Summer Infant, Inc.
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2014

Summer Infant, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Commission file number **001-33346**

Delaware (State or Other Jurisdiction Of Incorporation or Organization)	**20-1994619** (IRS Employer Identification No.)
1275 Park East Drive **Woonsocket, RI 02895** (Address of principal executive offices) (Zip Code)	**(401) 671-6550** (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 last 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of November 1, 2014, there were 18,137,285 shares outstanding of the registrant s Common Stock, $0.0001 par value per share.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (unaudited)

Summer Infant, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

Note that all amounts presented in the table below are in thousands of U.S. dollars, except share and par value amounts.

	Unaudited September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,075	$ 1,573
Trade receivables, net of allowance for doubtful accounts	38,248	34,574
Inventory, net	48,680	38,378
Prepaids and other current assets	2,138	1,890
Deferred tax assets	832	832
TOTAL CURRENT ASSETS	90,973	77,247
Property and equipment, net	13,455	14,796
Intangible assets, net	20,958	21,575
Other assets	1,465	1,749
TOTAL ASSETS	$ 126,851	$ 115,367
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 26,290	$ 22,072
Accrued expenses	9,132	9,658
Current portion of long term debt (including capital leases)	1,682	1,962
TOTAL CURRENT LIABILITIES	37,104	33,692
Long-term debt, less current portion	54,772	47,756
Other liabilities	3,077	3,289
Deferred tax liabilities	3,156	3,140
TOTAL LIABILITIES	98,109	87,877
STOCKHOLDERS EQUITY		
Preferred Stock, $0.0001 par value, 1,000,000 authorized, none issued or outstanding at September 30, 2014 and December 31, 2013, respectively		
Common Stock $0.0001 par value, authorized, issued and outstanding of 49,000,000, 18,408,934, and 18,137,285 at September 30, 2014 and 49,000,000, 18,257,924, and 17,986,275 at December 31, 2013, respectively	2	2

Treasury Stock at cost (271,649 shares at September 30, 2014 and December 31, 2013, respectively)		(1,283)		(1,283)
Additional paid-in capital		74,745		73,715
Accumulated deficit		(43,801)		(44,167)
Accumulated other comprehensive loss		(921)		(777)
TOTAL STOCKHOLDERS EQUITY		28,742		27,490
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	126,851	$	115,367

See notes to condensed consolidated financial statements

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Summer Infant, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

Note that all amounts presented in the table below are in thousands of U.S. dollars, except share and per share amounts.

	Unaudited For the three months ended		Unaudited For the nine months ended	
	September 30, 2014	**September 30, 2013**	**September 30, 2014**	**September 30, 2013**
Net sales	$ 51,020	$ 50,538	$ 154,390	$ 163,435
Cost of goods sold	34,420	35,521	103,897	112,859
Gross profit	16,600	15,017	50,493	50,576
General & administrative expenses	10,107	9,298	29,503	28,196
Selling expense	4,456	4,855	13,742	16,054
Depreciation and amortization	1,369	1,499	4,132	4,916
Operating income (loss)	668	(635)	3,116	1,410
Interest expense, net	870	945	2,571	3,128
Income (loss) before income taxes	(202)	(1,580)	545	(1,718)
Provision (benefit) for income taxes	(64)	(304)	179	(581)
NET INCOME (LOSS)	$ (138)	$ (1,276)	366	$ (1,137)
Net income (loss) per share:				
BASIC	$ (0.01)	$ (0.07)	$ 0.02	$ (0.06)
DILUTED	$ (0.01)	$ (0.07)	$ 0.02	$ (0.06)
Weighted average shares outstanding:				
BASIC	18,086,441	17,968,977	18,029,659	17,912,970
DILUTED	18,086,441	17,968,977	18,196,470	17,912,970

See notes to condensed consolidated financial statements.

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Summer Infant, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

Note that all amounts presented in the table below are in thousands of U.S. dollars.

	Unaudited For the three months ended		Unaudited For the nine months ended	
	September 30, 2014	**September 30, 2013**	**September 30, 2014**	**September 30, 2013**
Net (loss) income	$ (138)	$ (1,276)	$ 366	$ (1,137)
Other comprehensive (loss) income:				
Changes in foreign currency translation adjustments	(431)	383	(144)	(118)
Comprehensive (loss) income	$ (569)	$ (893)	$ 222	$ (1,255)

See notes to condensed consolidated financial statements.

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Summer Infant, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Note that all amounts presented in the table below are in thousands of U.S. dollars.

	Unaudited For the nine months ended September 30, 2014	September 30, 2013
Cash flows from operating activities:		
Net income (loss)	$ 366	$ (1,137)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities		
Depreciation and amortization	4,132	4,916
Stock-based compensation expense	1,011	729
Loss on asset disposal		70
Changes in assets and liabilities:		
(Increase) decrease in trade receivables	(3,868)	9,994
(Increase) decrease in inventory	(10,527)	9,876
(Increase) decrease in prepaids and other assets	160	(1,076)
Increase (decrease) in accounts payable and accrued expenses	3,614	(6,319)
Net cash (used in) provided by operating activities	(5,112)	17,053
Cash flows from investing activities:		
Acquisitions of intangible assets	(227)	(280)
Proceeds from sale of assets		138
Acquisitions, net of cash acquired		(87)
Acquisitions of property and equipment	(1,976)	(2,369)
Net cash used in investing activities	(2,203)	(2,598)
Cash flows from financing activities:		
Proceeds from exercise of stock options	19	32
Net borrowings (repayment) on financing arrangements	6,736	(16,053)

Net cash (used in) provided by financing activities		6,755		(16,021)
Effect of exchange rate changes on cash and cash equivalents		62		(140)
Net (decrease) increase in cash and cash equivalents		(498)		(1,706)
Cash and cash equivalents, beginning of period		1,573		3,132
Cash and cash equivalents, end of period	$	1,075	$	1,426
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	2,106	$	2,634
Cash paid for income taxes	$	23	$	79

See notes to condensed consolidated financial statements.

