

KBL Healthcare Acquisition Corp. II  
Form DEFM14A  
February 13, 2007  
Table of Contents

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

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to § 240.14a-2

**KBL HEALTHCARE ACQUISITION CORP. II**

(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:  
Common stock of KBL Healthcare Acquisition Corp. II.

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(2) Aggregate number of securities to which transaction applies:  
3,916,667

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):  
Average of the bid and ask price for common stock as of October 20, 2006: (\$5.385)

(4) Proposed maximum aggregate value of transaction:  
\$41,091,251.80

(5) Total fee paid:  
\$4,396.76

x Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**Table of Contents**

This proxy statement is dated February 12, 2007 and is first being mailed to KBL stockholders on or about February 14, 2007.

**KBL Healthcare Acquisition Corp. II**

**757 Third Avenue, 21<sup>st</sup> Floor**

**New York, New York 10017**

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MARCH 6, 2007**

TO THE STOCKHOLDERS OF KBL HEALTHCARE ACQUISITION CORP. II:

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of KBL Healthcare Acquisition Corp. II ( **KBL** ), a Delaware corporation, will be held at 10:00 a.m., eastern time, on March 6, 2007, at the offices of Graubard Miller, KBL's counsel, at The Chrysler Building, 405 Lexington Avenue, 19th Floor, New York, New York 10174. You are cordially invited to attend the meeting, which will be held for the following purposes:

- (1) to consider and vote upon the adoption of the Agreement and Plans of Reorganization ( **Acquisition Agreement** ), dated as of September 1, 2006, among KBL, SII Acquisition, Inc., a Rhode Island corporation and wholly owned subsidiary of KBL ( **Merger Sub** ), Summer Infant, Inc., a Rhode Island corporation ( **SII** ), Summer Infant Europe Limited, a United Kingdom limited company ( **SIE** ), Summer Infant Asia, Ltd., a Hong Kong limited company ( **SIA** ) and, collectively with SIE and SII, the **Summer Companies** or **Summer** ), and the stockholders of each of the Summer Companies, and the transactions contemplated thereby. We refer to this proposal as the **acquisition proposal**. The board of directors and stockholders of each of SII, SIE and SIA have already approved and adopted the Acquisition Agreement;
- (2) to consider and vote upon an amendment to the certificate of incorporation of KBL to change the name of KBL from **KBL Healthcare Acquisition Corp. II** to **Summer Infant, Inc.** We refer to this proposal as the **name change amendment proposal** ;
- (3) to consider and vote upon an amendment to the certificate of incorporation of KBL to increase the number of authorized shares of KBL common stock from 35,000,000 to 100,000,000. We refer to this proposal as the **capitalization amendment proposal** ;
- (4) to consider and vote upon an amendment to the certificate of incorporation of KBL to remove the preamble and sections A through D, inclusive, of Article Sixth from the certificate of incorporation from and after the closing of the acquisition, as these provisions will no longer be applicable to KBL, and to redesignate section E of Article Sixth as modified as Article Sixth of KBL's restated and amended certificate of incorporation. We refer to this proposal as the **Article Sixth amendment proposal** ; and
- (5) to consider and vote upon the 2006 performance equity plan (an equity-based performance equity plan). We refer to this proposal as the **performance equity plan proposal**.

These items of business are described in the attached proxy statement, which we encourage you to read in its entirety before voting. Only holders of record of KBL's common stock at the close of business on February 6, 2007 are entitled to notice of the special meeting and to vote and have their votes counted at the special meeting and any adjournments or postponements of the special meeting. KBL will not transact any other business at the special meeting or any adjournment or postponement of the meeting.

The acquisition proposal must be approved by a majority of the KBL common stock sold in KBL's initial public offering ( **IPO** ) that is present in person or represented by proxy and entitled to vote at the special meeting.

## **Table of Contents**

Each of the name change amendment, capitalization amendment and Article Sixth amendment proposals must be approved by the holders of a majority of the outstanding shares of KBL common stock. The performance equity plan proposal must be approved by the holders of a majority of the shares of KBL common stock that is present in person or represented by proxy and entitled to vote at the meeting.

The adoption of the acquisition proposal is conditioned on the adoption of the name change amendment and the capitalization amendment, and neither the name change amendment nor the capitalization amendment will be presented to the meeting for adoption unless the acquisition proposal is approved. The adoption of the Article Sixth amendment and the performance equity plan proposals are not conditions to the acquisition proposal or to the adoption of either of the name change amendment or the capitalization amendment proposals, but if the acquisition proposal is not approved, neither the Article Sixth amendment proposal nor the performance equity proposal will be presented at the meeting for adoption.

Your broker, bank or nominee cannot vote your shares on any proposal unless you provide instructions on how to vote in accordance with the information and procedures provided to you by your broker, bank or nominee. Abstentions will have the same effect as a vote AGAINST the acquisition proposal and the name change amendment, capitalization amendment, Article Sixth amendment and the performance equity plan proposals. Broker non-votes, while considered present for the purposes of establishing a quorum, will have the effect of votes against the name change amendment, capitalization amendment and Article Sixth amendment proposals, but will have no effect on the acquisition proposal or the performance equity plan proposal. However, since the adoption of the acquisition proposal is conditioned on the adoption of the name change amendment and capitalization amendment proposals, any broker non-vote with respect to the name change amendment or capitalization amendment proposals will essentially have the same effect as a vote against the acquisition proposal.

Each KBL stockholder that holds shares of common stock issued in KBL's IPO has the right to vote against the acquisition proposal and at the same time demand that KBL convert such stockholder's shares into cash equal to a pro rata portion of the funds held in the trust account into which a substantial portion of the net proceeds of KBL's IPO was deposited. The exact conversion price will be determined as of a date which is two business days prior to the anticipated date of the consummation of the acquisition. On February 6, 2007, the record date for the meeting of stockholders, the conversion price would have been approximately \$5.68 in cash for each share of KBL common stock. These shares will be converted into cash only if the acquisition is consummated. If, however, the holders of 20% (approximately 1,840,000 shares) or more shares of common stock issued in KBL's IPO both vote against the acquisition proposal and demand conversion of their shares, KBL will not consummate the acquisition. Prior to exercising conversion rights, KBL stockholders should verify the market price of KBL's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their conversion rights. Shares of KBL's common stock are quoted on the Over-the-Counter Bulletin Board under the symbol KBLH.OB. On February 6, 2007, the record date, the last sale price of KBL's common stock was \$5.60.

KBL's initial stockholders who purchased their shares of common stock prior to KBL's IPO, and which include all of KBL's directors and executive officers and their affiliates and are referred to collectively in this proxy statement as the KBL Inside Stockholders, currently own an aggregate of approximately 17.9% of the outstanding shares of KBL common stock. Each of the KBL Inside Stockholders has agreed to vote all of the shares they purchased prior to the IPO on the acquisition proposal in accordance with the vote of the majority of the votes cast by the holders of shares issued in the IPO. The KBL Inside Stockholders have also indicated that they intend to vote such shares FOR the adoption of the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals. These KBL insiders also have indicated they intend to vote any shares they acquire after the IPO for all of the proposals. As of the record date, these KBL insiders have not acquired any additional shares of KBL common stock since the IPO.

After careful consideration, KBL's board of directors has determined that the acquisition proposal, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals are in the best interests of KBL's stockholders. KBL's board of directors unanimously recommends that you vote or give instruction to vote FOR the adoption of the acquisition proposal, the name change

**Table of Contents**

amendment proposal, the capitalization amendment proposal, the Article Sixth amendment proposal and the performance equity plan proposal.

All KBL stockholders are cordially invited to attend the special meeting in person. However, to ensure your representation at the meeting, you are urged to complete, sign, date and return the enclosed proxy card as soon as possible. If you are a stockholder of record of KBL common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares. If you do not vote or do not instruct your broker or bank how to vote, it will have the same effect as voting against the name change amendment, the capitalization amendment and the Article Sixth amendment proposals.

A complete list of KBL stockholders of record entitled to vote at the special meeting will be available for ten days before the special meeting at the principal executive offices of KBL for inspection by stockholders during ordinary business hours for any purpose germane to the special meeting.

Your vote is important regardless of the number of shares you own. Whether you plan to attend the special meeting or not, please sign, date and return the enclosed proxy card as soon as possible in the envelope provided.

Thank you for your participation. We look forward to your continued support.

February 12, 2007

By Order of the Board of Directors

Sincerely,

/s/ DR. ZACHARY BERK

*Dr. Zachary Berk*

*Chairman of the Board and President*

Neither the Securities and Exchange Commission nor any state securities commission has determined if this proxy statement is truthful or complete. Any representation to the contrary is a criminal offense.

SEE RISK FACTORS FOR A DISCUSSION OF VARIOUS FACTORS THAT YOU SHOULD CONSIDER IN CONNECTION WITH THE ACQUISITION.

**Table of Contents**

**TABLE OF CONTENTS**

<u>SUMMARY OF THE PROXY STATEMENT</u>	1
<u>QUESTIONS AND ANSWERS ABOUT THE PROPOSALS</u>	5
<u>SELECTED SUMMARY HISTORICAL AND PRO FORMA</u>	
<u>CONSOLIDATED FINANCIAL INFORMATION</u>	11
<u>Summer s Selected Historical Financial Information</u>	12
<u>KBL s Selected Historical Financial Information</u>	14
<u>Selected Unaudited Pro Forma Combined Financial Information of KBL and Summer</u>	14
<u>Selected Pro Forma Condensed Combined Statement of Income</u>	15
<u>Selected Pro Forma Condensed Combined Balance Sheet</u>	16
<u>Comparative Per Share Data</u>	17
<u>RISK FACTORS</u>	18
<u>Risks Related to KBL s Business and Operations Following the Acquisition of Summer</u>	18
<u>Risks Related to the Acquisition</u>	20
<u>SPECIAL MEETING OF KBL STOCKHOLDERS</u>	25
<u>General</u>	25
<u>Date, Time and Place</u>	25
<u>Purpose of the KBL Special Meeting</u>	25
<u>Recommendation of KBL Board of Directors</u>	25
<u>Record Date: Who is Entitled to Vote</u>	26
<u>Quorum</u>	26
<u>Abstentions and Broker Non-Votes</u>	26
<u>Vote of KBL s Stockholders Required</u>	26
<u>Voting Your Shares</u>	27
<u>Revoking Your Proxy</u>	27
<u>Who Can Answer Your Questions About Voting Your Shares</u>	27
<u>No Additional Matters May Be Presented at the Special Meeting</u>	28
<u>Conversion Rights</u>	28
<u>Appraisal Rights</u>	28
<u>Proxy Solicitation Costs</u>	28
<u>KBL Inside Stockholders</u>	29
<u>THE ACQUISITION PROPOSAL</u>	30
<u>General Description of the Acquisition</u>	30
<u>Background of the Acquisition</u>	30
<u>KBL s Board of Directors Reasons for Approval of the Acquisition</u>	36
<u>Satisfaction of 80% Test</u>	40
<u>Interest of KBL s Directors and Officers in the Acquisition</u>	40
<u>Recommendation of KBL s Board of Directors</u>	41
<u>Fairness Opinion</u>	41
<u>Material Federal Income Tax Consequences of the Acquisition</u>	48
<u>Anticipated Accounting Treatment</u>	49
<u>Regulatory Matters</u>	49
<u>THE ACQUISITION AGREEMENT</u>	50
<u>General: Structure of Acquisition</u>	50
<u>Closing and Effective Time of the Acquisition</u>	50
<u>Acquisition Consideration</u>	50
<u>Escrow Agreement</u>	51
<u>Lock-Up Agreements</u>	51
<u>Employment Agreements</u>	51
<u>Election of Directors: Voting Agreement</u>	52
<u>Registration Rights Agreement</u>	52
<u>Representations and Warranties</u>	52

**Table of Contents**

<u>Covenants</u>	53
<u>Conditions to the Closing of the Acquisition</u>	56
<u>Indemnification</u>	57
<u>Termination</u>	58
<u>Net Worth Asset Share Adjustment</u>	58
<u>Effect of Termination</u>	59
<u>Fees and Expenses</u>	59
<u>Confidentiality; Access to Information</u>	59
<u>Amendments</u>	60
<u>Extension; Waiver</u>	60
<u>Public Announcements</u>	60
<u>Arbitration</u>	60
<u>UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	61
<u>Unaudited Pro Forma Condensed Consolidated Balance Sheet Assuming No Conversions (at September 30, 2006)</u>	62
<u>Unaudited Pro Forma Condensed Consolidated Balance Sheet Assuming Maximum conversions (at September 30, 2006)</u>	63
<u>Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data Consolidated Assuming No Conversions (for nine months ended September 30, 2006)</u>	64
<u>Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data Assuming Maximum Conversions (for nine months ended September 30, 2006)</u>	65
<u>Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data Assuming No Conversions (for year ended December 31, 2005)</u>	66
<u>Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data Assuming Maximum Conversions (for year ended December 31, 2005)</u>	67
<u>Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements</u>	68
<u>Purchase Accounting Adjustment</u>	69
<u>NAME CHANGE AMENDMENT PROPOSAL</u>	71
<u>CAPITALIZATION AMENDMENT PROPOSAL</u>	72
<u>ARTICLE SIXTH AMENDMENT PROPOSAL</u>	73
<u>2006 PERFORMANCE EQUITY PLAN PROPOSAL</u>	75
<u>Background</u>	75
<u>Administration</u>	75
<u>Stock Subject to the Plan</u>	75
<u>Eligibility</u>	75
<u>Types of Awards</u>	76
<u>Competition; Solicitation of Customers and Employees; Disclosure of Confidential Information</u>	78
<u>Withholding Taxes</u>	78
<u>Term and Amendments</u>	78
<u>Federal Income Tax Consequences</u>	79
<u>Recommendation and Vote Required</u>	81
<u>OTHER INFORMATION RELATED TO KBL</u>	82
<u>Business of KBL</u>	82
<u>Offering Proceeds Held in Trust</u>	82
<u>Fair Market Value of Target Business</u>	82
<u>Stockholder Approval of Business Combination</u>	82
<u>Liquidation if No Business Combination</u>	83
<u>Facilities</u>	85
<u>Employees</u>	85
<u>Periodic Reporting and Audited Financial Statements</u>	85
<u>Legal Proceedings</u>	85
<u>Plan of Operations</u>	85

**Table of Contents**

<u>Off-Balance Sheet Arrangements</u>	86
<b><u>BUSINESS OF SUMMER</u></b>	87
<u>General</u>	87
<u>Products</u>	87
<u>Product Development and Design</u>	88
<u>Suppliers and Manufacturing</u>	89
<u>Sales and Marketing</u>	89
<u>Competition</u>	89
<u>Intellectual Property</u>	90
<u>Customers</u>	90
<u>Geographic Regions</u>	90
<u>Facilities</u>	90
<u>Regulatory Matters</u>	91
<u>Insurance</u>	91
<u>Legal Proceedings</u>	91
<u>Employees</u>	92
<b><u>SUMMER'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	93
<u>Company Overview</u>	96
<u>Results of Operations</u>	98
<u>Liquidity and Capital Resources</u>	101
<u>Non-GAAP Discussion</u>	104
Reconciliation of unaudited EBITDA, as adjusted, to Net Income	104
<u>Recently Issued Accounting Pronouncements</u>	105
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	105
<b><u>DIRECTORS AND EXECUTIVE OFFICERS OF KBL FOLLOWING THE ACQUISITION</u></b>	107
<u>Meetings and Committees of the Board of Directors of KBL</u>	109
<u>Independence of Directors</u>	109
<u>Audit Committee</u>	109
<u>Independent Auditors' Fees</u>	109
<u>Code of Ethics</u>	110
<u>Compensation Committee Information</u>	110
<u>Nominating Committee Information</u>	111
<u>Election of Directors: Voting Agreement</u>	111
<u>Executive Compensation</u>	112
<u>Compensation Discussion and Analysis</u>	112
<u>Employment Agreements</u>	114
<b><u>BENEFICIAL OWNERSHIP OF SECURITIES</u></b>	117
<u>Security Ownership of Certain Beneficial Owners and Management</u>	117
<b><u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u></b>	120
<u>KBL Related Party Transactions</u>	120
<u>Summer Related Party Transactions</u>	122
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	122
<b><u>DESCRIPTION OF KBL COMMON STOCK AND OTHER SECURITIES</u></b>	123
<u>General</u>	123
<u>Common Stock</u>	123
<u>Preferred Stock</u>	123
<u>Warrants</u>	124
<b><u>PRICE RANGE OF KBL SECURITIES AND DIVIDENDS</u></b>	125
<u>Holder</u>	125
<u>Dividends</u>	125
<b><u>APPRAISAL RIGHTS</u></b>	126
<b><u>STOCKHOLDER PROPOSALS</u></b>	126



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**Table of Contents**

<u>INDEPENDENT AUDITORS</u>	126
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	127
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1
Annex A - Agreement and Plans of Reorganization	A-1
Annex B - Amended and Restated Certificate of Incorporation	B-1
Annex C - 2006 Performance Equity Plan	C-1
Annex D - Voting Agreement	D-1
Annex E - Fairness Opinion of Capitalink, L.C.	E-1
Annex F - Form of Escrow Agreement	F-1
Annex G - Form of Registration Rights Agreement	G-1
Annex H - Form of Tax Opinion to be Issued by Graubard Miller	H-1
Annex I - Form of Employment Agreement between KBL and Dr. Marlene Krauss	I-1
Annex J - Form of Employment Agreement between KBL and Jason Macari	J-1
Annex K - Form of Employment Agreement between KBL and Steven Gibree	K-1
Annex L - Form of Employment Agreement between Summer and Joseph Driscoll	L-1
Annex M - Form of Employment Agreement between Summer and Rachelle Harel	M-1

**Table of Contents**

**SUMMARY OF THE PROXY STATEMENT**

***Parties***

The parties to the acquisition are:

KBL Healthcare Acquisition Corp. II ( KBL ),

Summer Infant, Inc. ( SII ),

Summer Infant Europe, Limited ( SIE ), and Summer Infant Asia, Ltd. ( SIA ), each of which is an affiliate of SII and which are referred to herein collectively with SII as Summer or the Summer Companies,

All of the stockholders of each of the Summer Companies, and

SII Acquisition, Inc. ( Merger Sub ), a wholly owned subsidiary of KBL that was formed solely for the purpose of effecting the acquisition as described herein.

See the section entitled *The Acquisition Proposal*.

Summer is a privately-owned designer, marketer and distributor of health, safety and wellness products for infants and toddlers in the United States, Europe and Asia. See the section entitled *Business of Summer*.

***Acquisition Structure***

On closing of the acquisition:

SII will merge into the Merger Sub, with Merger Sub surviving the merger as a wholly owned subsidiary of KBL and changing its name to Summer Infant USA, Inc.

The stockholders of SIE and SIA will sell and transfer all of the outstanding capital stock of those companies to KBL, and each such company will become a wholly-owned subsidiary of KBL, and

the Merger Sub shall acquire all of the assets and liabilities of Faith Realty, LLC ( Faith Realty ), an entity owned by two of the Summer stockholders, which owns the facilities currently under construction that are intended for use by Summer as its principal offices and facilities.

See the section entitled *The Acquisition Proposal*.

***Acquisition Consideration***

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In return for all of their stock in each of SII, SIE and SIA, the stockholders of Summer will receive from KBL an aggregate of 3,916,667 shares of KBL common stock, subject to downward adjustment based upon the net worth of Summer at the closing, and \$20,000,000 in cash. The Summer stockholders will be entitled to receive an additional 2,500,000 shares of KBL's common stock if the market price of KBL's common stock exceeds certain levels for a prescribed period of time after closing. In addition, the Summer stockholders will be entitled to receive up to an aggregate of \$5,000,000 cash in the event Summer's EBITDA exceeds certain levels in one or more of the fiscal years ending December 31, 2006, 2007 and 2008.

Based on last sale price of a share of KBL common stock on September 1, 2006 (\$5.35), the date the Acquisition Agreement was signed by the parties, with respect to the shares to be issued at the closing of the acquisition, and assuming all contingent issuances of stock (valued at \$8.50 per share) and payments of cash are made, the value of the total maximum consideration that may be given by KBL in the acquisition is approximately \$67,204,168 or approximately \$77,304,168 giving effect to KBL's assumption of approximately \$10,100,000 of Summer's net debt (as measured at June 30, 2006). Based on a last sale price of a share of KBL common stock on February 6, 2007, the record date (\$5.60), such total maximum consideration is \$68,183,335 or approximately \$79,864,335 giving effect to KBL's assumption of

## **Table of Contents**

approximately \$11,681,000 of Summer's net debt (as measured at September 30, 2006). See the section entitled *The Acquisition Agreement Acquisition Consideration*.

### ***Post-Closing Ownership of KBL Common stock***

As a result of the acquisition, and assuming that no KBL stockholder demands that KBL convert its shares to cash as permitted by KBL's certificate of incorporation, the stockholders of Summer will own approximately 25.9% of the outstanding KBL common stock and the current stockholders of KBL will own approximately 74.1% of the outstanding KBL common stock immediately after the closing of the acquisition. Assuming 19.9% of the outstanding KBL common stock votes against the acquisition and such stock is converted into cash, the existing KBL stockholders will own 69.6% of the outstanding common stock of KBL immediately following the closing. See the section entitled *The Acquisition Agreement Acquisition Consideration*.

### ***Escrow Agreement***

At the closing of the acquisition, 1,000,000 of the KBL shares to be issued to the Summer stockholders will be placed in escrow until the later of (a) the date that is sixteen months after the effective time of the acquisition and (b) the thirtieth day after the date that KBL files its Annual Report on Form 10-K for the year ended December 31, 2007, as a fund for the payment of indemnification claims that may be made by KBL as a result of breaches of Summer's covenants, representations and warranties in the Acquisition Agreement and certain lawsuits to which Summer is a party.

At the closing of the acquisition, 391,667 of the KBL shares to be issued to the Summer stockholders will be placed into escrow. If Summer's net worth (as defined in the Acquisition Agreement) at the closing of the acquisition is less than Summer's net worth at June 30, 2006, KBL shall be entitled to the return, without limit, of that number of shares of KBL common stock issued to the Summer stockholders equal to the difference in such net worth at both dates divided by \$6.00. All or a portion of the 391,667 shares held in escrow will be returned to KBL in the event the foregoing becomes applicable. If the difference between Summer's net worth at the closing of the acquisition and June 30, 2006 would result in KBL having the right to the return of more than the 391,667 shares held in escrow, the Summer stockholders will be obligated to return directly to KBL such additional shares. See the section entitled *The Acquisition Agreement Escrow Agreement*.

### ***Other Proposals***

In addition to voting on the acquisition, the stockholders of KBL will vote on proposals to change its name to Summer Infant Inc., to increase the number of shares of common stock it is authorized to issue from 35,000,000 to 100,000,000, to amend its charter to delete certain provisions that will no longer be operative after the acquisition and to approve the performance equity plan. See the sections entitled *Name Change Amendment Proposal*, *Capitalization Amendment Proposal*, *Article Sixth Amendment Proposal* and *2006 Equity Plan Proposal*.

### ***Lock-Up Agreements***

All of the stockholders of Summer have agreed not to sell any of the shares of KBL common stock they receive in the acquisition before April 21, 2008. See the section entitled *The Acquisition Agreement Lock-up Agreements*.

### ***Post-Acquisition Executive Officers and Employment Agreement***

At the closing of the acquisition Dr. Marlene Krauss, who is currently the chief executive officer of KBL, will become KBL's chairman of the board of directors. None of KBL's other current officers or directors

## **Table of Contents**

will continue with KBL after the acquisition. All of the current officers of Summer will continue in their positions with Summer following the acquisition. In addition, at the closing of the acquisition, Jason Macari, Summer's current chief executive officer, also will become chief executive officer of KBL, Steven Gibree, Summer's current executive vice president of product development, also will become executive vice president of product development of KBL, Joseph Driscoll, Summer's current chief financial officer, also will become chief financial officer of KBL, and Rachelle Harel, SIE's current managing director, will become SIE's director and general manager. Each of Dr. Krauss, Messrs. Macari, Gibree and Driscoll and Ms. Harel will enter into employment agreements with KBL and/or Summer, effective as of the closing of the acquisition. See the section entitled *Directors and Executive Officers of KBL Following the Acquisition Employment Agreements*.

### ***Post-Acquisition Board of Directors***

After the acquisition, the board of directors of KBL will be comprised of two persons designated by the Summer stockholders, two persons designated by certain of KBL's current stockholders, and three persons mutually designated by such stockholders of Summer and KBL, in accordance with a voting agreement, dated as of September 1, 2006. The voting agreement provides that such stockholders of Summer and KBL will vote their shares of KBL common stock in favor of such designees to serve as directors of KBL through the annual meeting of stockholders of KBL to be held in 2009. See the section entitled *The Acquisition Agreement Election of Directors; Voting Agreement*.

### ***Federal Income Tax Consequences***

The acquisition will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and no gain or loss will be recognized by KBL or Summer as a result of the acquisition. Further, no gain or loss will be recognized by non-converting stockholders of KBL as a result of the acquisition. See the section entitled *The Acquisition Proposal Material Federal Income Tax Consequences of the Acquisition*.

### ***Fairness Opinion***

KBL received an opinion from Capitalink, L.C. that the acquisition on the terms and conditions set forth in the Acquisition Agreement is fair to KBL stockholders from a financial point of view and that the fair market value of Summer is at least equal to 80% of KBL's net assets. See the section entitled *The Acquisition Proposal Fairness Opinion*.

### **Recommendation of KBL Board of Directors**

KBL's board of directors:

has unanimously determined that the acquisition proposal and each of the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals is in the best interests of KBL and its stockholders;

has unanimously approved the acquisition proposal and each of the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals;

unanimously recommends that KBL's common stockholders vote FOR the acquisition proposal;

unanimously recommends that KBL's common stockholders vote FOR the name change amendment proposal;

unanimously recommends that KBL's common stockholders vote FOR the capitalization amendment proposal;



**Table of Contents**

unanimously recommends that KBL's common stockholders vote FOR the Article Sixth amendment proposal; and

unanimously recommends that KBL's common stockholders vote FOR the proposal to approve the performance equity plan.

***Summer Stockholders Approval***

All of the stockholders of Summer have approved the acquisition by written consent for purposes of the corporate laws of the State of Rhode Island and each of the United Kingdom and Hong Kong. Accordingly, no further action by the Summer stockholders is needed to approve the acquisition.

***Reasons for the Acquisition***

KBL believes that Summer, with its experienced compounded annual growth rate in net sales of more than 200% from net sales of approximately \$400,000 in fiscal 2001 (the year Summer was purchased by the current management) to net sales of approximately \$35,500,000 in fiscal 2005, is positioned for continued growth in its markets and believes that a business combination with Summer will provide KBL stockholders with an opportunity to participate in a company with significant growth potential.

***Risk Factors***

In analyzing the proposed acquisition, KBL notes that Summer has aggregate existing net indebtedness of approximately \$11,681,000 as of September 30, 2006, Summer recently was required to negotiate waivers with respect to its noncompliance with certain covenants under an existing loan facility, and Summer is involved in certain litigations and claims. See the section entitled *Summer's Management Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources*.

In evaluating the acquisition proposal, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposal, you should carefully read this proxy statement and consider the factors discussed in the section entitled *Risk Factors*.

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE PROPOSALS**

**Q. Why am I receiving this proxy statement?**

- A. KBL and Summer have agreed to a business combination under the terms of the Agreement and Plans of Reorganization, dated as of September 1, 2006, as described in this proxy statement. This agreement is referred to as the Acquisition Agreement. A copy of the Acquisition Agreement is attached to this proxy statement as *Annex A*, and we encourage you to read it in its entirety.

In order to complete the acquisition, KBL stockholders must vote to approve (i) the Acquisition Agreement, (ii) an amendment to KBL's certificate of incorporation to change the name of KBL from KBL Healthcare Acquisition Corp. II to Summer Infant, Inc., and (iii) an amendment to KBL's certificate of incorporation to increase the number of shares of authorized common stock from 35,000,000 to 100,000,000. KBL stockholders also will be asked to vote to approve (a) an amendment to KBL's certificate of incorporation to make certain modifications to Article Sixth thereof and (b) the performance equity plan, but such approvals are not conditions to the acquisition. The performance equity plan has been approved by KBL's board of directors and will be effective upon consummation of the acquisition, if approved by the stockholders. KBL's amended and restated certificate of incorporation, as it will appear if all amendments proposed hereby are approved, is attached to this proxy statement as *Annex B*. The performance equity plan is attached to this proxy statement as *Annex C*.

KBL will hold a special meeting of its stockholders to obtain these approvals. This proxy statement contains important information about the proposed acquisition, the other proposals and the meeting of KBL stockholders. You should read it carefully.

**Your vote is important. We encourage you to vote as soon as possible after carefully reviewing this proxy statement.**

**Q. What is being voted on?**

- A. There are five specific proposals on which the KBL stockholders are being asked to vote. The first proposal is to adopt and approve the Acquisition Agreement and the transactions contemplated thereby. We refer to this proposal as the acquisition proposal.

The second proposal is to approve an amendment to the certificate of incorporation to change the name of KBL from KBL Healthcare Acquisition Corp. II to Summer Infant, Inc. We refer to this proposal as the name change amendment proposal.

The third proposal is to approve an amendment to the certificate of incorporation to increase the number of authorized shares of KBL common stock from 35,000,000 to 100,000,000. We refer to this proposal as the capitalization amendment proposal.

The fourth proposal is to approve an amendment to the certificate of incorporation to remove the preamble and sections A through D, inclusive, of Article Sixth from the certificate of incorporation from and after the closing and to redesignate and modify Section E of Article Sixth as Article Sixth. The items being removed will no longer be operative upon consummation of the acquisition; therefore, this amendment is being proposed to revise the certificate of incorporation on a going-forward basis. We refer to this proposal as the Article Sixth amendment proposal.



**Table of Contents**

The fifth proposal is to approve KBL's 2006 performance equity plan under which an aggregate of 1,600,000 shares of KBL common stock shall be reserved for option grants and other awards to officers, directors, employees and consultants of KBL. We refer to this proposal as the performance equity plan proposal.

KBL's initial stockholders who purchased their shares of common stock prior to KBL's IPO, and which include all of KBL's directors and executive officers and their affiliates and are referred to collectively in this proxy statement as the KBL Inside Stockholders, currently own an aggregate of approximately 17.9% of the outstanding shares of KBL common stock. Each of the KBL Inside Stockholders has agreed to vote all of the shares they purchased prior to the IPO on the acquisition proposal in accordance with the vote of the majority of the votes cast by the holders of shares issued in the IPO. Accordingly, their vote will have no effect on the outcome of the acquisition proposal. The KBL Inside Stockholders also have indicated that they intend to vote such shares in favor of all other proposals being presented at the special meeting. The KBL Inside Stockholders also have indicated that they intend to vote any shares they acquire after the IPO for all of the proposals. As of the record date, the KBL Inside Stockholders have not acquired any additional shares of KBL common stock since the IPO.

- Q. What vote is required in order to adopt the acquisition proposal?**      **A.** The approval of the acquisition proposal will require the affirmative vote of holders of a majority of the shares of KBL common stock sold in KBL's IPO that are present in person or represented by proxy and entitled to vote at the special meeting. If the holders of 20% or more of the shares of the common stock issued in KBL's IPO both vote against the acquisition proposal and demand that KBL convert their shares into a pro rata portion of KBL's trust account, then the acquisition will not be consummated. No vote of the holders of KBL's warrants is necessary to adopt the acquisition proposal or any of the other proposals and KBL is not asking the warrant holders to vote on the acquisition proposal or the other proposals. KBL will not consummate the acquisition unless both the name change amendment and the capitalization amendment proposals are also approved. The approval of the Article Sixth amendment and the performance equity plan proposals are not conditions to the consummation of the acquisition. If the acquisition proposal is not approved, none of the other proposals will be presented for approval.
- Q. What vote is required in order to adopt the name change amendment proposal?**      **A.** The approval of the name change amendment proposal will require the affirmative vote of the holders of a majority of the outstanding shares of KBL's common stock. The approval of the name change amendment proposal is a condition to the consummation of the acquisition.
- Q. What vote is required in order to adopt the capitalization amendment proposal?**      **A.** The approval of the capitalization amendment proposal will require the affirmative vote of the holders of a majority of the outstanding shares of KBL's common stock. The approval of the capitalization amendment proposal is a condition to the consummation of the acquisition.
- Q. What vote is required in order to adopt the Article Sixth amendment proposal?**      **A.** The approval of the Article Sixth amendment proposal will require the affirmative vote of the holders of a majority of the outstanding shares of KBL's common stock. The approval of the Article Sixth amendment proposal is not a condition to the consummation of the acquisition or to the effectuation of the name change amendment or the capitalization amendment.

**Table of Contents**

- Q. What vote is required in order to adopt the performance equity plan proposal?**      **A.** The approval of the performance equity plan proposal will require the affirmative vote of the holders of a majority of the shares of KBL common stock represented in person or by proxy and entitled to vote at the special meeting. The approval of the performance equity plan proposal is not a condition to the approval of the acquisition proposal or to the effectuation of the name change amendment or the capitalization amendment.
- Q. Why is KBL proposing the performance equity plan?**      **A.** KBL is proposing the performance equity plan to enable it to attract, retain and reward its directors, officers, employees and consultants using equity-based incentives. The performance equity plan has been approved by KBL’s board of directors and will be effective upon consummation of the acquisition, subject to stockholder approval of the plan.
- Q. How do the proposals affect each other?**      **A.** The acquisition will not be consummated unless each of the name change amendment and the capitalization amendment proposals is approved, and neither the name change amendment nor the capitalization amendment proposals will be presented to the meeting for adoption unless the acquisition proposal is approved. If the name change amendment or capitalization amendment proposals are not approved the acquisition proposal will not be deemed approved. The approval of the Article Sixth amendment and the performance equity plan proposals is not a condition to the consummation of the acquisition or to the adoption of either of the name change amendment or the capitalization amendment proposals but, if the acquisition proposal is not approved, neither the Article Sixth amendment nor the performance equity plan proposed will be presented at the meeting for adoption. See the section entitled *Special Meeting of KBL Stockholders Vote of KBL Stockholders Required*.
- Q. Do I have conversion rights?**      **A.** If you hold shares of common stock issued in KBL’s IPO, then you have the right to vote against the acquisition proposal and demand that KBL convert such shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of KBL’s IPO are held. We sometimes refer to these rights to vote against the acquisition and demand conversion of the shares into a pro rata portion of the trust account as conversion rights.
- Q. How do I exercise my conversion rights?**      **A.** If you wish to exercise your conversion rights, you must (i) vote against the acquisition proposal, (ii) demand that KBL convert your shares into cash and (iii) tender your stock certificates to KBL’s transfer agent prior to the special meeting. Any action that does not include an affirmative vote against the acquisition will prevent you from exercising your conversion rights. Your vote on any proposal other than the acquisition proposal will have no impact on your right to seek conversion.

