over a two-year period. The Company recognized \$15,000 and \$29,000 of compensation expense related to these non-vested stock grants during the three and six-month periods ended September 27, 2009, respectively, and recognized \$10,000 of compensation expense related to these non-vested stock grants during each of the three and six-month periods ended September 28, 2008, which was included in marketing and administrative expenses in the accompanying consolidated statements of income.

During the quarter ended September 27, 2009, the Company granted 30,000 shares of non-vested stock to its non-employee directors with a fair value of \$3.02 as of the date of the stock grants. These shares vest over a two-year period. The Company recognized \$8,000 of compensation expense related to these non-vested stock grants during each of the three and six-month periods ended September 27, 2009, which was included in marketing and

administrative expenses in the accompanying consolidated statements of income.

At September 27, 2009, the amount of unrecognized compensation expense related to non-vested stock grants amounted to \$287,000. The amount of compensation expense related to non-vested stock grants to be recognized in future periods will be affected by any future non-vested stock grants and by the separation from the Company of any individual who has received non-vested stock grants that are unvested as of such individual's separation date. The deferred amount of these non-vested stock grants is being amortized by monthly charges to earnings over the remaining portion of their respective vesting periods.

Note 5 Inventories

Major classes of inventory as of September 27, 2009 and March 29, 2009 were as follows (in thousands):

| | September 27, 2009 | March 29, 2009 |
|-----------------|-------------------------------|---------------------------|
| Raw Materials | \$ 158 | \$ 30 |
| Finished Goods | 13,270 | 11,721 |
| Total inventory | \$ 13,428 | \$ 11,751 |

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Inventory is recorded net of reserves for inventories classified as irregular or discontinued of \$0.6 million and \$0.4 million at September 27, 2009 and March 29, 2009, respectively. When inventory for which an allowance has been established is later sold or is disposed, the allowance is reduced accordingly.

Note 6 Financing Arrangements

Factoring Agreements: The Company assigns the majority of its trade accounts receivable to CIT under factoring agreements, which expire in July 2010. CIT remits payments to the Company on the average due date of each group of invoices assigned. If a customer fails to pay CIT on the due date, the Company is charged interest at prime less 1.0%, which was 2.25% at September 27, 2009, until payment is received. The Company incurred interest expense of \$19,000 and \$33,000 for the three-month periods ended September 27, 2009 and September 28, 2008, respectively, and \$35,000 and \$64,000 for the six-month periods ended September 27, 2009 and September 28, 2008, respectively, as a result of the failure of the Company's customers to pay CIT by the due date. CIT bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits. The Company bears losses resulting from returns, allowances, claims and discounts. CIT may at any time terminate or limit its approval of shipments to a particular customer. If such a termination were to occur, the Company must either assume the credit risk for shipments after the date of such termination or cease shipments to such customer. Factoring fees, which are included in marketing and administrative expenses in the consolidated statements of income, were \$155,000 and \$83,000 for the three-month periods ended September 27, 2009 and September 28, 2008, respectively, and \$284,000 and \$150,000 for the six-month periods ended September 27, 2009 and September 28, 2008, respectively. There were no advances from CIT at either September 27, 2009 or September 28, 2008.

Notes Payable and Other Credit Facilities: At September 27, 2009 and March 29, 2009, long-term debt of the Company consisted of (in thousands):

| | September 27, 2009 | March 29, 2009 |
|----------------------------|-----------------------|----------------|
| Revolving line of credit | \$ 19,020 | \$ 20,062 |
| Term loan | 417 | 1,667 |
| Non-interest bearing notes | 4,000 | 4,000 |
| Original issue discount | (365) | (494) |
| | 23,072 | 25,235 |
| Less current maturities | 21,320 | 1,667 |
| | \$ 1,752 | \$ 23,568 |

The Company's credit facilities at September 27, 2009 consisted of the following:

Revolving Line of Credit under a financing agreement with CIT of up to \$26.0 million, including a sub-limit for letters of credit of \$1.5 million, with an interest rate of prime minus 1.00% (2.25% at September 27, 2009) for base rate borrowings or LIBOR plus 2.25% (2.51% at September 27, 2009), maturing on July 11, 2010 and secured by a first lien on all assets of the Company. The Company had \$1.1 million available under the revolving line of credit based on eligible accounts receivable and inventory balances as of September 27, 2009. As of September 27, 2009, there were no letters of credit outstanding against the \$1.5 million sub-limit for letters of credit.

