

Summer Infant, Inc.  
Form 10-Q  
November 02, 2016  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended October 1, 2016**

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

**For the transition period from                      to**

**Commission file number 001-33346**

**Summer Infant, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction  
Of Incorporation or Organization)

**20-1994619**  
(IRS Employer Identification No.)

Edgar Filing: Summer Infant, Inc. - Form 10-Q

**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 past 90 days. Yes  No

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  No

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

Large accelerated filer   
Non-accelerated filer   
(Do not check if a smaller reporting company)

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 November 2, 2016, there were 18,499,985 shares outstanding of the registrant's Common Stock, \$0.0001 par value per share.

---

Table of Contents

**Summer Infant, Inc.**

**Form 10-Q**

**Table of Contents**

	<b>Page Number</b>
<u>Part I.</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Condensed Consolidated Financial Statements (unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets as of October 1, 2016 (unaudited) and January 2, 2016</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 1, 2016 and October 3, 2015 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended October 1, 2016 and October 3, 2015 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 1, 2016 and October 3, 2015 (unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
<u>Item 4.</u>	
<u>Controls and Procedures</u>	15
<u>Part II.</u>	
<u>Other Information</u>	16
<u>Item 1.</u>	
<u>Legal Proceedings</u>	16
<u>Item 1A.</u>	
<u>Risk Factors</u>	16
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	16
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	16
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	16
<u>Item 5.</u>	
<u>Other Information</u>	16
<u>Item 6.</u>	
<u>Exhibits</u>	17
<u>Signatures</u>	18
<u>Exhibit Index</u>	19



Table of Contents**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.

	<b>Unaudited October 1, 2016</b>	<b>January 2, 2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,011	\$ 923
Trade receivables, net of allowance for doubtful accounts	37,295	40,514
Inventory, net	32,285	36,846
Prepaid and other current assets	1,863	1,758
<b>TOTAL CURRENT ASSETS</b>	<b>72,454</b>	<b>80,041</b>
Property and equipment, net	10,673	12,007
Other intangible assets, net	17,983	18,512
Deferred tax assets, net	2,507	2,483
Other assets	100	95
<b>TOTAL ASSETS</b>	<b>\$ 103,717</b>	<b>\$ 113,138</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 25,550	\$ 29,541
Accrued expenses	7,579	9,584
Current portion of long term debt (including capital leases)	4,500	3,318
<b>TOTAL CURRENT LIABILITIES</b>	<b>37,629</b>	<b>42,443</b>
Long-term debt, less current portion and unamortized debt issuance costs	43,921	48,767
Other liabilities	2,666	2,962
<b>TOTAL LIABILITIES</b>	<b>84,216</b>	<b>94,172</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock, \$0.0001 par value, 1,000,000 authorized, none issued or outstanding at October 1, 2016 and January 2, 2016, respectively		
Common Stock \$0.0001 par value, authorized, issued and outstanding of 49,000,000, 18,771,634, and 18,499,985 at October 1, 2016 and 49,000,000, 18,639,407, and 18,367,758 at January 2, 2016, respectively	2	2

Edgar Filing: Summer Infant, Inc. - Form 10-Q

Treasury Stock at cost (271,649 shares)	(1,283)	(1,283)
Additional paid-in capital	76,260	75,812
Accumulated deficit	(52,907)	(53,063)
Accumulated other comprehensive loss	(2,571)	(2,502)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>19,501</b>	<b>18,966</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 103,717</b>	<b>\$ 113,138</b>

See notes to condensed consolidated financial statements

Table of Contents**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	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales	\$ 48,552	\$ 50,205	\$ 148,797	\$ 155,025
Cost of goods sold	33,026	34,600	101,344	108,674
Gross profit	15,526	15,605	47,453	46,351
General & administrative expenses	9,735	12,953	30,469	35,235
Selling expense	3,667	4,119	11,484	13,295
Depreciation and amortization	1,127	1,275	3,443	3,927
Operating income (loss)	997	(2,742)	2,057	(6,106)
Interest expense, net	633	589	1,901	2,753
Income (loss) before income taxes	364	(3,331)	156	(8,859)
Provision (benefit) for income taxes	131	(1,500)		(3,313)
NET INCOME (LOSS)	\$ 233	\$ (1,831)	\$ 156	\$ (5,546)
Net income (loss) per share:				
BASIC	\$ 0.01	\$ (0.10)	\$ 0.01	\$ (0.30)
DILUTED	\$ 0.01	\$ (0.10)	\$ 0.01	\$ (0.30)
Weighted average shares outstanding:				
BASIC	18,465,749	18,309,381	18,424,484	18,239,490
DILUTED	18,581,824	18,309,381	18,454,926	18,239,490

See notes to condensed consolidated financial statements.