You may exercise your conversion rights either by checking the box on the proxy card or by submitting your request in writing to KBL at the address listed at the end of this section. If you (i) initially vote for the acquisition proposal but then wish to vote against it and exercise your conversion rights or (ii) initially vote against the acquisition proposal and wish to exercise your conversion rights but do not check the box on the proxy card providing for the exercise of your conversion rights or do not send a written request to KBL to exercise your conversion rights, or (iii) initially vote against the acquisition but later wish to vote for it, you may request KBL to send you another proxy card on which you may indicate your intended vote and, if that vote is against the acquisition

**Table of Contents**

proposal, exercise your conversion rights by checking the box provided for such purpose on the proxy card. You may make such request by contacting KBL at the phone number or address listed at the end of this section. Any corrected or changed proxy card or written demand of conversion rights must be received by KBL prior to the special meeting. No demand for conversion will be honored unless the holder's stock certificate has been delivered to KBL's transfer agent prior to the special meeting.

If, notwithstanding your negative vote, the acquisition is completed, then you will be entitled to receive a pro rata portion of the trust account, including any interest earned thereon, calculated as of two business days prior to the anticipated date of the consummation of the acquisition. As of the record date, there was approximately \$52,263,748 in trust, which would amount to approximately \$5.68 per share upon conversion. If

you exercise your conversion rights, then you will be exchanging your shares of KBL common stock for cash and will no longer own these shares.

Exercise of your conversion rights does not result in either the conversion or a loss of your warrants. Your warrants will continue to be outstanding and exercisable following a conversion of your common stock unless we do not consummate the acquisition.

- Q. What if I object to the proposed acquisition? Do I have appraisal rights?** **A.** KBL Stockholders do not have appraisal rights in connection with the acquisition under the General Corporation Law of the State of Delaware ( "DGCL" ).
- Q. What happens to the funds deposited in the trust account after consummation of the acquisition?** **A.** After consummation of the acquisition, KBL stockholders properly electing to exercise their conversion rights will receive their pro rata portion of the funds in the trust account. The balance of the funds in the trust account will be released to KBL and will become funds of the consolidated companies.
- Q. What happens if the acquisition is not consummated?** **A.** KBL must liquidate if it does not consummate a business combination by April 27, 2007. In any liquidation, the funds held in the trust account, plus any interest earned thereon, together with any remaining out-of-trust net assets, will be distributed pro rata to the holders of KBL's common stock acquired in KBL's IPO. Holders of KBL common stock acquired prior to the IPO, including all of KBL's officers and directors, have waived any right to any liquidation distribution with respect to those shares.
- Q. When do you expect the acquisition to be completed?** **A.** It is currently anticipated that the acquisition will be consummated promptly following the KBL special meeting on March 6, 2007. For a description of the conditions to completion of the acquisition, see the sections entitled *The Acquisition Agreement* and *Conditions to the Closing of the Acquisition*.
- Q. What do I need to do now?** **A.** KBL urges you to read carefully and consider the information contained in this proxy statement, including the annexes, and to consider how the acquisition will affect you as a stockholder of KBL. You should then vote as soon as possible in accordance with the instructions provided in this proxy statement and on the enclosed proxy card.

**Table of Contents**

- Q. How do I vote?**                     **A.** If you are a holder of record of KBL common stock at the close of business on February 6, 2007, which is the record date for the special meeting, you may vote in person at the special meeting or by submitting a proxy for the special meeting. You may submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed postage paid envelope. If you hold your shares in street name, which means your shares are held of record by a broker, bank or nominee, you must provide the record holder of your shares with instructions on how to vote your shares.
- Q. If my shares are held in street name, will my broker, bank or nominee automatically vote my shares for me?**                     **A.** No. Your broker, bank or nominee cannot vote your shares on any proposal unless you provide instructions on how to vote in accordance with the information and procedures provided to you by your broker, bank or nominee.
- Q. Can I change my vote after I have mailed my signed proxy or direction form?**                     **A.** Yes. Send a later-dated, signed proxy card to KBL's secretary at the address of KBL's corporate headquarters prior to the date of the special meeting or attend the special meeting in person and vote. You also may revoke your proxy by sending a notice of revocation to KBL's secretary, which must be received by KBL's secretary prior to the special meeting.
- Q. Do I need to send in my stock certificates?**                     **A.** KBL stockholders who do not elect to have their shares converted into a pro rata share of the trust account should not submit their stock certificates now or after the acquisition, because their shares will not be converted or exchanged in the acquisition. KBL stockholders who vote against the acquisition and exercise their conversion rights must deliver their certificates to KBL's transfer agent prior to the meeting.
- Q. What should I do if I receive more than one set of voting materials?**                     **A.** You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive in order to cast a vote with respect to all of your KBL shares.
- Q. Who can help answer my questions?**                     **A.** If you have questions about the acquisition or if you need additional copies of the proxy statement or the enclosed proxy card you should contact:

Dr. Marlene Krauss

KBL Healthcare Acquisition Corp. II

757 Third Avenue, 21<sup>st</sup> Floor

New York, New York 10017

Tel: (212) 319-5555

You may also obtain additional information about KBL from documents filed with the SEC by following the instructions in the section entitled *Where You Can Find More Information*.

**Table of Contents**

If you intend to vote against the acquisition and seek conversion of your shares, you will need to deliver your stock certificate to KBL's transfer agent prior to the meeting. If you have questions regarding the certification of your position or delivery of your stock certificate, please contact:

Mark Zimkind

Continental Stock Transfer & Trust Company

17 Battery Place, 8th Floor

New York, New York 10004

Telephone: (212) 845-3287

**Table of Contents**

**SELECTED SUMMARY HISTORICAL AND PRO FORMA**

**CONSOLIDATED FINANCIAL INFORMATION**

We are providing the following selected financial information to assist you in your analysis of the financial aspects of the acquisition.

Summer's combined statements of income for the years ended December 31, 2005, 2004 and 2003 and consolidated balance sheet as of December 31, 2005 and 2004 are derived from Summer's consolidated financial statements audited by Goldstein Golub Kessler LLP (GGK), and are included elsewhere in this proxy statement.

Summer's combined statements of income for the nine months ended September 30, 2006 and September 30, 2005 and consolidated balance sheet as of September 30, 2006 are derived from Summer's unaudited interim consolidated financial statements, which are included elsewhere in this proxy statement. In the opinion of Summer's management, the unaudited interim financial statements include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of such consolidated financial statements.

All of Summer's combined financial information in this proxy statement includes Faith Realty. As of September 30, 2006, Faith Realty had \$633,000 of assets and \$440,000 of liabilities.

KBL's statements of operations for the year ended December 31, 2005, for the period from December 9, 2004 (inception) to December 31, 2004 and for the period from December 9, 2004 (inception) to December 31, 2005 and balance sheets as of December 31, 2005 and 2004 are derived from the KBL financial statements audited by GGK, independent registered public accountants, which are included elsewhere in this proxy statement.

KBL's statements of operations for the nine months ended September 30, 2006 and September 30, 2005 and for the period from December 9, 2004 (inception) to September 30, 2006 and balance sheet as of September 30, 2006 are derived from KBL's unaudited interim financial statements which are included elsewhere in this proxy statement. In the opinion of KBL's management, the unaudited interim financial statements include all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of such financial statements.

The selected financial information of Summer and KBL is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes and *Summer's Management's Discussion and Analysis of Financial Condition and Results of Operations* contained elsewhere in this proxy statement. The information presented may not be indicative of the future performance of Summer, KBL or the combined company resulting from the acquisition.

**Table of Contents****Summer's Selected Historical Financial Information**

(In thousands of dollars)

	Nine Months Ended September 30,		Year Ended December 31,		
	2006 (unaudited)	2005	2005	2004	2003
<b>Statement of Income:</b>					
Net sales	\$ 39,813	\$ 26,481	\$ 35,535	\$ 20,855	\$ 17,580
Cost of goods sold	24,512	17,450	23,008	13,004	11,101
Gross profit	15,301	9,031	12,527	7,851	6,479
Selling, general & administrative expenses	12,027	7,361	10,559	7,156	4,970
Income from operations	3,274	1,670	1,968	695	1,509
Interest expense	653	307	451	131	120
Other expense/(income)	0	0	0	0	116
Tax expense	29	13	31	49	28
Minority interest in net income of affiliates	287	156	161	73	136
Net income	\$ 2,305	\$ 1,194	\$ 1,329	\$ 442	\$ 1,109

	September 30,		December 31,		
	2006 (unaudited)	2005	2005	2004	2003
<b>Balance Sheet:</b>					
Total assets	\$ 26,440		\$ 18,007	\$ 10,327	\$ 6,886
Total current liabilities	20,479		14,982	8,201	5,017
Total long-term liabilities	1,078		560	791	1,026
Minority interest	657		370	209	136
Stockholders' equity	4,226		2,095	1,126	707
<b>Other Data (unaudited):</b>					
EBITDA <sup>(a)</sup>	\$ 3,745	\$ 1,976	\$ 2,379	\$ 922	\$ 1,537

	Nine Months Ended September 30,		Year Ended December 31,		
	2006 (unaudited)	2005	2005	2004	2003
<b>Other Cash Flow Data:</b>					
Cash flow from operations <sup>(b)</sup>	\$ (2,876)	\$ (2,924)	\$ (2,248)	\$ (1,420)	\$ 1,139
Cash flow from investing activities	(1,818)	(1,370)	(1,981)	(478)	(404)
Cash flow from financing activities	3,686	4,016	4,605	1,786	(37)
Effect on cash from exchange rates	137	254	(4)	(17)	12
Net change in cash	\$ (871)	\$ (24)	\$ 372	\$ (129)	\$ 710

- (a) Summer presents EBITDA because this information is relevant to its business. Summer defines EBITDA as net income (loss) before income taxes, minority interest in net income of affiliates, interest expense, and depreciation and amortization. Summer's management uses EBITDA as an important supplemental financial measure to assess the ability of Summer's assets to generate cash sufficient to pay interest on its indebtedness, to meet capital expenditure and working capital requirements, and otherwise meet its obligations as they become due. Although Summer uses EBITDA as a financial measure to assess the performance of its business, there are material limitations in using

EBITDA as an analytical tool and it should not be considered in isolation or as a substitute for analysis of Summer s results as reported in



**Table of Contents**

accordance with GAAP. Summer compensates for these limitations by considering EBITDA in conjunction with its analysis of other GAAP financial measures, such as net income (loss). See Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Discussion for a discussion of our use of EBITDA and certain limitations of EBITDA as a financial measure. EBITDA also is one of the key measures used by Capitalink in the valuation of the Company as described in the section of this proxy statement entitled Fairness Opinion and by KBL in its evaluation of Summer in connection with the proposed acquisition.

The following table presents a reconciliation of EBITDA to net income, its most directly comparable GAAP financial measure, on a historical basis, for the periods presented:

**Reconciliation of unaudited EBITDA, as adjusted, to Net Income (In thousands)**

	Nine Months Ended September 30		Fiscal Year Ended December 31		
	2006	2005	2005	2004	2003
Net income	\$ 2,305	\$ 1,194	\$ 1,325	\$ 442	\$ 1,109
Income taxes*	29	13	31	49	28
Minority interest in net income of affiliates	287	156	161	73	136
Interest expense	653	307	451	131	120
Depreciation and amortization	470	306	411	227	144
 EBITDA	 \$ 3,744	 \$ 1,976	 \$ 2,379	 \$ 922	 \$ 1,537

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\* SII is an S Corporation.

- (b) Cash flow from operations has been negative for the past several reporting periods due to the increases in inventory and accounts receivable that have occurred as a result of Summer's significant revenue growth.

**Table of Contents****KBL's Selected Historical Financial Information**

(In thousands, except per share amounts)

**Statement of Operations:**

	Nine Months Ended		For the Year Ended December 31, 2005	For the Period December 9, 2004 (inception) to December 31, 2004	For the Period December 9, 2004 (inception) to December 31, 2005
	September 30				
	2006 (unaudited)	2005			
<b>Income:</b>					
Interest	\$ 1,103	\$ 512	\$ 896	\$	\$ 896
Total income	1,103	512	896		896
<b>Expenses:</b>					
Total operating expenses	469	226	322	1	323
Income (loss) before provision for income taxes	634	286	574	(1)	573
Provision for income taxes	132	131	265		265
Net income (loss)	\$ 502	\$ 155	\$ 309	\$ (1)	\$ 308
Net income (loss) per share basic and diluted	\$ 0.04	\$ 0.02	\$ 0.04	\$ (0.00)	\$ 0.04

	September 30, 2006 (unaudited)	December 31, 2005	December 31, 2004
<b>Balance Sheet:</b>			
Total assets	\$ 52,530	\$ 51,206	\$ 25
Common stock subject to possible conversion	9,829	9,829	
Total stockholders' equity	41,443	40,941	24

**Selected Unaudited Pro Forma Combined Financial Information of KBL and Summer**

The acquisition will be accounted for by KBL as an acquisition under the purchase method of accounting. Pursuant to this method, the aggregate consideration paid by KBL in connection with the acquisition will be allocated to Summer's assets and liabilities based on their fair values, with any excess being treated as goodwill. Summer's assets, liabilities and results of operations will be consolidated with the assets, liabilities and results of operations of KBL after consummation of the acquisition.

We have presented below selected unaudited pro forma combined financial information that reflects the purchase method of accounting and is intended to provide you with a better picture of what KBL's businesses might have looked like had Summer and KBL actually been combined as of the periods indicated. The selected unaudited pro forma combined financial information does not reflect the effect of any cost savings that may result from the acquisition. You should not rely on the selected unaudited pro forma combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the acquisition. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial statements and related notes thereto included elsewhere in this proxy statement.

We are providing this information to aid you in your analysis of the financial aspects of the acquisition. The following unaudited pro forma condensed consolidated statements of operations combine (i) KBL's historical



**Table of Contents**

statement of operations for the nine months ended September 30, 2006 with those of Summer for the nine months ended September 30, 2006 and (ii) KBL's historical statement of operations for the year ended December 31, 2005 with those of Summer for the year ended December 31, 2005, in each case giving effect to the acquisition as if it had occurred on January 1, 2005. The following unaudited pro forma condensed consolidated balance sheet combines KBL's historical balance sheets and those of Summer as of September 30, 2006, giving effect to the transactions described in the Acquisition Agreement as if they had occurred on September 30, 2006.

The pro forma adjustments are based upon available information and assumptions that we believe are reasonable. The pro forma condensed combined statements of operations and the pro forma condensed combined balance sheet do not purport to represent the results of operations that would have occurred had such transactions been consummated on the dates indicated or the financial position for any future date or period.

The following information, which is included elsewhere in this proxy statement, should be read in conjunction with the pro forma condensed combined financial information:

accompanying notes to the unaudited pro forma condensed combined information;

separate historical consolidated financial statements of Summer for the nine months ended September 30, 2006 (unaudited) and the year ended December 31, 2005; and

separate historical financial statements of KBL for the nine months ended September 30, 2006 (unaudited) and the year ended December 31, 2005.

**Selected Pro Forma Condensed Combined Statement of Income**

(In thousands of dollars, except per share amounts)

	Nine months ended September 30, 2006 (1)	Year ended December 31, 2005 (1)
Net sales	\$ 39,813	\$ 35,535
Interest income	844	686
Net income	1,269	487
Net income per share - basic	0.08	0.03
Net income per share - diluted	0.08	0.03
Shares used in computation of basic net income per share	15,116,667	15,116,667
Shares used in computation of diluted net income per share	16,416,295	15,547,917

The following unaudited pro forma condensed combined balance sheet information has been prepared using two different levels of assumptions with respect to the number of outstanding shares of KBL stock, as follows:

assuming no conversions - this presentation assumes that no stockholders of KBL seek to convert their shares into a pro rata share of the trust account; and

assuming maximum conversions - this presentation assumes stockholders of KBL owning 19.99% of the stock sold in KBL's initial public offering seek conversion.

**Table of Contents****Selected Pro Forma Condensed Combined Balance Sheet****(In thousands of dollars)**

	At September 30, 2006	
	Assuming No Conversion (1)	Assuming Maximum Conversion (2)
Total assets	\$ 94,590	\$ 84,264
Current liabilities	20,867	20,867
Long-term debt	1,078	1,078
Common stock subject to conversion		
Additional paid-in capital	71,338	61,509
Stockholders' equity	72,645	62,319
Total liabilities and stockholders' equity	\$ 94,590	\$ 84,264

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- (1) Assumes that no KBL stockholders seek conversion of their KBL stock into pro rata shares of the trust account.  
(2) Assumes that 1,839,999 shares of KBL common stock were converted into their pro rata share of the trust account.

**Table of Contents****Comparative Per Share Data**

The following table sets forth unaudited pro forma combined per share ownership information of Summer and KBL after giving effect to the acquisition, assuming both no conversions and maximum conversions by KBL stockholders. You should read this information in conjunction with the selected summary historical financial information included elsewhere in this proxy statement, and the historical financial statements of Summer and KBL and related notes that are included elsewhere in this proxy statement. The unaudited Summer and KBL pro forma combined per share information is derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial information and related notes included elsewhere in this proxy statement.

The unaudited pro forma combined earnings per share information below does not purport to represent the earnings per share which would have occurred had the companies been combined, nor earnings per share for any future date or period. The unaudited pro forma combined book value per share information below does not purport to represent what the value of Summer and KBL would have been had the companies been combined.

The acquisition will be accounted for as an acquisition under the purchase method of accounting. Since KBL stockholders will have majority ownership and KBL's current chief executive officer, Dr. Krauss, will become chairman of the board of the combined company after the acquisition, KBL has been determined to be the acquirer for accounting purposes. Please see the section entitled "Unaudited Pro Forma Condensed Consolidated Financial Statements - Purchase Accounting Adjustment" for further information.

	Summer	KBL	Combined Company
	(in thousands, except per share data)		
Number of shares of common stock outstanding upon consummation of the acquisition:			
Assuming no conversions	3,916,667	11,200,000	15,116,667
Assuming maximum conversions	3,916,667	9,360,920	13,277,587
Book value - historical at September 30, 2006	\$ 4,882	\$ 41,443	
Book value - pro forma September 30, 2006			
Assuming no conversions			\$ 72,645
Assuming maximum conversions			\$ 62,319
Book value per share - pro forma September 30, 2006			
Assuming no conversions			\$ 4.81
Assuming maximum conversions			\$ 4.69
Earnings per share - historical year ended December 31, 2005	\$ 138.09	\$ 0.04	
Earnings per share - historical nine months ended September 30, 2006	\$ 240.96	\$ 0.04	
Earnings per share - pro forma year ended December 31, 2005			
Assuming no conversions - basic			\$ 0.03
Assuming no conversions - diluted			\$ 0.03
Assuming maximum conversions - basic			\$ 0.03
Assuming maximum conversions - diluted			\$ 0.03
Earnings per share - pro forma nine months ended September 30, 2006			
Assuming no conversions - basic			\$ 0.08
Assuming no conversions - diluted			\$ 0.08
Assuming maximum conversions - basic			\$ 0.09
Assuming maximum conversions - diluted			\$ 0.08

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**Table of Contents**

**RISK FACTORS**

You should carefully consider the following risk factors, together with all of the other information included in this proxy statement, before you decide whether to vote or instruct your vote to be cast to adopt the acquisition proposal.

**Risks Related to KBL's Business and Operations Following the Acquisition of Summer**

The value of your investment in KBL following consummation of the acquisition will be subject to the significant risks inherent in operating in the juvenile health, safety and wellness products markets, as well as risks that may arise in connection with the integration of the various companies. You should carefully consider the risks and uncertainties described below and other information included in this proxy statement. If any of the events described below occur, KBL's post-acquisition business and financial results could be adversely affected in a material way. This could cause the trading price of its common stock to decline, perhaps significantly, and you therefore may lose all or part of your investment.

*The concentration of Summer's business with a base of retail customers that make no binding long-term commitments means that economic difficulties or changes in the purchasing policies of its major customers could have a significant impact on Summer's business.*

A number of large, retail customers account for substantially all of Summer's net sales. Customers that generated more than 10% of net sales for the year ended December 31, 2005 were Toys R Us (50% of such net sales) and Target (19% of such net sales). Customers that generated more than 10% of net sales for the nine months ended September 30, 2006 were Toys R Us (42% of such net sales), Target (21% of such net sales), and Kmart (11% of such net sales). Because of the concentration of Summer's business with these customers, and because Summer has no long term contracts with these customers, Summer's success depends on its customers' willingness to purchase and provide shelf space for its products. An adverse change in Summer's relationship with any of its large customers or a change in the financial viability of any of these customers could adversely affect Summer's results of operations and financial condition.

*Summer's ability to grow and compete will be harmed if Summer does not successfully satisfy consumer preferences, enhance existing products, develop and introduce new products, and achieve market acceptance of those products.*

Summer's business and operating results depend largely upon the appeal of its products. Consumer preferences, particularly among parents, who are the end purchasers of Summer's products, are constantly changing. Summer's success will, in large part, depend on its ability to identify emerging trends in the health, safety and wellness marketplace, and design products that address consumer demand and prove safe and cost-effective. Summer's product offerings compete with those of many other companies, many of which are much larger than Summer and enjoy broader brand recognition and significant distribution channel relationships, which means that Summer's market position is always at risk. Summer's ability to maintain and increase its current market share will depend upon Summer's ability to anticipate changes in consumer preferences and satisfy these preferences, enhance existing products, develop and introduce new products and establish and grow distribution channels for these products, and ultimately achieve market acceptance of these products.

*Summer is dependent on key personnel, and Summer's ability to grow and compete in its industry will be harmed if it does not retain the continued services of its key personnel, or fails to identify, hire, and retain additional qualified personnel.*

Summer is dependent on the efforts of its management team, and the loss of services of members of Summer's management team, each of whom have substantially experience in the juvenile health, safety and wellness markets, could have an adverse effect on Summer's business. If any members of management leave, such departure could have an adverse effect on Summer's operations and could adversely affect Summer's ability

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**Table of Contents**

to design new products and to maintain and grow the distribution channels for its products. In addition, if Summer's operations continue to grow in a manner consistent with its historical growth rates, it will be necessary for Summer to attract and retain additional qualified personnel. The market for qualified and talented design and marketing personnel in the consumer goods market generally and the juvenile health, safety and wellness products market specifically is intensely competitive. If Summer is unable to attract or retain qualified personnel as needed, the growth of its operations could be slowed or hampered.

***Intellectual property claims relating to Summer's products could increase its costs and adversely affect Summer's business.***

Summer has received and recently settled claims of alleged infringement of patents relating to certain of its products, and Summer may face similar claims in the future from time to time. The claims related to alleged patent infringement are primarily the result of newly issued patents that were not in force when Summer initially brought the subject products to market. All of the claims that have been brought to date relate to products that were, at the time of such claims, either discontinued or in the process of being discontinued, and therefore there has been no material impact on the Company's results to date (including as a result of the payment of relatively insignificant settlements in connection with certain claims). The defense of intellectual property claims can be costly and time consuming, even in circumstances where the claim is without merit. Summer may be required to pay substantial damages or settlement costs in order to resolve these types of claims. In addition, such claims could materially harm Summer's brand name, reputation and operations.

***Summer relies on foreign suppliers in China to manufacture the majority of its products, and any adverse change in its relationship with its suppliers could harm Summer's business.***

Summer relies on numerous third-party suppliers located in China for the manufacture of most of its products. While Summer believes that alternative suppliers could be located if required, Summer's product sourcing could be affected if any of these suppliers do not continue to manufacture Summer's products in required quantities or at all, or with the required levels of quality. Summer enters into purchase orders with its foreign suppliers and does not enter into any long term contracts. In addition, difficulties encountered by these suppliers, such as fire, accident, natural disasters, outbreaks of contagious diseases, or political unrest, could halt or disrupt production at the affected locations, resulting in delay or cancellation of orders. Any of these events could result in delayed deliveries by Summer of its products, causing reduced sales and harm to Summer's reputation and brand name.

***Increases in the cost of materials or labor used to manufacture Summer's products could decrease Summer's profitability and therefore negatively impact Summer's business and financial condition.***

Because Summer's products are manufactured by third-party suppliers, Summer does not directly purchase the materials used in the manufacture of its products. However, the prices paid by Summer to these suppliers could increase if raw materials, labor, or other costs increase. If Summer cannot pass these increases along to its customers, its profitability will be adversely affected.

***Because Summer relies on foreign suppliers and it sells in to foreign markets, Summer is subject to numerous risks associated with international business that could increase its costs or disrupt the supply of its products, resulting in a negative impact on Summer's business and financial condition.***

Summer's international operations subject it to risks, including:

economic and political instability,

restrictive actions by foreign governments,

greater difficulty enforcing intellectual property rights and weaker laws protecting intellectual property rights,

changes in import duties or import or export restrictions,





## **Table of Contents**

timely shipping of product and unloading of product through West Coast ports, as well as timely truck delivery to Summer's warehouses,

complications complying with the laws and policies of the United States affecting the importation of goods, including duties, quotas, and taxes, and

complications in complying with trade and foreign tax laws.

Any of these events or circumstances could disrupt the supply of Summer's products or increase its expenses.

***Product liability, product recalls, and other claims relating to the use of Summer's products could increase its costs.***

Because Summer sells infant and juvenile health, safety and wellness products to consumers, Summer faces product liability risks relating to the use of its products. Summer also must comply with a variety of product safety and product testing regulations. If Summer faces a product liability claim or fails to comply with these regulations, it may be subject to costly litigations, damage awards, fines or settlement costs that exceed its insurance coverage. Summer also would incur significant costs in connection with any product recall requirements. Even if a product liability claim is without merit, the claim could harm Summer's reputation and divert management's attention and resources from Summer's business.

## **Risks Related to the Acquisition**

***KBL's outstanding warrants may be exercised in the future, which would increase the number of shares eligible for future resale in the public market, result in dilution to KBL's stockholders and could have adverse consequences to KBL.***

KBL currently has outstanding warrants to purchase an aggregate of 18,400,000 shares of common stock, exercisable at \$5.00 per share. Since, as of the record date, the per-share market price of KBL's common stock was \$5.60, there currently exists incentive for holder's to exercise their warrants in order to realize the profit represented by the difference between such market price and the \$5.00 exercise price of the warrants. Immediately upon consummation of the acquisition, KBL will have 15,116,667 shares outstanding. If all of the outstanding warrants were exercised, an additional 18,400,000 shares would be issued, which would more than double the total number of shares outstanding to 33,516,667. The actual sale, or the prospect of the sale, into the market of some or all of the additional shares issuable upon exercise of the warrants could depress the market price of KBL's common stock. Further, such downward pressure on the market price of KBL's common stock could delay or prevent KBL from being able to redeem any warrants remaining outstanding as KBL's ability to affect such redemption is dependent on its common stock exceeding \$8.50 per share for at least 20 trading days during any 30 day trading period following consummation of the acquisition. Greater dilution and a corresponding decrease in market price of KBL's common stock could also limit KBL's ability or desire to use its securities in connection with any strategic initiatives such as acquisitions or joint ventures, which could hamper the combined companies' ability to grow and compete in its markets.

***There will be a substantial number of shares of KBL's common stock available for sale in the future that may increase the volume of common stock available for sale in the open market and may cause a decline in the market price of KBL's common stock.***

The consideration to be issued in the acquisition to the Summer stockholders will include 3,916,667 shares of KBL common stock that will be issued at the closing, and up to 2,500,000 additional shares that may be issued based on the performance of KBL's common stock after closing. These shares are initially not being registered and will be restricted from public sale under the securities laws. All of these shares will be subject to the lock-up agreement and cannot be sold publicly until the expiration of the restricted period under the lock-up agreements and under Rule 144 promulgated under the Securities Act of 1933. The presence of this additional number of shares of common stock eligible for trading in the public market after the lapse of the restrictions may have an adverse effect on the market price of KBL's common stock.

## **Table of Contents**

***KBL's working capital will be reduced if KBL stockholders exercise their right to convert their shares into cash. This would reduce KBL's cash reserve after the acquisition.***

Pursuant to KBL's certificate of incorporation, holders of shares issued in KBL's IPO may vote against the acquisition and demand that we convert their shares calculated as of two business days prior to the anticipated date of the consummation of the acquisition, into a pro rata share of the trust account where a substantial portion of the net proceeds of the IPO are held. KBL and Summer will not consummate the acquisition if holders of 1,840,000 or more shares of common stock issued in KBL's IPO exercise these conversion rights. To the extent the acquisition is consummated and holders have demanded to so convert their shares, there will be a corresponding reduction in the amount of funds available to the combined company following the acquisition. As of February 6, 2007, the record date, assuming the acquisition proposal is adopted, the maximum amount of funds that could be disbursed to KBL's stockholders upon the exercise of their conversion rights is approximately \$10,447,152, or approximately 20% of the funds then held in the trust account. Any payment upon exercise of conversion rights will reduce KBL's cash after the acquisition, which may limit KBL's ability to implement KBL's business plan.

***If KBL stockholders fail to vote or abstain from voting on the acquisition proposal, they may not exercise their conversion rights to convert their shares of common stock of KBL into a pro rata portion of the trust account as of the record date.***

KBL stockholders holding shares of KBL common stock issued in KBL's IPO who affirmatively vote against the acquisition proposal may, at the same time, demand that we convert their shares into a pro rata portion of the trust account, calculated as of two business days prior to the anticipated date of the consummation of the acquisition. KBL stockholders who seek to exercise this conversion right must affirmatively vote against the acquisition and tender their stock certificates to KBL's transfer agent prior to the vote. Any KBL stockholder who fails to vote or who abstains from voting on the acquisition proposal or who fails to tender the stock certificates prior to the vote may not exercise his or her conversion rights and will not receive a pro rata portion of the trust account for conversion of his or her shares.

***If we are unable to obtain a listing of KBL's securities on the Nasdaq Global Market or Nasdaq Capital Market or any stock exchange, it may be more difficult for KBL's stockholders to sell their securities.***

KBL's units, common stock and warrants are currently traded in the over-the-counter market and quoted on the OTCBB. KBL has applied for listing on the Nasdaq Global Market. Generally, the Nasdaq Global Market listing standards that would most likely apply to KBL require that a company applying for listing have stockholders' equity of at least \$30,000,000, at least 1,100,000 publicly held shares with a market value of at least \$18,000,000 and a minimum bid price of \$5.00 with at least 400 round lot shareholders. If KBL fails to obtain listing on the Nasdaq Global Market, it would seek to have its common stock and warrants listed on the Nasdaq Capital Market. Generally, the Nasdaq Capital Market requires that a company applying for listing have stockholders' equity of at least \$5,000,000 or a market value of listed securities of at least \$50,000,000 or net income from continuing operations of at least \$750,000, at least 1,000,000 publicly held shares, and a minimum bid price of \$4.00 with more than 300 round lot shareholders. There is no assurance that listing on either the Nasdaq Global Market or Nasdaq Capital Market will be obtained and such listing is not a condition to closing the acquisition.

***Our ability to request indemnification from Summer's stockholders for damages arising out of the acquisition is limited to those claims where damages exceed \$500,000 and are only indemnifiable to the extent that damages exceed \$500,000.***

At the closing of the acquisition, 1,000,000 of the 3,916,667 shares of KBL common stock to be issued to the Summer stockholders will be deposited in escrow as the sole remedy for the obligation of the Summer stockholders to indemnify and hold harmless KBL for any damages, whether as a result of any third party claim or otherwise, and which arise as a result of or in connection with the breach of representations and warranties and

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**Table of Contents**

agreements and covenants of Summer. Claims for indemnification may only be asserted by KBL once the damages exceed \$500,000 in the aggregate and are indemnifiable only to the extent that damages exceed \$500,000. Accordingly, it is possible that KBL will not be entitled to indemnification even if Summer is found to have breached its representations and warranties contained in the acquisition agreement if such breach would only result in damages to KBL of less than \$500,000.

***KBL's current directors and executive officers own shares of common stock and warrants that will become worthless if the acquisition is not approved. Consequently, they may have a conflict of interest in determining whether particular changes to the terms of the business combination with Summer or waivers of conditions are appropriate.***

All of KBL's officers and directors or their affiliates beneficially own stock in KBL, which they purchased prior to KBL's IPO. Additionally, as of December 8, 2007, such persons also own an aggregate of 1,392,658 warrants to purchase shares of KBL common stock. KBL's executives and directors and their affiliates are not entitled to receive any of the cash proceeds that may be distributed upon KBL's liquidation with respect to shares they acquired prior to KBL's IPO. Therefore, if the acquisition is not approved and KBL is forced to liquidate, such shares held by such persons will be worthless, as will all of the warrants, and such shares and warrants cannot be sold by them prior to the consummation of the acquisition. In addition, if KBL liquidates prior to the consummation of a business combination, Drs. Berk and Krauss, KBL's chairman of the board and chief executive officer, respectively, will be personally liable to pay the debts and obligations, if any, to vendors and other entities that are owed money by KBL for services rendered or products sold to KBL, or to any target business, to the extent such creditors bring claims that would otherwise require payment from moneys in the trust account. Also, upon consummation of the acquisition, Dr. Krauss will enter into an employment agreement with KBL to serve as KBL's chairman of the board for an initial term of three years at an annual base salary of \$125,000.