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, dividends, 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 September 27, 2009.

Term Loan with CIT of an original amount of \$5.0 million, with an interest rate of prime plus 0.50% (3.75% at September 27, 2009) and requiring equal monthly installments of principal until final maturity on November 1, 2009.

Subordinated Notes of \$4.0 million. The notes do not bear interest and are due in two equal installments of \$2.0 million each, the first of which is payable on July 11, 2010, and the second of which is payable on July 11, 2011.

The original issue discount of \$365,000 on this non-interest bearing obligation at a market interest rate of 7.25% is being amortized over the life of the notes.

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Minimum annual maturities as of September 27, 2009 are as follows (in thousands):

| Fiscal Year | Revolver | Term Loan | Sub Notes | Total |
|-------------|-----------|-----------|-----------|-----------|
| 2010 | \$ | \$ 417 | \$ | \$ 417 |
| 2011 | 19,020 | | 2,000 | 21,020 |
| 2012 | | | 2,000 | 2,000 |
| Total | \$ 19,020 | \$ 417 | \$ 4,000 | \$ 23,437 |

Note 7 Goodwill and Other Intangible Assets

Goodwill: The Company reported goodwill of \$22.9 million at September 28, 2008. The Company accounts for its goodwill pursuant to FASB ASC Topic 350, *Intangibles – Goodwill and Other*, which requires the Company to test the carrying value of its goodwill annually and sooner if facts and circumstances suggest that the goodwill has been impaired. Although the Company determined that the fair value of its goodwill exceeded its carrying value at March 31, 2008, the date of the Company's annual impairment review, the market capitalization of the Company was below its net book value for most of the second half of the fiscal year ended March 29, 2009. The Company concluded that this decline in the market capitalization of the Company was a triggering event that required the Company to perform an interim impairment test of the goodwill of its reporting units. As a result of this interim impairment test, the Company concluded that the goodwill of the reporting units had no implied value. Therefore, during the three-month periods ended December 28, 2008 and March 29, 2009, the Company recorded pre-tax charges of \$9.0 million and \$13.9 million, respectively, which represented the aggregate carrying value of the goodwill of the Company's reporting units. These impairment charges did not result in any cash expenditures and did not have an adverse effect on the covenant calculations under the Company's financing agreement.

The Company had no reported goodwill at March 30, 2009, and, as a result, the annual impairment test was not required. The Company reported goodwill of \$864,000 at September 27, 2009, which was recorded in connection with the Neat Solutions Acquisition, the entirety of which is expected to be amortizable for tax purposes.

Other Intangible Assets: Other intangible assets as of September 27, 2009 consisted of the capitalized costs of recent acquisitions, other than tangible assets, goodwill and assumed liabilities. The carrying amount and accumulated amortization of the Company's other intangible assets as of September 27, 2009, their estimated useful life and amortization expense for the three and six-month periods ended September 27, 2009 and September 28, 2008 are as follows (in thousands):

| | Estimated | | | Amortization Expense | | | | | |
|--|--------------------|----------------|-----------------------------|------------------------------|-----------------------|----------------------------|-----------------------|-------------|-----------------------|
| | Carrying Amount | Useful Life | Accumulated Amortization | Three-month periods ended | | Six-month periods ended | | | |
| | | | | September | | September | | | |
| | | | | 27, 2009 | September 28, 2008 | 27, 2009 | September 28, 2008 | 27, 2009 | September 28, 2008 |
| Kimberly Grant acquisition on December 29, 2006: | | | | | | | | | |
| Tradename | \$ 466 | 15 years | \$ 85 | \$ 8 | \$ 8 | \$ 16 | \$ 16 | | |
| Existing designs | 36 | 1 year | 36 | | | | | | |
| Non-compete covenant | 98 | 15 years | 17 | 1 | 2 | 2 | 3 | | |
| Total Kimberly Grant acquisition | 600 | | 138 | 9 | 10 | 18 | 19 | | |