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SUMMER INFANT, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Summer Infant, Inc., together with its subsidiaries, (the Company or Summer) is a global designer, marketer, and distributor of branded juvenile health, safety and wellness products which are sold principally to large North American and international retailers and distributors. Most products are sold under the Company s core brand names of Summer®, SwaddleMe®, and Born Free®. The Company s significant product offerings include audio/video monitors, safety gates, bath tubs and bathers, durable bath products, bed rails, swaddling blankets, baby bottles, warming/sterilization systems, booster and potty seats, bouncers, travel accessories, high chairs, swings, car seats, strollers, and nursery furniture.

Basis of Presentation and Principles of Consolidation

The accompanying interim condensed consolidated financial statements of 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 in the United States of America (GAAP) 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, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes for the year ended December 31, 2013 included in its Annual Report on Form 10-K filed with the SEC on March 11, 2014 and amended on April 29, 2014 (as amended, the 2013 10-K).

It is the Company s policy to prepare its financial statements on the accrual basis of accounting in conformity with GAAP. The interim condensed consolidated financial statements include the accounts of its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidation.

All dollar amounts included in the Notes to Condensed Consolidated Financial Statements are in thousands of U.S. dollars, except share and per share amounts.

Revenue Recognition

The Company records revenue when all of the following occur: persuasive evidence of an arrangement exists, product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. Sales are recorded net of provisions for returns and allowances, customer discounts, and other sales-related discounts. The Company bases its estimates for discounts, returns and allowances on negotiated customer terms and historical experience. Customers do not have the right to return products unless the products are defective. The Company records a reduction of sales for estimated future defective product deductions based contractual terms and historical experience.

Sales incentives or other consideration given by the Company to customers that are considered adjustments to the selling price of the Company s products, such as markdowns, are reflected as reductions of revenue. Sales incentives and other consideration that represent costs incurred by the Company for assets or services received, such as the appearance of the Company s products in a customer s national circular ad, are reflected as selling expenses in the accompanying interim condensed consolidation statements of operations.

Income Taxes

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred income tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carry-forwards. 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, that it is more likely than not that such benefits will be realized.

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Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon adoption and in subsequent periods. As of September 30, 2014 and December 31, 2013, the Company did not have any uncertain tax positions. No interest and penalties related to uncertain tax positions were accrued at September 30, 2014 and December 31, 2013.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates are based on management s best knowledge of current events and actions the Company may undertake in the future. Accordingly, actual results could differ from those estimates.

Net Income (Loss) Per Share

Basic earnings (loss) per share for the Company are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share includes the dilutive impact of outstanding stock options and unvested restricted shares.

Translation of Foreign Currencies

All assets and liabilities of the Company s foreign subsidiaries, each of whose functional currency is in its local currency, are translated into U.S. dollars at the exchange rate in effect at the end of the quarter and the income and expense accounts of these affiliates have been translated at average rates prevailing during each respective quarter. Resulting translation adjustments are made to a separate component of stockholders equity within accumulated other comprehensive income or loss.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

2. DEBT

Credit Facilities

On February 28, 2013, the Company and its subsidiary, Summer Infant (USA), Inc., entered into a new loan and security agreement with Bank of America, N.A. to provide an $80,000, asset-based revolving credit facility (as subsequently amended on November 8, 2013, the BofA Agreement). The BofA Agreement replaced the Company s prior credit facility with Bank of America, which was set to expire in December 2013. In conjunction with its entry into the BofA Agreement, the Company also entered into a term loan agreement with Salus Capital Partners, which is described below under Term Loan.

BofA Agreement

The BofA Agreement provides for an $80,000, asset-based revolving credit facility, with a $10,000 letter of credit sub-line facility. The total borrowing capacity is based on a borrowing base, which is defined as 85% of the Company s eligible accounts receivable plus the lesser of (i) 70% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less reserves.

The scheduled maturity date of loans under the BofA Agreement is February 28, 2018 (subject to customary early termination provisions). All obligations under the BofA Agreement are secured by substantially all the assets of the Company, subject to a first priority lien on certain assets held by the term-loan lender described below. In addition, Summer Infant Canada Limited and Summer Infant Europe Limited, subsidiaries of the Company, are guarantors under the BofA Agreement. Proceeds from the loans under the BofA Agreement were used to satisfy existing debt, pay fees and transaction expenses associated with the closing of the BofA Agreement, pay obligations under the Company s prior BofA credit facility, and were used to make payments on the Term Loan and for other general corporate purposes, including working capital.

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Loans under the BofA Agreement bear interest, at the Company s option, at a base rate or at LIBOR, plus applicable margins based on average quarterly availability under the BofA Agreement and ranging between 1.75% and 2.25% on LIBOR borrowings and 0.25% and 0.75% on base rate borrowings. Interest payments are due monthly, payable in arrears. The Company is also required to pay an annual non-use fee of 0.375% of the unused amounts under the BofA Agreement, as well as other customary fees as are set forth in the BofA Agreement. As of September 30, 2014, the base rate on loans was 4.0% and the LIBOR rate was 2.5%.

Under the BofA Agreement, the Company is required to comply with certain financial covenants. Prior to the execution of an amendment to the BofA Agreement on November 8, 2013, the Company was required, (i) for the first year of the loan, to maintain and earn a specified minimum, monthly consolidated EBITDA amount, as defined in the BofA Agreement, (Bank EBITDA), with such specified amounts increasing over the first twelve months of the loan to a minimum consolidated Bank EBITDA of $12,000 at February 28, 2014, and (ii) beginning with the fiscal quarter ending March 31, 2014, was to maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for each period of four fiscal quarters most recently ended. For purposes of the financial covenants, consolidated Bank EBITDA is defined as net income before interest, taxes, depreciation and amortization, plus certain customary expenses, fees and non-cash charges and minus certain customary non-cash items increasing net income.

On November 8, 2013, the Company entered into an amendment to the BofA Agreement (the BofA Amendment). The BofA Amendment amended the financial covenants in the BofA Agreement to provide that (i) the Company is no longer required to comply with the prior minimum Bank EBITDA covenants for any period ending after September 30, 2013 and (ii) the Company maintain a trailing twelve month fixed charge coverage ratio of at least 1.0 to 1.0, tested on a monthly basis, from and after September 30, 2013.