These personal and financial interests of KBL's directors and officers may have influenced their decision to approve the business combination with Summer. In considering the recommendations of KBL's board of directors to vote for the acquisition proposal and other proposals, you should consider these interests. Additionally, the exercise of KBL's directors' and executive officers' discretion in agreeing to changes or waivers in the terms of the business combination may result in a conflict of interest when determining whether such changes to the terms of the business combination or waivers of conditions are appropriate and in KBL's stockholders' best interest.

***If we are unable to complete the business combination with Summer and are forced to dissolve and liquidate, third parties may bring claims against us and as a result, the proceeds held in trust could be reduced and the per share liquidation price received by stockholders could be less than \$5.68 per share.***

As of February 6, 2007, the record date, KBL held approximately \$52,263,748 in the trust account, or approximately \$5.68 per share of KBL common stock. If we are unable to complete the business combination with Summer by April 27, 2007 and are forced to dissolve and liquidate, third parties may bring claims against us. Although we have obtained waiver agreements from the vendors and service providers we have engaged and owe money to, and the prospective target businesses we have negotiated with, whereby such parties have waived any right, title, interest or claim of any kind they may have in or to any monies held in the trust fund, there is no guarantee that they will not seek recourse against the trust fund notwithstanding such agreements. Furthermore, there is no guarantee that a court will uphold the validity of such agreements. Accordingly, the proceeds held in trust could be subject to claims that could take priority over those of KBL's public stockholders. Additionally, if we are forced to file a bankruptcy case or an involuntary bankruptcy case is filed against us which is not dismissed, the proceeds held in the trust account could be subject to applicable bankruptcy law, and may be included in KBL's bankruptcy estate and subject to the claims of third parties with priority over the claims of KBL's stockholders. To the extent any bankruptcy claims deplete the trust account, we cannot assure you we will be able to return to KBL's public stockholders at least \$5.68 per share.

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**Table of Contents**

*If we do not consummate the business combination with Summer by April 27, 2007 and are forced to dissolve and liquidate, payments from the trust account to KBL's public stockholders may be delayed.*

If we do not consummate the business combination with Summer by April 27, 2007, we will dissolve and liquidate. We anticipate that, promptly after such date, the following would occur:

KBL's board of directors will convene and adopt a specific plan of dissolution and liquidation, which it will then vote to recommend to KBL's stockholders; at such time it will also cause to be prepared a preliminary proxy statement setting out such plan of dissolution and liquidation as well as the board's recommendation of such plan;

we will promptly file KBL's preliminary proxy statement with the Securities and Exchange Commission;

if the Securities and Exchange Commission does not review the preliminary proxy statement, then, ten days following the filing of such preliminary proxy statement, we will mail the definitive proxy statement to KBL's stockholders, and 10 to 20 days following the mailing of such definitive proxy statement, we will convene a meeting of KBL's stockholders, at which they will vote on KBL's plan of dissolution and liquidation; and

if the Securities and Exchange Commission does review the preliminary proxy statement, we currently estimate that we will receive their comments 30 days after the filing of such proxy statement. We would then mail the definite proxy statement to KBL's stockholders following the conclusion of the comment and review process (the length of which we cannot predict with any certainty, and which may be substantial) and we will convene a meeting of KBL's stockholders at which they will vote on KBL's plan of dissolution and liquidation.

We expect that all costs associated with the implementation and completion of KBL's plan of dissolution and liquidation will be funded by any remaining net assets not held in the trust account, although we cannot assure you that there will be sufficient funds for such purpose. If such funds are insufficient, we anticipate that KBL's management will advance us the funds necessary to complete such dissolution and liquidation (currently anticipated to be no more than approximately \$50,000) and not seek reimbursements thereof.

We will not liquidate the trust account unless and until KBL's stockholders approve KBL's plan of dissolution and liquidation. Accordingly, the foregoing procedures may result in substantial delays in KBL's liquidation and the distribution to KBL's public stockholders of the funds in KBL's trust account and any remaining net assets as part of KBL's plan of dissolution and liquidation.

***KBL's stockholders may be held liable for claims by third parties against us to the extent of distributions received by them.***

If we are unable to complete the business combination with Summer, we will dissolve and liquidate pursuant to Section 275 of the DGCL. Under Sections 280 through 282 of the DGCL, stockholders may be held liable for claims by third parties against a corporation to the extent of distributions received by them in a dissolution. Pursuant to Section 280, if the corporation complies with certain procedures intended to ensure that it makes reasonable provisions for all claims against it, including a 60-day notice period during which any third-party claims can be brought against the corporation, a 90-day period during which the corporation may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of a stockholder with respect to a liquidating distribution is limited to the lesser of such stockholder's pro rata share of the claim or the amount distributed to the stockholder, and any liability of stockholder would be barred after the third anniversary of the dissolution. Although we will seek stockholder approval to liquidate the trust account to KBL's public stockholders as part of KBL's plan of dissolution and liquidation, we will seek to conclude this process as soon as possible and as a result do not intend to comply with those procedures. Because we will not be complying with those procedures, we are required, pursuant to Section 281 of the DGCL, to adopt a plan that will provide for KBL's payment, based on facts known to us at

**Table of Contents**

such time, of (i) all existing claims, (ii) all pending claims and (iii) all claims that may be potentially brought against us within the subsequent 10 years. Accordingly, we would be required to provide for any creditors known to us at that time or those that we believe could be potentially brought against us within the subsequent 10 years prior to distributing the funds held in the trust to stockholders. We cannot assure you that we will properly assess all claims that may be potentially brought against us. As such, KBL's stockholders could potentially be liable for any claims to the extent of distributions received by them in a dissolution (but no more) and any liability of KBL's stockholders may extend well beyond the third anniversary of such dissolution. Accordingly, we cannot assure you that third parties will not seek to recover from KBL's stockholders amounts owed to them by us.

Additionally, if we are forced to file a bankruptcy case or an involuntary bankruptcy case is filed against us that is not dismissed, any distributions received by stockholders in KBL's dissolution might be viewed under applicable debtor/creditor or bankruptcy laws as either a preferential transfer or a fraudulent conveyance. As a result, a bankruptcy court could seek to recover all amounts received by KBL's stockholders in KBL's dissolution. Furthermore, because we intend to distribute the proceeds held in the trust account to KBL's public stockholders as soon as possible after KBL's dissolution, this may be viewed or interpreted as giving preference to KBL's public stockholders over any potential creditors with respect to access to or distributions from KBL's assets. Furthermore, KBL's board of directors may be viewed as having breached their fiduciary duties to KBL's creditors or may have acted in bad faith, and thereby exposing itself and KBL's company to claims of punitive damages, by paying public stockholders from the trust account prior to addressing the claims of creditors or complying with certain provisions of the DGCL with respect to KBL's dissolution and liquidation. We cannot assure you that claims will not be brought against us for these reasons.

***Voting control by KBL's executive officers, directors and other affiliates may limit your ability to influence the outcome of director elections and other matters requiring stockholder approval.***

Upon consummation of the acquisition, the persons who are parties to the voting agreement, which are all of the stockholders of Summer and Drs. Berk and Krauss and Mr. Kaswan, will own approximately 38.3% of KBL's voting stock. These persons have agreed to vote for each other's designees to KBL's board of directors through director elections in 2009. Accordingly, they will be able to control the election of directors and, therefore, KBL's policies and direction during the term of the voting agreement. This concentration of ownership and voting agreement could have the effect of delaying or preventing a change in KBL's control or discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material adverse effect on the market price of KBL's common stock or prevent KBL's stockholders from realizing a premium over the market price for their shares of common stock.

**Table of Contents**

**SPECIAL MEETING OF KBL STOCKHOLDERS**

**General**

We are furnishing this proxy statement to KBL stockholders as part of the solicitation of proxies by KBL's board of directors for use at the special meeting of KBL stockholders to be held on March 6, 2007, and at any adjournment or postponement thereof. This proxy statement is first being furnished to KBL's stockholders on or about February 14, 2007 in connection with the vote on the acquisition proposal, the certificate of incorporation amendments and performance equity plan proposal. This document provides you with the information you need to know to be able to vote or instruct your vote to be cast at the special meeting.

**Date, Time and Place**

The special meeting of stockholders will be held on March 6, 2007, at 10:00 a.m., eastern time, at the offices of Graubard Miller, KBL's general counsel, at The Chrysler Building, 405 Lexington Avenue, 19th Floor, New York, New York 10174.

**Purpose of the KBL Special Meeting**

At the special meeting, we are asking holders of KBL common stock to:

approve the Acquisition Agreement and the transactions contemplated thereby (acquisition proposal);

approve an amendment to KBL's certificate of incorporation to change KBL's name from KBL Healthcare Acquisition Corp. II to Summer Infant, Inc. (name change amendment proposal);

approve an amendment to KBL's certificate of incorporation to increase the number of authorized shares of KBL's common stock from 35,000,000 to 100,000,000 (capitalization amendment proposal);

approve an amendment to KBL's certificate of incorporation to remove the preamble and sections A through D, inclusive, of Article Sixth from the certificate of incorporation from and after the closing of the acquisition, as these provisions will no longer be applicable to us, and to redesignate section E of Article Sixth, which relates to the staggered board, as Article Sixth (Article Sixth amendment proposal); and

approve the adoption of the 2006 performance equity plan (performance equity plan proposal) under which 1,600,000 shares shall be reserved for issuance for options and other awards that may be granted thereunder.

**Recommendation of KBL Board of Directors**

KBL's board of directors:

has unanimously determined that the acquisition proposal and each of the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals is in the best interests of KBL and its stockholders;

has unanimously approved the acquisition proposal and each of the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals;

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unanimously recommends that KBL's common stockholders vote FOR the acquisition proposal;

unanimously recommends that KBL's common stockholders vote FOR the name change amendment proposal;

unanimously recommends that KBL's common stockholders vote FOR the capitalization amendment proposal;

unanimously recommends that KBL's common stockholders vote FOR the Article Sixth amendment proposal; and



## **Table of Contents**

unanimously recommends that KBL's common stockholders vote FOR the proposal to approve the performance equity plan.

### **Record Date; Who is Entitled to Vote**

We have fixed the close of business on February 6, 2007, as the record date for determining KBL stockholders entitled to notice of and to attend and vote at the special meeting. As of the close of business on February 6, 2007, there were 11,200,000 shares of KBL's common stock outstanding and entitled to vote. Each share of KBL's common stock is entitled to one vote per share at the special meeting.

Pursuant to agreements with us, the 2,000,000 shares of KBL's common stock held by KBL Inside Stockholders will be voted on the acquisition proposal in accordance with the majority of the votes cast at the special meeting.

### **Quorum**

The presence, in person or by proxy, of a majority of all the outstanding shares of common stock constitutes a quorum at the special meeting. Abstentions and broker non-votes will count as present for purposes of establishing a quorum.

### **Abstentions and Broker Non-Votes**

If you do not give your broker voting instructions, under the rules of the NASD, your broker may not vote your shares on the acquisition proposal, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposal. Since a stockholder must affirmatively vote against the acquisition proposal to have conversion rights, individuals who fail to vote or who abstain from voting may not exercise their conversion rights. Beneficial holders of shares held in street name that are voted against the acquisition may exercise their conversion rights, provided that, prior to the meeting, they have their shares certificated and deliver the certificates to KBL's transfer agent. See the information set forth in *Special Meeting of KBL Stockholders Conversion Rights*.

### **Vote of KBL's Stockholders Required**

The approval of the acquisition proposal will require the affirmative vote of a majority of the shares of KBL common stock sold in the IPO present in person or represented by proxy and entitled to vote at the special meeting. Abstentions will have the same effect as a vote AGAINST the acquisition proposal and broker non-votes, while considered present for the purpose of establishing a quorum, will have no effect on the acquisition proposal. You cannot seek conversion unless you affirmatively vote against the acquisition proposal.

The name change amendment, the capitalization amendment and the Article Sixth amendment proposals will require the affirmative vote of the holders of a majority of KBL common stock outstanding on the record date. Because each of these proposals to amend KBL's charter requires the affirmative vote of a majority of the shares of common stock outstanding, abstentions and shares not entitled to vote because of a broker non-vote will have the same effect as a vote against these proposals. In order to consummate the acquisition, each of the name change amendment and the capitalization amendment proposals must be approved by the stockholders. For both of the name change amendment and the capitalization amendment to be implemented, the acquisition proposal must be approved by the stockholders.

The approval of the performance equity plan proposal will require the affirmative vote of the holders of a majority of KBL's common stock represented and entitled to vote at the meeting. Abstentions will have the same effect as a vote AGAINST the performance equity plan proposal and broker non-votes, while considered present for the purpose of establishing a quorum, will have no effect on the performance equity plan proposal.

## **Table of Contents**

KBL's initial stockholders who purchased their shares of common stock prior to KBL's IPO, and which include all of KBL's directors and executive officers and their affiliates and are referred to collectively in this proxy statement as the KBL Inside Stockholders, currently own an aggregate of approximately 17.9% of the outstanding shares of KBL common stock. Each of the KBL Inside Stockholders has agreed to vote all of the shares they purchased prior to the IPO on the acquisition proposal in accordance with the vote of the majority of the votes cast by the holders of shares issued in the IPO. Accordingly, their vote will have no effect on the outcome of the acquisition proposal. The KBL Inside Stockholders also have indicated that they intend to vote such shares in favor of all other proposals being presented at the special meeting. The KBL Inside Stockholders also have indicated that they intend to vote any shares they acquire after the IPO for all of the proposals. As of the record date, the KBL Inside Stockholders have not acquired any additional shares of KBL common stock since the IPO.

## **Voting Your Shares**

Each share of KBL common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of KBL's common stock that you own.

There are two ways to vote your shares of KBL common stock at the special meeting:

*You can vote by signing and returning the enclosed proxy card.* If you vote by proxy card, your proxy, whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card but do not give instructions on how to vote your shares, your shares will be voted as recommended by KBL's board **FOR** the adoption of the acquisition proposal, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals. Votes received after a matter has been voted upon at the special meeting will not be counted.

*You can attend the special meeting and vote in person.* We will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way we can be sure that the broker, bank or nominee has not already voted your shares.

**IF YOU DO NOT VOTE YOUR SHARES OF KBL'S COMMON STOCK IN ANY OF THE WAYS DESCRIBED ABOVE, IT COULD HAVE THE SAME EFFECT AS A VOTE AGAINST THE ADOPTION OF THE ACQUISITION PROPOSAL, BUT WILL NOT HAVE THE EFFECT OF A DEMAND FOR CONVERSION OF YOUR SHARES INTO A PRO RATA SHARE OF THE TRUST ACCOUNT IN WHICH A SUBSTANTIAL PORTION OF THE PROCEEDS OF KBL'S IPO ARE HELD.**

## **Revoking Your Proxy**

If you give a proxy, you may revoke it at any time before the vote is taken at the meeting by doing any one of the following:

you may send another proxy card with a later date;

you may notify Dr. Marlene Krauss, KBL's chief executive officer, in writing before the special meeting that you have revoked your proxy; or

you may attend the special meeting, revoke your proxy, and vote in person, as indicated above.

## **Who Can Answer Your Questions About Voting Your Shares**

If you have any questions about how to vote or direct a vote in respect of your shares of KBL's common stock, you may call Morrow & Co., Inc., KBL's proxy solicitor, at (800) 607-0088, or Dr. Marlene Krauss, KBL's chief executive officer, at (212) 319-5555.



## **Table of Contents**

### **No Additional Matters May Be Presented at the Special Meeting**

This special meeting has been called only to consider the adoption of the acquisition proposal, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan proposals. Under KBL's bylaws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the special meeting if they are not included in the notice of the meeting. No adjournment or postponement of the special meeting will occur once the special meeting has been called to order.

### **Conversion Rights**

Any of KBL's stockholders holding shares of KBL common stock issued in KBL's IPO as of the record date who affirmatively votes these shares against the acquisition proposal may also demand that we convert his or her shares into a pro rata portion of the trust account calculated as of two business days prior to the anticipated date of the consummation of the acquisition. Any holders seeking such conversion must tender their stock certificates to KBL's transfer agent prior to the special meeting. If demand is properly made and the acquisition is consummated, we will convert these shares into a pro rata portion of funds held in the trust account plus interest, calculated as of two business days prior to the anticipated consummation of the acquisition. KBL stockholders who seek to exercise this conversion right must affirmatively vote against the acquisition. Abstentions and broker non-votes do not satisfy this requirement.

The closing price of KBL's common stock on February 6, 2007 (the record date) was \$5.60 and the per share, pro rata cash held in the trust account on the record date was approximately \$5.68. Prior to exercising conversion rights, KBL's stockholders should verify the market price of KBL's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their conversion rights if the market price per share is higher than the conversion price. We cannot assure KBL stockholders that they will be able to sell their shares of KBL common stock in the open market, even if the market price per share is higher than the conversion price stated above, as there may not be sufficient liquidity in KBL's securities when its stockholders wish to sell their shares.

If the holders of 1,840,000 or more shares of common stock issued in KBL's IPO (an amount equal to 20% or more of those shares), vote against the acquisition and properly demand conversion of their shares, we will not be able to consummate the acquisition.

If you exercise your conversion rights, then you will be exchanging your shares of KBL's common stock for cash and will no longer own those shares. You will be entitled to receive cash for these shares only if you affirmatively vote against the acquisition proposal, properly demand conversion, and tender your stock certificate to KBL's transfer agent prior to the vote. If you hold the shares in street name, you will have to coordinate with your broker to have your shares certificated.

### **Appraisal Rights**

Stockholders of KBL do not have appraisal rights in connection the acquisition under the DGCL.

### **Proxy Solicitation Costs**

We are soliciting proxies on behalf of KBL's board of directors. This solicitation is being made by mail but also may be made by telephone or in person. We and KBL's directors, officers and employees may also solicit proxies in person, by telephone or by facsimile or email.

We have hired Morrow & Co., Inc. to assist in the proxy solicitation process. We will pay Morrow & Co., Inc. a fee of approximately \$5,500 plus reasonable out-of-pocket charges and a flat fee of \$5.00 per outbound proxy solicitation call. Such fee will be paid with non-trust account funds.

**Table of Contents**

We will ask banks, brokers and other institutions, nominees and fiduciaries to forward its proxy materials to their principals and to obtain their authority to execute proxies and voting instructions. We will reimburse them for their reasonable expenses.

**KBL Inside Stockholders**

At the close of business on the record date, the KBL Inside Stockholders beneficially owned and were entitled to vote 2,000,000 shares or approximately 17.9% of the then outstanding shares of KBL's common stock, which includes all of the shares held by KBL's directors and executive officers and their affiliates. Among the KBL Inside Stockholders is Dr. Zachary Berk, KBL's current chairman of the board of directors and president, Dr. Marlene Krauss, KBL's current chief executive officer and secretary, and Michael Kaswan, KBL's current chief operating officer and a director. The foregoing three persons collectively own 1,899,426 shares of KBL's currently outstanding common stock. All of the KBL Inside Stockholders have agreed to vote their shares on the acquisition proposal in accordance with the majority of the votes cast by the holders of shares issued in KBL's IPO. The KBL Inside Stockholders also have indicated that they intend to vote their Original Shares in favor of all other proposals being presented at the meeting. These KBL Inside Stockholders have also indicated they intend to vote any shares they acquired after the IPO for all of the proposals. As of the record date, the KBL Inside Stockholders have not acquired any additional shares of KBL common stock since the IPO. All of the KBL Inside Stockholders also agreed, in connection with the IPO, to place their shares in escrow until April 21, 2008.

**Table of Contents**

**THE ACQUISITION PROPOSAL**

The discussion in this document of the acquisition and the principal terms of the Acquisition Agreement by and among KBL, Merger Sub, each of the Summer Companies, and the Summer stockholders is subject to, and is qualified in its entirety by reference to, the Acquisition Agreement. A copy of the Acquisition Agreement is attached as *Annex A* to this proxy statement.

**General Description of the Acquisition**

The Acquisition Agreement provides for a business combination transaction in which:

SII will merge into the Merger Sub, with Merger Sub surviving the merger as a wholly owned subsidiary of KBL,

the stockholders of SIE and SIA will sell and transfer all of the outstanding capital stock of those companies to KBL, and each such company will become a wholly owned subsidiary of KBL, and

the Merger Sub shall acquire all of the assets and liabilities of Faith Realty, LLC ( Faith Realty ), an entity owned by two of the Summer stockholders and which owns the facilities currently under construction that are intended for use by Summer as its principal offices and facilities.

KBL will be renamed Summer Infant, Inc. after completion of the acquisition.

In return for all of their stock in each of SII, SIE and SIA, the stockholders of Summer will receive from KBL an aggregate of 3,916,667 shares of KBL common stock, such shares being subject to downward adjustment based upon the consolidated net worth of Summer at the closing, and \$20,000,000 in cash. The Summer stockholders will be entitled to receive an additional 2,500,000 shares of KBL's common stock if the market price of KBL's common stock exceeds certain levels for a prescribed period of time after closing. In addition, the Summer stockholders will be entitled to receive up to an aggregate of \$5,000,000 cash in the event Summer's EBITDA exceeds certain levels in one or more of the fiscal years ending December 31, 2006, 2007 and 2008. See the section entitled *The Acquisition Agreement Acquisition Consideration*.

Immediately after the acquisition, and assuming that no KBL stockholder demands that KBL convert its shares to cash as permitted by KBL's certificate of incorporation, the stockholders of Summer will own approximately 25.9% of the outstanding KBL common stock. Immediately after the acquisition, if no KBL stockholder demands that KBL convert its shares into a pro rata portion of the trust account, then existing KBL's stockholders will own approximately 74.1% of the outstanding common stock of KBL. Assuming 19.9% of the outstanding KBL common stock votes against the acquisition and such stock is converted into cash, the existing KBL stockholders will own 69.6% of the outstanding common stock of KBL immediately following the closing. See the section entitled *The Acquisition Agreement Acquisition Consideration*.

**Background of the Acquisition**

The terms of the Acquisition Agreement are the result of arm's-length negotiations between representatives of KBL and Summer. The following is a brief discussion of the background of these negotiations, the Acquisition Agreement and related transactions.

KBL was formed on December 4, 2004 to effect an acquisition, capital stock exchange, asset acquisition or other similar business combination with an operating business. KBL completed its IPO on April 27, 2005, raising net proceeds, including proceeds from the exercise of the underwriters' over-allotment option, of approximately \$50,437,000. Of these net proceeds, approximately \$49,169,000 were placed in a trust account immediately

## Table of Contents

following the IPO and, in accordance with KBL's certificate of incorporation, will be released either upon the

consummation of a business combination or upon the liquidation of KBL. KBL must liquidate unless it has consummated a business combination by April 27, 2007. As of February 6, 2007, the record date, approximately \$52,263,748 was held in deposit in the trust account.

Promptly following KBL's IPO, KBL contacted several investment bankers, private equity firms, consulting firms, legal and accounting firms and numerous business associates. Through these efforts, KBL identified and reviewed information with respect to approximately 200 acquisition opportunities based on the acquisition criteria disclosed in the IPO prospectus that KBL developed during the process of completing its IPO. Among these opportunities, KBL focused on companies that had the best combination of the following characteristics:

demonstrated revenue generation,

compelling growth prospects,

attractive profit margins (current or potential),

strong management with an interest in continuing at the company,

reasonable valuation expectations,

the ability to deploy capital productively,

a willingness to operate as a publicly-traded company, and

an understanding and acceptance of KBL's structure, acquisition process and timing.

By April 2006, KBL had entered into substantial discussions with several companies that it believed met most or all of the foregoing criteria. It exchanged information with these companies, including business plans and financial information and held bilateral management presentations. KBL investigated approximately 10 to 15 of these opportunities in depth and provided a preliminary letter of intent or memorandum of understanding to five companies in addition to Summer as described below. Of the remaining companies, KBL declined to move forward on several because it did not believe the financial characteristics, business dynamics, management teams, attainable valuations and/or deal structures were suitable. There were also several companies that were not interested in pursuing a deal with KBL based on its publicly-traded status, capital structure or ability to close with sufficient certainty or speed.

In June 2005, KBL was contacted by EarlyBird Capital, Inc. ( EarlyBird ), the underwriter of its IPO, to schedule a meeting in KBL's offices on June 3, 2005 with a company that operates a chain of salon and spa outlets. This company was in the process of adding related cosmetic medical services and launching a line of branded skin care products. Current year revenues were expected to be approximately \$35,000,000, with significant growth projected. KBL exchanged information with the company, held several conference calls and met with them in their offices on June 9 and June 13, 2005 and in the offices of their primary equity sponsor on July 18, 2005. On July 20, 2005, KBL sent the company an initial letter of intent outlining proposed terms of an acquisition by KBL and, after subsequent negotiations, a revised letter of intent on August 10, 2005. Shortly thereafter, and before finalizing the letter of intent, KBL notified the company that it had decided not to pursue the opportunity. KBL reached this decision primarily because it believed the proposed target's business model was not proven to a satisfactory extent, as the company had not yet launched many of its key business initiatives and was generating significant losses.

In December 2005, KBL was contacted by an attorney with whom it had worked in the past who desired to introduce KBL to a company that provides protective products, such as body armor and related items, to law enforcement and military personnel. Current year revenues were

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expected to be approximately \$25,000,000, with significant growth projected. After reviewing the company's materials, KBL management decided to visit the company on December 15, 2005. KBL sent the proposed target an initial letter of intent on December 20, 2005 that outlined the proposed terms under which KBL would acquire the company. KBL performed its due diligence



## Table of Contents

investigation of the opportunity and negotiated the terms of the letter of intent, including at meetings with company management in New York on January 15, 2006 and at their headquarters on January 31, 2006. Both parties signed the letter of intent on January 31, 2006. After further due diligence, including another site visit at the company on February 22, 2006, KBL notified the company in March 2006 that it would not be pursuing the opportunity. KBL arrived at this decision because it believed that the management team in place was not ideally-suited to run a publicly-traded company. There were also concerns about whether the rapid growth that the company was projecting was related to one-time events, including the wars in Afghanistan and Iraq, and thus might not be sustainable over the long-term.

In December 2005, KBL was contacted by an investment banker who was representing a company that provides custom-manufactured battery packs and other power solutions to OEM companies in the medical device, automatic data collection and commercial military industries. Current year revenues were approximately \$40,000,000, with attractive growth projected. After exchanging introductory materials, an initial conference call was held with management of the company on December 9, 2005. In-person meetings were held in New York at an investment banking conference on January 10, 2006 and at the company's headquarters on January 12, 2006. KBL provided the company with an initial letter of intent on January 10, 2006 and a revised letter of intent on January 19, 2006. KBL was interested in pursuing this opportunity further, but in February 2006, the company informed KBL that it would be pursuing other options. It was subsequently acquired by a private equity firm.

In February 2006, an investment banker with whom KBL had worked in the past contacted KBL regarding a company that operates nursing homes in select markets in the western United States. Current year revenues were approximately \$90,000,000, with limited growth expected. A meeting was held with the investment banker in KBL's offices on March 2, 2006. KBL submitted a preliminary letter of interest, outlining the general terms under which it might proceed with a transaction on March 3, 2006. KBL visited the company on March 23, 2006. After further due diligence, in April 2006, KBL decided not to proceed further as its assessment of the opportunity was that the organic growth potential was limited and questioned the availability of reasonably-priced acquisition candidates. In addition, the company's management did not seem appropriate to run a publicly-traded company.

In February 2006, KBL was contacted by a venture capitalist it knew regarding a company that markets clinical diagnostics products, research instrumentation and related consumables to clinicians, pharmaceutical companies and academic labs. Current year revenues from the existing business were expected to be approximately \$50,000,000, with additional revenues expected from one or more acquisitions. Organic growth was projected to be modest, but there was an aggressive acquisition-based growth strategy in place. A conference call with management was held on March 17, 2006, followed by a meeting at the company on April 3, 2006. KBL sent the company a preliminary letter of intent on April 11, 2006 and a revised version on April 27, 2006. Both parties signed the letter of intent on May 5, 2006 and entered into due diligence and discussions regarding the timing of structuring of the acquisition. KBL believed that the company might have been an attractive acquisition candidate but ultimately concluded that it was not a good fit based on the timing of the company's capital needs relative to the time required to close a deal with KBL. KBL notified the company of this decision in August 2006.

In February 2006, KBL was contacted by EarlyBird, which identified an opportunity with Summer, a company in the juvenile health, safety and wellness products industry. EarlyBird explained that it had been approached by Brooks Houghton and Company, Inc. ( Brooks Houghton ), Summer's investment bankers, and that it believed this to be a good opportunity for KBL. EarlyBird primarily served as a finder to KBL in making the introduction to Summer, but also provided advice as to the perceived attractiveness of the company as an acquisition candidate based on its knowledge of KBL's status as a SPAC and its stockholder base. On March 1, 2006, a nondisclosure agreement was executed by KBL and Summer.

Subsequent to the signing of the nondisclosure agreement, Drs. Zachary Berk and Marlene Krauss and Mr. Michael Kaswan of KBL spoke with Messrs. Jason Macari and Steven Gibree of Summer and with Zene

## Table of Contents

Colt and John Freeman of Brooks Houghton, on a number of occasions. A meeting was scheduled for March 15, 2006 at Summer's principal corporate offices in North Smithfield, Rhode Island.

On March 15, 2006, Drs. Berk and Krauss and Mr. Kaswan met with Messrs. Macari, Gibree and Colt at Summer's principal corporate office. During this meeting, Messrs. Macari, Gibree and Colt described Summer's business and provided additional information regarding Summer and its financials, management and future prospects. Drs. Berk and Krauss and Mr. Kaswan also made a presentation to Messrs. Macari, Gibree and Colt describing KBL and its founders, board of directors and structure. During the presentations, there were numerous exchanges of questions and there was a general consensus that an opportunity existed for a business combination. KBL and Summer also discussed in detail the valuation and structuring parameters of a potential transaction and agreed on the general terms of a business combination, subject to KBL completing detailed due diligence of Summer.

A letter of intent was drafted within a few days of the meeting and sent out to Summer on March 17, 2006. This initial letter of intent set forth consideration of \$10,000,000 in cash 5,000,000 shares of KBL common stock and the assumption of Summer's outstanding debt at closing. It also provided for up to \$25,000,000 in contingent payments based on the combined company exceeding certain levels of EBITDA during the years 2006-2008 and/or based on the combined company calling the outstanding public warrants.

Several rounds of negotiation ensued between KBL, Summer and Summer's investment bankers. The primary items of negotiation centered around the overall valuation of the company, the mix of acquisition consideration, the structure of the contingent payments, how Summer's outstanding debt would be handled, whether adjustments would be made to the purchase price if Summer's financial position deteriorated between the signing date and the closing date, the composition of the post-closing board of directors and whether or not one or both parties would receive an exclusivity provision preventing the other party from pursuing alternative options.

During the course of the negotiations regarding the Acquisition Agreement, the officers and directors of KBL discussed a valuation analysis of the acquired business based on comparable companies and transactions as described in the section of this proxy statement entitled "KBL's Board of Directors' Reasons for Approval of the Acquisition - Valuation." This analysis was in line with the analysis conducted by Capitalink in connection with the rendering of its fairness opinion, which was provided to our board of directors in connection with the preparation of this proxy statement, subsequent to our board's approval of the Acquisition Agreement. *For a description of Capitalink's analyses please see the information set forth in "The Acquisition Proposal - Fairness Opinion."*

The parties were in general agreement that the initial enterprise valuation of Summer, including cash, stock and assumed debt should be in the range of 1.00 - 1.15 times expected 2006 revenues, or in the range of \$48-55 million. KBL based its view on its valuation analysis as described above and in the section of this proxy statement entitled "KBL's Board of Directors' Reasons for Approval of the Acquisition - Valuation." The Summer stockholders agreed with this assessment based on their personal experiences in the industry and the advice of their investment banker, Brooks Houghton. The parties also agreed that the optimal composition of the acquisition consideration should provide the Summer stockholders with enough cash to achieve the personal financial returns they desired, while at the same time leaving sufficient capital in the combined company to execute the post-combination operating plan and also leaving management with an equity stake in the company that would be sufficient enough to motivate them to continue to successfully operate the business. The parties based this initial valuation on Summer's projected financial performance and agreed that a structure that offered the Summer stockholders the opportunity to earn additional consideration based on exceeding these projections would be advisable, leading to the EBITDA-based contingent payments. These payments were structured such that EBITDA generated in excess of the targets would be shared 50/50 between the Summer stockholders as a group (such portion being capped at \$5,000,000 in the aggregate) and the combined company.

## Table of Contents

The parties also agreed that it would be beneficial for the Parent's stock price to reach a level that would enable it to call the outstanding public warrants, which are callable if KBL's stock closes at or above \$8.50 per share for 20 of 30 trading days prior to April 20, 2009. Calling the warrants could provide an additional source of capital, provide additional market liquidity and simplify the capital structure of the company. The parties determined that the potential issuance of an additional 2,500,000 shares to the Summer stockholders, worth \$21,250,000 at the targeted \$8.50 stock price, would provide significant motivation to the Summer stockholders to help the combined companies achieve this milestone since such stockholders will remain in position of management with the combined companies. Given that the call of the outstanding public warrants would significantly increase the number of common shares outstanding, the parties agreed that it made sense to structure this contingent payment as payable in stock.