Springs Baby
Products acquisition
on November 5,
2007:

| | | | | | | | |
|--------------------------------|-------|----------|-------|-----|-----|-----|-----|
| Licenses & existing designs | 1,655 | 2 years | 1,586 | 207 | 207 | 414 | 414 |
| Licenses & future designs | 1,847 | 4 years | 885 | 116 | 116 | 231 | 231 |
| Non-compete covenant | 115 | 4 years | 55 | 7 | 7 | 14 | 14 |
| Customer relationships | 3,781 | 10 years | 727 | 94 | 96 | 189 | 191 |
| Total Springs Baby acquisition | 7,398 | | 3,253 | 424 | 426 | 848 | 850 |

Neat Solutions
acquisition on July 2,
2009:

| | | | | | | | |
|--|-----------|----------|----------|--------|--------|--------|--------|
| Trademarks | 892 | 15 years | 15 | 15 | | 15 | |
| Designs | 33 | 4 years | 2 | 2 | | 2 | |
| Non-compete covenant | 241 | 5 years | 12 | 12 | | 12 | |
| Customer relationships | 1,302 | 16 years | 20 | 20 | | 20 | |
| Total Neat Solutions acquisition | 2,468 | | 49 | 49 | | 49 | |
| Internally developed intangible assets | 91 | 10 years | 21 | 3 | 7 | 4 | 8 |
| Total other intangible assets | \$ 10,557 | | \$ 3,461 | \$ 485 | \$ 443 | \$ 919 | \$ 877 |

Note 8 Discontinued Operations

On February 2, 2007, the Company announced that it would liquidate Churchill Weavers, Inc. (Churchill), a wholly-owned subsidiary of the Company. During the first quarter of fiscal year 2008, Churchill's operations ceased and all employees were terminated. The Company is actively marketing for sale Churchill's land and building, which is recorded at fair value, less cost to sell, and is classified as assets held for sale in the consolidated balance sheets. The operations of Churchill are classified as discontinued operations in the consolidated statements of income.

Note 9 Subsequent Events

The Company has evaluated all events that occurred prior to November 10, 2009, the date of issuance of the Company's consolidated financial statements, and has determined that there are no subsequent events that require disclosure under FASB ASC Topic 855.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Company operates indirectly through its subsidiaries, Crown Crafts Infant Products, Inc. and Hamco, Inc., in the infant and toddler products segments within the consumer products industry. The infant and toddler products segment consists of infant and toddler bedding, bibs, soft goods and accessories. Sales of the Company's products are generally made directly to retailers, which are primarily mass merchants, chain stores, juvenile specialty stores, internet accounts, wholesale clubs and catalogue and direct mail houses. The Company's products are marketed under a variety of Company-owned trademarks, under trademarks licensed from others and as private label goods.

The Company's products are marketed through a national sales force consisting of salaried sales executives and employees located in Compton, California; Gonzales, Louisiana; Rogers, Arkansas; and Cornelius, North Carolina. Products are also marketed by independent commissioned sales representatives located throughout the United States, who are used most significantly in sales to juvenile specialty stores.

The Company's products are produced by foreign manufacturers, with the largest concentration being in China. The Company maintains a foreign representative office in Shanghai, China for the coordination of production, purchases and shipments, seeking out new vendors and inspections for social compliance and quality.