The BofA Agreement contains customary affirmative and negative covenants. Among other restrictions, the Company is restricted in its ability to incur additional debt, make acquisitions or investments, dispose of assets, or make distributions unless in each case certain conditions are satisfied. The BofA Agreement also contains customary events of default, including a cross default with the Term Loan, the occurrence of a material adverse event and the occurrence of a change of control. In the event of a default, all of the obligations of the Company and its subsidiaries under the BofA Agreement may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations would become due and payable.

The amount outstanding on the BofA Agreement at September 30, 2014 was $43,045. Total borrowing capacity under the BofA Agreement at September 30, 2014 was $56,906 and borrowing availability was $13,861.

Term Loan

On February 28, 2013 the Company and its subsidiary, Summer Infant (USA), Inc., as borrowers, entered into a term loan agreement (as subsequently amended on November 8, 2013, the Term Loan Agreement) with Salus Capital Partners, LLC, for a $15,000 term loan (the Term Loan).

Proceeds from the Term Loan were used to repay certain existing debt, and to finance the acquisition of working capital assets in the ordinary course of business, capital expenditures, and for other general corporate purposes. The Term Loan is secured by certain assets of the Company, including a first priority lien on intellectual property, plant, property and equipment, and a pledge of 65% of the ownership interests in certain subsidiaries of the Company. The Term Loan matures on February 28, 2018. In addition, Summer Infant Canada Limited and Summer Infant Europe Limited, subsidiaries of the Company, are guarantors under the Term Loan Agreement.

The principal of the Term Loan is being repaid, on a quarterly basis, in installments of $375, commencing with the quarter ending September 30, 2013, until paid in full on termination. The Term Loan bears interest at an annual rate equal to LIBOR, plus 10%, with a LIBOR floor of 1.25%. Interest payments are due monthly, in arrears. As of September 30, 2014, the interest rate on the Term Loan was 11.25%.

The Term Loan Agreement contains customary affirmative and negative covenants substantially the same as the BofA Agreement. In addition, prior to the execution of an amendment to the Term Loan Agreement on November 8, 2013, the Company was required to comply with certain financial covenants, including that the Company (i) meet the same minimum, monthly consolidated Bank EBITDA as set forth in the BofA Agreement and (ii) initially maintaining a monthly senior leverage ratio of 1:1. For periods after February 28, 2014, the senior leverage ratio was to be based on an annual business plan to be approved by the Company s Board of Directors and to be tested monthly on a trailing twelve month basis. For purposes of the financial covenants in the Term Loan Agreement, the senior leverage ratio was defined as the ratio of (1) all amounts outstanding under the Term Loan Agreement and the BofA Agreement to (2) consolidated Bank EBITDA for the twelve-month period ending as of the last day of the most recently ended fiscal month. The Term Loan Agreement also contains events of default, including a cross default with the BofA Agreement, the occurrence of a material adverse event, the occurrence of a change of control, and the recall of products having a value of $2,000 or more. In the event of a default, all of the obligations of the Company and its subsidiaries under the Term Loan

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Agreement may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations would become due and payable.

On November 8, 2013, the Company entered into an amendment to the Term Loan Agreement (the Term Loan Amendment). The Term Loan Amendment amended the financial covenants in the Term Loan Agreement to provide that (i) the Company is no longer required to comply with the minimum Bank EBITDA covenants for any period ending after September 30, 2013, (ii) the Company maintain a trailing twelve month fixed charge coverage ratio of at least 1.0 to 1.0, tested on a monthly basis, from and after September 30, 2013, and (iii) commencing February 28, 2014, the Company maintain a trailing twelve month senior leverage ratio, tested on a monthly basis of (a) no more than 6.0 to 1.0 for the periods ending on or before June 30, 2014, (b) no more than 5.5 to 1.0 for periods ending July 1, 2014 through September 30, 2014, and (c) no more than 5.0 to 1.0 for periods following September 30, 2014.

The amount outstanding on the Term Loan at September 30, 2014 was $13,125.

We were in compliance with the financial covenants under the BofA Agreement and the Term Loan as of September 30, 2014.

Aggregate maturities of bank debt related to the BofA Agreement and the Term Loan are as follows:

Year ending December 31:	2014	$	375
	2015		1,500
	2016		1,500
	2017		1,500
	2018		51,295
	Total	$	56,170

3. INTANGIBLE ASSETS

Intangible assets consisted of the following:

		September 30, 2014		December 31, 2013
Brand names	$	14,812	$	14,812
Patents and licenses		3,605		3,378
Customer relationships		6,946		6,946
Other intangibles		1,882		1,882
		27,245		27,018
Less: Accumulated amortization		(6,287)		(5,443)
Intangible assets, net	$	20,958	$	21,575

The amortization period for the majority of the intangible assets ranges from 5 to 20 years for those assets that have an estimated life; certain of the assets have indefinite lives (brand names). Total of intangibles not subject to amortization amounted to $12,308 as of September 30, 2014 and December 31, 2013.

4. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is a party to routine litigation and administrative complaints incidental to its business. The Company does not believe that the resolution of any or all of such routine litigation and administrative complaints is likely to have a material adverse effect on the Company s financial condition or results of operations.

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5. SHARE BASED COMPENSATION

The Company is authorized to issue up to 3,000,000 shares for equity awards under the Company s 2006 Performance Equity Plan (2006 Plan) and 1,100,000 shares for equity awards under the Company s 2012 Incentive Compensation Plan (2012 Plan). The Company s stockholders approved an increase in the number of shares available under the 2012 Plan from 500,000 to 1,100,000 shares on August 13, 2014.