After further negotiations, the parties came to terms and signed a letter of intent on April 27, 2006. The Summer stockholders had rejected the consideration set forth in KBL's March 17, 2006 letter of intent as inadequate, causing KBL to slightly increase the amount of cash to be paid, the number of shares to be issued at closing and the total potential contingent payments in order to induce Summer to sign the revised letter of intent. The signed letter of intent provided that KBL would give consideration of \$12,000,000 in cash, 5,250,000 shares of KBL common stock and the assumption of Summer's outstanding debt at closing. The contingent payments were revised to provide for up to \$5,000,000 in cash payable on the combined company exceeding certain levels of EBITDA during the years 2006 through 2008 and/or up to 2,500,000 shares of KBL common stock if the combined company's stock price reached certain levels prior to April 2009. If the maximum contingent payments are earned, Summer's stockholders could receive total additional value of \$26,250,000 (based on a stock price of \$8.50 per share). The parties agreed to a mechanism that would reduce the purchase price if Summer's net worth at closing was lower than it was at June 30, 2006, to a jointly-selected board of directors and to proceed with the transaction without either side having an exclusivity provision. The letter of intent also identified the other key components to the transaction, which included employment agreements, establishment of an incentive compensation plan for employees and registration rights provisions.

On May 1, 2006, KBL delivered to Summer an extensive due diligence request list. KBL began to focus its resources on compiling and reviewing in detail the due diligence materials received from Summer. KBL provided copies of all diligence information received by KBL to its counsel, Graubard Miller, for review and legal due diligence. Additionally, KBL instructed Graubard Miller to begin preparation of the first draft of a definitive acquisition agreement consistent with the terms of the letter of intent.

Throughout the due diligence process, KBL had numerous telephone conversations with individuals at Summer in order to discuss issues relating to the acquisition agreement and the transaction. Furthermore, KBL met with Messrs. Macari, Gibree, Colt and Freeman at KBL's offices in New York on June 8, 2006. Representatives of KBL also met with Mr. Macari at KBL's offices in New York on July 13, 2006 and in Westport, Connecticut on July 28, 2006, in order to resolve open items and to discuss the progress of the transaction. In addition, in May 2006, representatives of KBL visited Summer's presentation booth at the Juvenile Product Manufacturer's Association (JPMA) Conference in Orlando, Florida. At the JPMA Conference, representatives of KBL met with additional members of Summer's management team, including Rachelle Harel, SIE's managing director, and also investigated Summer's competitors that were participating at the conference.

On numerous occasions from April 2006 through August 2006, KBL's board of directors discussed the terms of the letter of intent and proposed business combinations with Summer. All of KBL's directors (Drs. Berk and Krauss and Mr. Kaswan) were present on these occasions and all of the directors had received the executed letter of intent as well as financial, operational and descriptive information about Summer. On these occasions, Drs. Berk and Krauss and Mr. Kaswan described Summer and the deal structure and discussions among the directors ensued. All of the directors were supportive of the proposed business combination. The directors were continuously updated as to the status of the due diligence and negotiations, and copies of the most recent drafts of the significant transaction documents were delivered to the directors in connection with their consideration of the proposed business combination with Summer.

## Table of Contents

In June 2006, Summer's stockholders expressed a desire to receive a larger upfront cash payment as part of the acquisition. After subsequent discussion among the parties, it was agreed that the transaction consideration would be changed to \$20,000,000 in cash and 3,916,667 shares of KBL common stock. It was determined that this change would result in a change in the composition of the transaction consideration, but would not materially change the overall level of consideration to be paid to the Summer stockholders. It was also determined that the new transaction structure did not materially impact the previously stated goals of providing the Summer stockholders their desired personal financial security, retaining sufficient capital in the company and leaving management with a meaningful equity stake in the business.

Based on the last sale price of a share of KBL common stock on September 1, 2006 (\$5.35), the date the Acquisition Agreement was signed by the parties, with respect to the shares to be issued at the closing of the acquisition, and assuming all contingent issuances of stock (valued at \$8.50 per share) and payments of cash are made, the value of the total maximum consideration that may be given by KBL in the acquisition is approximately \$67,204,168 or approximately \$77,304,168 giving effect to KBL's assumption of approximately \$10,100,000 of Summer's net debt (as measured at June 30, 2006). Based on a last sale price of a share of KBL common stock on February 6, 2007, the record date (\$5.60), such total maximum consideration is \$68,183,335 or approximately \$79,864,335 giving effect to KBL's assumption of approximately \$11,681,000 of Summer's net debt (as measured at September 30, 2006). See the section entitled *The Acquisition Agreement Acquisition Consideration*.

Throughout June, July and August 2006, succeeding drafts of the transaction documents were prepared in response to comments and suggestions of the parties and their counsel, with management and counsel for both companies engaging in numerous negotiating sessions. Included in the various transaction documents, in addition to the Acquisition Agreement, were an escrow agreement, voting agreement, lock-up agreements, and employment agreements for Dr. Krauss, Messrs. Macari, Gibree and Driscoll and Ms. Harel.

On June 9, 2006, KBL retained Capitalink to render an opinion that the consideration to be paid in the acquisition is fair to KBL's stockholders and to opine that the fair market value of Summer is at least 80% of KBL's net assets.

On August 24, 2006, another meeting of the board of directors of KBL was held. All directors attended, as did, by invitation telephonically, Brian L. Ross, Esq. of Graubard Miller, and representatives of Capitalink. Prior to the meeting, copies of the most recent drafts of the significant transaction documents, in substantially final form, were delivered to all participants. Scott Salpeter and Kathy Welker of Capitalink made a presentation regarding the fairness of the consideration to be paid in the acquisition. Mr. Salpeter advised the board that it was the opinion of Capitalink that the consideration to be paid in the acquisition was fair to KBL's stockholders from a financial point of view, and that the fair market value of Summer is at least 80% of KBL's net assets. Mr. Salpeter and Ms. Welker detailed for the board the analysis performed by Capitalink and made a presentation concerning how Capitalink had arrived at its opinion. Mr. Salpeter and Ms. Welker discussed at length with KBL's board the different analyses used to determine whether the acquisition consideration to be paid by KBL was fair from a financial point of view to KBL's stockholders, as well as to determine the fair market value of Summer. After considerable review and discussion, the Acquisition Agreement and related documents were unanimously approved, and the board determined to recommend the approval of the acquisition to the stockholders of KBL. *For a more detailed description of the Capitalink fairness opinion, see the section entitled The Acquisition Proposal Fairness Opinion.*

The Acquisition Agreement was signed on September 1, 2006. Immediately thereafter, KBL and Summer issued a joint press release announcing the execution of the Acquisition Agreement and discussing the terms of the Acquisition Agreement, and on September 5, 2006, KBL filed a Current Report on Form 8-K discussing in greater detail the terms of the Acquisition Agreement and Summer's business.

EBC will receive a cash finder's fee at the closing of the acquisition equal to one (1%) of the consideration to be paid in the acquisition and Brooks Houghton will receive an investment banking fee at the closing of the acquisition equal to two (2%) of the consideration to be paid in the acquisition.

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**Table of Contents**

**KBL's Board of Directors' Reasons for Approval of the Acquisition**

The final agreed-upon consideration in the Acquisition Agreement was determined by several factors. KBL's board of directors reviewed various industry and financial data, including certain valuation analyses and metrics compiled by members of KBL's board, in order to determine that the consideration to be paid to Summer was fair and that the acquisition was in the best interests of KBL's stockholders.

KBL conducted a due diligence review of Summer that included an industry analysis, a description of Summer's existing business model, a valuation analysis and financial projections in order to enable the board of directors to ascertain the reasonableness of the consideration. During its negotiations with Summer, KBL did not receive services from any financial advisor, however, the KBL board of directors obtained a fairness opinion from Capitalink prior to approving the Acquisition Agreement.

The KBL board of directors considered a wide variety of factors in connection with its evaluation of the acquisition. In light of the complexity of those factors, the KBL board of directors did not consider it practicable to, nor did it attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its decision. In addition, individual members of the KBL board may have given different weight to different factors.

KBL's management and board of directors also reviewed Summer's business plan, historical financial information and financial projections as originally provided to KBL by Brooks Houghton, Summer's investment banker, in February 2006 and as updated by the company in August 2006. Specifically, KBL reviewed Summer's historical financial statements for the years 2001 through 2005 and the six month period ended June 30, 2006 (unaudited) and Summer's projected financial statements for the years 2006 and 2007.

In its February 2006 business plan, Summer was projecting approximately \$48 million in net sales for 2006 (a 35% increase from 2005) and approximately \$78 million in net sales for 2007 (a 62% increase from 2006). The increase in net sales was assumed to result primarily from continued organic growth in 2006 and from a combination of organic growth and acquisitions in 2007. Summer was projecting approximately \$5 million of EBITDA (11% of net sales) in 2006 and \$10 million (13% of net sales) in 2007. The projected increase in EBITDA was driven primarily by the projected increase in net sales, but EBITDA margins were also projected to expand as selling, general and administrative and research and development expenses were forecast to decrease as a percentage of sales as some of these fixed costs were spread across a larger base of net sales. These projections were used as a basis for the setting the relevant levels of EBITDA required to trigger the contingent payments. Summer did not provide projections beyond 2007.

Summer updated its financial projections in August 2006 based on actual results for the first six months of 2006, revised projections for 2007 net sales based on initial retailer product commitments and updated expense assumptions related to then-current run rates as well as several non-recurring expense items. The incremental expenses included transaction costs related to the KBL acquisition, certain litigation items, the cost of the newly-added soft goods team and costs associated with being a public company in 2007 and beyond, including the hiring of a chief financial officer and the assembly of a board of directors. Since no acquisitions have been identified and there could be no assurance that any would be consummated, KBL asked Summer to provide projections for 2007 that did not include any assumed acquisitions as a conservative base case. Summer provided these updated projections to KBL for its internal analysis and to Capitalink for use in preparing its Fairness Opinion. These projections called for approximately \$51 million in net sales for 2006 (a 41% increase from 2005) and \$69 million of net sales for 2007 (a 36% increase from 2006). The increase in sales for both years was based on increased sales of existing and new products to existing and new retail customers. EBITDA was projected to be approximately \$4 million for 2006 (8% of net sales) and \$7 million for 2007 (10% of net sales). The projected increase in EBITDA was driven by the projected increase in net sales and the spreading of fixed selling, general and administrative and research and development costs across a larger sales base. Summer did not provide financial projections for 2008, but did provide assumptions regarding sales growth and profitability.

## **Table of Contents**

that enabled Capitalink to complete the analysis required to render its fairness opinion. The same assumptions provided to Capitalink were provided to KBL and projected net sales growth ranging from 30% to 40% and EBITDA margins ranging from 12% to 15% for 2008. Investors should not place undue reliance upon such projections, as they are not necessarily an indication of what Summer's revenue and EBITDA will be in the future.

In considering the acquisition, the KBL board of directors gave considerable weight to the following factors:

### *Summer's record of growth and expansion and high potential for future growth*

Important criteria to KBL's board of directors in identifying an acquisition target were that the target have established business operations, that it was generating current revenues, and that it had potential to experience rapid growth. KBL's board of directors believes that Summer has in place the infrastructure for strong business operations and to achieve growth both organically and through accretive strategic acquisitions. The board's belief in Summer's growth potential is based in part on Summer's historical growth rate. Summer has experienced a compounded annual growth rate of more than 200% in net sales from net sales of approximately \$412,000 in fiscal 2001 (the year it was purchased by current management) to net sales of approximately \$35,535,000 in fiscal 2005 and grew EBITDA from approximately (\$346,000) to \$2,348,000 over the same period.

### *The experience of Summer's management*

Another important criteria to KBL's board of directors in identifying an acquisition target was that the company have a seasoned management team with specialized knowledge of the markets within which it operates and the ability to lead a company in a rapidly changing environment. KBL's board of directors believes that Summer's management has significant experience in the juvenile health, safety and wellness products industry, as demonstrated by the background of the members of Summer's management and Summer's ability to develop new and profitable products and create and expand distribution channels for its products. KBL confirmed its view of Summer's management via its due diligence investigation, which included several reference calls to former employers, co-workers, vendors and customers for each key member of the company's team.

### *Financial condition and results of operations*

Summer's revenue, operating profit and overall financial performance were reviewed in absolute terms and also in relation to other companies in the juvenile health, safety and wellness products industry. Members of the board viewed such financial information favorably, both in absolute terms and in comparison to other companies. The board believes that Summer's continued rapid revenue growth, coupled with continued strong operating profit margins, will lead to high operating profits that will reward KBL stockholders.

### *Valuation*

The board considered the value of Summer in relation to its growth potential and found it to be attractive when compared to other companies in its industries. The board reviewed infant health, safety and wellness acquisitions consummated during the preceding 24 months of which it was aware of and for which data was publicly available. It also identified publicly-traded companies whose businesses were most similar to that of Summer. Based on the valuation of these companies, as listed below, the board was able to calculate the expected initial valuation of Summer in the public market. KBL presented certain industry transactions to the board, including the following:

Royal Philips Electronics' acquisition of Avent Holdings, announced in May 2006 at a value of 4.1 times sales and 18.5 times EBITDA

3i Group's acquisition of Mayborn Group, announced in May 2006 at a value of 1.6 times sales and 10.3 times EBITDA

**Table of Contents**

The Carlyle Group's acquisition of Britax Childcare, announced in September 2005 at a value of 1.9 times sales and 11.0 times EBITDA

RC2 Corporation's acquisition of The First Years, announced in June 2004 at a value of 0.9 times sales and 6.9 times EBITDA  
KBL also presented certain publicly-traded companies that compete in Summer's markets to the board, including the following:

Carter's Inc, as of August 2006 was trading at 1.3 times sales and 10.7 times EBITDA

Dorel Industries, as of August 2006 was trading at 0.7 times sales and 7.3 times EBITDA

RC2 Corporation, as of August 2006 was trading at 1.4 times sales and 6.8 times EBITDA

Russ Berrie & Co, as of August 2006 was trading at 1.2 times sales (not profitable, so EBITDA multiple was not meaningful)  
The comparable companies valuations and comparable transactions valuations were grouped together and taken as a whole with equal weighting given to each company and transaction alike, resulting in a median valuation of approximately 1.35 times sales and 10.3 times EBITDA. Based on this and management's and the board's significant transaction experience, the board determined that 1.35 times sales would be an appropriate multiple to use in valuing Summer. The board decided to use a revenue multiple instead of an EBITDA multiple because it felt that Summer's current EBITDA margins were not indicative of the company's profit potential due to its early-stage, rapid growth and certain one-time expenses as noted above. Using this multiple of sales and Summer's updated projections, the board determined a valuation of Summer of approximately \$69.0 million based upon its projected 2006 sales. The board noted that the acquisition of Summer would likely not close until early 2007 and, therefore basing the valuation on 2006 sales would be a conservative approach. The board also applied the 1.35 times sales multiple to the company's projected 2007 net sales of \$69.0 million to calculate a value based on 2007 net sales of approximately \$93.2 million and discounted this back to present value using Summer's cost of equity of 22%, which resulted in a valuation of Summer of approximately \$76.4 million. The board also noted that most of the companies it considered as comparable had demonstrated significantly less growth potential than Summer. The board also evaluated this result against its transaction experience and found it to be reasonable.

The board calculated that the valuation of the upfront payments to Summer's stockholders amounted to approximately \$51.3 million, composed of \$20.0 million in cash, \$21.2 million of KBL common stock (3,916,667 shares at a price of \$5.35 per share on September 1, 2006) and \$10.1 million of assumed debt (balance on June 30, 2006). The board calculated the additional consideration to be \$13.5 million, including approximately \$1.0 million based on Summer achieving certain future EBITDA targets and approximately \$12.5 million based on KBL's stock price reaching a certain level. The board's assumption that only \$1.0 million additional cash consideration will be paid is based on the projections provided to the board and on which the board based its valuation of Summer. These projections provide that Summer is not reasonably likely to achieve the necessary EBITDA levels that would trigger its right to receive the contingent cash payments based on EBITDA for the 2007 and 2008 fiscal years. The board did assume that KBL's stock price will exceed the required level (\$8.50 per share) that would trigger the Summer stockholders' right to receive 2.5 million additional shares of KBL stock in 2009. The future value of the 2.5 million shares was discounted back to present value using Summer's cost of equity of 22%. Thus, the indicated value of the transaction consideration used in the board's analysis was \$64.8 million, which it noted was less than the \$69.0-\$76.4 million valuation range for Summer as noted above. Since the value of the payments to the stockholders was significantly below the valuation determined from its comparable company and comparable transaction analysis, the board determined that the negotiated terms were in the best interest of KBL's stockholders.

## **Table of Contents**

### *Favorable industry dynamics*

The board determined that the juvenile health, safety and wellness products industry is desirable for several reasons. In a February 2006 press release, the Juvenile Products Manufacturers Association ( JPMA ) estimated \$7 billion in U.S. retail sales in the industry in 2004, up from \$4 billion in 1995 and \$6 billion in 2000. KBL believes industry growth is driven not only by the underlying birth rate, but by an increasing willingness on the part of new parents to spend larger amounts of money on their children. There is a trend towards couples marrying and having children later in life, when they have greater financial security, and thus greater household disposable income. Organizations including the JPMA, American Academy of Pediatrics, other advocacy groups and independent parenting websites have been emphasizing the importance of child health, safety and wellness. In addition, KBL has noted a strong retailer commitment to this sector as evidenced by the strong performance of dedicated industry retailers such as Babies R Us and Buy Buy Baby as well as public announcements of expanded juvenile offerings by retailers including Wal-Mart, Target and Amazon.com. These trends were also noted in a March 2005 research report from Mintel Consumer Intelligence, a consumer, media and market research firm, on the Baby Durables industry that the board reviewed as part of its analysis. This report was not prepared specifically for KBL and is available for purchase from Mintel Consumer Intelligence.

### *Competitive position and acceptance of its services*

Summer s reputation in its industry, within its distribution channels and among its end customers was considered by the board to be one of the favorable factors in concluding that its competitive position was strong. As part of its due diligence investigation, KBL visited the annual International JPMA Show, which was held in Orlando, FL in May 2006. At the show, KBL was able to interact with several of Summer s retail buyer clients in the company s booth and also had the opportunity to meet with several competitors and other industry players. In addition, KBL conducted phone interviews with several of Summer s key customers as well as other industry experts, including those who are planning to join KBL s board of directors at closing. KBL reported to the board that feedback from these sources on the company and its products was very strong.

### *Costs associated with effecting the business combination*

The board determined that the costs associated with effecting the acquisition with Summer would be of the same order of magnitude as would be encountered with most other business combinations. In addition, it was favorably viewed by the board that all of Summer s management would stay in place to operate the post- acquisition company and that there would therefore be relatively minimal integration issues following the acquisition.

### *Potential adverse factors considered*

The board evaluated several potential adverse factors in its consideration of the acquisition of Summer. These included pending litigation against Summer (see *Business of Summer Legal Proceedings*), Summer s non-compliance with certain terms of its subordinated term loan (see *Summer s Management Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources*). As part of its due diligence investigation, KBL reviewed all of the outstanding and pending litigation against Summer, spoke at length to Summer s management and attorneys and determined that none of these items were likely to materially impact the company. Several claims were scheduled to be settled in the near-term and the potential damages in the other claims were not significant relative to the size of Summer s business. In addition, the stockholders of Summer had agreed to indemnify KBL in the Acquisition Agreement for liabilities arising from such litigation. KBL also reviewed all of Summer s indebtedness, including its relationships with its primary lenders and the fact that it was in breach of certain covenants on its subordinated term loan. It was determined that Summer s relationships were in good order and that waivers for the covenant violations were likely to be obtained. It was further determined that if waivers were not obtainable, KBL could choose to repay the subordinated term loan after closing without impacting its ability to achieve its business plan.



## **Table of Contents**

### **Satisfaction of 80% Test**

It is a requirement that any business acquired by KBL have a fair market value equal to at least 80% of KBL's net assets at the time of acquisition, which assets shall include the amount in the trust account. Based on the financial analysis of Summer generally used to approve the transaction, the KBL board of directors determined that this requirement was met. KBL estimates that its net assets at the closing of the acquisition will be approximately \$50 million, after deduction of the costs of the acquisition that may be paid from the funds in the trust account upon closing of the acquisition and assuming that no KBL stockholders vote against the acquisition and seek conversion of their KBL shares into cash, of which 80% is \$40 million.

As described above, the board valued Summer at approximately \$69 million based on its comparable company analysis and significant transaction experience. This value substantially exceeds the \$40 million value required to meet the 80% test. The board noted that it based its calculation on the most conservative projections it had received from Summer and used valuation multiples for companies that had significantly less growth potential than Summer, and thus it felt comfortable with its decision.

The KBL board of directors believes, because of the financial skills and background of several of its members, it was qualified to perform the valuation analysis described above and to conclude that the acquisition of Summer met this requirement. The KBL board members have a significant number of years of experience in the private equity/venture capital and investment banking industries and have been involved in numerous transactions of a similar nature to the one contemplated between KBL and Summer. KBL also has received an opinion from Capitalink that the 80% test has been met.

### **Interests of KBL's Directors and Officers in the Acquisition**

In considering the recommendation of the board of directors of KBL to vote for the proposals to approve the Acquisition Agreement, as well as the certificate of incorporation amendments and the performance equity plan proposals, you should be aware that certain members of the KBL board have agreements or arrangements that provide them with interests in the acquisition that differ from, or are in addition to, those of KBL stockholders generally. In particular:

if the acquisition is not approved and KBL is unable to complete another business combination by April 27, 2007, KBL will be required to liquidate. In such event, the 2,000,000 shares of common stock held by KBL's officers and directors that were acquired prior to the IPO for an aggregate purchase price of \$25,000 will be worthless because KBL's initial stockholders are not entitled to receive any liquidation proceeds with respect to such shares. Such shares had an aggregate market value of \$13,000,000 based on the last sale price of \$6.50 on the OTCBB on February 6, 2007, the record date.

Dr. Krauss and certain of her affiliates also purchased an aggregate of 1,000,000 warrants in the public market during the first 40 days following KBL's IPO for an aggregate purchase price of \$610,000 (or approximately \$0.61 per warrant), pursuant to a binding written agreement between Dr. Krauss and EarlyBirdCapital, Inc. entered into in connection with KBL's IPO. This agreement was entered into by Dr. Krauss at a time when she was not in possession of any material non-public information relating to KBL. Such warrants had an aggregate market value of \$940,000 based upon the last sale price of \$0.94 per warrant on the OTCBB on February 6, 2007, the record date. All of the warrants will become worthless if the acquisition is not consummated.

In November 2006, Mr. Kaswan purchased an additional 150,000 warrants in open market purchases. In addition, during the period from November 24, 2006 through the record date, Dr. Krauss has purchased an aggregate of 500,000 additional warrants. The 650,000 warrants purchased by Dr. Krauss and Mr. Kaswan since November 1, 2006 had an aggregate market value of \$611,000 based upon the last sale price of \$0.94 per warrant on the OTCBB on February 6, 2007, the record date. All of the warrants will become worthless if the acquisition is not consummated.

On December 5, 2006, the Company borrowed \$20,000 from Dr. Krauss. The loan is unsecured, non-interest bearing and will be repaid on the earlier of the consummation by KBL of a business



## **Table of Contents**

combination or upon demand by Dr. Krauss; provided, however, that if a business combination is not consummated, KBL will be required to repay the loan only to the extent it has sufficient funds available to it outside of the trust account.

if KBL liquidates prior to the consummation of a business combination, Drs. Zachary Berk and Marlene Krauss, KBL's current chairman of the board and chief executive officer respectively, will be personally liable to pay debts and obligations, if any, to vendors and other entities that are owed money by KBL for services rendered or products sold to KBL, or to any target business, to the extent such creditors bring claims that would otherwise require payment from moneys in the trust account. This arrangement was entered into to ensure that, in the event of liquidation, the trust account is not reduced by claims of creditors. Based on KBL's estimated debts and obligations, it is not currently expected that Drs. Berk and Krauss will have any exposure under this arrangement in the event of liquidation.

upon consummation of the acquisition, Dr. Krauss will enter into an employment agreement with KBL to serve as KBL's chairman of the board for an initial term of three years at an annual base salary of \$125,000.

## **Recommendation of KBL's Board of Directors**

After careful consideration, KBL's board of directors determined unanimously that each of the acquisition proposal, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan is in the best interests of KBL and its stockholders. KBL's board of directors has approved and declared advisable the acquisition, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan and unanimously recommends that you vote or give instructions to vote FOR each of the proposals to approve the acquisition proposal, the name change amendment, the capitalization amendment, the Article Sixth amendment and the performance equity plan.

The foregoing discussion of the information and factors considered by the KBL board of directors is not meant to be exhaustive, but includes the material information and factors considered by the KBL board of directors.

## **Fairness Opinion**

In connection with its determination to approve the acquisition, KBL's board of directors engaged Capitalink, L.C. to provide it with a fairness opinion as to whether the transaction consideration to be paid by KBL is fair, from a financial point of view, to KBL's stockholders. Capitalink, which was founded in 1998 and is headquartered in Coral Gables, Florida, provides publicly and privately held businesses and emerging growth companies with a broad range of investment banking and advisory services. As part of its business, Capitalink regularly is engaged in the evaluation of businesses and their securities in connection with mergers, acquisitions, corporate restructurings, private placements, and for other purposes. KBL selected Capitalink on the basis of Capitalink's experience, recommendations from other companies that had experience with Capitalink for similar purposes, Capitalink's ability to do the research and provide the fairness opinion within the required timeframe and the competitiveness of its fee, which was specified by Capitalink in its proposal to the board. Capitalink does not beneficially own any interest in either KBL or Summer, has never provided either company with any other services and does not expect or contemplate any additional services or compensation.

KBL has paid Capitalink a fee of \$70,000 in connection with the preparation and issuance of its opinion. In addition, KBL has also agreed to indemnify and hold Capitalink, its officers, directors, principals, employees, affiliates, and members, and their successors and assigns, harmless from and against any and all loss, claim, damage, liability, deficiencies, actions, suits, proceedings, costs and legal expenses (collectively the Losses) or expense whatsoever (including, but not limited to, reasonable legal fees and other expenses and reasonable disbursements incurred in connection with investigating, preparing to defend or defending any action, suit or proceeding, including any inquiry or investigation, commenced or threatened, or any claim whatsoever, or in appearing or preparing for appearance as witness in any proceeding, including any pretrial proceeding such as a

**Table of Contents**

deposition) arising out of, based upon, or in any way related or attributed to, (i) any breach of a representation, or warranty made by KBL in KBL's agreement with Capitalink; or (ii) any activities or services performed under that agreement by Capitalink, unless such Losses were the result of the intentional misconduct or gross negligence of Capitalink.

Capitalink made a presentation to KBL's board of directors on August 24, 2006 and subsequently delivered its written opinion to the board of directors, which stated that, as of August 24, 2006, and based upon and subject to the assumptions made, matters considered, and limitations on its review as set forth in the opinion, (i) the transaction consideration is fair, from a financial point of view, to KBL's stockholders, and (ii) the fair market value of Summer is at least equal to 80% of KBL's net assets. The amount of the transaction consideration was determined pursuant to negotiations between KBL and Summer and not pursuant to recommendations of Capitalink. The full text of the written opinion of Capitalink is attached to the proxy statement as *Annex E* and is incorporated by reference into this proxy statement.

You are urged to read the Capitalink opinion carefully and in its entirety for a description of the assumptions made, matters considered, procedures followed and limitations on the review undertaken by Capitalink in rendering its opinion. The summary of the Capitalink opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

The Capitalink opinion is not intended to be and does not constitute a recommendation to you as to how you should vote or proceed with respect to the transaction. Capitalink was not requested to opine as to, and the opinion does not in any manner address, the relative merits of the transaction as compared to any alternative business strategy that might exist for us, KBL's underlying business decision to proceed with or effect the transaction, and other alternatives to the transaction that might exist for us. Capitalink does not express any opinion as to the underlying valuation or future performance of KBL or Summer or the price at which either KBL or Summer's securities might trade at any time in the future.

In arriving at its opinion, Capitalink took into account an assessment of general economic, market and financial conditions, as well as its experience in connection with similar transactions and securities valuations generally. In so doing, among other things, Capitalink:

Reviewed the Acquisition Agreement.

Reviewed publicly available financial information and other data with respect to KBL, including the Annual Report on Form 10-KSB for the year ended December 31, 2005 and the Quarterly Report on Form 10-QSB for the three and six month periods ended June 30, 2006.

Reviewed non-public information and other data with respect to Summer, including unaudited financial statements for the five years ended December 31, 2005, unaudited interim financial statements for the six months ended June 30, 2006, financial projections for the two years ending December 31, 2007, certain of management's assumptions regarding sales growth and profitability for 2008, the Summer Confidential Executive Summary dated December 2005, and other internal financial information and management reports.

Reviewed and analyzed the acquisition's pro forma impact on KBL's securities outstanding and stockholder ownership.

Considered the historical financial results and present financial condition of both KBL and Summer.

Reviewed certain publicly available information concerning the trading of, and the trading market for KBL's common stock.

Reviewed and analyzed the indicated value range of the acquisition consideration.

Reviewed and analyzed Summer's projected unlevered free cash flows and prepared a discounted cash flow analysis.



**Table of Contents**

Reviewed and analyzed certain financial characteristics of publicly-traded companies that were deemed to have characteristics comparable to Summer.

Reviewed and analyzed certain financial characteristics of target companies in transactions where such target company was deemed to have characteristics comparable to that of Summer.

Reviewed and compared the net asset value of KBL to the indicated enterprise value range of Summer. For purposes of Capitalink's analyses, enterprise value means equity value plus all interest-bearing debt less cash.

Reviewed and discussed with representatives of KBL and Summer management certain financial and operating information furnished by them, including financial analyses with respect to the Summer's business and operations.

Performed such other analyses and examinations as were deemed appropriate.

In arriving at its opinion, Capitalink relied upon and assumed the accuracy and completeness of all of the financial and other information that was used by it without assuming any responsibility for any independent verification of any such information and further relied upon the assurances of KBL and Summer management that they were not aware of any facts or circumstances that would make any such information inaccurate or misleading. With respect to the financial information and projections utilized, Capitalink assumed that such information has been reasonably prepared on a basis reflecting the best currently available estimates and judgments, and that such information provides a reasonable basis upon which it could make an analysis and form an opinion. The projections used by Capitalink were prepared by Summer management and are not to be interpreted as projections of future performance (or guidance) by Summer. Capitalink did not evaluate the solvency or fair value of KBL or Summer under any foreign, state or federal laws relating to bankruptcy, insolvency or similar matters. Capitalink did not make a physical inspection of the properties and facilities of Summer and did not make or obtain any evaluations or appraisals of Summer's assets and liabilities (contingent or otherwise). In addition, Capitalink did not attempt to confirm whether Summer had good title to its assets.

Capitalink assumed that the transaction will be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable foreign, federal and state statutes, rules and regulations. Capitalink assumes that the transaction will be consummated substantially in accordance with the terms set forth in the Acquisition Agreement, without any further amendments thereto, and that any amendments, revisions or waivers thereto will not be detrimental to KBL or its stockholders in any material respect. Capitalink further assumed that for U.S. federal income tax purposes the transaction will qualify as a plan of reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended.

Capitalink's analysis and opinion are necessarily based upon market, economic and other conditions, as they existed on, and could be evaluated as of, August 24, 2006. Accordingly, although subsequent developments may affect its opinion, Capitalink has not assumed any obligation to update, review or reaffirm its opinion.

In connection with rendering its opinion, Capitalink performed certain financial, comparative and other analyses as summarized below. Each of the analyses conducted by Capitalink was carried out to provide a different perspective on the transaction, and to enhance the total mix of information available. Capitalink did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion as to the fairness, from a financial point of view, of the transaction consideration, to KBL's stockholders. Further, the summary of Capitalink's analyses described below is not a complete description of the analyses underlying Capitalink's opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Capitalink made qualitative judgments as to the relevance of each analysis and factor that it considered. In addition, Capitalink may have given various analyses

## **Table of Contents**

more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuations resulting from any particular analysis described above should not be taken to be Capitalink's view of the value of Summer's assets. The estimates contained in Capitalink's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses or assets neither purport to be appraisals nor do they necessarily reflect the prices at which businesses or assets may actually be sold. Accordingly, Capitalink's analyses and estimates are inherently subject to substantial uncertainty. Capitalink believes that its analyses must be considered as a whole and that selecting portions of its analyses or the factors it considered, without considering all analyses and factors collectively, could create an incomplete and misleading view of the process underlying the analyses performed by Capitalink in connection with the preparation of its opinion.

The summaries of the financial reviews and analyses include information presented in tabular format. In order to fully understand Capitalink's financial reviews and analyses, the tables must be read together with the accompanying text of each summary. The tables alone do not constitute a complete description of the financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Capitalink.

The analyses performed were prepared solely as part of Capitalink's analysis of the fairness, from a financial point of view, of the transaction consideration to KBL's stockholders, and were provided to KBL's board of directors in connection with the delivery of Capitalink's opinion. The opinion of Capitalink was just one of the many factors taken into account by KBL's board of directors in making its determination to approve the transaction, including those described elsewhere in this proxy statement.

### *Transaction consideration analysis*

The transaction consideration consists of the initial consideration and the additional consideration. Capitalink calculated the initial consideration, based on a closing stock price of \$5.35 as of August 23, 2006, to be approximately \$41.0 million. Capitalink calculated the additional consideration to be \$13.5 million, including approximately \$1 million based on Summer achieving certain future EBITDA targets and approximately \$12.5 million based on KBL's stock price reaching a certain level. Capitalink's assumption that only \$1 million additional cash consideration will be paid is based on the projections provided to Capitalink and on which Capitalink based its valuation of Summer. These projections provide that Summer is not reasonably likely to achieve the necessary EBITDA levels that would trigger its right to receive the contingent cash payments based on EBITDA for the 2007 and 2008 fiscal years. Capitalink does assume that KBL's stock price will exceed the required level (\$8.50 per share) that would trigger the Summer stockholders' right to receive 2.5 million additional shares of KBL stock in 2009. The future value of the 2.5 million shares was discounted back to present value using Summer's cost of equity of 22%. Thus, the indicated value of the transaction consideration used in Capitalink's analysis ranged from \$41.0 million to \$54.5 million.