Table of Contents

**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	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net income (loss)	\$ 233	\$ (1,831)	\$ 156	\$ (5,546)
Other comprehensive loss:				
Changes in foreign currency translation adjustments	(151)	(371)	(69)	(763)
Comprehensive income (loss)	\$ 82	\$ (2,202)	\$ 87	\$ (6,309)

See notes to condensed consolidated financial statements.

Table of Contents

**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	
	October 1, 2016	October 3, 2015
Cash flows from operating activities:		
Net income (loss)	\$ 156	\$ (5,546)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	3,495	3,897
Stock-based compensation expense	394	700
Changes in assets and liabilities:		
Decrease in trade receivables	3,076	2,937
Decrease in inventory	4,345	630
Decrease in prepaids and other assets	27	139
(Decrease) increase in accounts payable and accrued expenses	(6,094)	5,720
Net cash provided by operating activities	5,399	8,477
Cash flows from investing activities:		
Acquisitions of intangible assets		(472)
Acquisitions of property and equipment	(1,631)	(1,875)
Net cash used in investing activities	(1,631)	(2,347)
Cash flows from financing activities:		
Proceeds from exercise of stock options		46
Proceeds from new Term Loan Facility		10,000
Proceeds from new FILO Facility		5,000
Repayment of Prior Term Loan		(12,500)
Repayment of new Term Loan Facility	(1,500)	(1,000)

Edgar Filing: Summer Infant, Inc. - Form 10-Q

Net repayment on revolving facilities	(2,334)	(6,712)
Net cash used in financing activities	(3,834)	(5,166)
Effect of exchange rate changes on cash and cash equivalents	154	(1,132)
Net increase (decrease) in cash and cash equivalents	88	(168)
Cash and cash equivalents, beginning of period	923	1,272
Cash and cash equivalents, end of period	\$ 1,011	\$ 1,104
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,624	\$ 1,818
Cash paid for income taxes	\$ 241	\$ 236

See notes to condensed consolidated financial statements.

Table of Contents

**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

The Company designs, markets and distributes branded juvenile health, safety and wellness products that are sold globally to large national retailers as well as independent retailers, primarily in North America. The Company currently markets its products in several product categories including monitoring, safety, nursery, baby gear, and feeding products. Most products are sold under our core brand names of Summer®, SwaddleMe®, Born Free®, and Kiddopotamus®.

*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 January 2, 2016 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 January 2, 2016 included in its Annual Report on Form 10-K filed with the SEC on February 24, 2016.

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. Certain prior year balances have been restrospectively reclassified for current year reporting purposes.

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 on 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 Consolidated Statements of Operations.

*Use of Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and related disclosures. These estimates are based on management's best knowledge as of the date the financial statements are published of current events and actions the Company may undertake in the future. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of our financial statements. Accordingly, actual results could differ from those estimates, which could have a material effect on the reported amounts of assets and liabilities in our financial statements and results of operations.

Table of Contents

*Inventory Valuation*

Inventory is comprised mostly of finished goods and some component parts and is stated at the lower of cost using the first-in, first-out ( FIFO ) method, or market (net realizable value). The Company regularly reviews slow-moving and excess inventories, and writes down inventories to net realizable value if the ultimate expected net proceeds from the disposals of excess inventory are less than the carrying cost of the merchandise.

*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.

The Company follows the appropriate guidance relative to uncertain tax positions. This standard provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Uncertain tax positions must meet a recognition threshold of more-likely-than-not in order for those tax positions to be recognized in the financial statements. Deferred taxes are presented as noncurrent on the consolidated balance sheet.

*Net Income (Loss) Per Share*

Basic earnings (loss) per share for the Company are computed by dividing net income (loss) 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. Foreign exchange transaction gains and losses are included in the accompanying interim, condensed consolidated statement of operations.

*Recently Issued Accounting Pronouncements*

## Edgar Filing: Summer Infant, Inc. - Form 10-Q

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This guidance was originally proposed to be effective for reporting periods beginning after December 15, 2016, however in July 2015, the FASB approved the delay in this guidance until reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This guidance requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. This guidance is effective for fiscal years beginning after December 15, 2015. The Company adopted this guidance in the first quarter of 2016 and it resulted in the retrospective reclassification of \$1,489 as of January 2, 2016 in unamortized debt issuance costs from other assets to a direct reduction of long-term debt.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. This guidance requires inventory within the scope of ASU 2015-11 to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for fiscal years beginning after December 15, 2016. The Company has evaluated the impact this guidance will have on its consolidated financial statements and expects the impact to be immaterial.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This guidance eliminates the current requirement for an entity to separate deferred income tax liabilities and deferred tax assets into current and non-current amounts in a classified balance sheet. Instead, this guidance requires deferred tax liabilities, deferred tax assets, and valuation allowances be classified as noncurrent in a classified balance sheet. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company adopted this guidance in the first quarter of 2016 and it resulted in the retrospective reclassification of \$799 as of January 2, 2016 in current deferred tax assets to noncurrent deferred tax assets.