Under the 2006 Plan and 2012 Plan, awards may be granted to participants in the form of non-qualified stock options, incentive stock options, restricted stock, deferred stock, restricted stock units and other stock-based awards. Subject to the provisions of the plans, 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 the Company or its subsidiaries and who are deemed to have contributed or to have the potential to contribute to the Company s success. The Company accounts for options under the fair value recognition standard. The application of this standard resulted in share-based compensation expense for the three months ended September 30, 2014 and 2013 of $468 and $213, respectively, and share-based compensation expense for the nine months ended September 30, 2014 and 2013 of $1,011 and $729, respectively. Share based compensation expense is included in selling, general and administrative expenses.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the table below. The Company uses the simplified method to estimate the expected term of the options, but used an estimate for grants of plain vanilla stock options based on a formula prescribed by the Securities and Exchange Commission. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation expense recognized in the consolidated financial statements in 2014 and 2013 is based on awards that are ultimately expected to vest.

As of September 30, 2014, there were 1,809,230 stock options outstanding and 278,535 unvested restricted shares outstanding.

During the nine months ended September 30, 2014, the Company granted 551,000 stock options and granted 185,064 shares of restricted stock. The following table summarizes the weighted average assumptions used for stock options granted during the periods ended September 30, 2014 and 2013.

	2014	2013
Expected life (in years)	5.3	6.0
Risk-free interest rate	1.7%	1.7%
Volatility	67.0%	55.0%
Dividend yield	0.0%	0.0%
Forfeiture rate	13.3%	10.0%

As of September 30, 2014, there are 101,468 shares available to grant under the 2006 Plan and 599,500 shares available to grant under the 2012 Plan.

6. WEIGHTED AVERAGE COMMON SHARES

Basic and diluted earnings or loss per share (EPS) is based upon the weighted average number of common shares outstanding during the period. The Company does not include the anti-dilutive effect of common stock equivalents, including stock options, in computing net income (loss) per diluted common share. The computation of diluted common shares for the three months ended September 30, 2014 excluded 1,809,230 stock options and 278,535 shares of restricted stock. The computation per diluted common shares for the nine months ended September 30, 3014 excluded 1,296,230 stock options and 172,712 shares of restricted stock.

7. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing date of this Quarterly Report and determined that no subsequent events occurred that would require recognition in the consolidated financial statements or disclosure in the notes thereto.

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ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The statements contained in this Quarterly 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. 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 Quarterly Report on Form 10-Q. These forward-looking statements include statements concerning our expectations regarding: our business strategy and future growth and profitability; our ability to leverage our retail knowledge and to deliver high quality, innovative products to the marketplace; our ability to maintain and build upon our existing customer and supplier relationships; our ability to grow our business through increasing our presence in existing stores and online via our e-commerce platform, expanding customer relationships, diversifying our customer base and entering new geographic locations; our ability to build our core brands through improved marketing efforts; our ability to improve our operational efficiency and achieve savings from our cost reduction activities; and the financial and reputational impact of the voluntary recall and the fluctuation of market trends in the juvenile products industry. These statements are based on current expectations that involve numerous risks and uncertainties. These risks and uncertainties include the concentration of our business with retail customers; the financial status of our customers and their ability to pay us in a timely manner; our ability to introduce new products or improve existing products that satisfy consumer preferences; our ability to develop new or improved products in a timely and cost-efficient manner; our ability to compete with larger and more financially stable companies in our markets; our ability to comply with financial and other covenants in our debt agreements; our dependence on key personnel; our reliance on foreign suppliers and potential disruption in foreign markets in which we operate; increases in the cost of raw materials used to manufacture our products; compliance with safety and testing regulations for our products; product liability claims arising from use of our products; unanticipated tax liabilities; an impairment of other intangible assets; and other risks as detailed in our Annual Report on Form 10-K for the year ended December 31, 2013 (as amended, the 2013 10-K) 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 Quarterly Report on 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 our Company and our consolidated subsidiaries. This Management s Discussion and Analysis should be read together with the unaudited interim condensed consolidated financial statements and related notes included elsewhere in this filing and with our consolidated financial statements for the year ended December 31, 2013 included in our 2013 10-K.

Note that all dollar amounts in this section are in thousands of U.S. dollars, except share and per share data.

Overview

Founded in 1985 and publicly traded on the Nasdaq Stock Market since 2007 under the symbol SUMR, we are a global designer, marketer, and distributor of branded juvenile health, safety and wellness products (for ages 0-3 years) that are sold principally to large North American and international retailers. Most of our products are sold under our core brand names of Summer®, SwaddleMe®, and Born Free®. Our significant product offerings include audio/video monitors, safety gates, bath tubs and bathers, durable bath products, bed rails, swaddling blankets, baby bottles, warming/sterilization systems, booster and potty seats, bouncers, travel accessories, high chairs, swings, car seats, strollers, and nursery furniture.

Our products are sold globally primarily to large, international retailers, and we also sell to independent retailers. In North America, our customers include Babies R Us, Wal-Mart, Target, Amazon.com, Buy Buy Baby, Burlington Coat Factory, Kmart, Home Depot, and Lowe s. Our largest European-based customers are Mothercare, Toys R Us, Argos and Tesco. We also sell through several international representatives to select international retail customers in geographic locations where we do not have a direct sales presence.

The juvenile products industry is currently estimated to be $18 billion worldwide and consumer focus is on quality, safety, innovation, and style. Due to the halo effect of baby products in retail stores, there also is a strong retailer commitment to the juvenile products category.

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Our Strategy

We have focused on growing sales through a combination of increased product penetration and store penetration, offering new products, adding new retail customers and distribution channels, international expansion, and strategic acquisitions.

While the refinement of our business strategy is continuously ongoing, we have identified below four key areas of our current business strategy:

- *Superior Innovation* We continue to leverage our in-depth knowledge of our end-user consumers and retail customers consumers to deliver high quality, innovative products to the marketplace and to focus on a good, better, best approach to price points, where we aim to create products that appeal to different categories of end consumers and classes of trade. To the extent it is consistent with our strategy, we may also acquire new products or expand existing product categories. For example, over the past year, we launched, amongst other new products, our Baby Link WiFi series of video monitors, Pop n Play Playard, Keep Me Warm bath tub, Safe Surround Changing Pad, a Retractable Gate, and the Bottle Genius, a formula dispenser. We also launched our Home Safe by Summer line of safety products. We believe our significant product development expertise differentiates us from other companies in this market.