For purposes of Capitalink's analyses, EBITDA means earnings before interest, taxes, depreciation and amortization, as adjusted for add-backs for one-time charges.

### *Valuation overview*

Capitalink generated an indicated valuation range for Summer based on a discounted cash flow analysis, a comparable company analysis and a comparable transaction analysis as more fully discussed below. Capitalink weighted the three approaches equally and arrived at an indicated equity value range of approximately \$49.0 million to \$64.0 million. Capitalink noted that Summer's indicated equity value range is higher than the indicated value range of the transaction consideration.

## **Table of Contents**

### *Discounted cash flow analysis*

A discounted cash flow analysis estimates value based upon a company's projected future free cash flow discounted at a rate reflecting risks inherent in its business and capital structure. Unlevered free cash flow represents the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations.

While the discounted cash flow analysis is the most scientific of the methodologies used, it is dependent on projections and is further dependent on numerous industry-specific and macroeconomic factors.

Capitalink utilized the forecasts and assumptions provided by Summer management, which project substantial organic revenue growth from fiscal 2006 through fiscal 2008 and increasing profitability reflecting improving economies of scale.

In order to arrive at a present value, Capitalink utilized discount rates ranging from 18.0% to 20.0%. This was based on an estimated weighted average cost of capital (WACC) of 19.2% (based on Summer's estimated weighted average cost of debt of 7.6% and a 22.2% estimated cost of equity). The cost of equity calculation was derived utilizing the Ibbotson build up method utilizing appropriate equity risk, industry risk and size premia and a company specific risk factor of 3.0%, reflecting the risk associated with achieving the projected sales growth and increasing margins throughout the projection period.

Capitalink presented a range of terminal values at the end of the forecast period by applying a range of terminal exit multiples based on EBITDA as well as long term perpetual growth rates.

Utilizing terminal EBITDA multiples of between 7.5x and 8.5x and long term perpetual growth rates of between 10.0% and 11.0%, Capitalink calculated a range of indicated enterprise values and then deducted net debt of approximately \$10.1 million (which includes approximately \$10.2 million in interest bearing debt and approximately \$0.1 million in cash) to derive an indicated equity value range of approximately \$52.7 million to approximately \$73.2 million. The selected terminal EBITDA multiple range of 7.5x to 8.5x is consistent with the multiples observed in the comparable company analysis. Comparable companies (excluding outliers) trade at an enterprise value to LTM EBITDA multiple of 7.8x (mean), while the same multiple over the last ten years was approximately 8.8x. The long-term perpetual growth rate of 10% to 11% is based on Summer's projected short-term growth rates (approximately 30%, which is consistent with its historical growth rates) gradually declining to approximately 3%, the long-term GDP growth rate.

### *Comparable company analysis*

A selected comparable company analysis reviews the trading multiples of publicly traded companies that are similar to Summer with respect to business and revenue model, operating sector, size and target customer base.

Capitalink identified the following six comparable companies that it deemed comparable to Summer with respect to their industry sector and operating model:

#### *Infant consumer goods companies:*

Dorel Industries, Inc.

RC2 Corp.

BabyUniverse, Inc.

#### *Other (high growth) consumer goods companies:*

Green Mountain Coffee Roasters, Inc.



Lifetime Brands, Inc.

Volcom, Inc.

45

**Table of Contents**

Five of the comparable companies are substantially larger than Summer in terms of revenue, with LTM (Last Twelve Months ) revenue ranging from approximately \$31.8 million to approximately \$1.7 billion, compared with approximately \$44.9 million for Summer.

Capitalink noted that four of the comparable companies are more profitable than Summer, with EBITDA margins ranging from approximately (1.6)% to approximately 23.6%, compared with approximately 8.7% for Summer. Summer's expected future revenue and EBITDA growth is higher than that of each of the infant consumer goods companies and in line with each of the other (high growth) consumer goods companies.

Multiples utilizing enterprise value were used in the analyses. For comparison purposes, all operating profits including EBITDA were normalized to exclude unusual and extraordinary expenses and income.

Capitalink generated a number of multiples worth noting with respect to the comparable companies:

Multiple of enterprise value to	Mean	Median	Low	High
LTM revenue	1.45x	1.38x	0.67x	2.27x
CY2006 revenue	1.25x	1.20x	0.66x	2.04x
CY2007 revenue	1.03x	1.03x	0.62x	1.57x
LTM EBITDA	10.4x	9.6x	6.9x	15.5x
CY2006 EBITDA	8.8x	8.0x	6.9x	13.1x
CY2007 EBITDA	7.1x	6.5x	6.3x	9.5x

Capitalink also reviewed the historical multiples generated for the comparable companies, and noted that the mean enterprise value to LTM EBITDA multiple over the last ten years was 8.8x.

Capitalink selected an appropriate multiple range for Summer by examining the range indicated by the comparable companies and taking into account certain company-specific factors. Capitalink expects Summer's revenue valuation multiples to be around the mean of the comparable companies due to its comparable EBITDA margins and higher growth offset by its smaller size, and its EBITDA multiples to be somewhat above the mean of the comparable companies due to its higher EBITDA growth.

Based on the above factors, Capitalink applied the following multiples to the respective statistics:

Multiples of 1.20x to 1.40x CY2006 revenue,

Multiples of 0.90x to 1.10x CY2007 revenue,

Multiples of 9.0x to 11.0x CY2006 EBITDA,

Multiples of 7.0x to 8.0x CY2007 EBITDA,

and calculated a range of enterprise values for Summer by weighting the above indications equally and then deducted net debt of approximately \$10.1 million to derive an indicated equity value range of approximately \$49.3 million to approximately \$60.5 million.

None of the comparable companies have characteristics identical to Summer. An analysis of publicly traded comparable companies is not mathematical; rather it involves complex consideration and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading of the comparable companies.

*Comparable transaction analysis*

A comparable transaction analysis involves a review of merger, acquisition and asset purchase transactions involving target companies that are in related industries to Summer. The comparable transaction analysis



**Table of Contents**

generally provides the widest range of value due to the varying importance of an acquisition to a buyer (i.e., a strategic buyer willing to pay more than a financial buyer) in addition to the potential differences in the transaction process (i.e., competitiveness among potential buyers).

Information is typically not disclosed for transactions involving a private seller, even when the buyer is a public company, unless the acquisition is deemed to be material for the acquirer. As a result, the selected comparable transaction analysis is limited to transactions involving the acquisition of a public company, or substantially all of its assets, or the acquisition of a large private company, or substantially all of its assets, by a public company.

Capitalink located nine transactions announced since June 2004 involving target companies that are similar to Summer and for which detailed financial information was available. These transactions are:

Target	Acquiror
Russ Berrie & Co., Inc. (NYSE: RUS)	Prentice Capital Management/D.E. Shaw Laminar Portfolios
Mayborn Group plc (AIM: MBY)	3i Group plc (LSE: III)
AVENT Holdings Ltd.	Royal Philips Electronics (ENXTAM: PHIA)
Creative Designs International, Ltd.	JAKKS Pacific, Inc. (NasdaqNM: JAKK)
Posh Tots, LLC	BabyUniverse, Inc. (NasdaqSC: POSH)
Huta Duna, Inc.	BabyUniverse, Inc. (NasdaqSC: POSH)
Britax Childcare	The Carlyle Group
Kids Line, LLC	Russ Berrie & Co., Inc. (NYSE: RUS)
The First Years, Inc.	RC2 Corp. (NasdaqNM: RCRC)

Based on the information disclosed with respect to the targets in the each of the comparable transactions, Capitalink calculated and compared the enterprise values as a multiple of LTM revenue.

Capitalink noted the following with respect to the multiples generated:

Multiple of enterprise value to	Mean	Median	Low	High
LTM revenue	1.78x	1.57x	0.84	4.07x

Capitalink expects Summer to be valued slightly below the mean of the comparable transactions multiples due to its lower profitability and smaller size. The selected revenue multiple range of 1.20x to 1.50x is lower than the observed mean and median of 1.78x and 1.57x, respectively, reflecting Summer's smaller size and lower profitability. As most targets were private companies at the time of the acquisition, data concerning their past and projected growth rates were not available and hence were not compared with those of Summer.

Based on the comparable transactions, Capitalink determined a range of indicated enterprise values for Summer by selecting a range of valuation multiples of between 1.20x and 1.50x, and then applying them to Summer's LTM revenue.

Based on the selected multiple ranges, Capitalink calculated a range of enterprise values for Summer and then deducted net debt of approximately \$10.1 million to derive an indicated equity value range of approximately \$43.9 million to approximately \$57.3 million.

None of the target companies in the comparable transactions have characteristics identical to Summer. Accordingly, an analysis of comparable business combinations is not mathematical; rather it involves complex

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## **Table of Contents**

considerations and judgments concerning differences in financial and operating characteristics of the target companies in the comparable transactions and other factors that could affect the respective acquisition values.

### *80% test*

KBL's initial business combination must be with a target business whose fair market value is at least equal to 80% of KBL's net assets at the time of such acquisition.

Capitalink reviewed and estimated KBL's net assets based on its stockholders' equity as of June 30, 2006 and compared that to Summer's indicated range of enterprise value. Capitalink noted that the fair market value of Summer exceeds 80% of KBL's net asset value.

Based on the information and analyses set forth above, Capitalink delivered its written opinion to KBL's board of directors, which stated that, as of August 24, 2006, based upon and subject to the assumptions made, matters considered, and limitations on its review as set forth in the opinion, (i) the transaction consideration is fair, from a financial point of view, to KBL's stockholders, and (ii) the fair market value of Summer is at least equal to 80% of KBL's net assets. Capitalink is an investment banking firm that, as part of its investment banking business, regularly is engaged in the evaluation of businesses and their securities in connection with mergers, acquisitions, corporate restructurings, private placements, and for other purposes. KBL decided to use the services of Capitalink because it is a recognized investment banking firm that has substantial experience in similar matters. Capitalink has received a fee in connection with the preparation and issuance of its opinion and will reimburse Capitalink for its reasonable out-of-pocket expenses, including attorneys' fees. In addition, KBL has agreed to indemnify Capitalink for certain liabilities that may arise out of the rendering of its opinion. Capitalink does not beneficially own any interest in either KBL or Summer and has not provided either company with any other services.

## **Material Federal Income Tax Consequences of the Acquisition**

The following section is a summary of the opinion of Graubard Miller, counsel to KBL, regarding material United States federal income tax consequences of the acquisition to holders of KBL common stock. This discussion addresses only those KBL security holders that hold their securities as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the Code), and does not address all the United States federal income tax consequences that may be relevant to particular holders in light of their individual circumstances or to holders that are subject to special rules, such as:

financial institutions;

investors in pass-through entities;

tax-exempt organizations;

dealers in securities or currencies;

traders in securities that elect to use a mark to market method of accounting;

persons that hold KBL common stock as part of a straddle, hedge, constructive sale or conversion transaction; and

persons who are not citizens or residents of the United States.

The Graubard Miller opinion is based upon the Code, applicable treasury regulations thereunder, published rulings and court decisions, all as currently in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Tax considerations under state, local and foreign laws, or federal laws other than those pertaining to the income tax, are not addressed.

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Neither KBL nor Summer intends to request any ruling from the Internal Revenue Service as to the United States federal income tax consequences of the acquisition.

## **Table of Contents**

It is the opinion of Graubard Miller that the acquisition will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and no gain or loss will be recognized by KBL or Summer as a result of the acquisition. It is also the opinion of Graubard Miller that no gain or loss will be recognized by KBL or by the stockholders of KBL if their conversion rights are not exercised.

It is also the opinion of Graubard Miller that a stockholder of KBL who exercises conversion rights and effects a termination of the stockholder's interest in KBL will be required to recognize gain or loss upon the exchange of that stockholder's shares of common stock of KBL for cash. Such gain or loss will be measured by the difference between the amount of cash received and the tax basis of that stockholder's shares of KBL common stock. This gain or loss will be a capital gain or loss if such shares were held as a capital asset on the date of the acquisition and will be a long-term capital gain or loss if the holding period for the share of KBL common stock is more than one year. The tax opinion issued to KBL by Graubard Miller, its counsel, is attached to this proxy statement as *Annex H*. Graubard Miller has consented to the use of its opinion in this proxy statement.

This discussion is intended to provide all material United States federal income tax consequences of the acquisition to KBL and its stockholders who hold their stock as a capital asset. This discussion is not a complete analysis or description of all potential United States federal tax consequences of the acquisition to other holders who are subject to special rules. It does not address tax consequences that may vary with, or are contingent on, your individual circumstances. In addition, the discussion does not address any non-income tax or any foreign, state or local tax consequences of the acquisition. Accordingly, you are strongly urged to consult with your tax advisor to determine the particular United States federal, state, local or foreign income or other tax consequences to you of the acquisition.

The tax opinion issued to KBL by Graubard Miller, its counsel, is attached to this proxy statement as Annex F. Graubard Miller has consented to the use of its opinion in this proxy statement.

## **Anticipated Accounting Treatment**

The acquisition will be accounted for by KBL as an acquisition under the purchase method of accounting. Pursuant to this method, the aggregate consideration paid by KBL in connection with the acquisition will be allocated to Summer's assets and liabilities based on their fair values, with any excess being treated as goodwill. Summer's assets, liabilities and results of operations will be consolidated with the assets, liabilities and results of operations of KBL after consummation of the acquisition.

## **Regulatory Matters**

The acquisition and the transactions contemplated by the Acquisition Agreement are not subject to any additional federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, except for filings with the State of Delaware necessary to effectuate the transactions contemplated by the acquisition proposal.

**Table of Contents**

**THE ACQUISITION AGREEMENT**

The following summary of the material provisions of the Acquisition Agreement is qualified by reference to the complete text of the Acquisition Agreement, a copy of which is attached as *Annex A* to this proxy statement as it may be amended. All stockholders are encouraged to read the Acquisition Agreement in its entirety for a more complete description of the terms and conditions of the acquisition.

**General; Structure of Acquisition**

On September 1, 2006, KBL entered into the Acquisition Agreement with each of the Summer Companies and all of the stockholders of the Summer Companies. Merger Sub, a wholly owned subsidiary of KBL, formed to effectuate the acquisition is also a party to the Acquisition Agreement. In the acquisition:

SII will merge into the Merger Sub, with Merger Sub surviving the merger as a wholly owned subsidiary of KBL,

the stockholders of SIE and SIA will sell and transfer all of the outstanding capital stock of those companies to KBL, and each such company will become a wholly owned subsidiary of KBL, and

the Merger Sub shall acquire all of the assets and liabilities of Faith Realty, an entity owned by two of the Summer stockholders which owns the facilities currently under construction that are intended for use by Summer as its principal offices and facilities.

The Summer stockholders approved and adopted the Acquisition Agreement, as amended, and the transactions contemplated thereby by virtue of the execution of the Acquisition Agreement and the amendments. Accordingly, no further action is required to be taken by Summer stockholders to approve the acquisition.

**Closing and Effective Time of the Acquisition**

The closing of the acquisition will take place promptly following the satisfaction of the conditions described below under *The Acquisition Agreement Conditions to the Closing of the Acquisition*, unless KBL and Summer agree in writing to another time. The acquisition is expected to be consummated promptly after the special meeting of KBL's stockholders described in this proxy statement.

After completion of the acquisition:

the name of KBL will be Summer Infant, Inc. ;

the corporate headquarters and principal executive offices of KBL will be located at 582 Great Road, North Smithfield, Rhode Island 02896, which is SII's corporate headquarters; and

KBL and Summer will cause the common stock, warrants and units of KBL outstanding prior to the acquisition, which are traded on the OTCBB, to continue trading on the OTCBB or to be quoted on either the Nasdaq Global Market or Nasdaq Capital Market. In the event KBL's common stock, warrants and units are listed on either Nasdaq market at the time of the closing, the symbols will change to ones determined by the board of directors and the trading medium that are reasonably representative of the corporate name or business of KBL.

**Acquisition Consideration**

Pursuant to the Acquisition Agreement, the Summer stockholders, in exchange for all of the securities of Summer outstanding immediately prior to the Acquisition, will receive from KBL an aggregate of \$20,000,000 cash and 3,916,667 shares of KBL common stock, such shares being subject to downward adjustment based on Summer's net worth.





## **Table of Contents**

The Summer stockholders will be entitled to receive up to an additional aggregate of 2,500,000 shares of KBL common stock ( Contingent Shares ) in the event that the last sales price of KBL common stock is equal to or exceeds \$8.50 on any twenty (20) trading days during any thirty (30) consecutive trading day period commencing on the three-month anniversary of the closing of the acquisition and ending on April 20, 2009.

The Summer stockholders also will be entitled to receive cash payments equal to 50% of the difference between actual EBITDA (as defined in the Acquisition Agreement) for the years ending December 31, 2006, 2007 and 2008 and prescribed EBITDA benchmarks for each of those years of \$4,200,000, \$10,000,000 and \$15,000,000, respectively. Actual EBITDA for purposes of this calculation equals Summer s income before depreciation, amortization, interest, taxes and any expenses related to Summer s proposed acquisition by KBL. These cash payments shall not exceed \$5,000,000 in the aggregate for the three years. The EBITDA of Summer for the nine months ended September 30, 2006 was \$3,744,000.

Immediately following the acquisition, and assuming no holders of KBL common stock vote against the acquisition and elect to convert such stock into cash, the Summer stockholders will own approximately 25.9% of the total issued and outstanding KBL common stock. Giving effect to the issuance of the Contingent Shares, and assuming no holders of KBL common stock vote against the acquisition and elect to convert such stock into cash, the Summer stockholders would own approximately 36.4% of the total issued and outstanding KBL common stock.

## **Escrow Agreement**

1,000,000 shares of the KBL common stock received by the Summer stockholders will be placed into escrow to secure the indemnity rights of KBL under the Acquisition Agreement. An additional 391,667 shares of the KBL common stock received by the Summer stockholders will be placed into escrow to secure KBL s right to recapture all or a portion of such shares if Summer s net worth (as defined in the Acquisition Agreement) at the date of the closing of the acquisition is less than Summer s net worth at June 30, 2006. For purposes of this escrow, the term net worth means, on the date in question, the consolidated assets of Summer at such date, less all consolidated liabilities of Summer at such date, adjusted to give effect to the payment of dividend distributions by SII for the payment of taxes in such fiscal year or prior years and excluding direct costs and expenses through the applicable date related to the acquisition and related to litigation and settlement of the dispute between Summer and Springs Global US, Inc. described under the section Business of Summer Legal Proceedings. As soon as practicable following the closing date, Goldstein Golub Kessler LLP shall calculate and deliver to KBL a statement of Summer s net worth at June 30, 2006 and the closing date. Each of these escrows will be governed by the terms of an escrow agreement, a copy of which is attached to this proxy statement as Annex F. Summer s net worth at June 30, 2006 per its combined financial statements totaled \$3,342,000, and at September 30, 2006, totaled \$4,266,000. These figures would need to be adjusted for the items noted above, including dividend distributions and costs related to the Springs litigation. This calculation has not yet been finalized.

## **Lock-Up Agreements**

The Summer stockholders have entered into lock-up agreements to not sell or otherwise transfer any of the shares of KBL common stock received by them in the acquisition until April 21, 2008, subject to certain exceptions, such as transfers between currently existing Summer stockholders and transfers to family members who agree to be similarly bound by the terms of the lock-up. The lock-up agreements alleviate any potential dilutive impact of such shares upon the market price of KBL common stock during the periods the restrictions apply.

## **Employment Agreements**

A condition to the closing of the Acquisition Agreement is that Jason Macari, Summer s current chief executive officer, Dr. Marlene Krauss, KBL s current chief executive officer, Steven Gibree, Summer s current

## **Table of Contents**

executive vice president of product development, Rachelle Harel, Summer's current managing director, and Joseph Driscoll, Summer's current chief financial officer, shall enter into employment agreements with KBL and/or Summer, effective upon the consummation of the acquisition. The employment agreements are attached to this proxy statement as *Annexes I, J, K, L and M*. For a summary of the employment agreements, see the section entitled *Directors and Executive Officers of KBL Following the Acquisition Employment Agreements*. We encourage you to read the employment agreements in their entirety.

## **Election of Directors; Voting Agreement**

Certain of the KBL Inside Stockholders specifically, Dr. Marlene Krauss, Dr. Zachary Berk and Mr. Michael Kaswan and all of the Summer stockholders have entered into a voting agreement. Immediately after consummation of the acquisition, and assuming no conversions of KBL common stock, the parties to the voting agreement will own approximately 38.5% of KBL's outstanding common stock in the aggregate. The voting agreement provides that the Summer stockholders, on the one hand, and such KBL Inside Stockholders, on the other hand, will each designate two directors and mutually designate three additional directors to KBL's board. Each of the parties to the voting agreement will vote for such designees as directors of KBL until immediately following the election that will be held in 2009. KBL will be obligated to provide for its board of directors to be comprised of seven members and to enable the election to the board of directors of the persons designated by the parties to the voting agreement. The voting agreement is attached to this proxy statement as *Annex D*. We encourage you to read the voting agreement in its entirety.

Immediately upon the consummation of the acquisition, the directors of KBL will be Dr. Marlene Krauss, Mr. Jason Macari, Mr. Steven Gibree, Mr. Martin Fogelman, Ms. Myra Hart, Mr. Robert Stebenne and Mr. Richard Wenz. Under the terms of the voting agreement, all of the Summer stockholders, on the one hand, and the KBL Inside Stockholders who are party to the voting agreement, on the other hand, have agreed to vote for the designees to KBL's board of directors through the election in 2009 as follows:

in the class to stand for reelection in 2007 Myra Hart and Robert Stebenne.

in the class to stand for reelection in 2008 Steven Gibree, Martin Fogelman and Richard Wenz.

in the class to stand for reelection in 2009 Dr. Marlene Krauss and Jason Macari.

KBL's directors do not currently receive any cash compensation for their services as members of the board of directors. However, in the future, non-employee directors may receive certain cash fees and stock-based awards as the KBL board of directors may determine.

## **Registration Rights Agreement**

Pursuant to the Acquisition Agreement, KBL and the Summer stockholders will enter into a registration rights agreement to provide the Summer stockholders with certain rights relating to the registration of shares of KBL common stock that they will receive in connection with the acquisition. Under the registration rights agreement, the Summer stockholders are afforded both demand and piggyback registration rights. The registration rights agreement is attached to this proxy statement as *Annex G*. We encourage you to read the registration rights agreement in its entirety.

## **Representations and Warranties**

The Acquisition Agreement contains representations and warranties of each of Summer and KBL relating, among other things, to:

proper corporate organization and similar corporate matters;

capital structure of each constituent company;

the authorization, performance and enforceability of the Acquisition Agreement;

**Table of Contents**

licenses and permits;

taxes;

financial information and absence of undisclosed liabilities;

holding of leases and ownership of other properties, including intellectual property;

contracts;

title to properties and assets;

environmental matters;

title to and condition of other assets;

absence of certain changes;

employee matters;

compliance with laws;

product liability and product recalls;

absence of litigation; and

compliance with applicable provisions of securities laws.

The Summer stockholders have represented and warranted, among other things, as to their accredited investor status.

**Covenants**

KBL and Summer have each agreed to take such actions as are necessary, proper or advisable to consummate the acquisition. Each of them has also agreed, subject to certain exceptions, to continue to operate its respective businesses in the ordinary course prior to the closing and not to take the following actions without the prior written consent of the other party:

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waive any stock repurchase rights, accelerate, amend or (except as specifically provided for in the Acquisition Agreement) change the period of exercisability of options or restricted stock, or reprice options granted under any employee, consultant, director or other stock plans or authorize cash payments in exchange for any options granted under any of such plans;

grant any severance or termination pay to any officer or employee except pursuant to applicable law, written agreements outstanding, or policies, or adopt any new severance plan, or amend or modify or alter in any manner any severance plan, agreement or arrangement;

transfer or license to any person or otherwise extend, amend or modify any material rights to any intellectual property of Summer or KBL, as applicable, or enter into grants to transfer or license to any person future patent rights, other than in the ordinary course of business consistent with past practices provided that in no event will Summer or KBL license on an exclusive basis or sell any intellectual property of the Summer or KBL, as applicable;

declare, set aside or pay any dividends on or make any other distributions (whether in cash, stock, equity securities or property) in respect of any capital stock or split, combine or reclassify any capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any capital stock (other than certain distributions to stockholders of SII, a subchapter S corporation, in connection with income taxes as prescribed by the Acquisition Agreement);

purchase, redeem or otherwise acquire, directly or indirectly, any shares of capital stock of Summer and KBL, as applicable, including repurchases of unvested shares at cost in connection with the termination of the relationship with any employee or consultant pursuant to stock option or purchase agreements in effect on the date hereof;

**Table of Contents**

issue, deliver, sell, authorize, pledge or otherwise encumber, or agree to any of the foregoing with respect to, any shares of capital stock or any securities convertible into or exchangeable for shares of capital stock, or subscriptions, rights, warrants or options to acquire any shares of capital stock or any securities convertible into or exchangeable for shares of capital stock, or enter into other agreements or commitments of any character obligating it to issue any such shares or convertible or exchangeable securities;

amend its certificate of incorporation or bylaws;

acquire or agree to acquire by merging or consolidating with, or by purchasing any equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of KBL or Summer, as applicable, or enter into any joint ventures, strategic partnerships or alliances or other arrangements that provide for exclusivity of territory or otherwise restrict such party's ability to compete or to offer or sell any products or services;

sell, lease, license, encumber or otherwise dispose of any properties or assets, except sales of inventory in the ordinary course of business and the sale, lease or disposition of assets (other than through licensing) of property or assets that are not material to its business;

except with respect to advances under Summer's current credit facilities, incur any indebtedness for borrowed money in excess of \$25,000 in the aggregate or guarantee any such indebtedness of another person, issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of KBL or Summer, as applicable, enter into any "keep well" or other agreement to maintain any financial statement condition or enter into any arrangement having the economic effect of any of the foregoing;

adopt or amend any employee benefit plan, policy or arrangement, any employee performance equity plan, or enter into any employment contract or collective bargaining agreement (other than offer letters and letter agreements entered into in the ordinary course of business consistent with past practice with employees who are terminable "at will"), pay any special bonus or special remuneration to any director or employee, or increase the salaries or wage rates or fringe benefits (including rights to severance or indemnification) of its directors, officers, employees or consultants, except in the ordinary course of business consistent with past practices;

pay, discharge, settle or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), or litigation (whether or not commenced prior to the date of the Acquisition Agreement) other than the payment, discharge, settlement or satisfaction, in the ordinary course of business consistent with past practices or in accordance with their terms, or liabilities previously disclosed in financial statements to the other party in connection with the Acquisition Agreement or incurred since the date of such financial statements, or waive the benefits of, agree to modify in any manner, terminate, release any person from or knowingly fail to enforce any confidentiality or similar agreement to which the Summer is a party or of which the Summer is a beneficiary or to which KBL is a party or of which KBL is a beneficiary, as applicable;

except in the ordinary course of business consistent with past practices, modify, amend or terminate any material contract of Summer or KBL, as applicable, or waive, delay the exercise of, release or assign any material rights or assign any material rights or claims thereunder;

except as required by applicable U.S., U.K. or Hong Kong GAAP, revalue any of its assets or make any change in accounting methods, principles or practices;

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except in the ordinary course of business consistent with past practices, incur or enter into any agreement, contract or commitment requiring such party to pay in excess of \$250,000 in any 12 month period;



**Table of Contents**

engage in any action that could reasonably be expected to cause the acquisition to fail to qualify as a reorganization under Section 368(a) of the Code;

settle any litigation to which any director, officer or stockholder of such company is a party or, in the case of Summer, where the consideration given is other than monetary;

make or rescind any tax elections that, individually or in the aggregate, could be reasonably likely to adversely affect in any material respect the tax liability or tax attributes of such party, settle or compromise any material income tax liability or, except as required by applicable law, materially change any method of accounting for tax purposes or prepare or file any return in a manner inconsistent with past practice;

form, establish or acquire any subsidiary except as contemplated by the Acquisition Agreement;

permit any person to exercise any of its discretionary rights under any plan to provide for the automatic acceleration of any outstanding options, the termination of any outstanding repurchase rights or the termination of any cancellation rights issued pursuant to such plans;

make capital expenditures except in accordance with prudent business and operational practices consistent with prior practice;

make or omit to take any action which would be reasonably anticipated to have a material adverse effect;

enter into any transaction with or distribute or advance any assets or property to any of its officers, directors, partners, stockholders or other affiliates; or

agree in writing or otherwise agree, commit or resolve to take any of the foregoing actions.

The Acquisition Agreement also contains additional covenants of the parties, including covenants providing for:

each party to use commercially reasonable efforts to obtain all necessary approvals from stockholders, governmental agencies and other third parties that are required for the consummation of the transactions contemplated by the Acquisition Agreement;

Summer to maintain insurance policies providing insurance coverage for its business and its assets in the amounts and against the risks as are commercially reasonable for the businesses and risks covered;

the protection of confidential information of the parties and, subject to the confidentiality requirements, the provision of reasonable access to information;

KBL to prepare and file this proxy statement;

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Summer to provide audited financial statements for the fiscal years ending December 31, 2005, 2004 and 2003;

the Summer stockholders to release and forever discharge Summer and its directors, officers, employees and agents, from any and all rights, claims, demands, judgments, obligations, liabilities and damages arising out of or resulting from such stockholder's status as a holder of an equity interest in Summer, and employment, service, consulting or other similar agreement entered into with Summer prior to the consummation of the Acquisition Agreement;

making commercially reasonable efforts to negotiate with Summer's creditors to eliminate any personal guarantees given by Summer stockholders for the liabilities of Summer;

Summer and the Summer stockholders to waive their rights to make claims against KBL to collect from the trust account established for the benefit of the KBL stockholders who purchased their securities in KBL's IPO for any moneys that may be owed to them by KBL for any reason whatsoever, including breach by KBL of the Acquisition Agreement or its representations and warranties therein;

## **Table of Contents**

the Summer stockholders to repay to Summer at or prior to the consummation of the acquisition, all direct and indirect indebtedness and other obligations owed by them to Summer;

each stockholder of Summer to agree that he or she shall not, after the consummation of the acquisition and prior to April 21, 2008, sell, transfer or otherwise dispose of any interest in any of the shares of KBL common stock he or she receives as a result of the acquisition other than as permitted pursuant to his or her lock-up agreement;

each party to use commercially reasonable efforts to secure the consent of third parties as necessary to consummate the acquisition as contemplated by the Acquisition Agreement;

KBL and Summer to use their reasonable best efforts to obtain the listing for trading on either the Nasdaq Global Market or Nasdaq Capital Market of KBL common stock and warrants. If such listing is not obtainable by the closing of the acquisition, KBL and Summer will continue to use their best efforts after closing of the acquisition to obtain such listing; and

KBL to maintain current policies of directors and officers liability insurance with respect to claims arising from facts and events that occurred prior to the consummation of the acquisition for a period of six years after the consummation of the acquisition.

### **Conditions to the Closing of the Acquisition**

#### *General conditions*

Consummation of the Acquisition Agreement and the related transactions is conditioned on the KBL stockholders, at a meeting called for these purposes, (i) adopting the Acquisition Agreement and approving the acquisition, (ii) approving the change of KBL's name, and (iii) approving the increase of the authorized shares of KBL's common stock from 35,000,000 to 100,000,000. The KBL stockholders will also be asked to adopt the performance equity plan and to approve the removal of all of the provisions of Article Sixth of KBL's certificate of incorporation other than the paragraph relating to KBL's classified board of directors. The consummation of the acquisition is not dependent on the approval of either of such actions.

The acquisition will be consummated only if holders of twenty percent (20%) or more of the shares of KBL common stock issued in KBL's IPO and outstanding immediately before the consummation of the acquisition shall not have properly exercised their rights to convert their shares into a pro rata share of the trust account in accordance with KBL's certificate of incorporation.

In addition, the consummation of the transactions contemplated by the Acquisition Agreement is conditioned upon normal closing conditions in a transaction of this nature, including:

the delivery by each party to the other party of a certificate to the effect that the representations and warranties of the delivering party are true and correct in all material respects as of the closing and all covenants contained in the Acquisition Agreement have been materially complied with by the delivering party;

the receipt of necessary consents and approvals by third parties and the completion of necessary proceedings;

KBL's common stock being quoted on the OTCBB or listed for trading on Either the Nasdaq Global Market or Nasdaq Capital Market and there being no action or proceeding pending or threatened against KBL by the National Association of Securities Dealers, Inc. (NASD) to prohibit or terminate the quotation of KBL's common stock on the OTCBB or the trading thereof on Either the Nasdaq Global Market or Nasdaq Capital Market; and

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no order, stay, judgment or decree being issued by any governmental authority preventing, restraining or prohibiting in whole or in part, the consummation of such transactions.

**Table of Contents**

*Summer's conditions to closing*

The obligations of Summer to consummate the transactions contemplated by the Acquisition Agreement, in addition to the general conditions described above, are conditioned upon each of the following, among other things:

there shall have been no material adverse effect with respect to KBL since the date of the Acquisition Agreement;

Summer shall have received from Graubard Miller, counsel to KBL, a legal opinion, which among other things, opines on the validity and enforceability of the Acquisition Agreement and the transactions contemplated thereby; substantially in the form annexed to the Acquisition Agreement, which is customary for transactions of this nature;

an employment agreement between KBL and Dr. Marlene Krauss shall be in full force and effect; and

KBL shall have made appropriate arrangements with Continental Stock Transfer & Trust Company to have the trust account disbursed to KBL immediately upon the Closing.

