

Summer Infant, Inc.
Form 10-Q
November 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15d
of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2008

Summer Infant, Inc.

(Name of Registrant as Specified in Its Charter)

Commission file 001-33346

Delaware
(State of Incorporation)

1275 Park East Drive
Woonsocket, RI 02895
(Address of principal executive offices)

20-1994619
IRS Employment Number

(401) 671-6550
(Registrant's telephone number)

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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 last 90 days. 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.

Large accelerated filer Accelerated filer Non-accelerated filer 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

As of October 29, 2008, there were 15,055,782 shares outstanding of the registrant's Common Stock, \$.0001 par value per share.

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Summer Infant, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

Note that all dollar amounts presented in the table below are in thousands of US dollars except share and per share amounts.

	September 30, 2008 Unaudited	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,451	\$ 1,771
Trade receivables, net of allowance for doubtful accounts	29,402	21,245
Inventory, primarily finished goods	31,164	19,327
Prepays and other current assets	1,417	970
Deferred tax assets	402	134
TOTAL CURRENT ASSETS	63,836	43,447
Property and equipment, net	10,407	9,279
Goodwill	44,723	30,820
Other intangible assets, net	10,906	9,463
Other assets	244	216
TOTAL ASSETS	\$ 130,116	\$ 93,225
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Line of credit - bank	\$	\$ 17,591
Accounts payable and accrued expenses	24,171	17,574
Current portion of long term liabilities	2,312	265
TOTAL CURRENT LIABILITIES	26,483	35,430
Long term liabilities, less current portion	41,315	3,977
Deferred tax liabilities	573	548
TOTAL LIABILITIES	68,371	39,955
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Common Stock \$.0001 par value, issued and outstanding 15,055,782 and 13,907,892 shares, respectively	2	1
Additional paid in capital	54,005	49,078
Retained earnings	8,031	4,095
Accumulated other comprehensive income (loss)	(293)	96
TOTAL STOCKHOLDERS EQUITY	61,745	53,270
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 130,116	\$ 93,225

See notes to condensed consolidated financial statements

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Summer Infant, Inc. and Subsidiaries
Condensed Consolidated Statements of Income

Note that all dollar amounts presented in the table below are in thousands of US dollars except share and per share amounts.

	Unaudited		Unaudited	
	For the three months ended September 30, 2008	September 30, 2007	For the nine months ended September 30, 2008	September 30, 2007
Net revenues	\$ 35,575	\$ 21,198	\$ 97,982	\$ 44,644
Cost of goods sold	23,109	13,224	63,263	27,564
Gross profit	12,466	7,974	34,719	17,080
Selling, general and administrative expenses (a)	9,537	6,179	26,998	14,001
Net operating income	2,929	1,795	7,721	3,079
Interest income (expense), net	(506)	(78)	(1,473)	474
Income before provision for income taxes	2,423	1,717	6,248	3,553
Income tax expense	817	657	2,312	1,364
NET INCOME	\$ 1,606	\$ 1,060	\$ 3,936	2,189
NET INCOME PER SHARE- BASIC	\$ 0.11	\$ 0.08	\$ 0.27	\$ 0.17
Weighted average shares outstanding - basic	15,055,782	13,907,892	14,627,137	13,263,000
NET INCOME PER SHARE - DILUTED	\$ 0.11	\$ 0.08	\$ 0.27	\$ 0.17
Weighted average shares outstanding- diluted	15,055,782	13,907,892	14,627,137	13,263,000

See notes to condensed consolidated financial statements.

(a) Includes non-cash stock compensation expense of \$270 and \$281 for the nine months ended September 30, 2008 and 2007, and expense of \$90 for each of the three months ended September 30, 2008 and 2007, respectively. The total also includes non-capitalizable deal-related fees of \$214 for the nine months ended September 30, 2008.

Table of Contents**Summer Infant, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows**

Note that all dollar amounts presented in the table below are in thousands of US dollars except share and per share amounts.

	Unaudited	
	For the nine months ended	
	September 30,	September 30,
	2008	2007
Cash flows from operating activities:		
Net income	\$ 3,936	\$ 2,189
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	1,866	804
Non-cash stock option expense	270	281
Deferred taxes	(243)	
Changes in assets and liabilities net of effects of acquisition:		
Increase in accounts receivable	(4,489)	(6,706)
Increase in inventory	(7,020)	(4,716)
Increase in accounts payable and accrued expenses	3,083	4,436
(Increase) decrease in prepaid expenses and other current assets	85	(218)
Increase in other assets	(26)	
Net cash used in operating activities	(2,538)	(3,930)
Cash flows from investing activities:		
Acquisitions of property and equipment	(2,273)	(2,876)
Acquisition of Basic Comfort, Inc., Kiddopotamus & Company (2008) and Summer Infant, Inc. (2007) net of cash acquired of \$61 and \$897, respectively	(15,586)	(23,361)
Acquisition of intangible assets	(1,000)	
Net cash used in investing activities	(18,859)	(26,237)
Cash flows from financing activities:		
Net borrowings (repayments) on debt	21,611	(13,886)
Principal payments on capital lease obligations	(144)	
Redemptions of common stock		(6,883)
Net cash provided by (used in) financing activities	21,467	(20,769)
Effect of exchange rate changes on cash and cash equivalents	(390)	149
NET DECREASE IN CASH AND CASH EQUIVALENTS	(320)	(50,787)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,771	52,094
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,451	\$ 1,307
Non cash investing activities:		
Issuance of common stock in conjunction with the acquisition of Basic Comfort, Inc., Kiddopotamus & Company (2008), and Summer Infant, Inc. (2007), respectively	\$ 4,657	\$ 20,563