- *Cultivating Relationships and Diversification* We believe we have strong partnerships with our long-standing retail customers. We have also developed strong relationships with a group of suppliers that provide us with the flexibility needed to engineer our products in a cost-efficient manner and to respond quickly to customer demands. We will continue to focus on building on these existing relationships and partnerships, which we believe will lead to increased presence of our products in stores, including expansion of our footprint into new geographic locations, and online as we enhance our e-commerce platform. We will also continue to work with a growing number of specialty retail operators that allow us to continue our pursuit of a good, better, best approach and with customers seeking differentiated products and support. We will also plan to continue efforts to expand our business internationally.

- *Building Brands* Historically, we have marketed products under our own brands, under license agreements for other brands, and under private label agreements. We completed the process of exiting our licensing arrangements with Disney® in the second quarter of 2013 and Carters® in the first quarter of 2014 to focus on building our own branded products. Going forward, our focus will be on building our core brands of Summer®, SwaddleMe®, and Born Free®, particularly among first-time prenatal moms, through improved marketing efforts, including through social media.

- *Executing Operational Excellence* Our entire organization is focused on delivering operational efficiency and excellence, such as through SKU rationalization and utilization of a direct import program. By improving our analytic and forecasting capabilities, product development process, and management of working capital and costs, we expect continued improvement to internal processes that should, in turn, benefit our customers.

By renewing our focus on these core strengths, as well as a focus on gross margins and a return on capital, we expect to drive future growth, improve profitability and to further develop and strengthen our relationships with our suppliers, retail customers and end-users of our products.

We believe that, based on our core strengths and strategic priorities, we are well-positioned to capitalize on positive market trends including that U.S. birth rates are predicted to increase over the next several years after several years of low birth rates.

Recent Developments

We completed the process of exiting our licensing arrangements with Disney® in the second quarter of 2013 and Carters® in the first quarter of 2014 to focus on building our own Summer®, SwaddleMe®, and Born Free® branded products. As a result of exiting these activities, we have and expect to continue to generate lower licensed product sales in 2014. Consequently, we also expect to have a lower level of closeout and promotional sales at lower margins that affect our gross profit and gross margins in 2014 as compared to 2013.

Since the beginning of 2014, we have announced several changes in our executive leadership and senior management teams. Effective February 1, 2014, Carol Bramson, a member of our Board of Directors, was appointed our Chief Executive Officer. Ken Price was also appointed as our President of Global Sales & Marketing, and oversees the sales and marketing of our product lines, manages the sales and marketing staff, and assists in the preparation of sales projections and operating budgets. In May 2014, Ken Ward was hired for the newly created role of Senior Vice President, Sales & Operations Planning and is focused on tracking and aligning strategic and operational objectives with financial plans by integrating sales with financial planning, market strategies, and new product development. In October 2014, we announced the appointment of Ronald T. Cardone as our Senior Vice President, Information Technology and the departure of our former Chief Information Officer, David Hemendinger. We also recently announced the appointment of Lisa Harnisch as Senior Vice President of Sales, and Annamarie Dooley as Senior Vice President of Product Development. On November 6, 2014, we announced the appointment of William Mote as Chief Financial Officer, effective November 10, 2014, who will succeed our current Chief Financial Officer, Paul Francese. We believe these individuals will enhance the leadership of our Company into the future.

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In April 2014, we announced a voluntary recall of rechargeable batteries in certain of our handheld video monitors. Currently, we believe costs associated with the voluntary recall will be low, and estimate such costs to be approximately $300, including expected shared costs from our monitor manufacturer. The shared costs were taken as a charge to our cost of goods sold in the first quarter of 2014.

Summary of Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the three months ended September 30, 2014 from our critical accounting policies and estimates disclosed under Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2013 10-K.

Results of Operations

	For the three months ended (Unaudited)		For the nine months ended (Unaudited)	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net sales	$ 51,020	$ 50,538	$ 154,390	$ 163,435
Cost of goods sold	34,420	35,521	103,897	112,859
Gross profit	16,600	15,017	50,493	50,576
General & administrative expense	10,107	9,298	29,503	28,196
Selling expense	4,456	4,855	13,742	16,054
Depreciation and amortization	1,369	1,499	4,132	4,916
Operating income (loss)	668	(635)	3,116	1,410
Interest expense, net	870	945	2,571	3,128
Income (loss) before provision (benefit) for income taxes	(202)	(1,580)	545	(1,718)
(Benefit) provision for income taxes	(64)	(304)	179	(581)
Net (loss) income	$ (138)	$ (1,276)	$ 366	$ (1,137)

Three Months ended September 30, 2014 compared with Three Months ended September 30, 2013

Net sales increased 1.0% from approximately $50,538 for the three months ended September 30, 2013 to approximately $51,020 for the three months ended September 30, 2014. The slight increase was primarily attributable to higher sales of core branded product offerings offset by a decline in sales due to exiting our licensing arrangements with Carters® to focus on building our own Summer®, SwaddleMe®, and Born Free® branded products, and lower closeout sales.

Cost of goods sold included the cost of the finished product from suppliers, duties on certain imported items, freight-in from suppliers, and miscellaneous charges. The components remained relatively the same for the quarter ended September 30, 2014 as compared to the quarter ended September 30, 2013.

Gross profit increased 10.5% from $15,017 for the three months ended September 30, 2013 to $16,600 for the three months ended September 30, 2014. Gross margin as a percentage of net sales increased from 29.7% for the quarter ended September 30, 2013 to 32.5% for the quarter ended September 30, 2014. The 280 basis point improvement in gross margin is attributable to a favorable mix of higher margin products sold due to exiting our low-margin licensing arrangements and a low margin promotional sale in the three months ended September 30, 2013 that did not repeat this year, partially offset by the residual effect of the battery recall and inventory charges related to product categories to be phased out. Excluding the effect of the battery recall and the inventory charges for the three months ended September 30, 2014, gross margin was 33.3%.