Table of Contents

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), ( ASU 2016-02 ). ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months and disclose key information about leasing arrangements. The effective date will be the first quarter of fiscal year 2019, with early adoption permitted. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force). In an effort to reduce diversity in practice, ASU 2016-15 provides solutions for eight specific statement of cash flow classification issues. The ASU is effective for public companies beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company has evaluated the impact this guidance will have on its consolidated financial statements and expects the impact to be immaterial.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

## 2. DEBT

### *Credit Facilities*

In April 2015, the Company and its wholly owned subsidiary, Summer Infant (USA), Inc., entered into an amended and restated loan and security agreement with Bank of America, N.A., as agent, providing for an asset-based credit facility. The amended and restated Credit Facility replaced the Company's prior credit facility with Bank of America. The amended and restated credit facility was subsequently amended in December 2015 and May 2016 to (i) modify the interest rate under each of the Revolving Facility, FILO Facility and Term Loan Facility (each as defined below), (ii) modify the maximum leverage ratio financial covenant; (iii) amend the definition of EBITDA with respect to certain fees and expenses included within the definition; (iv) modify certain reporting requirements and (v) remove the occurrence of an event having a material adverse effect on the Company as an event of default (as amended, the Credit Facility ).

The Credit Facility consists of a \$60,000 asset-based revolving credit facility, with a \$10,000 letter of credit sub-line facility (the Revolving Facility ), a \$5,000 first in last out (FILO) revolving credit facility (the FILO Facility ) and a \$10,000 term loan facility (the Term Loan Facility ). Pursuant to an accordion feature, the Credit Facility includes the ability to increase the Revolving Facility by an additional \$15,000 upon the Company's request and the agreement of the lenders participating in the increase. The total borrowing capacity under the Revolving Facility is based on a borrowing base, generally defined as 85% of the value of eligible accounts 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 total borrowing capacity under the FILO Facility is based on a borrowing base, generally defined as a specified percentage of the value of eligible accounts that steps down over time, plus a specified percentage of the value of eligible inventory that steps down over time.

The scheduled maturity date of the loans under the Revolving Facility and the Term Loan Facility is April 21, 2020, and loans under the FILO Facility terminate April 21, 2018, subject in each case to customary early termination provisions. Any termination of the Revolving Facility would require termination of the Term Loan Facility and the FILO Facility.



## Edgar Filing: Summer Infant, Inc. - Form 10-Q

All obligations under the Credit Facility are secured by substantially all of the Company's assets. In addition, Summer Infant Canada Limited and Summer Infant Europe Limited, subsidiaries of the Company, are guarantors under the Credit Facility. Proceeds from the loans were used to (i) repay the Company's outstanding term loan, (ii) pay fees and transaction expenses associated with the closing of the Credit Facility, (iii) pay obligations under the Credit Facility, and (iv) pay for lawful corporate purposes, including working capital.

Borrowings under the Revolving Facility will bear interest, at the Company's option, at a base rate or at LIBOR, plus applicable margins based on average quarterly availability and ranging between 2.0% and 2.5% on LIBOR borrowings and 0.5% and 1.0% on base rate borrowings. Loans under the FILO Facility and Term Loan Facility will bear interest, at the Company's option, at a base rate or at LIBOR, plus a margin of 4.25% on LIBOR borrowings and 2.75% on base rate borrowings.

Beginning on July 1, 2015, the Company was required to begin repaying the Term Loan Facility in quarterly installments of \$500. Beginning with the fiscal year ending January 2, 2016, the Company was required to prepay the Term Loan Facility in an amount equal to 50% of the Company's excess cash flow, as such term is defined in the Credit Facility, at the end of each fiscal year.

Table of Contents

Under the Credit Facility, the Company must comply with certain financial covenants, including that the Company (i) maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for the twelve consecutive fiscal months most recently ended and (ii) maintain a certain leverage ratio at the end of each fiscal quarter. For purposes of the financial covenants, consolidated EBITDA is defined as net income before interest, taxes, depreciation and amortization, plus certain customary expenses, fees, non-cash charges and up to \$2,000 of specified inventory dispositions in 2015, and minus certain customary non-cash items increasing net income and other specified items.