*KBL's conditions to closing*

The obligations of KBL to consummate the transactions contemplated by the Acquisition Agreement, in addition to the general conditions described above, are conditioned upon each of the following, among other things:

there shall have been no material adverse effect with respect to Summer since the date of the Acquisition Agreement;

an employment agreement between Summer and each of Jason Macari, Steven Gibree, Rachelle Harel, and Joseph Driscoll shall be in full force and effect;

at the closing, all of the assets and liabilities of Faith Realty shall be transferred to Merger Sub;

all of the financial statements of Summer as audited or reviewed by GGK shall be materially the same as the financials that were delivered to KBL prior to the execution of the Acquisition Agreement;

KBL shall have received a comfort letter from GGK dated the closing date, which shall cite the accuracy of specific financial information presented in the proxy statement as compared to the financial statements included in the F-pages of this proxy statement and which shall provide other representations as customary for transactions similar to the acquisition;

KBL shall have received from Greenberg Traurig LLP, counsel to Summer, a legal opinion, which among other things, opines on the validity and enforceability of the Acquisition Agreement and the transactions contemplated thereby; substantially in the form annexed to the Acquisition Agreement, which is customary for transactions of this nature; and

the voting agreement between certain stockholders of KBL and certain stockholders of Summer and KBL shall be in full force and effect, and Dr. Krauss and the other KBL designee shall have been elected to KBL's board of directors.

**Indemnification**

As the sole remedy for the obligation of the Summer stockholders to indemnify and hold harmless KBL for any damages, whether as a result of any third party claim or otherwise, which arise as a result of or in connection with the breach of representations, warranties, agreements and covenants of Summer, at the closing of the acquisition, 1,000,000 shares of KBL common stock to be issued to the Summer stockholders as acquisition consideration will be deposited in escrow. The escrowed shares will be taken from each Summer stockholder pro rata in accordance with the number of shares of KBL common stock he receives in the acquisition. Claims for indemnification may be asserted by KBL once the damages exceed \$500,000 and are indemnifiable to the extent that damages exceed \$500,000. Any shares of KBL common stock remaining in the indemnity escrow fund on the later of (a) the date that is sixteen months after the effective time of the acquisition and (b) the thirtieth day after the date that KBL files its Annual Report on Form 10-K for the year ended December 31, 2007, or for such

## **Table of Contents**

further period as may be required pursuant to the Escrow Agreement, shall be released to the persons entitled to them. For purposes of satisfying an indemnification claim, shares of KBL common stock will be valued at the average reported last sale price for the ten trading days ending on the last day prior to the day that the claim is paid. The escrow agreement is attached to this proxy statement as *Annex F*. We encourage you to read the escrow agreement in its entirety.

The board of directors of KBL has appointed Dr. Marlene Krauss to take all necessary actions and make all decisions pursuant to the escrow agreement regarding KBL's right to indemnification under the Acquisition Agreement. If Dr. Krauss ceases to so act, KBL's board of directors shall appoint as a successor a person who was a director of KBL prior to the closing who would qualify as an independent director of KBL and who had no relationship with Summer prior to the closing. Dr. Krauss, and any successor, is charged with making determinations whether KBL may be entitled to indemnification, and may make a claim for indemnification by giving notice to Jason Macari, as representative of the Summer stockholders, with a copy to the escrow agent, specifying the details of the claim. Mr. Macari, or his successor, who may be appointed by him, or by KBL's board of directors, acting through its members who were directors of Summer prior to the closing, from among those of its members who was a former stockholder of Summer, or such other person as such members may designate, may accept the claim or dispute it. If the claim is disputed by Mr. Macari and not ultimately resolved by negotiation, it shall be determined by arbitration. Upon a claim and its value becoming established by the parties or through arbitration, it is payable from the shares placed in escrow or cash substituted therefor.

## **Termination**

The Acquisition Agreement may be terminated at any time, but not later than the closing, as follows:

by mutual written consent of KBL and Summer;

by either party if a governmental entity shall have issued an order, decree or ruling or taken any other action, in any case having the effect of permanently restraining, enjoining or otherwise prohibiting the acquisition, which order, decree, ruling or other action is final and nonappealable;

by either party if the other party has breached any of its covenants or representations and warranties in any material respect and has not cured its breach within 30 days of the notice of an intent to terminate, provided that the terminating party is itself not in breach;

by either party if, at the KBL stockholder meeting, the Acquisition Agreement and the transactions contemplated thereby shall fail to be approved and adopted by the affirmative vote of the holders of KBL's common stock, or the holders of 20% or more of the shares issued in KBL's IPO properly exercise their conversion rights; and

by either party if the acquisition has not been consummated by April 21, 2007.

If permitted under the applicable law, either Summer or KBL may waive any inaccuracies in the representations and warranties made to such party contained in the Acquisition Agreement and waive compliance with any agreements or conditions for the benefit of itself or such party contained in the Acquisition Agreement. The condition requiring that the holders of fewer than 20% of the shares of KBL common stock issued in its IPO affirmatively vote against the acquisition proposal and properly demand conversion of their shares into cash may not be waived. We cannot assure you that all of the conditions will be satisfied or waived. KBL's board of directors will resolicit stockholder approval of the acquisition if either party waives a material condition to the acquisition agreement and such changes in the terms of the acquisition render the disclosure previously provided materially misleading.

## **Net Worth Share Adjustment**

At the closing of the acquisition, 391,667 shares of the KBL common stock to be issued to the Summer stockholders will be placed in escrow to secure KBL's right to recapture all or a portion of such shares if





## **Table of Contents**

Summer's net worth at the date of the closing of the acquisition is less than Summer's net worth at June 30, 2006. The number of such shares to be returned to KBL shall be equal to the difference between the Summer's net worth at the date of closing of the acquisition and June 30, 2006, divided by \$6.00. If the net worth at the closing date is equal to or greater than net worth at June 30, 2006, there shall be no adjustment. If the adjustment would require the return to KBL of more than the 391,667 shares in escrow, each of the Summer stockholders has agreed to return to KBL on demand that number of shares of KBL common stock received by him or her in the acquisition necessary to make up the shortfall. For purposes of this escrow, the term "net worth" means, on the date in question, the consolidated assets of Summer at such date, less all consolidated liabilities of Summer at such date, adjusted to give effect to the payment of dividend distributions by SII for the payment of taxes in such fiscal year or prior years and excluding direct costs and expenses through the applicable date related to the acquisition and related to litigation and settlement of the dispute between Summer and Springs Global US, Inc. described under the section *Business of Summer Legal Proceedings*. As soon as practicable following the closing date, Goldstein Golub Kessler LLP shall calculate and deliver to KBL a statement of Summer's net worth at June 30, 2006 and the closing date.

## **Effect of Termination**

In the event of proper termination by either KBL or Summer, the Acquisition Agreement will become void and have no effect, without any liability or obligation on the part of KBL or Summer, except that:

the confidentiality obligations set forth in the Acquisition Agreement will survive;

the waiver by Summer and the Summer stockholders of all rights against KBL to collect from the trust account any moneys that may be owed to them by KBL for any reason whatsoever, including but not limited to a breach of the Acquisition Agreement, and the acknowledgement that neither Summer nor the Summer stockholders will seek recourse against the trust account for any reason whatsoever, will survive;

the rights of the parties to bring actions against each other for breach of the Acquisition Agreement will survive; and

the fees and expenses incurred in connection with the Acquisition Agreement and the transactions contemplated thereby will be paid by the party incurring such expenses.

The Acquisition Agreement does not provide for specific penalties or payments in the event of a material breach by a party of its covenants or warranties or a refusal or wrongful failure of the other party to consummate the acquisition. In such event, the non-wrongful party would be entitled to assert its legal rights for breach of contract against the wrongful party.

## **Fees and Expenses**

All fees and expenses incurred in connection with the Acquisition Agreement and the transactions contemplated thereby will be paid by the party incurring such expenses whether or not the Acquisition Agreement is consummated.

## **Confidentiality; Access to Information**

KBL and Summer will afford to the other party and its financial advisors, accountants, counsel and other representatives prior to the completion of the acquisition reasonable access during normal business hours, upon reasonable notice, to all of their respective properties, books, records and personnel to obtain all information concerning the business, including the status of product development efforts, properties, results of operations and personnel, as each party may reasonably request. KBL and Summer will maintain in confidence any non-public information received from the other party, and use such non-public information only for purposes of consummating the transactions contemplated by the Acquisition Agreement.

**Table of Contents**

**Amendments**

The Acquisition Agreement may be amended by the parties thereto at any time by execution of an instrument in writing signed on behalf of each of the parties.

**Extension; Waiver**

At any time prior to the closing, any party to the Acquisition Agreement may, in writing, to the extent legally allowed:

extend the time for the performance of any of the obligations or other acts of the other parties to the agreement;

waive any inaccuracies in the representations and warranties made to such party contained in the Acquisition Agreement or in any document delivered pursuant to the Acquisition Agreement; and

waive compliance with any of the agreements or conditions for the benefit of such party contained in the Acquisition Agreement.

**Public Announcements**

KBL and Summer have agreed that until closing or termination of the Acquisition Agreement, the parties will:

cooperate in good faith to jointly prepare all press releases and public announcements pertaining to the Acquisition Agreement and the transactions governed by it; and

not issue or otherwise make any public announcement or communication pertaining to the Acquisition Agreement or the transaction without the prior consent of the other party, which shall not be unreasonably withheld by the other party, except as may be required by applicable laws or court process.

**Arbitration**

Any disputes or claims arising under or in connection with acquisition agreement or the transactions contemplated thereunder will be resolved by binding arbitration. Arbitration will be commenced by the filing by a party of an arbitration demand with the American Arbitration Association ( AAA ). The arbitration will be governed and conducted by applicable AAA rules, and any award or decision shall be conclusive and binding on the parties. Each party consented to the exclusive jurisdiction of the federal and state courts located in the State of Delaware, New Castle County, for such purpose. The arbitration shall be conducted in Wilmington, Delaware. Each party shall pay its own fees and expenses for the arbitration, except that any costs and charges imposed by the AAA and any fees of the arbitrator shall be assessed against the losing party.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed consolidated balance sheet combines KBL's historical balance sheets and those of Summer as of September 30, 2006, giving effect to the transactions described in the Acquisition Agreement as if they had occurred on September 30, 2006. The following unaudited pro forma condensed consolidated statements of operations combine (i) KBL's historical statement of operations for the six months ended September 30, 2006 with those of Summer for the nine months ended September 30, 2006 and (ii) KBL's historical statement of operations for the year ended December 31, 2005 with those of Summer for the year ended December 31, 2005, in each case giving effect to the acquisition as if it had occurred on January 1, 2005.

The unaudited pro forma condensed balance sheet has been prepared using two different levels of approval of the transaction by the KBL stockholders, as follows:

assuming no conversions this presentation assumes that no stockholders of KBL seek to convert their shares into a pro rata share of the trust account; and

assuming maximum conversions this presentation assumes stockholders of KBL owning 19.99% of the stock sold in KBL's initial public offering seek conversion.

Under the purchase method of accounting, the preliminary purchase price has been allocated to the net tangible and intangible assets acquired and liabilities assumed, based on preliminary estimates, which assume that historical cost approximates fair value of the assets and liabilities of Summer. As such, management estimates that a substantial portion of the excess purchase price will be allocated to non-amortizable intangible assets. These estimates are subject to change upon the finalization of the valuation of certain assets and liabilities and may be adjusted in accordance with the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations*.

We are providing this information to aid you in your analysis of the financial aspects of the acquisition. The unaudited pro forma condensed consolidated financial statements described above should be read in conjunction with KBL's historical financial statements and those of Summer and the related notes thereto. The pro forma adjustments are preliminary and the unaudited pro forma information is not necessarily indicative of the financial position or results of operations that may have actually occurred had the acquisition taken place on the dates noted, or of KBL's future financial position or operating results.

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Balance Sheet**

Assuming No Conversions

September 30, 2006

(In thousands of dollars)

	Summer	KBL	Adjustments	Pro forma
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 244	\$ 23	\$ 51,653 a (20,000)b (2,782)c	\$ 29,138
New York Muni Cash Trust held in trust		49,878	(49,878)a	
Accrued interest held in trust		1,775	(1,775)a	
Trade receivables	10,567			10,567
Inventory	11,337			11,337
Prepaid expenses	323	74		397
Other current assets		1		1
Total current assets	22,471	51,751	(22,782)	51,440
Property and equipment, net	3,798	5		3,803
Goodwill	92		15,802 b	15,894
Other intangible assets, net	79		22,921 b	23,000
Deferred acquisition costs		321	(321)c	
Deferred tax asset		453		453
Total assets	\$ 26,440	\$ 52,530	\$ 15,620	\$ 94,590
<b>Liabilities and stockholders equity</b>				
Current liabilities				
Line of credit	\$ 10,567	\$	\$	\$ 10,567
Accounts payable and accrued expenses	9,632	446	(373)c	9,705
Deferred trust income		497	(497)d	
Capital and income tax payable		315		315
Notes payable short term	280			280
Total current liabilities	20,479	1,258	(870)	20,867
Notes payable long term	1,078			1,078
Total liabilities	21,557	1,258	(870)	21,945
Minority interest	657		(657)	
Common stock subject to conversion		9,829	(9,829)d	
Common stock	76	1	(76)b	1
Additional paid in capital	144	40,632	(144)b 20,876 b 9,829 d	71,337
Other comprehensive income	129		(129)b	
Retained earnings	4,534	810	(4,534)b	1,307

				497d	
Stockholders equity	4,226	41,443	26,976		72,645
Total liabilities and stockholders equity	\$ 26,440	\$ 52,530	\$ 15,620		\$ 94,590

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Balance Sheet****Assuming Maximum Conversions****September 30, 2006****(In thousands of dollars)**

	Summer	KBL	Adjustments	Pro forma
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 244	\$ 23	\$ 51,653 a	\$ 18,812
			(20,000)b	
			(2,782)c	
			(9,829)d	
			(497)d	
New York Muni Cash Trust held in trust		49,878	(49,878)a	
Accrued interest held in trust		1,775	(1,775)a	
Trade receivables	10,567			10,567
Inventory	11,337			11,337
Prepaid expenses	323	74		397
Other current assets		1		1
Total current assets	22,471	51,751	(33,108)	41,114
Property and equipment, net	3,798	5		3,803
Goodwill	92		15,802 b	15,894
Other intangible assets, net	79		22,921 b	23,000
Deferred acquisition costs		321	(321)c	
Deferred tax asset		453		453
Total assets	\$ 26,440	\$ 52,530	\$ 5,294	\$ 84,264
<b>Liabilities and stockholders equity</b>				
Current liabilities				
Line of credit	\$ 10,567	\$	\$	\$ 10,567
Accounts payable and accrued expenses	9,632	446	(373)c	9,705
Deferred trust income		497	(497)d	
Capital and income tax payable		315		315
Notes payable short term	280			280
Total current liabilities	20,479	1,258	(870)	20,867
Notes payable long term	1,078			1,078
Total liabilities	21,557	1,258	(870)	21,945
Minority interest	657		(657)	
Common stock subject to conversion		9,829	(9,829)d	
Common stock	76	1	(76)b	1
Additional paid in capital	144	40,632	(144)b	61,508
			20,876 b	
Other comprehensive income	129		(129)b	

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Retained earnings	4,534	810	(4,534)b	810
Stockholders equity	4,226	41,443	16,650	62,319
Total liabilities and stockholders equity	\$ 26,440	\$ 52,530	\$ 5,294	\$ 84,264

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data****Assuming No Conversions****Nine Months Ended September 30, 2006****(In thousands of dollars, except for per share amounts)**

	<b>Summer</b>	<b>KBL</b>	<b>Adjustments</b>	<b>Pro forma</b>
Net sales	\$ 39,813	\$	\$	\$ 39,813
Cost of goods sold	24,512			24,512
Gross profit	15,301			15,301
General & administrative expenses	7,651	469	770 e	8,890
Selling expenses	4,376			4,376
Operating income	3,274	(469)	(770)	2,036
Interest expense	653			653
Interest income		(1,103)	(274)d	(844)
			533 f	
Income before income taxes	2,621	634	(1,029)	2,226
Income tax provision	29	132	796 g	957
Net income before minority interest	2,592	502	(1,825)	1,269
Minority interest in net income of affiliates	287		(287) e	
Net income	\$ 2,305	\$ 502	\$ (1,538)	\$ 1,269
<b>Weighted average number of shares outstanding:</b>				
Basic		11,200,000	h	15,116,667
Diluted		11,200,000	h	16,416,295
<b>Net income per share</b>				
Basic		\$ 0.04		\$ 0.08
Diluted		\$ 0.04		\$ 0.08



**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data****Assuming Maximum Conversions****Nine Months Ended September 30, 2006****(In thousands of dollars, except for per share amounts)**

	<b>Summer</b>	<b>KBL</b>	<b>Adjustments</b>	<b>Pro forma</b>
Net sales	\$ 39,813	\$	\$	\$ 39,813
Cost of goods sold	24,512			24,512
Gross profit	15,301			15,301
General & administrative expenses	7,651	469	770 e	8,890
Selling expenses	4,376			4,376
Operating income	3,274	(469)	(770)	2,036
Interest expense	653			653
Interest income		(1,103)	427 f	(676)
Income before income taxes	2,621	634	(1,197)	2,058
Income tax provision	29	132	724 g	885
Net income before minority interest	\$ 2,592	\$ 502	\$ (1,921)	1,173
Minority interest in net income of affiliates	287		(287) e	
Net income	\$ 2,305	\$ 502	\$ (1,634)	\$ 1,173
Weighted average number of shares outstanding:				
Basic		11,200,000	h	13,277,587
Diluted		11,200,000	h	14,577,215
Net income per share				
Basic		\$ 0.04		\$ 0.09
Diluted		\$ 0.04		\$ 0.08

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data****Assuming No Conversions****Year Ended December 31, 2005****(In thousands, except for per share amounts)**

	Summer	KBL	Adjustments	Pro forma
Net sales	\$ 35,535	\$	\$	\$ 35,535
Cost of goods sold	23,008			23,008
Gross profit	12,527			12,527
General & administrative expenses	5,408	322	1,026 e	6,756
Selling expenses	5,151			5,151
Operating income	1,968	(322)	(1,026)	620
Interest expense	451			451
Interest income		(896)	(223)d	(686)
			433 f	
Income before income taxes	1,517	574	(1,236)	855
Income tax provision	31	265	72 g	368
Net income before minority interest	1,486	309	(1,308)	487
Minority interest in net income of affiliates	161		(161) e	
Net income	\$ 1,325	\$ 309	\$ (1,147)	\$ 487
<b>Weighted average number of shares outstanding:</b>				
Basic		8,291,507	h	15,116,667
Diluted		8,291,507	h	15,547,917
<b>Net income per share</b>				
Basic		\$ 0.04		\$ 0.03
Diluted		\$ 0.04		\$ 0.03

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Income and Per Share Data****Assuming Maximum Conversions****Year Ended December 31, 2005****(In thousands, except for per share amounts)**

	Summer	KBL	Adjustments	Pro forma
Net sales	\$ 35,535	\$	\$	\$ 35,535
Cost of goods sold	23,008			23,008
Gross profit	12,527			12,527
General & administrative expenses	5,408	322	1,026 e	6,756
Selling expenses	5,151			5,151
Operating income	1,968	(322)	(1,026)	620
Interest expense	451			451
Interest income		(896)	347 f	(549)
Income before income taxes	1,517	574	(1,373)	718
Income tax provision	31	265	13 g	309
Net income before minority interest	1,486	309	(1,386)	409
Minority interest in net income of affiliates	161		(161) e	
Net income	\$ 1,325	\$ 309	\$ (1,225)	\$ 409
Weighted average number of shares outstanding:				
Basic		8,291,507	h	13,277,587
Diluted		8,291,507	h	13,708,837
Net income per share				
Basic		\$ 0.04		\$ 0.03
Diluted		\$ 0.04		\$ 0.03

**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except for per share amounts)**

- a To record release of funds held in the trust fund.  
 b To record the \$43,776 purchase of all the stockholders' equity of Summer and the allocation of the purchase price to assets acquired and liabilities assumed as follows:

Calculation of allocable purchase price:

Cash	20,000*
Stock	20,876**
Capitalized Transaction Costs	2,730
Purchase Price	43,606

Estimated allocation of purchase price:

		Asset life
Summer net assets acquired, net of goodwill	4,712	Various
Customer relationships	13,000	20 years
Trade name	10,000	Indefinite
Goodwill (residual)	15,894	Indefinite
Total allocable purchase price	43,606	

\* The cash portion of the acquisition does not include future contingent payments of up to \$5,000 based on earnings. This amount will be considered additional purchase price, if paid, and will result in additional goodwill.

\*\* The stock portion of the acquisition (\$20,876) consists of 3,916,667 shares at a price per share of \$5.33, which was the average closing price of a share of KBL common stock for the 20 consecutive trading days prior to public announcement by KBL of the contemplated purchase of the stockholders' equity of Summer. The stock portion of the acquisition includes 1,391,667 shares held in escrow to secure indemnity rights of KBL and for adjustments to Summer's net worth. It does not include future contingent payments of 2,500,000 based on the company's stock price. The fair value of the shares to be issued on the contingent payments will be considered additional purchase price, if issued, and will result in additional goodwill.

- c To record payment of transaction related expenses.  
 d Assuming no conversion, to reclassify common stock subject to possible conversion as permanent equity and to record deferred interest as income. Assuming maximum conversion, to record refund of funds to converting shareholders along with related deferred interest, and to reclassify common stock as additional paid in capital.  
 e To reverse minority interest in affiliates, which are being acquired in full.  
 f To record increased base salaries payable to certain key employees under employment agreements entered into in conjunction with the acquisition and increased salaries to be made to certain directors; and to record amortization expense of acquired intangibles-customer relationships with a 20 year life.  
 g To reverse interest income to reflect the payment of \$20,000 as the cash portion of the acquisition.  
 h To record increased state and federal income taxes (9% and 34% of pro forma combined net income for the period).  
 i Pro forma net income per share was calculated by dividing pro forma net income by the weighted average number of shares outstanding as follows:



**Table of Contents**

	No	Maximum
	Conversions	Conversions
Nine months ended September 30, 2006:		
Basic assuming initial public offering as of January 1, 2005	11,200,000	9,360,920
Shares issued in conjunction with the acquisition*	3,916,667	3,916,667
Basic total	15,116,667	13,277,587
Incremental shares on exercise of warrants**	1,299,628	1,299,628
Diluted	16,416,295	14,577,215

\* The stock portion of the acquisition (\$20,876) consists of 3,916,667 shares at a price per share of \$5.33, which was the average closing price of a share of KBL common stock for the 20 consecutive trading days prior to public announcement by KBL of the contemplated purchase of the stockholders' equity of Summer. The stock portion of the acquisition includes 1,391,667 shares held in escrow to secure indemnity rights of KBL and for adjustments to Summer's net worth. It does not include future contingent payments of 2,500,000 based on the company's stock price.

\*\* Assumes exercise price of \$5.00 per share, 18,400,000 warrants outstanding and average price for period warrants were actually outstanding (*i.e.*, from January 1, 2006 to September 30, 2006) of \$5.38.

	No	Maximum
	Conversions	Conversions
Twelve months ended December 31, 2005:		
Basic assuming initial public offering as of January 1, 2005	11,200,000	9,360,920
Shares issued in conjunction with the acquisition*	3,916,667	3,916,667
Basic total	15,116,667	13,277,587
Incremental shares on exercise of warrants**	431,250	431,250
Diluted	15,547,917	13,708,837

\* The stock portion of the acquisition (\$20,876) consists of 3,916,667 shares at a price per share of \$5.33, which was the average closing price of a share of KBL common stock for the 20 consecutive trading days prior to public announcement by KBL of the contemplated purchase of the stockholders' equity of Summer. The stock portion of the acquisition includes 1,391,667 shares held in escrow to secure indemnity rights of KBL and for adjustments to Summer's net worth. It does not include future contingent payments of 2,500,000 based on the company's stock price.

\*\* Assumes exercise price of \$5.00 per share, 18,400,000 warrants outstanding and average price for period warrants were actually outstanding (*i.e.*, May 4, 2005 to December 31, 2005) of \$5.12.

**Purchase Accounting Adjustment**

Under the purchase method of accounting, the total preliminary purchase price has been allocated to the net tangible and intangible assets acquired and liabilities assumed, based on various preliminary estimates of their fair values. The estimated fair values of certain assets and liabilities will be determined with the assistance of third party valuation specialists. Management has engaged a third party appraiser to assist management to perform a valuation of the intangible assets in connection with respect to the allocation of all the assets and liabilities in accordance with Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*. Some preliminary work has been performed, and the valuation will be finalized after the completion of the acquisition at which time the third party appraisers will present its analysis to management. The preliminary work performed by the third party valuation specialists has been considered in management's estimates of the fair values reflected in these unaudited pro forma condensed combined consolidated financial statements. Management's estimates and assumptions are subject to change upon the finalization of the valuation and may be adjusted in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. The purchase price allocation is not finalized. Valuations of customer

relationships, trade name and intellectual property, have not been completed. Management has assumed that carrying value

**Table of Contents**

approximates fair value for certain tangible assets and liabilities of Summer Infant, Inc. The intangible assets acquired will include customer relationships, the Summer brand/trade name, intellectual property, and other goodwill. Some of these assets, such as goodwill and the Summer brand/tradename will be non-amortizable; other assets will be amortized over their useful lives, estimated to be 20 years for customer relationships.

We determined, based on our interpretation of the requirements of SFAS 141, that KBL was the acquiring entity since KBL's stockholders will have majority ownership after the acquisition and current KBL's chief executive officer will become chairman of the board of the combined company. Under the purchase method of accounting, the financial statements of the acquiring entity remain unchanged and the Acquisition will be recorded as of the closing date, reflecting the assets and liabilities of Summer Infant, Inc. (the target), at their acquisition date fair values. Intangible assets that are identifiable are recognized separately from goodwill which is measured and recognized as the excess of the fair value of Summer Infant, Inc., as a whole, over the net amount of the recognized identifiable assets acquired and liabilities assumed. The results of operations of Summer Infant, Inc. will be included in the results of the surviving entity from date of acquisition forward.

Under the purchase method of accounting, the total estimated purchase price of \$43.6 million was allocated to Summer's net tangible and intangible assets based on their estimated fair values as of the expected date of the completion of the acquisition. Based on the preliminary third party valuation and other factors as described above, the preliminary estimated purchase price was allocated as follows (in thousands):

	Book Value	Purchase Price and Closing Adjustments	Preliminary Purchase Price Allocation	Asset Life
Tangible assets	\$ 26,269		\$ 26,269	Various
Customer relationships		12,921	12,921	20 years
Trade name		10,000	10,000	Indefinite
Goodwill	92	15,802	15,894	Indefinite
Other intangibles	79		79	Various
Total preliminary purchase price allocation and estimated direct transaction costs	\$ 26,440	\$ 38,723	\$ 65,163	
Less liabilities assumed			21,557	
Purchase price			\$ 43,606	

Summer has engaged a third party valuation firm to assist with the purchase price allocation after the closing of the acquisition. The preliminary allocation of the purchase price for accounting purposes was based upon management's preliminary estimates and assumptions that are subject to change upon the finalization of the transaction and the related valuations.

While it is possible that these estimates may change, management does not anticipate that there will be a material change to the purchase price allocation as a result of any changes to these preliminary estimates. The amortization related to the amortizable intangible assets is reflected as a pro forma adjustment to the unaudited pro forma condensed income statements. The preliminary amortization periods (as noted above) are based on the estimated average remaining life of Summer's customers relationships and other intangible assets. Upon finalization of the transaction, the actual amortization periods will be determined and as such, actual amortization expense may differ from pro forma amortization expense included in the unaudited pro forma condensed statements of operations. Management does not anticipate that amortization expense will differ materially from the estimated amounts included herein.

Of the total estimated purchase price, approximately \$25.9 million was preliminarily allocated to goodwill and the Summer trade name, the valuation of which has not been finalized. The Summer trade name will not be amortized due to its indefinite useful life. Goodwill represents the excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. In the event that it is determined that the value of the goodwill has become impaired, an accounting charge for the amount of the impairment will be incurred in the quarter in which such determination is made.



**Table of Contents**

**NAME CHANGE AMENDMENT PROPOSAL**

Pursuant to the Acquisition Agreement, we will change KBL's corporate name from KBL Healthcare Acquisition Corp. II to Summer Infant, Inc. upon consummation of the acquisition. The acquisition will not be consummated unless the proposal to change KBL's name is approved at the meeting. If the acquisition proposal is not approved, the name change amendment will not be presented at the meeting.

In the judgment of KBL's board of directors, the change of KBL's corporate name is desirable to reflect KBL's acquisition of Summer. The Summer name has been a recognized name in the juvenile health, safety and wellness products industry for several years and has meaningful brand identity.

The approval of the name change amendment will require the affirmative vote of the holders of a majority of the outstanding shares of KBL common stock on the record date.

Stockholders will not be required to exchange outstanding stock certificates for new stock certificates if the amendment is adopted.

**KBL'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT KBL'S STOCKHOLDERS VOTE FOR THE APPROVAL OF THE NAME CHANGE AMENDMENT.**

**Table of Contents**

**CAPITALIZATION AMENDMENT PROPOSAL**

Pursuant to the Acquisition Agreement, we will increase the number of authorized shares of KBL common stock from 35,000,000 to 100,000,000 upon consummation of the acquisition. The acquisition will not be consummated unless the proposal to increase KBL's capitalization is approved at the meeting. If the acquisition proposal is not approved, the capitalization amendment will not be presented at the meeting.

In the judgment of KBL's board of directors, the increase in KBL's capitalization is desirable and in KBL's stockholders' best interests. Currently, we have 11,200,000 shares of KBL's common stock outstanding and we will be issuing an additional 3,916,667 shares of common stock upon consummation of the acquisition and may issue an additional 2,500,000 shares of KBL common stock in the event that the last sales price of KBL common stock is equal to or exceeds \$8.50 on any twenty (20) trading days during any thirty (30) consecutive trading day period commencing on the three-month anniversary of the closing of the acquisition and ending on April 20, 2009. Additionally, we have reserved 19,600,000 shares of common stock issuable upon exercise of warrants and a unit purchase option issued in KBL's IPO. We will also need to reserve 1,600,000 shares of common stock in connection with KBL's performance equity plan proposal discussed below. The authorization of additional shares of common stock will enable us to have the flexibility to authorize the issuance of shares of common stock in the future for financing KBL's business, for acquiring other businesses, for forming strategic partnerships and alliances and for stock dividends and stock splits. As of the date of this proxy statement, KBL has no agreements or understandings with respect to any such financing, acquisition, strategic partnership, alliance, dividend or split.

While the board of KBL believes it is in the best interest of KBL and its stockholders to increase KBL's operating flexibility by increasing the amounts of its available capitalization, it should be noted that if the capitalization amendment proposal is approved, KBL will have a significant number of shares of capital stock available for use and unreserved for specific purpose. This could enable the board of directors of KBL to issue a significant number of shares of common stock in their discretion without stockholder approval. This could have a material dilutive effect on the then existing holders of KBL common stock. In addition, the board could utilize the available and unreserved common stock to prevent or discourage parties from seeking to acquire KBL or its common stock, including in a tender offer or other takeover bid that might otherwise enhance the value of the holdings of KBL stockholders.

The approval of the capitalization amendment will require the affirmative vote of the holders of a majority of the outstanding shares of KBL common stock on the record date.

**KBL'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT KBL'S STOCKHOLDERS VOTE FOR THE APPROVAL OF THE CAPITALIZATION AMENDMENT.**

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**Table of Contents**

**ARTICLE SIXTH AMENDMENT PROPOSAL**

Pursuant to the Acquisition Agreement, we will remove the preamble and sections A through D, inclusive, of Article Sixth of KBL's certificate of incorporation and to redesignate section E of Article Sixth as Article Sixth upon consummation of the acquisition. If the acquisition proposal is not approved, the Article Sixth amendment will not be presented at the meeting.

The current Article SIXTH of KBL's certificate of incorporation is as follows:

SIXTH: The following provisions (A) through (E) shall apply during the period commencing upon the filing of this Certificate of Incorporation and terminating upon the consummation of any Business Combination, and may not be amended prior to the consummation of any Business Combination. A Business Combination shall mean the acquisition by the Corporation, whether by merger, capital stock exchange, asset or stock acquisition or other similar type of transaction, of an operating business in the healthcare, or healthcare related, industry ( Target Business ).

A. Prior to the consummation of any Business Combination, the Corporation shall submit such Business Combination to its stockholders for approval regardless of whether the Business Combination is of a type which normally would require such stockholder approval under the GCL. In the event that a majority of the IPO Shares (defined below) cast at the meeting to approve the Business Combination are voted for the approval of such Business Combination, the Corporation shall be authorized to consummate the Business Combination; provided that the Corporation shall not consummate any Business Combination if 20% or more in interest of the holders of IPO Shares exercise their conversion rights described in paragraph B below.

B. In the event that a Business Combination is approved in accordance with the above paragraph (A) and is consummated by the Corporation, any stockholder of the Corporation holding shares of Common Stock ( IPO Shares ) issued in the Corporation's initial public offering ( IPO ) of securities who voted against the Business Combination may, contemporaneous with such vote, demand that the Corporation convert his IPO Shares into cash. If so demanded, the Corporation shall, promptly after consummation of the Business Combination, convert such shares into cash at a per share conversion price equal to the quotient determined by dividing (i) the amount in the Trust Fund (as defined below), inclusive of any interest thereon, calculated as of two business days prior to the consummation of the Business Combination, by (ii) the total number of IPO Shares. Trust Fund shall mean the trust account established by the Corporation at the consummation of its IPO and into which a certain amount of the net proceeds of the IPO are deposited.