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New capital lease obligations incurred	322	
Cash paid for interest	1,373	515
Cash paid for income taxes	1,721	574

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SUMMER INFANT, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim condensed consolidated financial statements of Summer Infant, Inc. (Summer or the Company) are unaudited, but in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods. Accordingly, they do not include all information and notes required by generally accepted accounting principles for complete financial statements. The results of operations for interim periods are not necessarily indicative of results to be expected for the entire fiscal year or any other period. The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes for the year ended December 31, 2007 filed on Form 10-K on March 27, 2008.

Acquisition of Summer Infant, Inc. by KBL Healthcare Acquisition Corp. II

On March 6, 2007, under an Agreement and Plan of Reorganization, dated as of September 1, 2006 (Acquisition Agreement), KBL Healthcare Acquisition Corp. II (KBL), and its wholly owned subsidiary, SII Acquisition Corp. (Acquisition Sub), consummated a transaction by which (i) Summer Infant, Inc. (SII) was merged with and into Acquisition Sub and (ii) all of the outstanding capital stock of each of Summer Infant Europe, Limited (SIE) and Summer Infant Asia, Ltd. (SIA and, collectively, with SII and SIE, the Targets) was acquired directly by KBL. As used in this Report, the term Summer includes each of the Targets. As used in this Report, the term Company means the registrant on a post-acquisition basis. On March 7, 2007, the securities of the Company commenced listing on the Nasdaq Capital Market under the symbols SUMR (common stock), SUMRW (warrants) and SUMRU (units).

Nature of Operations and Basis of Presentation

The Condensed Consolidated Statement of Income for the nine months ended September 30, 2007 consists of the period from March 6, 2007 through September 30, 2007 for Summer plus the full nine months of results of KBL (unaudited). The acquisition of Summer by KBL occurred on March 6, 2007, and therefore the results of Summer are included from that date forward. The interim financial information as of September 30, 2008, and for the three and nine months then ended, is unaudited and has been prepared on the same basis as the audited financial statements as of December 31, 2007. The 2008 results include the results of Basic Comfort, Inc. and Kiddopotamus & Company from the dates of acquisition, which were March 31, 2008 and April 18, 2008, respectively. In the opinion of management, such unaudited financial information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim information. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

All significant intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

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On March 31, 2008, through Summer Infant (USA), Inc. (Summer USA) the Company acquired substantially all of the assets of Basic Comfort, Inc. (Basic), a leading manufacturer and supplier of infant comfort and safety products, including infant sleep positioners, infant head supports and portable changing pads. The acquisition price was approximately \$4,700,000 in cash and 450,000 shares of unregistered Summer common stock (which were valued at \$1,777,500 using the March 31, 2008 closing price of \$3.95). The cash portion of the purchase price was funded through borrowings under the Company's prior credit facility. A portion of the common stock issued at closing was deposited into escrow to secure the post-closing indemnification obligations of the Basic stockholders. The owners of Basic can receive additional payments based on the achievement of certain EBITDA targets for the twelve months ended March 31, 2009.

The following table summarizes the estimated preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition of Basic by Summer (amounts in thousands of US dollars):

Trade receivables	\$	1,384
Inventory		1,559
Other Current Assets		121
Property and equipment		152
Goodwill		5,373
Total assets acquired		8,589
Total liabilities assumed		1,854
Net assets acquired	\$	6,735

The pro forma effect on net revenues, net income, and net income per share amounts, assuming the transaction closed on January 1, 2008, are not considered material, and therefore are not presented here.

Kiddopotamus Acquisition

On April 18, 2008, the Company, through Summer (USA), entered into an Agreement and Plan of Merger (the Merger Agreement), among Summer (USA), Kiddo Acquisition Co., Inc., a wholly-owned subsidiary of Summer (USA) (Merger Sub), Kiddopotamus & Company (Kiddopotamus), J. Chris Snedeker, Kristen Peterson Snedeker and Thomas K. Manning, under which the Company acquired Kiddopotamus, a leading manufacturer and supplier of infant nursery, travel and feeding accessories. Pursuant to the terms of the Merger Agreement, on April 18, 2008, Merger Sub merged with and into Kiddopotamus, with Kiddopotamus continuing as the surviving entity (the Merger). As a result of the Merger, Kiddopotamus became an indirect, wholly-owned subsidiary of the Company.