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General and administrative expenses increased 8.7% from $9,298 for the three months ended September 30, 2013 to $10,107 for the three months ended September 30, 2014. General and administrative expenses also increased as a percent of sales from 18.4% for the quarter ended September 30, 2013 to 19.8% for the quarter ended September 30, 2014. Excluding $321 associated with leadership changes in the quarter, general and administrative expenses were $9,786 for the three months ended September 30, 2014 or 19.2% as a percent of sales. The increase in general and administrative expense dollars and as a percent of sales is attributable to higher distribution costs, patent settlement costs, and investments in sales, executive, and product development personnel resources incurred in 2014 offset, in part, by cost reduction actions taken in the fourth quarter of 2013.

Selling expenses decreased 8.2% from $4,855 for the three months ended September 30, 2013 to $4,456 for the three months ended September 30, 2014. Selling expenses also decreased as a percent of sales from 9.6% for the quarter ended September 30, 2013 to 8.7% for the quarter ended September 30, 2014. This decrease in dollars and as a percent of sales was primarily attributable to cost controls implemented over retailer programs such as cooperative advertising and lower royalty costs under licensing agreements as part of discontinuing certain product licensing arrangements.

Depreciation and amortization decreased 8.7% from $1,499 in the three months ended September 30, 2013 to $1,369 for the three months ended September 30, 2014. The decrease in depreciation is attributable to a reduction in capital investment offset by higher amortization on new finite-lived intangible assets capitalized in 2013.

Interest expense decreased 7.9% from $945 in the three months ended September 30, 2013 to $870 in the three months ended September 30, 2014. Interest expense decreased as a result of lower average interest rates and lower average daily debt balances on a year over year basis.

For the three months ended September 30, 2013, we recorded a $304 benefit for income taxes on $1,580 of pretax loss, reflecting an estimated 19.2% tax rate for the quarter. Excluding discrete items recorded in the quarter attributable to the utilization of our R&D tax credits, our tax rate would have been 28.0%. For the three months ended September 30, 2014, we recorded a $64 tax benefit on $202 of pretax loss for the quarter, reflecting an estimated 31.7% tax rate for the quarter.

Nine Months ended September 30, 2014 compared with Nine Months ended September 30, 2013

Net sales declined 5.5% from $163,435 for the nine months ended September 30, 2013 to $154,390 for the nine months ended September 30, 2014. The decline was primarily attributable to exiting our licensing arrangements with Disney® and Carters® to focus on building our own Summer®, SwaddleMe®, and Born Free® branded products, and lower closeout sales. This decline was partially offset by growth in our core branded product offerings. Excluding the impact of exiting our Disney® and Carters® licensing arrangements, sales increased 3.0%.

Gross profit decreased 0.2% from $50,576 for the nine months ended September 30, 2013 to $50,493 for the nine months ended September 30, 2014. Gross margin increased from 30.9% for the nine months ended September 30, 2013 to 32.7% for the nine months ended September 30, 2014. The slight decline in gross profit dollars is attributable to the activities related to the discontinuation of certain licensing arrangements and the effect of our voluntary battery recall in the second quarter partially offset by higher sales of our own branded products. The 180 basis point improvement in gross margin was due to a favorable mix of higher margin products sold, partially offset by the effect of the battery recall announced in the second quarter and inventory charges related to product categories to be phased out. Excluding the effect of the battery recall and the inventory charges for the nine months ended September 30, 2014, gross margin was 33.4%.

General and administrative expenses increased 4.6% from $28,196 for the nine months ended September 30, 2013 to $29,503 for the nine months ended September 30, 2014. General and administrative expenses also increased as a percent of sales from 17.3% for the nine months ended September 30, 2013 to 19.1% for the nine months ended September 30, 2014. Excluding charges of $1,267 associated with leadership changes for the nine months ended September 30, 2014, general and administrative expenses were flat at 17.3% with the nine months ended September 30, 2013.

Selling expenses decreased 14.4% from $16,054 for the nine months ended September 30, 2013 to $13,742 for the nine months ended September 30, 2014. Selling expenses also decreased as a percent of sales from 9.8% for the nine months ended September 30, 2013 to 8.9% for the nine months ended September 30, 2014. This decrease in dollars and as a percent of sales was primarily attributable to additional cost controls implemented over retailer programs such as cooperative advertising and lower royalty costs under licensing agreements as part of discontinuing certain licensing arrangements.

Depreciation and amortization decreased 15.9% from $4,916 in the nine months ended September 30, 2013 to $4,132 for the nine months ended September 30, 2014. The decrease in depreciation is attributable to a reduction in capital investment partially offset by higher amortization on new finite-lived intangible assets capitalized in 2013.

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Interest expense decreased 17.8% from $3,128 in the nine months ended September 30, 2013 to $2,571 for the nine months ended September 30, 2014. Interest expense decreased as a result of lower average interest rates and lower average daily debt balances on a year over year basis.

For the nine months ended September 30, 2013, we recorded a $581 benefit for income taxes on $1,718 pretax loss, reflecting an estimated 33.8% tax rate for the period. For the nine months ended September 30, 2014, we recorded a $179 tax provision on $545 of pretax income for the period, reflecting an estimated 32.8% tax rate for the period.

Liquidity and Capital Resources

We fund our operations and working capital needs through cash generated from operations and borrowings under our credit facilities.

Cash Flows

In our typical operational cash flow cycle, inventory is purchased to meet expected demand plus a safety stock. Because the majority of our suppliers are based in Asia, inventory takes approximately three to four weeks to arrive from Asia to the various distribution points we maintain in the United States, Canada and the United Kingdom. Payment terms for these vendors are approximately 60-90 days from the date the product ships from Asia, therefore we are generally paying for the product a short time after it is physically received in the United States. In turn, sales to customers generally have payment terms of 30 to 60 days, resulting in an accounts receivable and increasing the amount of cash required to fund working capital. To bridge the gap between paying our suppliers and receiving payment from our customers for goods sold, we rely on our credit facilities.

For the nine months ending September 30, 2014, net cash used in operating activities totaled $5,112. For the nine months ended September 30, 2013, net cash provided by operating activities totaled $17,053. The use of cash in 2014 is primarily attributable to investments made in inventory in the first half of 2014 in safety stock for improving sales, new product introductions, and anticipation of a potential port strike on the west coast, where our main distribution center is located. We expect inventory to decline in the fourth quarter as some of these safety stock needs subside. The cash generated in 2013 is primarily attributable to the nonrepeating benefit generated from improved working capital management during the year.