C. In the event that the Corporation does not consummate a Business Combination by the later of (i) 18 months after the consummation of the IPO or (ii) 24 months after the consummation of the IPO in the event that either a letter of intent, an agreement in principle or a definitive agreement to complete a Business Combination was executed but was not consummated within such 18 month period (such later date being referred to as the Termination Date ), the officers of the Corporation shall take all such action necessary to dissolve and liquidate the Corporation as soon as reasonably practicable. In the event that the Corporation is so dissolved and liquidated, only the holders of IPO Shares shall be entitled to receive liquidating distributions and the Corporation shall pay no liquidating distributions with respect to any other shares of capital stock of the Corporation.

D. A holder of IPO Shares shall be entitled to receive distributions from the Trust Fund only in the event of a liquidation of the Corporation or in the event he demands conversion of his shares in accordance with paragraph B, above. In no other circumstances shall a holder of IPO Shares have any right or interest of any kind in or to the Trust Fund.

E. The Board of Directors shall be divided into three classes: Class A, Class B and Class C. The number of directors in each class shall be as nearly equal as possible. At the first election of directors by the incorporator,

**Table of Contents**

the incorporator shall elect a Class C director for a term expiring at the Corporation's third Annual Meeting of Stockholders. The Class C director shall then appoint additional Class A, Class B and Class C directors, as necessary. The directors in Class A shall be elected for a term expiring at the first Annual Meeting of Stockholders, the directors in Class B shall be elected for a term expiring at the second Annual Meeting of Stockholders and the directors in Class C shall be elected for a term expiring at the third Annual Meeting of Stockholders. Commencing at the first Annual Meeting of Stockholders, and at each annual meeting thereafter, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. Except as the GCL may otherwise require, in the interim between annual meetings of stockholders or special meetings of stockholders called for the election of directors and/or the removal of one or more directors and the filling of any vacancy in that connection, newly created directorships and any vacancies in the Board of Directors, including unfilled vacancies resulting from the removal of directors for cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum (as defined in the Corporation's Bylaws), or by the sole remaining director. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified. A director elected to fill a vacancy resulting from the death, resignation or removal of a director shall serve for the remainder of the full term of the director whose death, resignation or removal shall have created such vacancy and until his successor shall have been elected and qualified.

Article SIXTH of KBL's amended and restated certificate of incorporation will be restated as follows:

SIXTH: The Board of Directors shall be divided into three classes: Class A, Class B and Class C. The number of directors in each class shall be as nearly equal as possible. The directors in Class A shall be elected for a term expiring at the first annual meeting of stockholders, the directors in Class B shall be elected for a term expiring at the second annual meeting of stockholders and the directors in Class C shall be elected for a term expiring at the third annual meeting of stockholders. Commencing at the first annual meeting of stockholders, and at each annual meeting thereafter, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. Except as the GCL may otherwise require, in the interim between annual meetings of stockholders or special meetings of stockholders called for the election of directors and/or the removal of one or more directors and the filling of any vacancy in that connection, newly created directorships and any vacancies in the Board of Directors, including unfilled vacancies resulting from the removal of directors for cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum (as defined in the Corporation's Bylaws), or by the sole remaining director. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified. A director elected to fill a vacancy resulting from the death, resignation or removal of a director shall serve for the remainder of the full term of the director whose death, resignation or removal shall have created such vacancy and until his successor shall have been elected and qualified.

In the judgment of KBL's board of directors, the Article Sixth amendment is desirable, as sections A through D relate to the operation of KBL as a blank check company prior to the consummation of a business combination. Such sections will not be applicable upon consummation of the acquisition.

The approval of the Article Sixth amendment will require the affirmative vote of the holders of a majority of the outstanding shares of KBL common stock on the record date.

**KBL'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT KBL'S STOCKHOLDERS VOTE FOR THE APPROVAL OF THE ARTICLE SIXTH AMENDMENT.**

**Table of Contents**

**2006 PERFORMANCE EQUITY PLAN PROPOSAL**

**Background**

KBL's 2006 Performance Equity Plan has been approved by KBL's board of directors and will take effect upon consummation of the acquisition, provided that it is approved by the stockholders at the special meeting. We are submitting the plan to KBL's stockholders for their approval in order to comply with Nasdaq policy and so that options granted under the plan may qualify for treatment as incentive stock options.

The plan reserves 1,600,000 shares of KBL common stock for issuance in accordance with its terms. The purpose of the plan is to enable KBL to offer its employees, officers, directors and consultants whose past, present and/or potential contributions to KBL have been, are or will be important to the success of KBL, an opportunity to acquire a proprietary interest in KBL. The various types of incentive awards that may be provided under the plan will enable KBL to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its business.

All officers, directors and employees of Summer and KBL will be eligible to be granted awards under the plan. No allocations of shares that may be subject to awards have been made in respect of the executive officers or any other group, except as set forth below. All awards will be subject to the recommendations of the compensation committee and approval by the board of directors or the compensation committee.

**A summary of the principal features of the plan is provided below, but is qualified in its entirety by reference to the full text of the plan, which is attached to this proxy statement as *Annex C*.**

**Administration**

The plan is administered by KBL's board or compensation committee thereof. Subject to the provisions of the plan, the board or committee determines, among other things, the persons to whom from time to time awards may be granted, the specific type of awards to be granted, the number of shares subject to each award, share prices, any restrictions or limitations on the awards, and any vesting, exchange, deferral, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions related to the awards.

**Stock Subject to the Plan**

Shares of stock subject to other awards that are forfeited or terminated will be available for future award grants under the plan. If a holder pays the exercise price of a stock option by surrendering any previously owned shares of common stock or arranges to have the appropriate number of shares otherwise issuable upon exercise withheld to cover the withholding tax liability associated with the stock option exercise, then in the Board's or the committee's discretion, the number of shares available under the plan may be increased by the lesser of the number of such surrendered shares and shares used to pay taxes and the number of shares purchased under the stock option.

Under the plan, on a change in the number of shares of KBL's common stock as a result of a dividend on shares of common stock payable in shares of common stock, common stock split or reverse split or other extraordinary or unusual event that results in a change in the shares of common stock as a whole, the board or committee may determine whether the change requires equitably adjusting the terms of the award or the aggregate number of shares reserved for issuance under the plan.

**Eligibility**

KBL may grant awards under the plan to employees, officers, directors and consultants who are deemed to have rendered, or to be able to render, significant services to KBL and who are deemed to have contributed, or to have the potential to contribute, to KBL's success. Notwithstanding anything to the contrary, the Company shall not grant to any one holder in any one calendar year awards for more than 200,000 shares in the aggregate.

## **Table of Contents**

### **Types of Awards**

*Options.* The plan provides both for incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and for options not qualifying as incentive options, both of which may be granted with any other stock-based award under the plan. The board or committee determines the exercise price per share of common stock purchasable under an incentive or non-qualified stock option, which may not be less than 100% of the fair market value on the day of the grant or, if greater, the par value of a share of common stock. However, the exercise price of an incentive stock option granted to a person possessing more than 10% of the total combined voting power of all classes of KBL's stock may not be less than 110% of the fair market value on the date of grant. The number of shares covered by incentive stock options that may be exercised by any participant during any calendar year cannot have an aggregate fair market value in excess of \$100,000, measured at the date of grant.

An incentive stock option may only be granted within a ten-year period from the date of the consummation of acquisition and may only be exercised within ten years from the date of the grant, or within five years in the case of an incentive stock option granted to a person who, at the time of the grant, owns common stock possessing more than 10% of the total combined voting power of all classes of KBL's stock. Subject to any limitations or conditions the board or committee may impose, stock options may be exercised, in whole or in part, at any time during the term of the stock option by giving written notice of exercise to us specifying the number of shares of common stock to be purchased. The notice must be accompanied by payment in full of the purchase price, either in cash or, if provided in the agreement, in KBL's securities or any combination of the two.

Generally, stock options granted under the plan may not be transferred other than by will or by the laws of descent and distribution and all stock options are exercisable during the holder's lifetime, or in the event of legal incapacity or incompetency, the holder's guardian or legal representative. However, a holder, with the approval of the board or committee, may transfer a non-qualified stock option by gift to a family member of the holder, by domestic relations order to a family member of the holder or by transfer to an entity in which more than fifty percent of the voting interests are owned by family members of the holder or the holder, in exchange for an interest in that entity.

Generally, if the holder is an employee, no stock options granted under the plan may be exercised by the holder unless he or she is employed by KBL or a subsidiary of KBL at the time of the exercise and has been so employed continuously from the time the stock options were granted. However, in the event the holder's employment is terminated due to disability, the holder may still exercise his or her vested stock options for a period of 12 months or such other greater or lesser period as the board or committee may determine, from the date of termination or until the expiration of the stated term of the stock option, whichever period is shorter. Similarly, should a holder die while employed by us or a subsidiary, his or her legal representative or legatee under his or her will may exercise the decedent holder's vested stock options for a period of 12 months from the date of his or her death, or such other greater or lesser period as the board or committee may determine or until the expiration of the stated term of the stock option, whichever period is shorter. If the holder's employment is terminated for any reason other than death, disability or normal retirement, the stock option will automatically terminate, except that if the holder's employment is terminated by us without cause or due to normal retirement, then the portion of any stock option that has vested on the date of termination may be exercised for the lesser of three months after termination of employment, or the balance of the stock option's term.

*Stock Appreciation Rights.* Under the plan, KBL may grant stock appreciation rights to participants who have been, or are being, granted stock options under the plan as a means of allowing the participants to exercise their stock options without the need to pay the exercise price in cash. In conjunction with non-qualified stock options, stock appreciation rights may be granted either at or after the time of the grant of the non-qualified stock options. In conjunction with incentive stock options, stock appreciation rights may be granted only at the time of the grant of the incentive stock options. A stock appreciation right entitles the holder to receive a number of shares of common stock having a fair market value equal to the excess fair market value of one share of common stock over the exercise price of the related stock option, multiplied by the number of shares subject to the stock

**Table of Contents**

appreciation rights. The granting of a stock appreciation right will not affect the number of shares of common stock available for awards under the plan. The number of shares available for awards under the plan will, however, be reduced by the number of shares of common stock acquirable upon exercise of the stock option to which the stock appreciation right relates.

*Restricted Stock.* Under the plan, KBL may award shares of restricted stock either alone or in addition to other awards granted under the plan. The board or committee determines the persons to whom grants of restricted stock are made, the number of shares to be awarded, the price if any to be paid for the restricted stock by the person receiving the stock from us, the time or times within which awards of restricted stock may be subject to forfeiture, the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the restricted stock awards.

Restricted stock awarded under the plan may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of, other than to us, during the applicable restriction period. In order to enforce these restrictions, the plan requires that all shares of restricted stock awarded to the holder remain in KBL's physical custody until the restrictions have terminated and all vesting requirements with respect to the restricted stock have been fulfilled. Other than regular cash dividends and other cash equivalent distributions as we may designate, pay or distribute, we will retain custody of all distributions made or declared with respect to the restricted stock during the restriction period. A breach of any restriction regarding the restricted stock will cause a forfeiture of the restricted stock and any retained distributions. Except for the foregoing restrictions, the holder will, even during the restriction period, have all of the rights of a stockholder, including the right to receive and retain all regular cash dividends and other cash equivalent distributions as we may designate, pay or distribute on the restricted stock and the right to vote the shares.

*Deferred Stock.* Under the plan, KBL may award shares of deferred stock either alone or in addition to other awards granted under the plan. The board or committee determines the eligible persons to whom, and the time or times at which, deferred stock will be awarded, the number of shares of deferred stock to be awarded to any person, the duration of the period during which, and the conditions under which, receipt of the stock will be deferred, and all the other terms and conditions of deferred stock awards.

Deferred stock awards granted under the plan may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of other than to KBL during the applicable deferral period. The holder shall not have any rights of a stockholder until the expiration of the applicable deferral period and the issuance and delivery of the certificates representing the common stock. The holder may request to defer the receipt of a deferred stock award for an additional specified period or until a specified event. This request must generally be made at least one year prior to the expiration of the deferral period for the deferred stock award.

*Stock Reload Options.* Under the plan, KBL may grant stock reload options to a holder who tenders shares of common stock to pay the exercise price of a stock option or arranges to have a portion of the shares otherwise issuable upon exercise withheld to pay the applicable withholding taxes. A stock reload option permits a holder who exercises a stock option by delivering stock owned by the holder for a minimum of six months to receive a new stock option at the current market price for the same number of shares delivered to exercise the option. The board or committee determines the terms, conditions, restrictions and limitations of the stock reload options. The exercise price of stock reload options shall be the fair market value as of the date of exercise of the underlying option. Unless otherwise determined, a stock reload option may be exercised commencing one year after it is granted and expires on the expiration date of the underlying option.

*Other Stock-Based Awards.* Under the plan, KBL may grant other stock-based awards, subject to limitations under applicable law, that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, shares of common stock, as deemed consistent with the purposes of the plan. These other stock-based awards may be in the form of purchase rights, shares of common stock awarded that are not subject to any restrictions or conditions, convertible or exchangeable debentures or other rights convertible into shares of

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## **Table of Contents**

common stock and awards valued by reference to the value of securities of, or the performance of, one of KBL's subsidiaries. These other stock-based awards may be awarded either alone, in addition to, or in tandem with any other awards under the plan or any of KBL's other plans.

*Accelerated Vesting and Exercisability.* Unless otherwise provided in the grant of an award, if any person, as defined in Sections 13(d) and 14(d) of the Securities and Exchange Act of 1934, as amended (Exchange Act), is or becomes the beneficial owner, as referred in Rule 13d-3 under the Exchange Act, directly or indirectly, of KBL's securities representing 50% or more of the combined voting power of KBL's then outstanding voting securities in one or more transactions, and KBL's board of directors does not authorize or approve the acquisition, then the vesting periods with respect to awards granted and outstanding under the plan will be accelerated and will immediately vest, and each participant of an award will have the immediate right to purchase and receive all shares of KBL's common stock subject to the award in accordance with the terms set forth in the plan and in the corresponding award agreements.

Unless otherwise provided in the grant of an award, the compensation committee may, in the event of an acquisition of substantially all of KBL's assets or at least 50% of the combined voting power of KBL's then outstanding securities in one or more transactions, including by way of merger or reorganization, which has been approved by KBL's board of directors, accelerate the vesting of any and all awards granted and outstanding under the plan.

*Repurchases.* Unless otherwise provided in the grant of an award, the compensation committee may, in the event of an acquisition of substantially all of KBL's assets or at least 50% of the combined voting power of KBL's then outstanding securities in one or more transactions, including by way of merger or reorganization, which has been approved by KBL's board of directors, require a holder of any award granted under the plan to relinquish the award to KBL upon payment by KBL to the holder of cash in an amount equal to the fair market value of the award or \$0.01 per share for awards that are out-of-the money.

### **Competition; Solicitation of Customers and Employees; Disclosure of Confidential Information**

If a holder's employment with KBL or a subsidiary of KBL is terminated for any reason whatsoever and within 12 months after the date of termination, the holder either:

accepts employment with any competitor of, or otherwise engages in competition with, KBL,

solicits any of KBL's customers or employees to do business with or render services to the holder or any business with which the holder becomes affiliated or to which the holder renders services, or

uses or discloses to anyone outside KBL any of KBL's confidential information or material in violation of KBL's policies or any agreement between KBL and the holder,

the board or the committee may require the holder to return to KBL the economic value of any award that was realized or obtained by the holder at any time during the period beginning on the date that is 12 months prior to the date the holder's employment with KBL is terminated.

### **Withholding Taxes**

Upon the exercise of any award granted under the plan, the holder may be required to remit to KBL an amount sufficient to satisfy all federal, state and local withholding tax requirements prior to delivery of any certificate or certificates for shares of common stock.

### **Term and Amendments**

Unless terminated by the board, the plan shall continue to remain effective until no further awards may be granted and all awards granted under the plan are no longer outstanding. Notwithstanding the foregoing, grants of



## **Table of Contents**

incentive stock options may be made only until ten years from the date of the consummation of the acquisition. The board may at any time, and from time to time, amend the plan, provided that no amendment will be made that would impair the rights of a holder under any agreement entered into pursuant to the plan without the holder's consent.

### **Federal Income Tax Consequences**

The following discussion of the federal income tax consequences of participation in the plan is only a summary of the general rules applicable to the grant and exercise of stock options and other awards and does not give specific details or cover, among other things, state, local and foreign tax treatment of participation in the plan. The information contained in this section is based on present law and regulations, which are subject to being changed prospectively or retroactively.

*Incentive stock options.* Participants will recognize no taxable income upon the grant or exercise of an incentive stock option. The participant will realize no taxable income when the incentive stock option is exercised if the participant has been an employee of KBL or any of KBL's subsidiaries at all times from the date of the grant until three months before the date of exercise, one year if the participant is disabled. The excess, if any, of the fair market value of the shares on the date of exercise of an incentive stock option over the exercise price will be treated as an item of adjustment for a participant's taxable year in which the exercise occurs and may result in an alternative minimum tax liability for the participant. KBL will not qualify for any deduction in connection with the grant or exercise of incentive stock options. Upon a disposition of the shares after the later of two years from the date of grant or one year after the transfer of the shares to a participant, the participant will recognize the difference, if any, between the amount realized and the exercise price as long-term capital gain or long-term capital loss, as the case may be, if the shares are capital assets.

If common stock acquired upon the exercise of an incentive stock option is disposed of prior to the expiration of the holding periods described above: the participant will recognize ordinary compensation income in the taxable year of disposition in an amount equal to the excess, if any, of the lesser of the fair market value of the shares on the date of exercise or the amount realized on the disposition of the shares, over the exercise price paid for the shares; and KBL will qualify for a deduction equal to any amount recognized, subject to the limitation that the compensation be reasonable.

In the case of a disposition of shares earlier than two years from the date of the grant or in the same taxable year as the exercise, where the amount realized on the disposition is less than the fair market value of the shares on the date of exercise, there will be no adjustment since the amount treated as an item of adjustment, for alternative minimum tax purposes, is limited to the excess of the amount realized on the disposition over the exercise price, which is the same amount included in regular taxable income.

*Non-incentive stock options.*

With respect to non-incentive stock options:

upon grant of the stock option, the participant will recognize no income provided that the exercise price was not less than the fair market value of KBL's common stock on the date of grant;

upon exercise of the stock option, if the shares of common stock are not subject to a substantial risk of forfeiture, the participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price, and KBL will qualify for a deduction in the same amount, subject to the requirement that the compensation be reasonable; and

KBL will be required to comply with applicable federal income tax withholding requirements with respect to the amount of ordinary compensation income recognized by the participant.

## **Table of Contents**

On a disposition of the shares, the participant will recognize gain or loss equal to the difference between the amount realized and the sum of the exercise price and the ordinary compensation income recognized. The gain or loss will be treated as capital gain or loss if the shares are capital assets and as short-term or long-term capital gain or loss, depending upon the length of time that the participant held the shares.

If the shares acquired upon exercise of a non-incentive stock option are subject to a substantial risk of forfeiture, the participant will recognize ordinary income at the time when the substantial risk of forfeiture is removed, unless the participant timely files under Section 83(b) of the Code to elect to be taxed on the receipt of shares, and KBL will qualify for a corresponding deduction at that time. The amount of ordinary income will be equal to the excess of the fair market value of the shares at the time the income is recognized over the amount, if any, paid for the shares.

*Stock appreciation rights.* Upon the grant of a stock appreciation right, the participant recognizes no taxable income and KBL receives no deduction. The participant recognizes ordinary income and KBL receives a deduction at the time of exercise equal to the cash and fair market value of common stock payable upon the exercise.

*Restricted stock.* A participant who receives restricted stock will recognize no income on the grant of the restricted stock and KBL will not qualify for any deduction. At the time the restricted stock is no longer subject to a substantial risk of forfeiture, a participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the restricted stock at the time the restriction lapses over the consideration paid for the restricted stock. A participant's shares are treated as being subject to a substantial risk of forfeiture so long as his or her sale of the shares at a profit could subject him or her to a suit under Section 16(b) of the Exchange Act. The holding period to determine whether the participant has long-term or short-term capital gain or loss begins when the restriction period expires, and the tax basis for the shares will generally be the fair market value of the shares on this date.

A participant may elect under Section 83(b) of the Code, within 30 days of the transfer of the restricted stock, to recognize ordinary compensation income on the date of transfer in an amount equal to the excess, if any, of the fair market value on the date of transfer of the shares of restricted stock, as determined without regard to the restrictions, over the consideration paid for the restricted stock. If a participant makes an election and thereafter forfeits the shares, no ordinary loss deduction will be allowed. The forfeiture will be treated as a sale or exchange upon which there is realized loss equal to the excess, if any, of the consideration paid for the shares over the amount realized on such forfeiture. The loss will be a capital loss if the shares are capital assets. If a participant makes an election under Section 83(b), the holding period will commence on the day after the date of transfer and the tax basis will equal the fair market value of shares, as determined without regard to the restrictions, on the date of transfer.

On a disposition of the shares, a participant will recognize gain or loss equal to the difference between the amount realized and the tax basis for the shares.

Whether or not the participant makes an election under Section 83(b), KBL generally will qualify for a deduction, subject to the reasonableness of compensation limitation, equal to the amount that is taxable as ordinary income to the participant, in the taxable year in which the income is included in the participant's gross income. The income recognized by the participant will be subject to applicable withholding tax requirements.

Dividends paid on restricted stock that is subject to a substantial risk of forfeiture generally will be treated as compensation that is taxable as ordinary compensation income to the participant and will be deductible by KBL, subject to the reasonableness limitation. If, however, the participant makes a Section 83(b) election, the dividends will be treated as dividends and taxable as ordinary income to the participant, but will not be deductible by KBL.

## **Table of Contents**

*Deferred stock.* A participant who receives an award of deferred stock will recognize no income on the grant of the award. However, he or she will recognize ordinary compensation income on the transfer of the deferred stock, or the later lapse of a substantial risk of forfeiture to which the deferred stock is subject, if the participant does not make a Section 83(b) election, in accordance with the same rules as discussed above under the caption Restricted stock.

*Other stock-based awards.* The federal income tax treatment of other stock-based awards will depend on the nature and restrictions applicable to the award.

*Certain Awards Deferring or Accelerating the Receipt of Compensation.* Section 409A of the Code, enacted as part of the American Jobs Creation Act of 2004, imposes certain new requirements applicable to nonqualified deferred compensation plans. If a nonqualified deferred compensation plan subject to Section 409A fails to meet, or is not operated in accordance with, these new requirements, then all compensation deferred under the plan may become immediately taxable. Stock appreciation rights and deferred stock awards that may be granted under the plan may constitute deferred compensation subject to the Section 409A requirements. It is KBL's intention that any award agreement governing awards subject to Section 409A will comply with these new rules.

## **Recommendation and Vote Required**

Approval of KBL's performance equity plan will require the affirmative vote of the holders of a majority of the outstanding shares of KBL's common stock represented in person or by proxy and entitled to vote at the meeting.

**KBL'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT KBL'S STOCKHOLDERS VOTE FOR THE APPROVAL OF THE 2006 PERFORMANCE EQUITY PLAN.**

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**Table of Contents**

**OTHER INFORMATION RELATED TO KBL**

**Business of KBL**

KBL was formed on December 9, 2004, to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an unidentified operating business. Prior to executing the Acquisition Agreement with Summer, KBL's efforts were limited to organizational activities, completion of its IPO and the evaluation of possible business combinations.

**Offering Proceeds Held in Trust**

KBL consummated its IPO on April 27, 2005. The net proceeds of the offering, including the exercise of the underwriters' over-allotment option, and after payment of underwriting discounts and expenses were approximately \$50,437,000. Of that amount, approximately \$49,169,000 was placed in the trust account and invested in government securities. The remaining proceeds have been used by KBL in its pursuit of a business combination. The trust account will not be released until the earlier of the consummation of a business combination or the liquidation of KBL. The trust account contained approximately \$52,263,748 as of February 6, 2007, the record date.

If the acquisition with Summer is consummated, the trust account will be released to KBL and used to pay various expenses and other payments required in connection with the acquisition including:

amounts owed to stockholders of KBL who do not approve the acquisition and elect to convert their shares of common stock into their pro rata share of the trust account;

the \$20,000,000 being paid to the shareholders of Summer in the acquisition; and

the finders fee to EarlyBird and an investment banking fee to Brooks Houghton, professional fees and other transaction costs estimated to be approximately \$3,500,000 in the aggregate.

The remaining proceeds could potentially be used to pay off the existing debt of Summer; fund working capital increases going forward; acquire other businesses; pay dividends; or repurchase KBL common stock or warrants. Even if the existing debt is paid down, it is likely that Summer will continue to maintain available lines of credit on an asset-backed basis in order to fund working capital needs in the future.

**Fair Market Value of Target Business**

Pursuant to KBL's certificate of incorporation, the initial target business that KBL acquires must have a fair market value equal to at least 80% of KBL's net assets at the time of such acquisition. KBL's board of directors determined that this test was met in connection with its acquisition of Summer. Further, KBL has received an opinion from Capitalink, L.C., that this test has been met.

**Stockholder Approval of Business Combination**

The approval of the acquisition proposal will require the affirmative vote of holders of a majority of the shares of KBL common stock sold in KBL's IPO that are present in person or represented by proxy and entitled to vote at the special meeting. If the holders of 20% or more of the shares of the common stock issued in KBL's IPO both vote against the acquisition proposal and properly demand that KBL convert their shares into a pro rata portion of KBL's trust account, calculated as of two business days prior to the anticipated date of the consummation of the acquisition, then the acquisition will not be consummated and KBL will be forced to liquidate. The KBL Inside Stockholders have agreed to vote their common stock they purchased prior to the IPO on the acquisition proposal in accordance with the vote of holders of a majority of the outstanding shares of KBL's common stock. The KBL Inside Stockholders also have indicated that they intend to vote their Original Shares in favor of all other proposals being presented at the meeting. These KBL Inside Stockholders have also indicated they intend to vote any shares they acquired after the IPO for all of the proposals. As of the record date, the KBL Inside Stockholders have not acquired any additional shares of KBL common stock since the IPO.



## **Table of Contents**

### **Liquidation if No Business Combination**

KBL's certificate of incorporation provides for mandatory liquidation of KBL in the event that KBL does not consummate a business combination within 18 months from the date of consummation of its IPO, or 24 months from the consummation of the IPO if certain extension criteria have been satisfied. Such dates are October 27, 2006 and April 27, 2007, respectively. KBL signed a letter of intent with Summer on April 27, 2006 and signed a definitive acquisition agreement with Summer on September 1, 2006. As a result of having signed the letter of intent, KBL satisfied the extension criteria and now has until April 27, 2007 to complete the acquisition.

If KBL does not complete the acquisition by April 27, 2007, KBL will be dissolved pursuant to Section 275 of the Delaware General Corporation Law. In connection with such dissolution, the expected procedures of which are set forth below, KBL will distribute to all of its public stockholders, in proportion to their respective equity interests, an aggregate sum equal to the amount in the trust account, inclusive of any interest, plus remaining assets. The KBL Inside Stockholders have waived their rights to participate in any liquidation distribution with respect to shares of common stock owned by them immediately prior to the IPO. There will be no distribution from the trust account with respect to KBL's warrants.

It is anticipated that, if KBL is unable to complete the business combination with Summer, the following will occur:

KBL's board of directors will convene and adopt a specific plan of dissolution and liquidation, which it will then vote to recommend to KBL's stockholders; at such time it will also cause to be prepared a preliminary proxy statement setting out such plan of dissolution and liquidation as well as the board's recommendation of such plan;

KBL will promptly file a preliminary proxy statement with the Securities and Exchange Commission;

if the Securities and Exchange Commission does not review the preliminary proxy statement, then, 10 days following the filing of such preliminary proxy statement, KBL will mail the definitive proxy statement to its stockholders, and 10 to 20 days following the mailing of such definitive proxy statement, KBL will convene a meeting of its stockholders, at which they will vote on the plan of dissolution and liquidation; and

if the Securities and Exchange Commission does review the preliminary proxy statement, KBL currently estimates that it would receive their comments 30 days after the filing of such proxy statement. KBL would then mail the definitive proxy statement to its stockholders following the conclusion of the comment and review process (the length of which cannot be predicted with any certainty, and which may be substantial) and KBL will convene a meeting of its stockholders at which they will vote on the plan of dissolution and liquidation.

KBL expects that all costs associated with the implementation and completion of KBL's plan of dissolution and liquidation will be funded by any remaining net assets not held in the trust account, although KBL cannot assure you that there will be sufficient funds for such purpose. If such funds are insufficient, it is anticipated that KBL's management will advance the funds necessary to complete such dissolution and liquidation (currently anticipated to be no more than approximately \$50,000).

KBL will not liquidate the trust account unless and until its stockholders approve such plan of dissolution and liquidation. Accordingly, the foregoing procedures may result in substantial delays in KBL's liquidation and the distribution to its public stockholders of the funds in the trust account and any remaining net assets as part of KBL's plan of dissolution and liquidation.

If KBL were to expend all of the net proceeds of the IPO, other than the proceeds deposited in the trust account, the per share liquidation price as of February 6, 2007, the record date, would be approximately \$5.68, or \$0.32 less than the per-unit offering price of \$6.00 in KBL's IPO. The proceeds deposited in the

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**Table of Contents**

trust account could, however, become subject to the claims of KBL's creditors and there is no assurance that the actual per share liquidation price will not be less than \$5.68, due to those claims. If KBL liquidates prior to the consummation of a business combination, Drs. Zachary Berk and Marlene Krauss, chairman of the board and chief executive officer, respectively, of KBL will be personally liable to pay debts and obligations to vendors and other entities that are owed money by KBL for services rendered or products sold to KBL, or to any target business, to the extent such creditors bring claims that would otherwise require payment from monies in the trust account. There is no assurance, however, that they would be able to satisfy those obligations. However, because KBL was obligated to have, and subsequently did have, all vendors and service provider that we engaged and owe money to, and the prospective target businesses we had negotiated with, waive any right, title, interest or

claim of any kind they may have had in or to any monies held in the trust account, KBL believes the likelihood of Drs. Berk and Krauss having to pay any such debts and obligations is minimal. Nevertheless, we cannot assure you that the per share distribution from the trust fund, if KBL liquidates, will not be less than \$5.68, plus interest, then held in the trust fund due to claims of creditors.

Additionally, if KBL is forced to file a bankruptcy case or an involuntary bankruptcy case is filed against KBL that is not dismissed, the proceeds held in the trust account could be subject to applicable bankruptcy law, and may be included in the bankruptcy estate and subject to the claims of third parties with priority over the claims of KBL's stockholders. Also, in any such case, any distributions received by stockholders in KBL's dissolution might be viewed under applicable debtor/creditor or bankruptcy laws as either a preferential transfer or a fraudulent conveyance. As a result, a bankruptcy court could seek to recover all amounts received by KBL's stockholders in the dissolution. Furthermore, because KBL intends to distribute the proceeds held in the trust account to its public stockholders as soon as possible after dissolution, this may be viewed or interpreted as giving preference to the public stockholders over any potential creditors with respect to access to or distributions from KBL's assets. In addition, KBL's board of directors may be viewed as having breached their fiduciary duties to KBL's creditors or may have acted in bad faith, thereby exposing itself and KBL's company to claims of punitive damages, by paying public stockholders from the trust account prior to addressing the claims of creditors or complying with certain provisions of the DGCL with respect to the dissolution and liquidation. We cannot assure you that claims will not be brought against KBL for these reasons.

To the extent any bankruptcy or other claims deplete the trust account, we cannot assure you we will be able to return to KBL's public stockholders at least \$5.68 per share.

Under Sections 280 through 282 of the DGCL, stockholders may be held liable for claims by third parties against a corporation to the extent of distributions received by them in a dissolution. Pursuant to Section 280, if the corporation complies with certain procedures intended to ensure that it makes reasonable provision for all claims against it, including a 60-day notice period during which any third-party claims can be brought against the corporation, a 90-day period during which the corporation may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of stockholders with respect to a liquidating distribution is limited to the lesser of such stockholder's pro rata share of the claim or the amount distributed to the stockholder, and any liability of the stockholder would be barred after the third anniversary of the dissolution. Although KBL will seek stockholder approval to liquidate the trust account to its public stockholders as part of its plan of dissolution and liquidation, KBL will seek to conclude this process as soon as possible and as a result do not intend to comply with those procedures. Because we will not be complying with the foregoing provisions, Section 281(b) of the DGCL requires KBL to adopt a plan that will provide for KBL's payment, based on facts known to it at such time, of (i) all existing claims, (ii) all pending claims and (iii) all claims that may be potentially brought against us within the subsequent 10 years. However, because KBL is a blank check company, rather than an operating company, and its operations have been limited to searching for prospective target businesses to acquire, the only likely claims to arise would be from KBL's vendors and service providers to which KBL owes money and potential target businesses, from all of which KBL has received agreements waiving any right, title, interest or claim of any kind they may have in or to any monies held in the trust account. As a result, the claims that could be made against KBL will be significantly limited and the likelihood that any claim would result in any liability extending to the trust is remote. Nevertheless, such

## **Table of Contents**

agreements may or may not be enforceable. As such, KBL's stockholders could potentially be liable for any claims to the extent of distributions received by them in a dissolution and any liability of KBL's stockholders may extend beyond the third anniversary of such dissolution. Accordingly, we cannot assure you that third parties will not seek to recover from KBL's stockholders amounts owed to them by KBL.

## **Facilities**

KBL maintains executive offices at 757 Third Avenue, 21<sup>st</sup> Floor, New York, New York, 10017. The cost for this space is included in a \$7,500 per-month fee that KBL Healthcare Management, Inc. charges KBL for general and administrative services. KBL Healthcare Management Inc. is an affiliate of Dr. Zachary Berk, KBL's chairman of the board and president, Dr. Marlene Krauss, KBL's chief executive officer and secretary, and Michael Kaswan, KBL's chief operating officer and member of KBL's board of directors. KBL believes, based on rents and fees for similar services in the New York, New York area, that the fees charged by KBL Healthcare Management Inc. are at least as favorable as KBL could have obtained from an unaffiliated person. KBL considers its current office space adequate for current operations.