Under the merger agreement, the total purchase price paid by the Company to the holders of Kiddopotamus common and preferred stock was \$12,500,000, plus the payment of certain expenses. Of the total purchase price, approximately \$9,600,000 was paid in cash, and approximately \$2,900,000 was paid by the issuance of 697,890 unregistered shares of the Company's common stock at \$4.126 per share, which represented the

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ten day trading average ending on the trading day two business days prior to the closing of the merger. Each holder of Kiddopotamus common and preferred stock other than J. Chris Snedeker and Kristen Peterson Snedeker (the Principal Stockholders) elected to receive their allocation of the total net purchase price in cash. As required by the Merger Agreement, the Principal Stockholders received one half of their allocation of the total net purchase price in shares and one half in cash.

The Company funded the cash portion of the total net purchase price with borrowings under its two new secured credit facilities. Approximately 10% of the total net purchase price was deposited in escrow to secure the post-closing indemnification obligations of the former Kiddopotamus stockholders, including the Principal Stockholders, under the terms of the Merger Agreement.

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The following table summarizes the estimated preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition of Kiddopotamus by Summer (amounts in thousands of US dollars):

Trade receivables	\$	2,284
Inventory		3,258
Other Assets		740
Property and equipment		48
Goodwill		8,300
Total assets acquired		14,630
Total liabilities assumed		1,524
Net assets acquired	\$	13,106

The pro forma effect on net revenues, net income, and net income per share amounts for the nine months ended September 30, 2008, assuming the Kiddopotamus transaction had closed on January 1, 2008, are as follows:

Net revenues:	\$	101,771,000
Net income:	\$	4,424,000
Net income per share:	\$	0.30 per share

Income taxes. The provision for income taxes is based on the Company's estimated annualized effective tax rate for the year.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with SFAS No. 109. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, the Company had no unrecognized tax benefits. During the first nine months of 2008, the Company recognized no adjustments for uncertain tax benefits.

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence; it is more likely than not such benefits will be realized. The Company recognizes interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest and penalties related to uncertain tax positions were accrued at September 30, 2008. The tax years 2004 through 2007 remain open to examination by the major taxing jurisdictions in which the Company operates. The Company expects no material changes to unrecognized tax positions within the next twelve months.

Use of Estimates

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Income Per Share

Basic net income per share for the Company is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Options to purchase

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1,039,200 and 975,200 shares of the Company's common stock, and 3,633,953 and 18,400,000 warrants to purchase shares of common stock, were not included in the calculation, because these options and warrants were anti-dilutive for the three and nine months ended September 30, 2008 and 2007, respectively.

Reclassifications

Certain prior period amounts were reclassified to conform to current period presentation.

2. **DEBT**

New Credit Facilities

On April 10, 2008, the Company entered into two new three-year secured credit facilities (the "Loan Agreement") with Bank of America, N.A., as Administrative Agent, and each of the financial institutions that were a signatory to the Loan Agreement. The Loan Agreement provides for a \$36,000,000 working capital revolving credit facility and a \$10,000,000 non-restoring acquisition credit facility. The new credit facilities mature on April 10, 2011. The acquisition credit facility has been utilized in its entirety as of September 30, 2008.

The Company and its subsidiaries, Summer Infant (USA), Inc. Summer Infant Europe Limited, Summer Infant Asia Limited and Summer Infant Canada, Limited are the borrowers under this Loan Agreement. The Loan Agreement is secured by substantially all assets of the Company and its subsidiaries. These new credit facilities replace the Company's prior line of credit and are being used principally to fund growth opportunities and for working capital purposes.

The Company's ability to borrow under the Loan Agreement is subject to its ongoing compliance with a number of financial and other covenants, including the following: (i) that the Company and its subsidiaries maintain a net worth of \$50,000,000 plus the sum of 50% of net income earned in each fiscal year, (ii) that the Company and its subsidiaries maintain a ratio of total funded debt to EBITDA (as defined in the Loan Agreement) of not greater than 3.50:1.00, and (iii) that the Company and its subsidiaries maintain a ratio of operating cash flow to debt service of not less than 1.25:1.00. In addition, if the Company's ratio of total funded debt to EBITDA is greater than 3.25:1.00 as of December 31, 2008, the total commitment amount under the working capital revolving credit facility will reduce by \$4,000,000 on March 31, 2009. Furthermore, if the Company's ratio of total funded debt to EBITDA is greater than 3.25:1.00 for any fiscal year, the aggregate amount that may be borrowed under the Loan Agreement will be determined by reference to a borrowing base formula.

Borrowings under the Loan Agreement bear interest at a floating rate based on a spread over LIBOR ranging from 150 basis points to 200 basis points, depending upon the ratio of the Company's total funded debt to EBITDA. As of September 30, 2008, the rate on these credit facilities was approximately 5.46%. In addition, these new credit facilities have an unused line fee based on the unused amount of the credit facilities equal to 25 basis points.

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The Loan Agreement also contains customary events of default, including a cross default provision and a change of control provision. In the event of a default, all of the obligations of the Company and its subsidiaries under the Loan Agreement may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations become due and payable.