For the nine months ended September 30, 2014, net cash used in investing activities was approximately $2,203. For the nine months ended September 30, 2013, net cash used in investing activities was $2,598. The decline in net cash used in investing activities was primarily attributable to improved capital investment management.

For the nine months ended September 30, 2014, net cash provided by financing activities was approximately $6,755, reflecting borrowings primarily to pay for investments made in inventory during the year. For the nine months ended September 30, 2013, net cash used in financing activities was $16,021, reflecting a pay down of our credit facilities.

Based primarily on the above factors, net cash decreased for the nine months ended September 30, 2014 by $498, resulting in a cash balance of approximately $1,075 at September 30, 2014.

Capital Resources

In addition to operating cash flow, we also rely on our existing asset-based revolving credit facility with Bank of America, N.A. to meet our financing requirements, which are subject to changes in our inventory and account receivable levels. We believe that our anticipated cash flow from operations and availability under our existing credit facility are sufficient to fund our working capital, capital expenditures and debt service requirements for at least the next 12 months.

Credit Facilities

On February 28, 2013, we, along with our subsidiary, Summer Infant (USA), Inc., entered into a new loan and security agreement with Bank of America, N.A. to provide an $80,000, asset-based revolving credit facility (as subsequently amended on November 8, 2013, the BofA Agreement). The BofA Agreement replaced our prior credit facility with Bank of America, which was set to expire in December 2013. In conjunction with our entry into the BofA Agreement, we also entered into a term loan agreement with Salus Capital Partners, which is described below under Term Loan.

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BofA Agreement

The BofA Agreement provides for an $80,000, asset-based revolving credit facility, with a $10,000 letter of credit sub-line facility. The total borrowing capacity is based on a borrowing base, which is defined as 85% of our eligible accounts receivable plus the lesser of (i) 70% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less reserves.

The scheduled maturity date of loans under the BofA Agreement is February 28, 2018, subject to customary early termination provisions. All obligations under the BofA Agreement are secured by substantially all of our assets, subject to a first priority lien on certain assets held by the term-loan lender described below. In addition, Summer Infant Canada Limited and Summer Infant Europe Limited, our subsidiaries, are guarantors under the BofA Agreement. Proceeds from the loans under the BofA Agreement were used to satisfy existing debt, pay fees and transaction expenses associated with the closing of the BofA Agreement, pay obligations under the prior BofA Agreement, and were used to make payments on the Term Loan and for other general corporate purposes, including working capital.

Loans under the BofA Agreement bear interest, at our option, at a base rate or at LIBOR, plus applicable margins based on average quarterly availability under the BofA Agreement and ranging between 1.75% and 2.25% on LIBOR borrowings and 0.25% and 0.75% on base rate borrowings. Interest payments are due monthly, payable in arrears. We are also required to pay an annual non-use fee of 0.375% of the unused amounts under the BofA Agreement, as well as other customary fees as are set forth in the BofA Agreement. As of September 30, 2014, the base rate on loans was 4.0% and the LIBOR rate was 2.5%.

Under the BofA Agreement, we are required to comply with certain financial covenants. Prior to the execution of an amendment to the BofA Agreement on November 8, 2013, we were required, (i) for the first year of the loan, to maintain and earn a specified minimum, monthly consolidated EBITDA amount, as defined, in the BofA Agreement (Bank EBITDA), with such specified amounts increasing over the first twelve months of the loan to a minimum consolidated Bank EBITDA of $12,000 at February 28, 2014, and (ii) beginning with the fiscal quarter ending March 31, 2014, was to maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for each period of four fiscal quarters most recently ended. For purposes of the financial covenants, consolidated Bank EBITDA is defined as net income before interest, taxes, depreciation and amortization, plus certain customary expenses, fees and non-cash charges and minus certain customary non-cash items increasing net income.

On November 8, 2013, we entered into an amendment to the BofA Agreement (the BofA Amendment). The BofA Amendment amended the financial covenants in the BofA Agreement to provide that (i) we are no longer required to comply with the prior minimum Bank EBITDA covenants for any period ending after September 30, 2013 and (ii) we maintain a trailing twelve month fixed charge coverage ratio of at least 1.0 to 1.0, tested on a monthly basis, from and after September 30, 2013.

The BofA Agreement contains customary affirmative and negative covenants. Among other restrictions, we are restricted in our ability to incur additional debt, make acquisitions or investments, dispose of assets, or make distributions unless in each case certain conditions are satisfied. The BofA Agreement also contains customary events of default, including a cross default with the Term Loan, the occurrence of a material adverse event and the occurrence of a change of control. In the event of a default, all of our obligations and the obligations of our subsidiaries under the BofA Agreement may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations would become due and payable.

The amount outstanding on the BofA Agreement at September 30, 2014 was $43,045. Total borrowing capacity under the BofA Agreement at September 30, 2014 was $56,906 and borrowing availability was $13,861.

Term Loan

On February 28, 2013, we, along with our subsidiary, Summer Infant (USA), Inc., as borrowers, entered into a term-loan agreement (as subsequently amended on November 8, 2013, the Term Loan Agreement) with Salus Capital Partners, LLC for a $15,000 term-loan (as subsequently amended, the Term Loan).

Proceeds from the Term Loan were used to repay certain existing debt, and to finance the acquisition of working capital assets in the ordinary course of business, capital expenditures, and for other general corporate purposes. The Term Loan is secured by certain of our assets, including a first priority lien on intellectual property, plant, property and equipment, and a pledge of 65% of the ownership interests in certain of our subsidiaries. The Term Loan matures on February 28, 2018. In addition, Summer Infant Canada Limited and Summer Infant Europe Limited, our subsidiaries, are guarantors under the Term Loan Agreement.

The principal of the Term Loan is being repaid, on a quarterly basis, in installments of $375, commencing with the quarter ending September 30, 2013, until paid in full on termination. The Term Loan bears interest at an annual rate equal to LIBOR, plus

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10%, with a LIBOR floor of 1.25%. Interest payments are due monthly, in arrears. As of September 30, 2014, the interest rate on the Term Loan was 11.25%.