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

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

RESULTS OF OPERATIONS

The following table contains results of operations for the three and six-month periods ended September 27, 2009 and September 28, 2008 and the dollar and percentage changes for those periods (in thousands, except percentages):

| | Three-Month Period Ended | | | | Six-month period ended | | | |
|---------------------------------------|-------------------------------------|-------------------------------|---------------|---------------|-----------------------------------|-------------------------------|---------------|---------------|
| | September 27, 2009 | September 28, 2008 | | | September 27, 2009 | September 28, 2008 | | |
| | | | Change | Change | | | Change | Change |
| Net sales by category | | | | | | | | |
| Bedding, blankets and accessories | \$ 16,233 | \$ 20,071 | \$ (3,838) | -19.1% | \$ 30,806 | \$ 36,378 | \$ (5,572) | -15.3% |
| Bibs and bath | 5,480 | 3,688 | 1,792 | 48.6% | 8,642 | 7,136 | 1,506 | 21.1% |
| Total net sales | 21,713 | 23,759 | (2,046) | -8.6% | 39,448 | 43,514 | (4,066) | -9.3% |
| Cost of products sold | 17,205 | 18,904 | (1,699) | -9.0% | 30,965 | 34,421 | (3,456) | -10.0% |
| Gross profit | 4,508 | 4,855 | (347) | -7.1% | 8,483 | 9,093 | (610) | -6.7% |
| <i>% of net sales</i> | 20.8% | 20.4% | | | 21.5% | 20.9% | | |
| Marketing and administrative expenses | 2,993 | 2,973 | 20 | 0.7% | 5,879 | 5,879 | 0 | 0.0% |
| <i>% of net sales</i> | 13.8% | 12.5% | | | 14.9% | 13.5% | | |
| Interest expense | 204 | 308 | (104) | -33.8% | 400 | 635 | (235) | -37.0% |
| Other income (expense) | (45) | 38 | (83) | -218.4% | (39) | 50 | (89) | -178.0% |

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| | | | | | | | | |
|---|-------------|-------------|-------|--------|-------------|-------------|-------|---------|
| Income tax expense | 471 | 614 | (143) | -23.3% | 811 | 1,006 | (195) | -19.4% |
| Income from continuing operations after taxes | 795 | 998 | (203) | -20.3% | 1,354 | 1,623 | (269) | -16.6% |
| Discontinued operations net of taxes | 8 | 37 | (29) | -78.4% | (13) | 31 | (44) | -141.9% |
| Net income | 803 | 1,035 | (232) | -22.4% | 1,341 | 1,654 | (313) | -18.9% |
| <i>% of net sales</i> | <i>3.7%</i> | <i>4.4%</i> | | | <i>3.4%</i> | <i>3.8%</i> | | |

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Net Sales: Sales of bedding, blankets and accessories decreased for the three-month period of fiscal year 2010 as compared to the same period in fiscal year 2009. Sales decreased by \$8.7 million due to discontinued programs and lower replenishment orders. These decreases were offset by \$4.9 million in shipments of new bedding and blanket programs.

Sales of bedding, blankets and accessories decreased for the six-month period of fiscal year 2010 as compared to the same period in fiscal year 2009. Sales decreased by \$14.4 million due to discontinued programs and lower replenishment orders. These decreases were offset by \$8.8 million in shipments of new bedding and blanket programs. Bib and bath sales increased for the three-month period of fiscal year 2010 as compared to fiscal year 2009. Sales increased by \$1.1 million due to the Neat Solutions Acquisition and increased by \$1.0 million due to sales of new designs and promotions and higher holiday shipments. Offsetting these increases was a decrease of \$0.3 million due to programs that were discontinued or had lower replenishment orders.

Bib and bath sales increased for the six-month period of fiscal year 2010 as compared to fiscal year 2009. Sales increased by \$1.1 million due to the Neat Solutions Acquisition and increased by \$2.6 million due to sales of new designs and promotions and higher holiday shipments. Offsetting these increases was a decrease of \$2.2 million due to programs that were discontinued or had lower replenishment orders.