Amendment to Construction Loan

In connection with the Company's construction of its principal offices in Woonsocket, Rhode Island, the Company previously assumed all obligations of Faith Realty under a \$4,000,000 Construction Loan between Faith Realty and Bank of America, N.A. (the "Real Estate Loan"). In connection with the new credit facilities described above, the Company and Bank of America, N.A. amended the Real Estate Loan to include a cross default provision with these new credit facilities.

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3. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved in various claims and legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Company or the results of its operations.

4. STOCK OPTIONS

Summer has granted stock options under its 2006 Performance Equity Plan (2006 Plan). Under the 2006 Plan, awards may be granted to participants in the form of Non-Qualified Stock Options, Incentive Stock Options, Restricted Stock, Deferred Stock, Stock Reload Options and other stock-based awards. Subject to the provisions of the plan, awards may be granted to employees, officers, directors, advisors and consultants who are deemed to have rendered or are able to render significant services to us or our subsidiaries and who are deemed to have contributed or to have the potential to contribute to our success. Incentive stock options may only be awarded to individuals who are our employees at the time of grant.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. The adoption of SFAS 123(R) resulted in share-based compensation expense for the nine months ended September 30, 2008 and 2007 of approximately \$270,000 and \$281,000, respectively, and expense for the three months ended September 30, 2008 and 2007 was approximately \$90,000 and \$90,000, respectively. There were no grants of stock options for the three or nine months ended September 30, 2008. As of September 30, 2008, there were 1,039,200 stock options outstanding.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model.

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

The statements contained in this Report on Form 10-Q, that are not purely historical, are forward-looking information and statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These include statements regarding our expectations, intentions, or strategies regarding future matters. All forward-looking statements included in this document are based on information available to us on the date hereof. It is important to note that our actual results could differ materially from those projected in such forward-looking statements contained in this Form 10-Q. The forward-looking statements contained herein are based on current expectations that involve numerous risks and uncertainties. These risks include the concentration of the Company s business with retail customers; the ability of the Company to compete in the industry; the Company s dependence on key personnel; the Company s reliance on foreign suppliers; and other risks as detailed in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and subsequent filings with the Securities and Exchange Commission. All these matters are difficult or impossible to predict accurately, many of which may be beyond our control. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate.

The following discussion is intended to assist in the assessment of significant changes and trends related to the results of operations and financial condition of Summer Infant, Inc. This discussion and analysis should be read in conjunction with Summer s consolidated financial statements and notes thereto included herein. Summer s business has grown organically in all of its markets. Summer derives its revenues from the sale of health, safety and wellness products for infants and toddlers. Summer s revenue is driven by its ability to design and market desirable products, identify business opportunities and secure new and renew existing distribution channels. Summer s income from operations is derived from its ability to generate revenue and collect cash in excess of labor and other costs of providing its products and selling, general and administrative costs.

Summary of critical accounting policies and estimates

The Company s critical accounting policies are disclosed in the Company s Annual Report on Form 10-K. There have been no changes to these policies during the first nine months of 2008. This summary of critical accounting policies of Summer is presented to assist in understanding Summer s consolidated financial statements. The consolidated financial statements and notes are representations of Summer s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

Summer makes certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. The accounting policies described below are those Summer considers critical in preparing its financial statements. Some of these policies include significant estimates made by management using information available at the time the estimates were made. However, these estimates could change materially if different information or assumptions were used.

Nature of operations

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Summer is engaged in the design, marketing and distribution of juvenile products. The majority of its revenues are derived from retail customers in North America, with approximately 10% of the business being generated in the UK. The Company also maintains a research and development staff in Asia (no revenues are generated directly out of Asia).

Income taxes

The provision for income taxes is based on our estimated annualized effective tax rate for the year.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with SFAS No. 109. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, we had no unrecognized tax benefits. During the third quarter of 2008, we recognized no adjustments for uncertain tax benefits.

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Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, it is more likely than not such benefits will be realized. We recognize interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest and penalties related to uncertain tax positions were accrued at September 30, 2008. The tax years 2004 through 2007 remain open to examination by the major taxing jurisdictions in which we operate. We expect no material changes to unrecognized tax positions within the next twelve months.

Company Overview

Summer is a designer, marketer, and distributor of branded juvenile health, safety and wellness products which are sold principally to large North American and UK retailers. Summer currently has more than 70 proprietary products in various product categories including nursery audio/video monitors, safety gates, durable bath products, bed rails, infant thermometers and related health and safety products, booster and potty seats and bouncers.

Summer's strategy is to grow its sales through a variety of methods, including:

- increased product penetration (more products at each store);
- Increased store penetration (more stores within each retail customer);
- New products (at existing and new customers);
- New mass merchant retail customers;
- New distribution channels (food and drug chains, price clubs, home centers, and web-based retailers);
- New geographies (international expansion); and
- New product categories
- Acquisitions

Summer has been able to substantially grow its revenues over the past seven years through a combination of all of the above factors. Each year it has been able to expand the number of products into its main distribution channel (mass merchant retailers) and has also added new customers each year. Therefore, even without new product introductions, Summer could grow its business by simply selling more of its existing product line to existing customers.