The Term Loan Agreement contains customary affirmative and negative covenants substantially the same as the BofA Agreement described above. In addition, prior to the execution of an amendment to the Term Loan Agreement on November 8, 2013, we were required to comply with certain financial covenants, including that we (i) meet the same minimum, monthly consolidated Bank EBITDA as set forth in the BofA Agreement and (ii) initially maintaining a monthly senior leverage ratio of 1:1. For periods after February 28, 2014, the senior leverage ratio will be based on an annual business plan to be approved by our Board of Directors and will be tested monthly on a trailing twelve month basis. For purposes of the financial covenants in the Term Loan Agreement, the senior leverage ratio was defined as the ratio of (1) all amounts outstanding under the Term Loan Agreement and the BofA Agreement to (2) consolidated Bank EBITDA for the twelve-month period ending as of the last day of the most recently ended fiscal month. The Term Loan Agreement also contains events of default, including a cross default with the BofA Agreement, the occurrence of a material adverse event, the occurrence of a change of control, and the recall of products having a value of $2,000 or more. In the event of a default, all of our obligations and the obligations of our subsidiaries under the Term Loan Agreement may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations would become due and payable.

On November 8, 2013, we entered into an amendment to the Term Loan Agreement (the Term Loan Amendment). The Term Loan Amendment amended the financial covenants in the Term Loan Agreement to provide that (i) we are no longer required to comply with the minimum Bank EBITDA covenants for any period ending after September 30, 2013, (ii) we maintain a trailing twelve month fixed charge coverage ratio of at least 1.0 to1.0, tested on a monthly basis, from and after September 30, 2013, and (iii) commencing February 28, 2014, we maintain a trailing twelve month senior leverage ratio, tested on a monthly basis of (a) no more than 6.0 to 1.0 for the periods ending on or before June 30, 2014, (b) no more than 5.5 to 1.0 for periods ending July 1, 2014 through September 30, 2014, and (c) no more than 5.0 to 1.0 for periods following September 30, 2014.

The amount outstanding on the Term Loan at September 30, 2014 was $13,125.

We were in compliance with the financial covenants under the BofA Agreement and the Term Loan as of September 30, 2014.

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If we are unable to meet our current financial forecast and cannot raise additional funds or adjust our operations accordingly, we may not remain in compliance with our fixed charge coverage ratio or senior debt leverage ratio under the BofA Agreement and Term Loan. Unforeseen circumstances, such as softness in the retail industry or deterioration in the business of a significant customer, could create a situation where we cannot access all of our available lines of credit due to not having sufficient assets or fixed charge coverage ratio as required under our loan agreements. There is no assurance that we will meet all of our financial or other covenants in the future, or that our lenders will grant waivers if there are covenant violations. In addition, should we need to raise additional funds through additional debt or equity financings, any sale of additional debt or equity securities may cause dilution to existing stockholders. If sufficient funds are not available or are not available on acceptable terms, our ability to address any unexpected changes in our operations could be limited. Furthermore, there can be no assurance that we will be able to raise such funds if and when they are required. Failure to obtain future funding when needed or on acceptable terms could materially adversely affect our results of operations.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as of September 30, 2014. Our Chief Executive Officer and our Chief Financial Officer have concluded, based on this evaluation, that our controls and procedures were effective as of September 30, 2014.

Changes in Internal Control Over Financial Reporting

There was no change in our 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, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not aware of any such proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, results of operations or financial condition.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our 2013 10-K, except for the following:

Product liability, product recalls, and other claims relating to the use of our products could increase our costs.

Because we produce infant and juvenile health, safety and wellness consumer products, we face product liability risks relating to the use by consumers of our products. We also must comply with a variety of product safety and product testing regulations. In particular, our products are subject to the Consumer Product Safety Act, the Federal Hazardous Substances Act (FHSA) and the Consumer Product Safety Improvement Act (CPSIA), which empower the Consumer Product Safety Commission (the CPSC), to take action against hazards presented by consumer products. With expanded authority under the CPSIA, the CPSC has and continues to adopt new regulations for safety and products testing that apply to our products. These new regulations have or likely will significantly increase the regulatory requirements governing the manufacture and sale of children s products and increase the potential penalties for noncompliance with applicable regulations. The CPSC has the authority to exclude from the market and recall certain consumer products that are found to be potentially hazardous. Consumer product safety laws also exist in some states and cities within the United States and in Canada and Europe, as well as certain other countries. If we fail to comply with these laws and regulations, or

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if we face product liability claims, we may be subject to damage awards or settlement costs that exceed any available insurance coverage and we may incur significant costs in complying with recall requirements.

We maintain a quality control program to help ensure compliance with applicable product safety requirements. Nonetheless, we have experienced, and may in the future experience, issues in products that may lead to product liability, personal injury or property damage claims, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities. A product recall could have a material adverse effect on our results of operations and financial condition, depending on the product affected by the recall and the extent of the recall efforts required. A product recall could also negatively affect our reputation and the sales of other products. Furthermore, concerns about potential liability may lead us to recall voluntarily selected products. For instance, in April 2014, we initiated a recall of rechargeable batteries in certain of our handheld video monitors, and in 2011, we undertook voluntary action to re-label our audio/video nursery monitors and recorded a charge in connection with the settlement of outstanding litigation related to our analog video nursery monitors. Complying with existing or any such additional regulations or requirements could impose increased costs on our business operations, decrease sales, increase legal fees and other costs, and put us at a competitive disadvantage compared to other manufacturers not affected by similar issues with products, any of which could have a significant adverse effect on our financial condition. Similarly, increased penalties for non-compliance could subject us to greater expense in the event any of our products were found to not comply with such regulations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q.

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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.

Date: November 6, 2014	By:	/s/ CAROL E. BRAMSON Carol E. Bramson President and Chief Executive Officer
Date: November 6, 2014	By:	/s/ PAUL FRANCESE Paul Francese Chief Financial Officer (Principal Financial Officer)

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document