Gross Profit: Gross profit decreased in amount in relation to the decrease in net sales but increased as a percentage of net sales for the three-month period of fiscal year 2010 as compared to the same period of fiscal year 2009. The increase in the gross profit percentage in the current year as compared to the prior year is due to lower product development costs and lower costs to operate the Company's Foreign Representative Office in China, offset by increased testing costs.

Gross profit decreased in amount in relation to the decrease in net sales but increased as a percentage of net sales for the six-month period of fiscal year 2010 as compared to the same period of fiscal year 2009. The increase in the gross profit percentage is due to the absence in the current year of \$243,000 in charges incurred in the prior year related to transitioning away from the warehousing and shared services agreement entered into in conjunction with the Company's acquisition of the baby products line of Springs Global US, Inc. on November 5, 2007. Also, the Company in the current year has incurred \$190,000 in lower product development costs and \$79,000 in lower costs to operate the Company's Foreign Representative Office in China, offset by an increase in testing costs of \$171,000.

Marketing and Administrative Expenses: Marketing and administrative expenses for the three-month period of fiscal year 2010 increased slightly in amount as compared to the prior year, and were unchanged for the six-month periods. In the three and six-month periods of the current year, the Company incurred \$389,000 and \$431,000, respectively, of costs related to the Neat Solutions Acquisition and related integration. Also, on August 11, 2009, the Board authorized an amendment to the non-vested stock grant that had been awarded in 2006 to the President of the Company. Pursuant to the terms of the amended non-vested stock grant, the vesting of 160,000 of the 320,000 shares awarded to the individual was accelerated from August 25, 2010 to August 12, 2009. The acceleration of the vesting of these shares resulted in the recognition of \$115,000 in net additional compensation expense during the three and six-month periods of the current year as compared to the prior year. The Company has also incurred increased factoring fees of \$72,000 and \$134,000 in the three and six-month periods of the current year, respectively, as compared to the prior year. These increases were offset by the Company's avoidance in the six-month period of the current year of \$194,000 of costs that were incurred in the same period of the prior year that were associated with the governance and standstill agreement entered into on July 1, 2008 with Wynnefield Small Cap Value, L.P. and its affiliates.

Interest Expense: The decrease in interest expense for the three and six-month periods of fiscal year 2010 as compared to the same period in fiscal year 2009 is due to lower rates on the Company's floating-rate debt.

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$4.3 million for the six-month period ended September 27, 2009, compared to \$2.0 million for the six-month period ended September 28, 2008. The increase in cash provided by operating activities was due to a higher reduction in accounts receivable balances, offset by changes in accounts

payable and accrued liability balances.

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Net cash used in investing activities was \$5.0 million in the current year compared to \$49,000 in the prior year. Cash used in investing activities in the current year was primarily associated with the Neat Solutions Acquisition.

Net cash used in financing activities was \$2.6 million in the current year compared to \$2.2 million of cash provided in the prior year; these variations were mainly due to net repayments and net borrowings on the revolving line of credit in the current year and the prior year, respectively.

Total debt outstanding under the Company's credit facilities before the reduction for the original issue discount on the non-interest bearing notes decreased from \$28.1 million at September 28, 2008 to \$23.4 million at September 27, 2009. The decrease is due to net repayments on the revolving line of credit and payments on long-term debt from operating cash flow.

The Company has built up its cash reserves in order to preserve the Company's ability to meet its working capital needs in the event that CIT, the Company's primary lender, should suffer an adverse liquidity event that would jeopardize the Company's ability to draw upon its revolving line of credit. On September 27, 2009, the Company had \$12.0 million in cash and \$1.1 million available under its \$26.0 million revolving credit facility, based on eligible accounts receivable and inventory balances as of that date. Also, the entire amount of the \$1.5 million sub-limit for letters of credit associated with the revolving credit facility was available.

The Company's ability to make scheduled payments of principal, to pay the interest on or to refinance its maturing indebtedness, to fund capital expenditures or to comply with its debt covenants will depend upon future performance. The Company's future performance is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors beyond its control. Based upon the current level of operations, the Company believes that its cash balance, its cash flow from operations and its availability from the revolving line of credit will be adequate to meet its liquidity needs.