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For 2008 and beyond, the growth strategy of Summer will be to continue to develop and sell new products to its existing customer base, sell new and existing products to new customers (or expand relationships with existing customers), to begin to sell products from its soft goods product line, and to expand in the UK and in other geographic regions (including Japan, Mexico and Australia, among others).

Summer's growth strategy has included acquisitions.

On March 31, 2008, Summer acquired substantially all of the assets of Basic Comfort, Inc., a leading manufacturer and supplier of infant comfort and safety products, including infant sleep positioners, infant head supports and portable changing pads.

On April 18, 2008, Summer acquired Kiddopotamus & Company, a leading manufacturer and supplier of infant nursery, travel and feeding accessories.

Summer may pursue additional potential acquisition candidates to obtain new innovative products, new product categories, new retail customers or new sales territories. There are approximately 400 active juvenile product companies, of which approximately 300 have less than \$10,000,000 in sales. In addition, there are various product categories that Summer does not currently compete in, including car seats, strollers, walkers, and other categories. Summer may look to develop its own products in these categories or attempt to gain entrance into these categories through acquisitions.

As Summer continues to grow through internal initiatives and any additional future acquisitions, it will incur additional expenses. Two of the key areas in which such increased expenses will likely occur are sales and product development. To grow sales, Summer will likely hire additional sales personnel to service new geographic territories, focus existing resources on specific parts of the United States market and retain product line specialists to drive sales of new and existing products in specific areas in which Summer believes it can readily increase sales. Product development expenses will increase as Summer develops new products in existing and new categories. As a result of its acquisition strategy, Summer

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will face various challenges such as the integration of the acquired companies' product lines, employees, marketing requirements and information systems. Ongoing infrastructure investment also may be required to support realized growth, including expenditures with respect to upgraded and expanded information systems and enhancing the Company's management team.

Sales

Summer's sales are primarily derived from the sale of juvenile health, safety and wellness products and are recognized upon transfer of title of product to Summer's customers. Summer's products are marketed through several distribution channels including chain retailers, specialty retailers and direct to consumers.

Approximately 90% of sales are currently made to customers in North America, with the remaining 10% made to customers in the UK. Sales are made utilizing standard credit terms of 30 to 60 days. Summer generally accepts returns only for defective merchandise.

Cost of goods sold and other expenses

Summer's products are manufactured by third parties, with approximately 80-85% of the dollar value of products being manufactured in China and the majority of the balance being manufactured in Massachusetts. Cost of goods sold primarily represents purchases of finished products from these third party manufacturers. The remainder of Summer's cost of goods sold includes tooling depreciation, freight-in from suppliers and miscellaneous charges from contract manufacturers. Substantially all of Summer's purchases are made in US dollars; therefore most of this activity is not subject to currency fluctuations. If Summer's suppliers experience increased raw materials, labor or other costs and pass along such cost increases through higher prices for finished goods, Summer's costs of sales would increase, and to the extent it is unable to pass such price increases along to Summer's customers, Summer's gross margins would decrease.

Selling, general and administrative expenses primarily consist of payroll, insurance, professional fees, royalties, freight to customers, product development costs, advertising and marketing expenses (including co-op advertising allowances as negotiated with certain customers) and sales commissions. Several of these items fluctuate with sales, some based on sales to particular customers and others based on sales of particular products.

There are not significant variations in seasonal demand for Summer's products. Sales to its retail customers are generally higher in the time frame when retailers take initial shipments of new products; these orders usually incorporate enough product to fill each store plus additional amounts to be kept at the distribution centers of the customer. The timing of these initial shipments varies by customer depending on when they finalize store layouts for the upcoming year, and whether there are any mid-year product introductions.

Results of Operations

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Summer Infant Inc. and Subsidiaries

Condensed Consolidated Statements of Income

For the Three and Nine Months Ending September 30, 2008 and 2007

(In thousands of US dollars)

	Three Months Ended September 30, 2008 (Unaudited)	Three Months Ended September 30, 2007 (Unaudited)	Nine Months Ended September 30, 2008 (Unaudited)	Nine Months Ended September 30, 2007 (Unaudited)
Net revenues	\$ 35,575	\$ 21,198	\$ 97,982	\$ 44,644
Cost of goods sold	23,109	13,224	63,263	27,564
Gross profit	12,466	7,974	34,719	17,080
Operating expenses including interest	10,043	6,257	28,471	13,527
Income tax expense	817	657	2,312	1,364
Net income	\$ 1,606	\$ 1,060	\$ 3,936	\$ 2,189

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The results of operations for the nine months ended September 30, 2007 represents the combined activity of KBL Healthcare from January 1, 2007 through March 6, 2007 (which represents general and administrative expenses of KBL Healthcare, net of interest income generated by the \$52,000,000 cash balance prior to the acquisition of Summer Infant on March 6, 2007) and the activity of Summer Infant from March 6, 2007 through September 30, 2007.

To give the reader some additional information on the performance of the underlying Summer Infant operations, the following table represents the unaudited results of Summer for the three and nine months ended September 30, 2008 and the unaudited results of the Summer Infant operating company for the three and nine months ended September 30, 2007. This table is being presented to give the reader more information about the underlying performance of the ongoing operating company.