The Credit Facility 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 Credit Facility also contains customary events of default, including the occurrence of a change of control. In the event of a default, all of the Company's obligations under the Credit Facility may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations immediately become due and payable.

As of October 1, 2016, the rate on base-rate loans was 4.5% and the rate on LIBOR-rate loans was 3.25%. The amount outstanding on the Revolving Facility at October 1, 2016 was \$37,741. Total borrowing capacity under the Revolving Facility at October 1, 2016 was \$46,941 and borrowing availability was \$9,200. The amounts outstanding on the Term Loan Facility and FILO Facility at October 1, 2016 were \$7,000 and \$5,000, respectively.

Aggregate maturities of bank debt related to the BofA credit facility:

<b>Fiscal Year ending:</b>	
2016	\$ 1,750
2017	4,500
2018	3,250
2019	2,000
2020	38,241
Total	\$ 49,741

Unamortized debt issuance costs were \$1,320 at October 1, 2016 and \$1,489 at January 2, 2016, and are presented as a direct deduction of long-term debt on the consolidated balance sheets.

**3. INTANGIBLE ASSETS**

Intangible assets consisted of the following:

	<b>October 1, 2016</b>	<b>January 2, 2016</b>
Brand names	\$ 14,812	\$ 14,812

## Edgar Filing: Summer Infant, Inc. - Form 10-Q

Patents and licenses	3,766	3,766
Customer relationships	6,946	6,946
Other intangibles	1,882	1,882
	27,406	27,406
Less: Accumulated amortization	(9,423)	(8,894)
Intangible assets, net	\$ 17,983	\$ 18,512

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 October 1, 2016 and January 2, 2016.

#### 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 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, except potentially as noted below.

Table of Contents

On May 27, 2015, the Company filed a Complaint against Carol E. Bramson, Annamaria Dooley, Kenneth N. Price, Carson J. Darling, Dulcie M. Madden, and Bruce Work in the United States District Court for the District of Rhode Island (Civil Action No. 1:15-CV-00218-5-LDA) (the Complaint). The Complaint alleges theft and misappropriation of the Company's confidential and proprietary trade secrets, intellectual property, and business, branding and marketing strategies. The following updates information previously reported in Note 10, Commitments and Contingencies, under Part IV, Item 15 of the Company's Annual Report on Form 10-K for the year ended January 2, 2016 and Note 4, Commitments and Contingencies, under Part 1, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2016, and the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2016.

On August 5, 2016, a stipulation was filed whereby Ms. Dooley agreed to dismiss certain of her counterclaims against the Company and Mr. Almagor, and the Court entered the stipulation as an order on August 19, 2016. In an effort to resolve this matter, the Company and the remaining defendants have agreed to participate in non-binding mediation, which is ongoing, and the litigation is stayed pending the outcome of the mediation.

The Company has incurred significant expenses related to this lawsuit to date and may continue to incur expenses related to this lawsuit. In connection with the litigation, the Company has informed its insurers of the litigation, and has received reimbursement of \$598 as of October 1, 2016 from certain of its insurers for a portion of the Company's defense costs and the defense costs of certain defendants. However, the Company cannot estimate at this time whether additional amounts may be reimbursed under its policies, and any insurance reimbursements are subject to applicable deductibles. The Company cannot predict the outcome of this lawsuit or for how long it will remain active.

**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 1,700,000 shares for equity awards under the Company's 2012 Incentive Compensation Plan (2012 Plan). Periodically, the Company may also grant equity awards outside of its 2006 Plan and 2012 Plan as inducement grants for new hires.

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 October 1, 2016 and October 3, 2015 of \$176 and \$280, respectively, and share-based compensation expense for the nine months ended October 1, 2016 and October 3, 2015 of \$394 and \$700, respectively. Stock 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 2016 and 2015 is based on awards that are ultimately expected to vest.

Edgar Filing: Summer Infant, Inc. - Form 10-Q

As of October 1, 2016, there were 1,367,594 stock options outstanding and 352,057 unvested restricted shares outstanding.

Table of Contents

During the nine months ended October 1, 2016, the Company granted 293,300 stock options and granted 304,400 shares of restricted stock, respectively. The following table summarizes the weighted average assumptions used for stock options granted during the nine months ended October 1, 2016 and October 3, 2015.

	2016	2015
Expected life (in years)	5.3	5.3
Risk-free interest rate	1.6%	1.6%
Volatility	64.0%	67.4%
Dividend yield	0%	0%
Forfeiture rate	11.6%	16.5%

As of October 1, 2016, there are 387,439 shares available to grant under the 2006 Plan and 1,173,943 shares available to grant under the 2012 Plan.