To reduce its exposure to credit losses and to enhance the predictability of its cash flow, the Company assigns the majority of its trade accounts receivable to CIT pursuant to factoring agreements. CIT approves customer accounts and credit lines and collects the Company's accounts receivable balances. Under the terms of the factoring agreements, which expire in July 2010, CIT remits payments to the Company on the average due date of each group of invoices assigned. If a customer fails to pay CIT on the due date, the Company is charged interest at prime less 1.0%, which was 2.25% at September 27, 2009, until payment is received. The Company incurred interest expense of \$19,000 and \$33,000 for the three-month periods ended September 27, 2009 and September 28, 2008, respectively, and \$35,000 and \$64,000 for the six-month periods ended September 27, 2009 and September 28, 2008, respectively, as a result of the failure of the Company's customers to pay CIT by the due date. CIT bears credit losses with respect to assigned accounts receivable from approved customers that are within approved credit limits. The Company bears losses resulting from returns, allowances, claims and discounts.

FORWARD-LOOKING INFORMATION

This Quarterly Report contains forward-looking statements within the meaning of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such statements are based upon management's current expectations, projections, estimates and assumptions. Words such as "expects," "believes," "anticipates" and variations of such words and similar expressions identify such forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that may cause future results to differ materially from those suggested by the forward-looking statements. These risks include, among others, general economic conditions, including changes in interest rates, in the overall level of consumer spending and in the price of oil, cotton and other raw materials used in the Company's products, changing competition, changes in the retail environment, the level and pricing of future orders from the Company's customers, the Company's dependence upon third-party suppliers, including some located in foreign countries with unstable political situations, the Company's ability to successfully implement new information technologies, customer acceptance of both new designs and newly-introduced product lines, actions of competitors that may impact the Company's business, disruptions to transportation systems or shipping lanes used by the Company or its suppliers, and the Company's dependence upon licenses from third parties. Reference is also made to the Company's periodic filings with the 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 explanations, whether as a result of new information, future events or otherwise.

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ITEM 4T. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

During the quarter ended September 27, 2009, there was not any change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. of Part 1 in the Company's Form 10-K for the year ended March 29, 2009, other than as set forth below.

The parent companies of the Company's factor and primary lender have filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code.

The Company's factoring agreements, revolving line of credit and term loan are all provided pursuant to contracts between the Company and The CIT Group/Commercial Services, Inc., which is an operating subsidiary of CIT Group, Inc. On November 1, 2009, CIT Group, Inc. and CIT Group Funding Company of Delaware LLC (collectively, the CIT Holding Companies) each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. None of the operating subsidiaries of the CIT Holding Companies, including The CIT Group/Commercial Services, Inc., were included in the filings. The filings were made pursuant to a prepackaged plan of reorganization which was approved by a majority of the holders of debt securities of the CIT Holding Companies. Although the management of the CIT Holding Companies has reported that all of its operating subsidiaries are expected to continue normal operations during the process of confirming the prepackaged plan of reorganization, the failure of The CIT Group/Commercial Services, Inc. to partially or completely perform according to the terms of the Company's factoring agreements or revolving line of credit, or both, could cause the Company to experience funding delays and other losses, expenses and uncertainties. Additionally, although there are a limited number of financial institutions that can provide similar services to the Company, there can be no assurance that the Company could obtain these services from another financial institution on terms as favorable as those of the Company's contracts with The CIT Group/Commercial Services, Inc.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(c) Issuer Purchases of Equity Securities.**

The table below sets forth information regarding the Company's repurchases of its outstanding common stock during the three-month period ended September 27, 2009.

| Period | Total Number of Shares Purchased | | Average Price Paid Per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3) | | Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (3) |
|--|---|-----------|---|---|-----------|---|
| | (1) | | | | | |
| June 29, 2009 through August 2, 2009 | 0 | \$ | 0 | 0 | \$ | 2,000,000 |
| August 3, 2009 through August 30, 2009 | 92,920 | \$ | 2.98 | 25,000 | \$ | 1,928,000 |
| August 31, 2009 through September 27, 2009 | 0 | \$ | 0 | 0 | \$ | 1,928,000 |
| Total | 92,920 | \$ | 2.98 | 25,000 | \$ | 1,928,000 |

(1) The shares purchased from August 3, 2009 through August 30, 2009 include 67,920 shares of common stock surrendered to the Company to satisfy income tax withholding obligations in connection with the vesting of shares of restricted stock.