Summer Infant and Subsidiaries

Condensed Consolidated Statements of Income

For the Three and Nine Months Ending September 30, 2008 and 2007

(In thousands of US dollars)

	Three Months Ended September 30, 2008 (unaudited)		Three Months Ended September 30, 2007 (unaudited)		Nine Months Ended September 30, 2008 (unaudited)		Nine Months Ended September 30, 2007 (unaudited)		
Net Sales	\$	35,575	100.0%	\$	21,198	100.0%	\$	97,982	100.0%
Cost of Goods Sold		23,109	65.0%		13,224	62.4%		63,263	64.6%
Gross Profit		12,466	35.0%		7,974	37.6%		34,719	35.4%
OPERATING EXPENSES									
Selling, general and administrative expenses (excluding depreciation, amortization, non-capitalizable deal fees and non-cash stock option expense)		8,706	24.4%		5,717	27.0%		24,648	25.1%
EBITDA (a)	\$	3,760	10.6%	\$	2,257	10.6%	\$	10,071	10.3%

(a) See Non-GAAP Discussion below regarding the computation of EBITDA.

Three months ended September 30, 2008 compared with three months ended September 30, 2007

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Net sales increased from approximately \$21,198,000 in the three months ended September 30, 2007 to approximately \$35,575,000 for the three months ended September 30, 2008, an increase of approximately 68%. This sales increase was primarily attributable to increased distribution of Summer's products throughout Summer's customer base, plus new product introductions. Significant increases were noted in large accounts such as Babies R Us, in addition to several other new accounts which have been added over the past year, including Lowe's and Wal-Mart. The acquisitions of Basic Comfort and Kiddopotamus contributed approximately \$6,500,000 to sales for the three months ended September 30, 2008.

Gross profit increased from approximately \$7,974,000 for the three months ended September 30, 2007 to approximately \$12,466,000 for the three months ended September 30, 2008. The gross profit as a percentage of sales decreased to 35.0% from 37.6% in the prior year. The decrease as a percentage of sales is due to increased costs of finished goods from the Company's vendors in Asia and the US. The increase in these costs is due to increased raw material and labor costs from our Chinese contract manufacturers.

Selling, general and administrative expenses increased from approximately \$5,717,000 for the three months ended June 30, 2007 to approximately \$8,706,000 for the three months ended September 30, 2008. This increase was primarily attributable to increases in headcount, higher variable selling expenses due to the increase in sales, and costs associated with the opening of new distribution centers to support the increase in sales. Selling, general and administrative expenses decreased to 24.4% of net sales in the three months ended September 30, 2008 from 27.0% of net sales in the three months ended September 30, 2007. This decrease as a percentage of sales was primarily due to the leveraging of the Company's fixed cost structure over a larger sales base.

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EBITDA (as herein defined) increased from approximately \$2,257,000 for the three months ended September 30, 2007 to approximately \$3,760,000 for the three months ended September 30, 2008, an increase of approximately 67%. This increase was primarily attributable to the increased sales and gross profit dollars as described above.

Nine months ended September 30, 2008 compared with nine months ended September 30, 2007

Net sales increased from approximately \$57,043,000 in the nine months ended September 30, 2007 to approximately \$97,982,000 for the nine months ended September 30, 2008, a 72% increase. This sales increase was primarily attributable to increased distribution of Summer's products throughout Summer's customer base, plus new product introductions. Significant increases were noted in large accounts such as Babies R Us, in addition to several other new accounts which have been added over the past year, including Lowe's and Wal-Mart. The acquisitions of Basic Comfort and Kiddopotamus contributed approximately \$12,200,000 to sales for the nine months ended September 30, 2008.

Gross profit increased from approximately \$21,797,000 for the nine months ended September 30, 2007 to approximately \$34,719,000 for the nine months ended September 30, 2008. The gross profit as a percentage of sales decreased to 35.4% from 38.2% in the prior year. The decrease as a percentage of sales is due to increased costs of finished goods from the Company's vendors in Asia and the US. The increase in these costs is due to increased raw material and labor costs from our Chinese contract manufacturers.

Selling, general and administrative expenses increased from approximately \$16,038,000 for the nine months ended September 30, 2007 to approximately \$24,648,000 for the nine months ended September 30, 2008. This increase was primarily attributable to increases in headcount, higher variable selling expenses due to the increase in sales, and costs associated with the opening of new distribution centers to support the increase in sales. Selling, general and administrative expenses decreased to 25.1% of net sales in the nine months ended September 30, 2008 from 28.1% of net sales in the nine months ended September 30, 2007. This decrease as a percentage of sales is due to the leveraging of the Company's fixed cost structure over a larger sales base.

EBITDA as defined herein increased from approximately \$5,759,000 for the nine months ended September 30, 2007 to approximately \$10,071,000 for the nine months ended September 30, 2008, an increase of 75%. This increase was primarily attributable to the increased sales and gross profit dollars as described above.