Restricted Stock Units

In December 2015, the Company's Board of Directors granted restricted stock units to the then executive Chairman of the Board (the RSUs). The RSUs represented the right to receive shares of the Company's common stock upon achievement of specified stock price performance metrics, and only vested if such market-based performance metrics were achieved. During the nine months ended October 1, 2016, 38,278 RSUs vested. There was \$26 of compensation cost recognized in the nine months ending October 1, 2016 and no unrecognized compensation cost related to the RSUs. The RSUs expired on August 3, 2016.

On July 13, 2016, the Company granted 100,000 restricted stock units to its new Chief Executive Officer. The RSUs represent the right to receive shares of the Company's common stock upon achievement of specified performance metrics, and only vest if such performance metrics are achieved for fiscal year 2017 and fiscal year 2018. The RSUs expire if the performance metrics are not achieved or if employment is terminated. The fair value of the restricted stock will be recognized as it is earned and when it is probable that the performance conditions will be met. The Company has not recognized any compensation expense in 2016 related to this award.

**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 October 1, 2016 excluded 1,109,294 stock options and 179,907 shares of restricted stock outstanding. The computation of diluted common shares for the nine months ended October 1, 2016 excluded 1,267,594 stock options and 270,807 shares of restricted stock outstanding.

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.

Table of Contents

**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 deliver high quality, innovative products to the marketplace; our ability to maintain and build upon our existing customer and supplier relationships; and our ability to build awareness of our core brands. 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 ability to manage ongoing litigation costs; 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 January 2, 2016 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 January 2, 2016 included in our Annual Report on Form 10-K for the year ended January 2, 2016.

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

**Overview**

We are a premier infant and juvenile products company originally founded in 1985 and have publicly traded on the Nasdaq Stock Market since 2007 under the symbol SUMR. We create branded juvenile safety and infant care products (targeted for ages 0-3 years) that are intended to deliver a diverse range of parenting solutions to families. We focus on providing innovative products to meet the lifestyle and demands of families who seek more opportunities to connect with their children.

We operate in one principal industry segment across geographically diverse marketplaces, selling our products globally to large, national retailers as well as independent retailers, and on the internet through third-party websites and our own www.SummerInfant.com website. In North America, our customers include Babies R Us, Wal-Mart, Amazon.com, Target, Buy Buy Baby, Burlington Coat Factory, Kmart, Home Depot, and Lowe's. Our largest European-based customers include Mothercare, Toys R Us, Argos and Tesco. We also sell through international distributors, representatives, and to select international retail customers in geographic locations where we do not have a direct sales presence.



The juvenile products industry is estimated to be a \$20 billion market worldwide, and consumer focus is on quality, safety, innovation, and style. Due to the halo effect of baby products in retail stores, there is a strong retailer commitment to the juvenile category. We believe we are positioned to capitalize on positive market trends in the juvenile products industry.

We entered fiscal 2016 with a continued focus on innovation, increasing awareness of our brands and maintaining and growing our existing relationships with our customers and suppliers. Net sales for the third quarter of 2016 decreased 3.3% from the third quarter of 2015. Sales were up 1.0% when excluding sales related to our bank-approved inventory reduction plan in the third quarter of 2015. Gross margin increased from 31.1% to 32.0% reflecting the completion of our bank-approved inventory reduction plan and our exit from the furniture category. General and Administrative expenses remained elevated in the third quarter of 2016 due to continuing legal costs associated with a complaint that we filed in May 2015 but were 24.8% lower than the third quarter of 2015. As a result, we ended the quarter with net income of \$0.01 per share, as compared to a net loss of \$0.10 per share for the three months ended October 3, 2015. During the nine months ended October 3, 2016, we generated \$5.4 million in cash from operations that was used, in part, to pay down our credit facilities.

Table of Contents

In June 2016, we announced the appointment of Mark Messner as our new President and Chief Executive Officer, effective July 13, 2016. Prior to joining our Company, Mr. Messner spent 13 years with Artsana USA, Inc. (Chicco), a manufacturer of baby care products under the Chicco brand. Mr. Messner originally joined Artsana USA in 2003 as Vice President of Marketing and Product Development and served as Chief Operating Officer for three years before taking over as Chief Executive Officer in 2012. Mr. Messner began his career in 1991 at Graco Children's Products, Inc. (now part of Newell Brands).

**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 October 1, 2016 from our critical accounting policies and estimates disclosed under Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended January 2, 2016.