(2) Includes a broker fee of

\$0.03 per share
paid to acquire
25,000 of the
total 92,920
shares.

- (3) In July 2009, the Board of Directors of the Company authorized a share repurchase program, pursuant to which the Company may spend up to \$2.0 million in the aggregate to repurchase from its stockholders shares of the outstanding common stock of the Company between July 7, 2009 and December 31, 2009; and further authorized the Company to determine the terms and conditions under which any such repurchases would be made. During the three-month period ended September 27, 2009, 25,000 shares were repurchased under the terms of the share repurchase program at a price per share, including broker

fees, of \$2.88.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of the Company was held on August 11, 2009 at the Company's corporate headquarters in Gonzales, Louisiana. The proposals set forth below were voted on at the meeting with the following results:

1. Election of two members to the board of directors to hold office for a three-year term. The results of the voting were as follows:

| Director Nominee | For | Authority Withheld |
|------------------|-----------|--------------------|
| Sidney Kirschner | 8,070,222 | 101,288 |
| Zenon S. Nie | 8,060,066 | 111,444 |

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The following members of the board of directors currently serve for their respective three-year terms, until the annual meeting to be held in the year set forth below:

| Director | Year Term Expiring |
|------------------------|--------------------|
| E. Randall Chestnut | 2010 |
| William T. Deyo, Jr | 2010 |
| Frederick G. Wasserman | 2010 |
| Donald Ratajczak | 2011 |
| Joseph Kling | 2011 |

2. Approval of an amendment to the Company's 2006 Omnibus Incentive Plan to increase the aggregate number of shares of Crown Crafts, Inc. Series A common stock subject to award thereunder from 1,200,000 to 1,925,000. The results of the voting were as follows:

| For | Against | Abstain | Broker non-votes |
|-----------|-----------|---------|------------------|
| 4,962,955 | 1,169,480 | 52,373 | 1,986,702 |

3. Transaction of such other matters as may properly come before the annual meeting or any adjournment or postponement thereof. The results of the voting were as follows:

| For | Against | Abstain |
|-----------|---------|---------|
| 7,336,951 | 687,253 | 147,306 |

Each of the foregoing proposals was set forth in the Notice of Annual Meeting and Proxy Statement of the Company dated July 3, 2009.

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 report as follows:

| Exhibit No. | Exhibit |
|-------------|--|
| 2.1 | Asset Purchase Agreement dated as of July 2, 2009 by and among Hamco., Inc., Neat Solutions, Inc. and each of the shareholders of Neat Solutions, Inc. (1) |
| 10.1 | Third Amendment to Financing Agreement dated as of July 2, 2009 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc. (1) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer (2) |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer (2) |
| 32.1 | Section 1350 Certification by the Company's Chief Executive Officer (2) |
| 32.2 | Section 1350 Certification by the Company's Chief Financial Officer (2) |

(1) Incorporated herein by reference to Registrant's

Current Report
on Form 8-K
dated July 6,
2009.

(2) Filed herewith.

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SIGNATURE

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

CROWN CRAFTS, INC.

Date: November 10, 2009

/s/ Olivia W. Elliott
OLIVIA W. ELLIOTT
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Index to Exhibits

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| 32.2 | Section 1350 Certification by the Company's Chief Financial Officer (2) |

(1) Incorporated herein by reference to Registrant's Current Report on Form 8-K dated July 6, 2009.

(2) Filed herewith.