Liquidity and Capital Resources

Summer generally funds its operations and working capital needs through cash generated from operations and borrowings under its credit facilities.

Summer's sales have increased significantly over the past several years. For the year ended December 31, 2003, net sales were \$17,600,000. For the year ended December 31, 2007, net sales exceeded \$80,000,000. This sales growth has led to a substantial increase in working capital requirements, specifically accounts receivable and inventory. The typical cash flow cycle is as follows:

- Inventory is purchased to meet expected demand plus a safety stock. Since the majority of Summer's vendors are based in Asia, inventory takes from four to six weeks to arrive from Asia to the various distribution points Summer maintains in the US and the UK. Payment terms for these vendors average 60 days from the date the product ships from Asia, therefore Summer is generally paying for the product a short time after it is physically received in the US. The increased sales Summer has experienced result in increased levels of inventory, and therefore an increase in the amount of cash required to fund its inventory level.

- Sales to customers generally have payment terms of 30 to 60 days. The increased sales have resulted in an increase in the level of accounts receivable, and therefore have increased the amount of cash required to fund working capital.

Summer had traditionally been able to fund its increased working capital through asset-based lines of credit with banks. The lenders generally follow a borrowing base formula that allows advances based on the levels of accounts receivable and inventory.

The majority of capital expenditures for Summer are for tools related to new product introductions. Summer receives indications from retailers generally around the middle of each year as to what products the retailer will be taking into its product line for the upcoming year. Based on these indications, Summer will then acquire the tools required to build the products. The majority of these expenditures are therefore made in the third and fourth quarters of each year so that initial

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shipments of products can be made in December and January (the typical time frame for new product shipments). In most cases the payments for the tools are spread out over a three to four month period.

For the nine months ended September 30, 2008, net cash used in operating activities was approximately \$2,538,000. This was primarily due to increases in accounts receivable and inventory, which are a direct result of the significant increase in sales for the Company, partially offset by the net income generated by Summer. Total sales were over \$97,000,000 for the nine months ended September 30, 2008, which represents a 72% increase over the sales in the first nine months of the prior year. See detailed discussion of the working capital cycle of Summer above.

Net cash used in investing activities was approximately \$18,859,000 which primarily relates to the cash portion of the Basic Comfort and Kiddopotamus acquisitions, in addition to year to date capital expenditures of approximately \$2,273,000.

Net cash provided by financing activities was approximately \$21,467,000, which relates to amounts borrowed to fund increases in working capital and the acquisitions of Basic Comfort and Kiddopotamus.

Based on the above factors, the net cash decrease for the nine months ended September 30, 2008 was approximately \$320,000, resulting in a cash balance of approximately \$1,451,000 at September 30, 2008.

Summer believes that its cash on hand and current banking facilities are sufficient to fund its cash requirements for at least the next 12 months. However, unforeseen circumstances, such as softness in the retail industry or deterioration in the business of a significant customer, could create a situation where Summer cannot access all of the available lines of credit due to not having sufficient assets or EBITDA. In addition, there is no assurance that Summer will meet all of its bank covenants in the future, or that its lenders will grant waivers if there are covenant violations.

Summer's strategy for funding its business going forward is a combination of increased profitability, and if necessary, negotiation of increased borrowing lines as required with traditional lenders. Summer is in regular communication with its lenders, and considers its relationship to be strong at the present time.

On April 10, 2008, Summer entered into two new three-year secured credit facilities (the Loan Agreement) with Bank of America, N.A., as Administrative Agent, and each of the financial institutions that are a signatory to the Loan Agreement. The Loan Agreement provides for a \$36,000,000 working capital revolving credit facility and a \$10,000,000 non-restoring acquisition credit facility. The new credit facilities mature on April 10, 2011. The acquisition credit facility has been utilized in its entirety as of June 30, 2008.

Summer and its subsidiaries, Summer Infant (USA), Inc. Summer Infant Europe Limited, Summer Infant Asia Limited and Summer Infant Canada, Limited are the borrowers under the Loan Agreement. These credit facilities are secured by all assets of Summer and its subsidiaries. These credit facilities replaced Summer's prior line of credit, and are being used principally to fund growth opportunities and for working capital purposes.

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Summer's ability to borrow under the Loan Agreement is subject to its ongoing compliance with a number of financial and other covenants, including the following: (i) that Summer and its subsidiaries maintain a new worth of \$50,000,000 plus the sum of 50% of net income earned in each fiscal year, (ii) that Summer and its subsidiaries maintain a ratio of total funded debt to EBITDA of not greater than 3.50:1.00, and (iii) that Summer and its subsidiaries maintain a ratio of operating cash flow to debt service of not less than 1.25:1.00. In addition, if Summer's ratio of total funded debt to EBITDA is greater than 3.25:1.00 as of December 31, 2008, the total commitment amount under the working capital revolving credit facility will reduce by \$4,000,000 on March 31, 2009. Furthermore, if Summer's ratio of total funded debt to EBITDA is greater than 3.25:1.00 for any fiscal year, the aggregate amount that may be borrowed under the Loan Agreement will be determined by reference to a borrowing base formula.