**Results of Operations**

	For the three months ended (Unaudited)		For the nine months ended (Unaudited)	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales	\$ 48,552	\$ 50,205	\$ 148,797	\$ 155,025
Cost of goods sold	33,026	34,600	101,344	108,674
Gross profit	15,526	15,605	47,453	46,351
General & administrative expense	9,735	12,953	30,469	35,235
Selling expense	3,667	4,119	11,484	13,295
Depreciation and amortization	1,127	1,275	3,443	3,927
Operating (loss) income	997	(2,742)	2,057	(6,106)
Interest expense, net	633	589	1,901	2,753
(Loss) income before (benefit) provision for income taxes	364	(3,331)	156	(8,859)
(Benefit) provision for income taxes	131	(1,500)		(3,313)
Net (loss) income	\$ 233	\$ (1,831)	\$ 156	\$ (5,546)

**Three Months ended October 1, 2016 compared with Three Months ended October 3, 2015**

Net sales declined 3.3% from \$50,205 for the three months ended October 3, 2015 to \$48,552 for the three months ended October 1, 2016. The three months ended October 3, 2015 included \$1,653 of sales related to our bank-approved inventory reduction plan and furniture exit. Excluding the impact of the above sales that did not occur in the three months ended October 1, 2016, net sales for the three months ended October 3, 2015 was \$48,552. The three months ended October 1, 2016 included \$495 of unfavorable foreign exchange on a constant currency basis primarily due to the decline in the value of the British pound. Excluding the impact of the unfavorable foreign exchange effect, net sales for the three months ended October 1, 2016 was \$49,047, an increase over the three months ended October 3, 2015 of 1.0%. The increase is primarily due to increased safety and gear product sales partially offset by lower than expected sales of BornFree® Breeze bottles and certain Summer® monitors.

## Edgar Filing: Summer Infant, Inc. - Form 10-Q

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 of cost of goods sold remained relatively the same for the quarter ended October 1, 2016 as compared to the quarter ended October 3, 2015.

Gross profit decreased 0.5% from \$15,605 for the quarter ended October 3, 2015 to \$15,526 for the quarter ended October 1, 2016. Gross margin increased from 31.1% for the quarter ended October 3, 2015 to 32.0% for the quarter ended October 1, 2016. The three months ended October 3, 2015 included \$103 from losses on the sale of inventory below cost relating to our bank-approved inventory reduction plan, \$215 of inventory charges taken as we completed our exit of the furniture category, and \$280 in temporary additional costs due to inventory mix changes in our west coast distribution center. None of these costs occurred in the three months ended October 1, 2016. Excluding the above charges, gross margin for the three months ended October 3, 2015 was 33.0%. The three months ended October 1, 2016 included \$136 of unfavorable foreign exchange on a constant currency basis primarily due to the decline in the value of the British pound and \$277 in cost overages on the delayed introduction of our new BornFree® Breeze bottle. Excluding the impact of the above, gross margin for the three months ended October 1, 2016 was 32.5%.

General and administrative expenses decreased 24.8% from \$12,953 for the quarter ended October 3, 2015 to \$9,735 for the quarter ended October 1, 2016. General and administrative expenses also decreased as a percent of sales from 25.8% for the quarter

Table of Contents

ended October 3, 2015 to 20.1% for the quarter ended October 1, 2016. Excluding \$97 of litigation costs, net of insurance reimbursements, for the three months ended October 1, 2016 and \$3,720 of litigation costs for the three months ended October 3, 2015, general and administrative expenses were \$9,638 and \$9,233 or 19.9% and 18.4% as a percent of sales, respectively.

The increase in dollars and as a percent of sales is primarily attributable to a writeoff of technology and prototype costs related to discontinued product development projects.

Selling expenses decreased 11.0% from \$4,119 for the quarter ended October 3, 2015 to \$3,667 for the quarter ended October 1, 2016. Selling expenses also decreased as a percent of sales from 8.2% for the quarter ended October 3, 2015 to 7.6% for the quarter ended October 1, 2016. The decrease in selling expense was primarily attributable to lower sales volume as well as customer mix in cooperative advertisement costs. The decrease in percent of net sales was primarily attributable to customer mix in cooperative advertisement costs.

Depreciation and amortization decreased 11.6% from \$1,275 in the quarter ended October 3, 2015 to \$1,127 for the quarter ended October 1, 2016. The decrease in depreciation is attributable to a reduction in capital investment.

Interest expense increased 7.5% from \$589 in the quarter ended October 3, 2015 to \$633 for the quarter ended October 1, 2016. The increase is attributable to an increase in LIBOR rates in the fourth quarter of 2015.

For the quarter ended October 3, 2015, we recorded a \$1,500 tax benefit on \$3,331 of pretax loss, reflecting an estimated 45.0% tax rate for the quarter. For the quarter ended October 1, 2016, we recorded a \$131 tax provision on \$364 of pretax income for the quarter, reflecting an estimated 36.0% tax rate for the quarter.