These credit facilities bear interest at a floating rate based on a spread over LIBOR ranging from 150 basis points to 200 basis points, depending upon the ratio of the Company's total funded debt to EBITDA. As of September 30, 2008, the rate on these credit facilities was 5.46%. In addition, these credit facilities have an unused line fee based on the unused amount of the credit facilities equal to 25 basis points.

The Loan Agreement also contains customary events of default, including a cross default provision and a change of control provision. In the event of a default, all of the obligations of the Company and its subsidiaries under the loan Agreement may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations become due and payable.

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As of September 30, 2008 the Company had approximately \$39,276,000 outstanding of the total committed amount of \$46,000,000. In addition, the Company has \$3,884,000 outstanding on the loan related to the construction of the corporate headquarters.

The Company was in compliance with all covenants as of September 30, 2008.

Summer's management believes that the Company's cash flows from operations, cash on hand, and available borrowings will be sufficient to meet Summer's working capital and capital expenditure requirements and provide the Company with adequate liquidity to meet anticipated operating needs for at least the next 12 months. Summer's cash requirements for the period beyond that are expected to be met by the continued use of bank facilities to meet working capital requirements.

Non-GAAP Discussion

In addition to its GAAP results, Summer considers non-GAAP measures of its performance. EBITDA, as defined below, is an important supplemental financial measure of Summer's performance that is not required by, or presented in accordance with, GAAP. EBITDA represents net income (loss) before income taxes, interest expense, non-cash stock option expense, deal-related fees, and depreciation and amortization. Summer's management uses EBITDA as a financial measure to assess the ability of its assets to generate cash sufficient to pay interest on its indebtedness, meet capital expenditure and working capital requirements, and otherwise meet its obligations as they become due. Summer's management believes that the presentation of EBITDA provides useful information regarding Summer's results of operations because they assist in analyzing and benchmarking the performance and value of Summer's business. Summer believes that EBITDA is useful to stockholders as a measure of comparative operating performance, as it is less susceptible to variances in actual performance resulting from depreciation and amortization and more reflective of changes in pricing decisions, cost controls and other factors that affect operating performance.

EBITDA also is used by Summer's management for multiple purposes, including:

- To calculate and support various coverage ratios with Summer's lenders;
- To allow lenders to calculate total proceeds they are willing to loan to Summer based on its relative strength compared to other competitors; and
- to more accurately compare Summer's operating performance from period to period and company to company by eliminating differences caused by variations in capital structures (which affect relative interest expense), tax positions and amortization of intangibles.

In addition, EBITDA is an important valuation tool used by potential investors when assessing the relative performance of a company in comparison to other companies in the same industry. Although Summer uses EBITDA as a financial measure to assess the performance of its business, there are material limitations to using a measure such as EBITDA, including the difficulty associated with using it as the sole measure to compare the results of one company to another and the inability to analyze significant items that directly affect a company's net income or operating income because it does not include certain material costs, such as interest and taxes, necessary to operate its business. In addition,

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Summer's calculation of EBITDA may not be consistent with similarly titled measures of other companies and should be viewed in conjunction with measures that are computed in accordance with GAAP. Summer's management compensates for these limitations in considering EBITDA in conjunction with its analysis of other GAAP financial measures, such as net income.

The following table presents a reconciliation of the Summer EBITDA to net income; it's most directly comparable GAAP financial measure, on a historical basis, for the nine months ended September 30, 2008 and 2007:

Reconciliation of unaudited EBITDA to Net Income (in thousands of US dollars):

	Nine Months Ended September 30	
	2008	2007
Net income (assuming 9 months as a taxable entity in 2007)	\$ 3,936	\$ 2,690
Income taxes (assuming 9 months as a taxable entity in 2007)	2,312	1,793
Non-cash stock option expense	270	281
Non-capitalizable deal-related fees	214	
Interest expense (income)	1,473	(7)
Depreciation and amortization	1,866	1,002
EBITDA, as defined	\$ 10,071	\$ 5,759

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ITEM 4T. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report, Summer carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as of September 30, 2008. Summer's management has concluded, based on their evaluation, that as of the end of the period covered by this report, the Company's controls and procedures were effective as of September 30, 2008 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Control Over Financial Reporting

There was no change in Summer's internal control over financial reporting that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, Summer's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

There have been no material changes pertaining to risk factors that were contained in the Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 27, 2008.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

Prior to March 28, 2008, the Company's units, consisting of one share of common stock and two warrants, separately traded on the Nasdaq Capital Market under the symbol SUMRU. On March 28, 2008, these units were separated into their component securities. As a result, beginning on March 28, 2008, the units ceased trading.

ITEM 6. Exhibits

31.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Jason Macari, Chief Executive Officer of Summer Infant, Inc., pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Joseph Driscoll, Chief Financial Officer of Summer Infant, Inc., pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

Summer Infant, Inc.

November 7, 2008

/s/ Jason Macari
Jason Macari
Chief Executive Officer

November 7, 2008

/s/ Joseph Driscoll
Joseph Driscoll
Chief Financial Officer