***Nine Months ended October 1, 2016 compared with Nine Months ended October 3, 2015***

Net sales decreased 4.0% from \$155,025 for the nine months ended October 3, 2015 to \$148,797 for the nine months ended October 1, 2016. The nine months ended October 3, 2015 included \$7,772 of sales related to our bank-approved inventory reduction plan and furniture exit. Excluding the impact of the above sales that did not occur in the nine months ended October 1, 2016, net sales for the nine months ended October 3, 2015 was \$147,253. The nine months ended October 1, 2016 included \$1,497 of unfavorable foreign exchange on a constant currency basis primarily due to the decline in the value of the British pound. Excluding the impact of the unfavorable foreign exchange effect, net sales for the nine months ended October 1, 2016 was \$150,294, an increase over the nine months ended October 3, 2015 of 2.1%. The increase is primarily due to increased safety and gear product sales partially offset by lower than expected sales of BornFree® Breeze bottles and certain Summer® monitors.

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 of cost of goods sold remained relatively the same for the nine months ended October 1, 2016 as compared to the quarter ended October 3, 2015.

## Edgar Filing: Summer Infant, Inc. - Form 10-Q

Gross profit increased 2.4% from \$46,351 for the nine months ended October 3, 2015 to \$47,453 for the nine months ended October 1, 2016. Gross margin increased from 29.9% for the nine months ended October 3, 2015 to 31.9% for the nine months ended October 1, 2016. The nine months ended October 3, 2015 included \$1,877 in losses on the sale of inventory below cost relating to our bank-approved inventory reduction plan, \$949 of inventory charges taken as we completed our exit of the furniture category, and \$312 in temporary additional costs due to inventory mix changes in our west coast distribution center. Excluding the above charges, gross margin for the nine months ended October 3, 2015 was 32.4%. The nine months ended October 1, 2016 included \$462 of unfavorable foreign exchange on a constant currency basis primarily due to the decline in the value of the British pound, \$891 in cost overages on the delayed introduction of our new BornFree® Breeze bottle, and \$275 in temporary additional costs due to inventory mix changes in our west coast distribution center. Excluding the impact of the above, gross margin for the nine months ended October 1, 2016 was 32.7%.

General and administrative expenses decreased 13.5% from \$35,235 for the nine months ended October 3, 2015 to \$30,469 for the nine months ended October 1, 2016. General and administrative expense decreased as a percent of sales from 22.7% for the nine months ended October 3, 2015 to 20.5% for the nine months ended October 1, 2016. Litigation costs were \$2,239 for the nine months ended October 1, 2016 as compared to \$5,329 for the nine months ended October 3, 2015. Excluding the impact of litigation costs, general and administrative expenses for the nine months ended October 1, 2016 would have been down 5.6% at \$28,230 as compared to \$29,906 for the nine months ended October 3, 2015, or 19.0% and 19.3%, of net sales, respectively. Excluding the impact of litigation costs, the decrease in general and administrative expense dollars and as a percent of net sales is primarily attributable to cost reduction actions implemented in the latter half of fiscal 2015.

Selling expenses decreased 13.6% from \$13,295 for the nine months ended October 3, 2015 to \$11,484 for the nine months ended October 1, 2016. Selling expenses also decreased as a percent of sales from 8.6% for the nine months ended October 3, 2015 to 7.7% for the nine months ended October 1, 2016. This decrease in selling expense was primarily attributable to lower sales volume as well as customer mix in cooperative advertisement costs and lower freight out costs. The decrease in percent of net sales was primarily attributable to customer mix in cooperative advertisement costs and lower freight out costs.

Depreciation and amortization decreased 12.3% from \$3,927 in the nine months ended October 3, 2015 to \$3,443 for the nine months ended October 1, 2016. The decrease in depreciation is attributable to a reduction in capital investment.

Table of Contents

Interest expense decreased 30.9% from \$2,753 in the nine months ended October 3, 2015 to \$1,901 for the nine months ended October 1, 2016, reflecting reduced debt levels and lower interest rates. Interest expense for the nine months ended October 3, 2015 included a write off of \$685 for past unamortized financing fees and termination fees in connection with the refinancing of our credit facility in April 2015.

For the nine months ended October 3, 2015, we recorded a \$3,313 tax benefit on \$8,859 of pretax loss for the period resulting in an estimated tax rate of 37.4% for the period. For the nine months ended October 1, 2016, we recorded no tax provision or benefit on \$156 of pretax income due to certain permanent non-deductible expenses.

**Liquidity and Capital Resources**

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

In our typical operational cash flow cycle, inventory is purchased in US dollars to meet expected demand plus a safety stock. Because the majority of our suppliers are based in Asia, inventory takes from 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.

The majority of our capital expenditures are for tools and molds related to new product introductions. We receive 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, we will then acquire the tools and molds required to build and produce the products. In most cases, the payments for the tools are spread out over a three to four month period.

For the nine months ended October 1, 2016, net cash provided by operating activities totaled \$5,399. For the nine months ended October 3, 2015, net cash provided by operating activities totaled \$8,477. In the nine months ended October 1, 2016, we generated \$156 of net income, reduced inventory by \$3,076, and paid down supplier payables by \$6,094, resulting in \$5,399 of net cash from operating activities. In the nine months ended October 3, 2015, we incurred a net loss of \$5,546, decreased inventory by \$630, and had an increase in supplier payables of \$5,720, resulting in \$8,477 of net cash from operating activities.

For the nine months ended October 1, 2016, net cash used in investing activities was approximately \$1,631. For the nine months ended October 3, 2015, net cash used in investing activities was approximately \$2,347. The use of cash for the nine months ended October 3, 2015 included \$452 of technology development.

## Edgar Filing: Summer Infant, Inc. - Form 10-Q

For the nine months ended October 1, 2016, net cash used in financing activities was approximately \$3,834. For the nine months ended October 3, 2015, net cash used in financing activities was approximately \$5,166. The decrease in net cash used in financing activities is primarily attributable to lower operating cash generated in the first nine months of 2016 compared to the first nine months of 2015 to pay down bank debt.

Based primarily on the above factors, net cash increased for the nine months ended October 1, 2016 by \$88, resulting in a cash balance of approximately \$1,011 at October 1, 2016.

### *Capital Resources*

In addition to operating cash flow, we also rely on our 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 regularly evaluate market conditions, our liquidity profile, and various financing alternatives for opportunities to enhance our capital structure. If market conditions are favorable, we may refinance our existing debt or issue additional securities. Based on past performance and current expectations, 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.

However, if we are unable to meet our current financial forecast or to manage our legal and other general and administrative costs and expenses and cannot raise additional funds or adjust our operations accordingly, we may not remain in compliance with the financial covenants required under our credit facility. 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 credit facility. 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

Table of Contents

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.

*Credit Facilities*

We and our wholly owned subsidiary, Summer Infant (USA), Inc., are parties to an amended and restated loan and security agreement with Bank of America, N.A., as agent, providing for an asset-based credit facility (as amended in December 2015 and May 2016, the "Credit Facility").

The Credit Facility consists of a \$60,000 asset-based revolving credit facility, with a \$10,000 letter of credit sub-line facility (the "Revolving Facility"), a \$5,000 first in last out (FILO) revolving credit facility (the "FILO Facility") and a \$10,000 term loan facility (the "Term Loan Facility"). Pursuant to an accordion feature, the Credit Facility includes the ability to increase the Revolving Facility by an additional \$15,000 upon the Company's request and the agreement of the lenders participating in the increase. The total borrowing capacity under the Revolving Facility is based on a borrowing base, generally defined as 85% of the value of eligible accounts 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 total borrowing capacity under the FILO Facility is based on a borrowing base, generally defined as a specified percentage of the value of eligible accounts that steps down over time, plus a specified percentage of the value of eligible inventory that steps down over time. For additional information on the Credit Facility, please see Note 2 to our consolidated financial statements included in this Quarterly Report on Form 10-Q.

As of October 1, 2016, the rate for base-rate loans was 4.5% and rate for LIBOR-rate loans was 3.25%. The amount outstanding on the Revolving Facility at October 1, 2016 was \$37,741. Total borrowing capacity under the Revolving Facility at October 1, 2016 was \$46,941 and borrowing availability was \$9,200. The amounts outstanding on the Term Loan Facility and FILO Facility at October 1, 2016 were \$7,000 and \$5,000, respectively.

We were in compliance with the financial covenants under the Credit Facility as of October 1, 2016.

**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 October 1, 2016. Our Chief Executive Officer and Chief Financial Officer have concluded, based on this evaluation, that our controls and procedures were effective as of October 1, 2016.

*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.

Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The information set forth in Note 4, Commitments and Contingencies, under Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

**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 Annual Report on Form 10-K for the fiscal year ended January 2, 2016 and our Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2016.

**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.

Table of Contents

**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.

Table of Contents

**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 2, 2016

By:

/s/ Mark Messner  
Mark Messner  
President and Chief Executive Officer (Principal  
Executive Officer)

Date: November 2, 2016

By:

/s/ William E. Mote, Jr.  
William E. Mote, Jr.  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Table of Contents

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
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