## **Employees**

KBL has three executive officers, each of whom is also one of KBL's three directors. These individuals are not obligated to contribute any specific number of hours per week and devote only as much time as they deem necessary to KBL's affairs. KBL does not intend to have any full time employees prior to the consummation of the acquisition.

## **Periodic Reporting and Audited Financial Statements**

KBL has registered its securities under the Securities Exchange Act of 1934 and has reporting obligations, including the requirement to file annual and quarterly reports with the SEC. In accordance with the requirements of the Securities Exchange Act of 1934, KBL's annual reports contain financial statements audited and reported on by KBL's independent accountants. KBL has filed with the Securities and Exchange Commission a Form 10-KSB covering the fiscal year ended December 31, 2005 and its most recent Forms 10-QSB covering the fiscal quarters ended March 31, 2006, June 30, 2006 and September 30, 2006.

## **Legal Proceedings**

There are no legal proceedings pending against KBL.

## **Plan of Operations**

The following discussion should be read in conjunction with KBL's financial statements and related notes thereto included elsewhere in this proxy statement.

KBL was formed on December 9, 2004, to serve as a vehicle to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the healthcare or a healthcare-related industry. Since the IPO, KBL has been utilizing the cash derived from the proceeds of the IPO to seek and effect a business combination.

For the three months ended September 30, 2006 and September 30, 2005, KBL had a net income of \$260,659 and \$115,652 respectively, attributable to interest income on the trust fund net of organization and formation expenses.

For the nine months ended September 30, 2006 and September 30, 2005, KBL had a net income of \$502,269 and \$155,286 respectively, attributable to interest income on the trust fund net of organization and formation expenses.



## **Table of Contents**

For the period from December 9, 2004 (inception) through September 30, 2006, KBL had a net income of \$809,840, attributable to interest income on the trust fund net of organization and formation expenses.

KBL consummated the IPO on April 27, 2005. On April 29, KBL consummated the closing of an additional 1,200,000 units that were subject to the underwriters' over-allotment option. Gross proceeds from the IPO were \$55,200,000. KBL paid a total of \$4,272,000 in underwriting discounts and commissions, and approximately \$491,000 was or will be paid for costs and expenses related to the IPO. After deducting the underwriting discounts and commissions and the offering expenses, the total net proceeds to KBL from the IPO were approximately \$50,437,000, of which \$49,168,000 was deposited into the trust account (or \$5.344 per share sold in the IPO). The remaining proceeds were made available to KBL to be used for business, legal and accounting due diligence expenses on prospective acquisitions and continuing general and administrative expenses. As of February 6, 2007, there was \$52,263,748 held in the trust.

KBL is obligated to pay to KBL Healthcare Management Inc. a monthly fee of \$7,500 for general and administrative services. KBL Healthcare Management, Inc. is an affiliate of Dr. Zachary Berk, its chairman of the board, president and director, Dr. Marlene Krauss, its chief executive officer, secretary and director, and Michael Kaswan, its chief operating officer and director. Through September 30, 2006, an aggregate of \$130,000 has been incurred for such services. In addition, during 2005, Dr. Marlene Krauss advanced an aggregate of \$100,000 to KBL, on a non-interest bearing basis, for payment of offering expenses on KBL's behalf. These loans were repaid in April 2005 out of proceeds of the IPO.

On December 5, 2006, the Company borrowed \$20,000 from Dr. Krauss. The loan is unsecured, non-interest bearing and will be repaid on the earlier of the consummation by KBL of a business combination or upon demand by Dr. Krauss; provided, however, that if a business combination is not consummated, KBL will be required to repay the loan only to the extent it has sufficient funds available to it outside of the trust account.

As indicated in KBL's accompanying financial statements, such financial statements have been prepared assuming that KBL will continue as a going concern. As discussed elsewhere in this proxy statement, KBL is required to consummate a business combination by April 21, 2007. The possibility that the acquisition of Summer will not be consummated raises substantial doubt about KBL's ability to continue as a going concern, and the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KBL reimburses its officers and director for any reasonable out-of-pocket expenses incurred by them in connection with certain activities on KBL's behalf such as identifying and investigating possible target businesses and business combinations. From KBL's inception in December 2004, through September 30, 2006, KBL reimbursed its officers and directors in the aggregate amount of approximately \$15,000 for expense incurred by them on its behalf.

### **Off-Balance Sheet Arrangements**

There were no off-balance sheet arrangements during the period from December 9, 2004 (inception) through December 31, 2005, that have or are reasonably likely to have a current or future effect on KBL's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to KBL.

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**Table of Contents**

**BUSINESS OF SUMMER**

**General**

Based in North Smithfield, Rhode Island, Summer designs, markets and distributes branded durable juvenile health, safety and wellness products for infants and toddlers. Summer's products are sold primarily to large U.S. retailers such as Babies R Us, Target, K-Mart, Buy Buy Baby, Meijer, Chelsea & Scott (One Step Ahead), Baby Depot (Burlington Coat Factory) and Wal-Mart. Summer currently has over sixty proprietary products, including nursery audio/video monitors, safety gates, durable bath products, bed rails, infant thermometers, booster and potty seats and bouncers.

Summer maintains through SIE a sales, marketing and distribution office in England, which services the United Kingdom and other parts of Europe. SIE's largest customers are Mothercare, Toys R Us, Argos, Mamas & Pappas, Sainsbury and Tesco. In 2005, SII accounted for approximately 90% of revenue and SIE accounted for approximately 10%.

Summer maintains through SIA a product development, engineering and quality assurance office, which oversees the production of all product lines made in China.

Summer's audited net sales were approximately \$35,535,000 for 2005, an increase of more than 70% as compared to net sales of approximately \$20,855,000 for 2004. Unaudited net sales for the first nine months 2006 were approximately \$39,813,000, an increase of more than 50% as compared to net sales of approximately \$26,481,000 for the first nine months 2005.

Audited net income for 2005 was approximately \$1,325,000, an increase of 200% from net income of approximately \$442,000 in 2004. Unaudited net income for the first nine months of 2006 was approximately \$2,305,000, an increase of more than 90% as compared to net income of approximately \$1,194,000 for the first nine months of 2005.

Earnings before interest, taxes, depreciation and amortization ( EBITDA ) were approximately \$2,379,000 in 2005, an increase of over 165% compared to EBITDA of approximately \$922,000 in 2004. Unaudited EBITDA for the first nine months of 2006 was approximately \$3,744,000, an increase of almost 90% as compared to EBITDA of approximately \$1,976,000 for the first nine months of 2005.

**Products**

Summer sells over sixty different proprietary products listed in order of dollar volume importance: (i) nursery audio/video monitors (approximately 35% of net sales for the nine months ended September 30, 2006), (ii) baby gates (approximately 29% of net sales for the nine months ended September 30, 2006), (iii) durable bath products (approximately 17% of net sales for the nine months ended September 30, 2006), (iv) bed rails (approximately 8% of net sales for the nine months ended September 30, 2006), (v) infant thermometers, grooming kits and related health and safety products (approximately 6% of net sales for the nine months ended September 30, 2006), (vi) booster seats, potty seats, bouncers and other products (approximately 5% of net sales for the nine months ended September 30, 2006).

A brief discussion of each category follows:

*Nursery audio/video monitors*

Summer produces and distributes audio only monitors, priced to retail between \$19.99 and \$69.99 per unit; audio/video monitors both handheld and stationary priced to retail between \$99.99 to \$199.99 per unit; a car A/V monitor; and a prenatal heart listening device, retail priced at \$19.99 to \$39.99 per unit. The A/V monitors enable caregivers to remotely see and hear a baby, provide a coverage range of up to 300 feet from the monitor, and feature night vision technology that allows viewing the baby even in a darkened room.

## **Table of Contents**

Summer also produces and distributes prenatal heart listening devices. Summer's product allows the user to listen to and record the unborn baby's heartbeat and movements. This product is not marketed as a medical device.

### *Baby gates*

Summer produces and distributes a broad line of gates with distinctive features such as walk-through doors, one-handed operation, simple pressure installation, tall gates, 12" wide gates, and alarm features. Summer's baby gates retail in the range of \$49.99 to \$99.99 per unit.

### *Durable bath products*

Summer produces and distributes approximately ten baby bath tubs, slings, showers and spas. The products are designed to provide a safe, clean and convenient place to wash and bathe the baby. Innovative Summer features include folding tubs, head supports, battery operated shower and spa with clean water reservoir and safety temperature tester. Retail prices range from \$ 5.99 for a baby bath sling to \$39.99 for a Baby Bath Spa and Shower.

### *Bed rails*

Summer produces and distributes four different bed rail safety devices. Distinctive features include fully preassembled, fold down rails and double and triple rails that are joined under the mattress to insure a tight fit at the head and sides of the bed. Retail prices range from \$19.99 for a single rail to \$49.99 for a triple-adjustable bed rail.

### *Infant thermometers, grooming kits and related health and safety products*

Summer produces and distributes eight different digital thermometers, forehead thermometer strips, finger brushes, toothbrushes, hair brush and comb kits, nail clippers, medicine dispensers, baby mitts, ear and throat exam kits and similar products.

### *Booster seats and potty seats*

Summer produces and distributes a booster seat, retailing around \$29.99 per unit and a potty seat, priced to sell at around \$9.99. Booster features include height adjustment and compactness for travel. The potty seat is convertible into a child's step stool.

### *Bouncers*

Summer produces and distributes six models of bouncers aimed at the mid to upper tier price points, which retail at \$39.99 to \$49.99 per unit. Distinctive features include vibrating and rocking motions, reclining adjustments, electronic mobiles, multiple melodies, travel cases and folding canopies.

New product development teams have also been established to enter several new categories in 2007 and 2008. The first team is focused on wheeled goods, play yards, swings, high chairs and other large furniture categories. The second team is focused on the infant soft goods market comprised mainly of bedding, blankets, home furnishings, layette and soft bath products. These two teams are scheduled to release new products to the market starting in mid 2007.

## **Product Development and Design**

Summer's management believes that product development is a critical element of its strategy and success to date. Summer's product strategy is to produce proprietary products that provide distinctive benefits, are visually

## **Table of Contents**

appealing, provide convenience and will appeal to the mid-tier and upper-tier buyers. Summer's U.S. retailers are strategically motivated to buy innovative, up-market products. Summer's main product development efforts are located at its Rhode Island corporate office, but it also has development efforts in China (four-person sourcing, electronics and QA team), South Carolina (four-person soft goods design office) and England (two person team to meet UK and EU standards and market demands). Total research and product development expenditures, including internal payroll costs, were \$1,651,000, \$1,075,000 and \$776,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

### **Suppliers and Manufacturing**

Except for certain injection-molded bath tubs, potty seats and gates, which are manufactured in the U.S., substantially all other Summer products are manufactured in southern China at factories near Hong Kong. Summer currently uses seven Chinese factories. Accordingly, Summer is not dependent on any one manufacturer. Summer owns its own molds. SIA provides Summer with a local sourcing presence and the ability to oversee quality, electronic engineering and other issues that may arise during production.

Transportation of China-made goods to Summer's warehouses typically takes three to six weeks, depending on the location of the warehouse. Summer maintains its inventory at warehouses located in Long Beach, California, Cumberland, Rhode Island, Worcester and Leominster, Massachusetts, and Felixstowe, United Kingdom. Most of Summer's customers pick up their goods at regional warehouses. Summer also uses UPS and other common carriers to arrange shipments to customers who request such arrangements, primarily smaller retailers and specialty stores.

Summer uses two Leominster, Massachusetts manufacturers for its injection molded products, bath tubs, potty seats and gates. Domestically produced goods account for between 15% and 20% of Summer's annual net sales.

### **Sales and Marketing**

Approximately 90% of Summer's sales result from marketing efforts to its large retail customers, either directly or through the services of independent sales representatives. Summer also uses the services of independent sales representatives to distribute its products to smaller accounts. These independent sales representatives are compensated directly by Summer on a commission basis. In Europe, Summer sells its products through SIE to large retail customers primarily located in the United Kingdom. These products are marketed under private labels as well as under the Summer brand name. Summer also participates in the annual International Juvenile Products Manufacturers Association Show in addition to several other shows in North America and Europe.

The total sales order backlog is typically not significant at any point in time (current backlog is approximately \$5,000,000). The larger retail customers generally place orders and expect delivery within a few weeks. This does not create unusually large inventory requirements since the larger customers are generally ordering a consistent amount of product each time they place orders. The products sold by Summer generally do not have seasonal demand peaks.

### **Competition**

The juvenile health, safety and wellness industry has many participants, none of which have dominant market share, though certain companies have disproportionate strength in certain segments. Summer's largest direct competitors are Dorel Industries (Safety 1st and Cosco brands), Evenflo (Evenflo, Gerry, and Snugli brands), Fisher-Price (part of Mattel, Inc.), The First Years (a subsidiary of RC2 Corporation) and Graco (a subsidiary of Newell Rubbermaid). In addition, Summer competes in certain of its product lines with a number of smaller private companies with sales under \$50 million, such as KidCo, Inc., Kids II and Regalo International.

## **Table of Contents**

The primary methods of competition in the industry consist of product innovation, brand positioning, quality, price and other factors such as timely distribution. Summer's competitive strengths include its internal product development staff, which is experienced in the juvenile industry, and its ability to develop new products, brand positioning, and the quality and pricing of its products. Two of the major sales categories for Summer are gates and monitors. The primary competitors in gates include Evenflo, KidCo, and North States, while the primary competitors in monitors include Safety 1st and Bebe Sounds.

## **Intellectual Property**

Summer relies on a combination of patents, licenses and trade secrets to protect its intellectual property. The patents currently in effect for Summer include various design features related to bedrails, infant seats, bouncers, and potty chairs, with several other patents pending for monitors, baby swings, strollers and other items. The patents expire at various times over the next 20 years. Summer also has license agreements relating to the use of patented technology owned by third parties in certain of its products. Summer is the sole owner of the molds used in manufacturing its products.

## **Customers**

Summer's principal customers in North America and the United Kingdom together comprised 90% of its sales in fiscal 2005. These customers include Babies R Us, Target, K-Mart, Baby Depot (Burlington Coat Factory), Buy Buy Baby, Toys R Us Canada, Chelsea & Scott, Meijer and Wal-Mart in North America, and Mothercare, Toys R Us, Mamas & Pappas, Argos, Sainsbury, and Tesco in the United Kingdom. In fiscal 2005, Toys R Us and Target represented 50% and 19% of Summer's net sales, respectively. For the nine months ended September 30, 2006, Toys R Us represented 42% of total net sales, Target represented 21% of net sales and Kmart represented 11% of net sales.

## **Geographic Regions**

Approximately 90% of Summer's sales in fiscal 2005 were made in North America, primarily the United States (86%) and Canada (4%). The remaining 10% of sales in fiscal 2005 were made in the United Kingdom. As noted below, the majority of Summer's products are manufactured in southern China.

## **Facilities**

Summer is currently headquartered in a leased 13,000 square foot facility in North Smithfield, Rhode Island. Summer also leases office space in Hong Kong and the United Kingdom. The Rhode Island facility is currently operating on a month-to-month lease, as Summer will be moving into its new headquarters in 2007. There will be no material lease termination fees in regards to the current facility.

Summer maintains inventory at leased warehouses in Long Beach, California (approximately 51,000 square feet) and Cumberland, Rhode Island (approximately 25,000 square feet), with additional warehouse space in Worcester and Leominster, Massachusetts and Felixstowe, United Kingdom.

Summer intends to relocate to a new, 52,000 square foot headquarters/warehouse facility in Woonsocket, Rhode Island, which is currently under construction, by the end of June 2007. The facility plans provide for 12,000 square feet of office space and a 40,000 square foot warehouse. The Woonsocket facility is expected to replace the Cumberland contract warehouse facility and the North Smithfield office headquarters. Faith Realty, LLC, an affiliated company owned by Messrs. Macari and Gibree, is the owner of the building. In connection with the acquisition, Messrs. Macari and Gibree will transfer all of the assets and liabilities of Faith Realty to the Merger Sub.

## **Table of Contents**

### **Regulatory Matters**

Summer obtains all necessary regulatory agency approvals for each of its products. In the U.S., these approvals may include, among others, one or more of the Consumer Product Safety Commission ( CPSC ), the American Society of Test Methods ( ASTM ), the Juvenile Products Manufacturing Association ( JPMA ), the Federal Communications Commission ( FCC ) and the Food and Drug Administration ( FDA ). Summer conducts its own internal testing, which utilizes a foreseeable use and abuse testing method and is designed to subject each product to the worst case scenario. Summer s products are also frequently tested by independent government-certified labs.

### **Insurance**

Summer carries a product liability insurance policy that provides Summer with \$8,000,000 of liability coverage with a small deductible. Summer consults with its insurer to ascertain appropriate liability coverage for its product mix. Summer anticipates increasing its insurance coverage in the future in line with its expanding sales and product breadth.

### **Legal Proceedings**

In July 2006, Summer received a letter from Ideaz, LLC claiming that Summer misappropriated trade secrets to create certain products by Summer. Summer is currently in discussion with Ideaz regarding a potential settlement, which, if finalized, is not expected to have a material impact on the financial condition or operations of Summer. In addition, Summer has discontinued the sale of products that are the focus of the claim by Ideaz.

In August 2006, Summer entered into a settlement and license agreement with Marshall Sleep Systems, LLC, relating to the settlement of certain patent infringement claims by Marshall Sleep Systems against Summer regarding its triple bedrail product. Under the settlement and license agreement, Summer paid Marshall Sleep Systems \$25,000 for a non-exclusive, worldwide license to certain of Marshall Sleep System s patents covering Summer s triple bedrail product.

In August 2006, Summer entered into a consent injunction and settlement agreement and release among Summer, Springs Global US, Inc. ( Springs ), and certain Summer employees who were formerly employed by Springs relating to the settlement of certain claims by Springs against Summer regarding the use of certain confidential information of Springs. Under the settlement, the parties released all claims or causes of actions they may have against each other, and Summer agreed that it would not engage in the sale of any soft goods to K-Mart until after December 22, 2006. Summer and the former Springs employees also agreed to pay Springs attorneys fees and expenses incurred in connection with the dispute, not to exceed \$70,000.

In August 2006, Summer resolved an ongoing patent dispute with EICO Industries, LLC regarding its rear seat monitor product by entering into a license agreement. Under the license agreement, Summer has an exclusive license to manufacture its rear seat monitor product using certain proprietary information of EICO. The license term is three years. Summer paid EICO a fee of \$10,000 under the license agreement, and Summer will pay royalties to EICO for the term of the license agreement, with a minimum payment of \$15,000 per year.

In August 2006, Dorel Juvenile Group, Inc. ( Dorel ) filed a complaint in the United States District Court for the Southern District of Indiana against Lois DiMartinis, a current employee of Summer, claiming, among other things, that she breached her non-disclosure obligations by taking confidential information with her when departing employment from Dorel, and that she would inevitably disclose confidential information in the course of performing duties for her new employer, Summer. Dorel, in its complaint, accused Summer of engaging in a pattern of hiring employees from Dorel for the purpose of obtaining Dorel s confidential information for use in Summer s product designs and business. On October 20, 2006, the court denied Dorel s motion for preliminary injunction, finding that Dorel was not reasonably likely to succeed on the merits of its case. Dorel has appealed

**Table of Contents**

the court's decision, and the appeal is current pending. Dorel's brief in support of its appeal was due February 12, 2007, and Ms. DiMartinis response is due March 14, 2007. Also, on December 20, 2006, Dorel filed a motion to amend its complaint to add claims against Summer. Ms. DiMartinis opposed the motion, and the court has taken the motion under advisement until resolution of the pending appeal. Summer agreed to provide Ms. DiMartinis legal counsel for defending the action, and to pay the legal fees and costs for her defense, including the appeal, which as of November 30, 2006 were approximately \$200,000.

**Employees**

Summer employs a total of 77 people, 47 of whom work at Summer's headquarters in North Smithfield, Rhode Island and another six at its warehouse facility in Rhode Island. Summer also has 4 employees in California, eight in the United Kingdom, two in New York, one in Ohio, five in South Carolina and four in Hong Kong. Summer's employees are distributed across the following functional areas: (i) product development (23); (ii) operations (30); (iii) administrative and financial (15) and (iv) sales (nine).

## **Table of Contents**

### **SUMMER S MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section has been derived from Summer s consolidated financial statements and should be read together with KBL s consolidated financial statements and related notes included elsewhere in this proxy statement.

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

#### *Summary of critical accounting policies and estimates*

This summary of critical accounting policies of Summer is presented to assist in understanding Summer s consolidated financial statements. The consolidated financial statements and notes are representations of Summer s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

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

#### *Nature of operations*

Summer consists of three companies with common ownership that are collectively engaged in the design, marketing and distribution of branded durable juvenile products sold principally through large retailers in North America and the United Kingdom and a fourth company, Faith Realty, LLC, which was formed to facilitate the construction of Summer s new facility. SII is a Rhode Island corporation, SIE is a UK company formed in 2002 and SIA is a Hong Kong company formed in 2002. Faith Realty is a Rhode Island limited liability company formed in 2004.



**Table of Contents***Principles of combination*

Summer presents combined financial statements of Summer Infant, Inc. and Affiliates, four companies that are affiliated through substantial common ownership. There are two principal shareholders who own 100% of three of the companies, and 90% of the fourth, with the remaining 10% of SIE owned by the managing director of SIE. See table below:

**Summer Infant****Ownership schedule by entity**

	<b>SII</b>	<b>SIE</b>	<b>SIA</b>	<b>Faith</b>
Jason Macari	90%	80%	90%	90%
Steve Gibree	10%	10%	10%	10%
Rachelle Harel	0%	10%	0%	0%
Total	100%	100%	100%	100%

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

*Revenue recognition*

The Company follows the guidance of the Securities and Exchange Commission ( SEC ) Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when 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. These estimates are subject to variability, as actual deductions taken by customers may be different from the estimates recorded.

Sales incentives or other consideration given by the Company to customers that are considered adjustments of the selling price of its products, such as allowances and product placement fees, 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 and marketing expenses in the accompanying statements of income.

*Trade receivables*

Summer carries its trade receivables at net realizable value. On a periodic basis, Summer evaluates its trade receivables and establishes an allowance for doubtful accounts based on a history of past bad debt expense, collections and current credit conditions. The allowance is adjusted based on actual write offs that occur. Summer has a credit insurance policy to protect against potential losses up to stated amounts from certain customers.

Summer does not accrue interest on trade receivables. A receivable is considered past due if payments have not been received within the credit terms on the account, typically 60 days for most customers. Summer will turn an account over for collection around 120 days past due. Accounts are considered uncollectible if no payments are received 60 to 90 days after they have been turned over for collection.

*Inventory*

Inventory is comprised of finished goods and is stated at the lower of cost, inclusive of freight and duty, or market (net realizable value) using the first-in, first-out (FIFO) method. Company warehousing costs are charged to expense as incurred. Inventory write-downs are recorded for damaged, obsolete or slow-moving inventory.

## **Table of Contents**

Management uses estimates to record these write-downs based on its review of inventory by product category, including length of time on hand and estimates of future orders for each product. Changes in consumer preferences, demand for products, customer buying patterns and inventory management could impact the inventory valuation.

### *Impairment of long-lived assets*

Summer accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future discounted net cash flows expected to be generated by the asset. Various uncertainties, including changes in consumer preferences and general economic conditions, could impact the cash flows expected to be generated by these assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value less costs to sell. Assets to be disposed of are reported at the lower of the carrying value or fair value less costs to sell.

### *Goodwill*

Effective January 1, 2002, Summer adopted Financial Accounting Standards Board SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires that goodwill and intangible assets that have indefinite useful lives no longer be subject to amortization and be tested at least annually for impairment.

Impairment exists if the carrying value of the reporting unit exceeds the fair value of the reporting unit. Intangible assets that have finite lives are amortized over their useful lives. Based on the impairment test, Summer believes no impairment existed at December 31, 2005.

### *Other intangible assets*

Other intangible assets include patents, licenses and design rights that Summer acquired in connection with certain patented products.

Other intangible assets are amortized on a straight-line basis over the estimated useful life of the asset (5-10 years). Summer's management regularly reviews the carrying value of such assets for impairment and decline in value. As of December 31, 2005, no impairment existed with respect to these assets.

### *Income taxes*

SII has elected to have its income taxed under the provisions of Subchapter S of the Internal Revenue Code. Faith Realty is a limited liability company that has elected to have its income taxed as a partnership. Accordingly, the individual equity holders of these companies are taxed on their proportionate share of the taxable income of such entities in lieu of the entities paying income taxes. Therefore, no provision or liability for income taxes is reflected in these financial statements for these companies. SIE and SIA are subject to corporation taxes in the United Kingdom and Hong Kong, respectively, at the enacted tax rates at the balance sheet date. Accordingly, provisions have been made for corporation taxes in these countries in the financial statements of Summer.

### *Translation of foreign currencies*

The assets and liabilities of SIE and SIA have been translated into U.S. dollars at year-end exchange rates. Over 90% of the commercial activity of Summer is denominated in U.S. dollars. The income and expense accounts of SIE and SIA have been translated at average rates prevailing during each respective year. Resulting translation adjustments are made to a separate component of stockholders' equity within accumulated other comprehensive income.

## **Table of Contents**

### *Advertising costs and accrued allowances*

Summer charges advertising costs and other customer allowances to expense as incurred. Advertising expense, which consists primarily of promotional and cooperative advertising allowances provided to customers, is typically agreed to in advance for each customer and is generally based upon a percentage of sales to that customer. Other allowances are provided for defective goods or returned merchandise; some customers have these allowances negotiated as a percentage of sales, while other customers take deductions on payments made to Summer based upon actual defectives or returns. The company will record expense based on either the agreed-upon terms or accrue for these costs based on historical experience, and will adjust the expense as actual results vary from the estimates that have been recorded.

### *Product liability and warranty reserves*

Summer maintains insurance to protect against product liability claims. Premiums are charged to expense during the period of coverage. In the normal course of business, Summer may offer warranties on certain of its products, generally limited to product replacement. A reserve would be recorded if the Company's experience (including industry data) showed that there was a material exposure related to certain types of products. This experience would include looking at actual claims experience and other factors. To the extent Summer establishes that a material liability exists, a reserve is established and would be included in accrued liabilities. The levels of reserves could vary based on actual claims experience in the future.

### *Other use of estimates*

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

## **Company Overview**

Summer is a designer, marketer, and distributor of branded juvenile health, safety and wellness products which are sold principally to large North American and UK retailers. Summer currently has more than 60 proprietary products in seven product categories including nursery audio/video monitors, safety gates, durable bath products, bed rails, infant thermometers and related health and safety products, booster and potty seats and bouncers.

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

increased product penetration (more products at each store);

increased store penetration (more stores within each retail customer);

new products (at existing and new customers);

new mass merchant retail customers;

new distribution channels (food and drug chains, price clubs, home centers, web-based retailers);

new geographies (international expansion); and

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new product categories (soft goods division started in 2006).

Summer has been able to grow its annual revenues by approximately \$50,000,000 over the past five years through a combination of all of the above factors. Each year it has been able to expand the number of products into its main distribution channel, mass merchant retailers, and has also added new customers each year. Therefore, even without new product introductions, Summer could grow its business by simply selling more of its existing product line to existing customers. Summer has also been successful in establishing a UK operation, which had net sales of approximately \$3,800,000 and operating income of approximately \$300,000 during the first nine months of 2006.

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**Table of Contents**

For 2007 and beyond, the growth strategy of Summer will be to continue to develop and sell new products to its existing customer base, sell new and existing products to new customers (or expand relationships with existing customers), to begin to sell products from its soft goods product line, and to expand in the UK and in other geographic regions (including Japan, Mexico and Australia, among others). In addition, there are a number of potential acquisition candidates that could be pursued in order to obtain new innovative products, new product categories, new retail customers or new sales territories. There are approximately 400 active juvenile product companies, of which approximately 300 have less than \$10,000,000 in sales. In addition, there are various product categories that Summer does not currently compete in, including car seats, strollers, play yards, high chairs, swings, walkers, nursery care, and other categories. Summer may look to develop its own products in these categories or attempt to gain entrance into these categories through acquisitions. Summer has no specific plans to acquire any companies at this time.

As Summer continues to grow through internal initiatives and any future acquisitions, it will incur additional material expense. Two of the key areas in which such increased expenses will likely occur are sales and product development. In order to grow sales, Summer will likely hire additional sales personnel to service new geographic territories, focus existing resources on specific parts of the United States market and retain product line specialists to drive sales of new and existing products in specific areas in which Summer believes it can readily increase sales. Product development expenses will increase as Summer develops new products in existing and new categories. If Summer were to acquire one or more companies as part of its growth strategy, it would face various challenges such as the integration of the acquired companies' product lines, employees, marketing requirements and information systems. Ongoing infrastructure investment also may be required to support realized growth, including expenditures with respect to upgraded and expanded information systems and enhancing the company's management team.

*Sales*

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

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

Summer derives a significant portion of its sales from major chain retailers. Summer's two largest customers accounted for 80%, 70%, and 69% of net sales in 2003, 2004 and 2005. Toys R Us accounted for 80%, 63% and 50% of net sales in 2003, 2004, and 2005 respectively. Target accounted for 0%, 7%, and 19% of net sales in 2003, 2004 and 2005, respectively.

*Cost of goods sold and other expenses*

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

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

**Table of Contents**

There are not significant variations in seasonal demand for Summer's products. Sales are generally higher in the December/January time frame as retailers take initial shipments of new products; these orders usually incorporate enough product to fill each store plus additional amounts to be kept at the customer's distribution center. The timing of these initial shipments varies by customer depending on when they finalize store layouts for the upcoming year.

**Results of Operations****Summer Infant and Combined Companies****Consolidated Statements of Income**

**For the Nine Months Ending September 30, 2006 and 2005**

(In thousands)

	Nine Months Ended September 30, 2006 (Unaudited)		Nine Months Ended September 30, 2005 (Unaudited)	
Net sales	\$ 39,813	100.0%	\$ 26,481	100.0%
Cost of goods sold	24,512	61.6%	17,450	65.9%
Gross profit	15,301	38.4%	9,031	34.1%
OPERATING EXPENSES				
General and administrative expenses	7,181	18.0%	3,339	12.6%
Selling expenses	4,376	11.0%	3,716	14.0%
Depreciation and amortization expense	470	1.0%	306	1.2%
Operating income	3,274	8.0%	1,670	6.31%
Interest expense	653	1.6%	307	1.2%
Tax expense	29	0.1%	13	0.0%
Minority interest in net income of affiliate	287	0.7%	156	0.6%
NET INCOME	2,305	5.8%	1,194	4.5%
EBITDA	3,744	9.4%	1,976	7.5%

*Nine months ended September 30, 2006 compared with nine months ended September 30, 2005*

Net sales increased 50% from approximately \$26,481,000 in the nine months ended September 30, 2005 to approximately \$39,813,000 for the nine months ended September 30, 2006. This sales increase was primarily attributable to increased distribution of Summer's products throughout Summer's customer base, with increases of more than 65% at Target, Kmart and Burlington Coat.

Gross profit increased 69% from approximately \$9,031,000 for the nine months ended September 30, 2005 to approximately \$15,301,000 for the nine months ended September 30, 2006. This increase was primarily attributable to the 50% increase in net sales, combined with sales of higher margin products and reductions in customer product returns during 2006, which resulted in a reduction of cost of goods sold as a percentage of sales from 65.9% in the nine months ended September 30, 2005 to 61.6% in the nine months ended September 30, 2006.

General and administrative expenses increased from approximately \$3,339,000 for the nine months ended September 30, 2005 to approximately \$7,181,000 for the nine months ended September 30, 2006. This increase was primarily attributable to increases in headcount in order to build the infrastructure required to support the rapid sales increase, in addition to increased professional fees associated with the proposed acquisition with KBL. The total increase in payroll and benefits was approximately \$1,367,000. There was an expense of approximately \$668,000 for the nine months ended September 30, 2006 attributable to legal and start-up costs incurred in the establishment of Summer's soft goods division.

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Professional fees increased by \$417,000, primarily due to costs related to the pending acquisition by KBL. Finally, external product development costs increased by approximately \$256,000 due to the growth of the Company's product line into more complex products that required more significant investment.

Selling expenses increased from approximately \$3,716,000 for the nine months ended September 30, 2005 to approximately \$4,376,000 for the nine months ended September 30, 2006. This increase was primarily

**Table of Contents**

attributable to increased commissions, freight and royalties associated with the higher level of sales during 2006. Selling expenses decreased as a percentage of sales from 14.0% in the nine months ended September 30, 2005 to 11.0% for the nine months ended September 30, 2006, as the company streamlined its sales organization (including the elimination of some external sales representatives).

Depreciation and amortization expense increased from approximately \$306,000 for the nine months ended September 30, 2005 to approximately \$470,000 for the nine months ended September 30, 2006. This increase was primarily attributable to increased capital spending during 2005 which resulted in higher depreciation expense in 2006.

Interest expense increased from approximately \$307,000 for the nine months ended September 30, 2005 to approximately \$653,000 for the nine months ended September 30, 2006. This increase was primarily attributable to increased borrowing levels in 2006 to support the rapid growth of the company.

Net income increased from approximately \$1,194,000 for the nine months ended September 30, 2005 to approximately \$2,305,000 for the nine months ended September 30, 2006. This increase was primarily attributable to the increased sales and gross profit percentage as described above.

*Year ended December 31, 2005 compared with year ended December 31, 2004*

**Summer Infant and Affiliates****Consolidated Statements of Income**

(In thousands)

	Year Ended December 31, 2005		Year Ended December 31, 2004	
Net sales	\$ 35,535	100.0%	\$ 20,855	100.0%
Cost of goods sold	23,008	64.7%	13,004	62.4%
Gross profit	12,527	35.3%	7,851	37.6%
OPERATING EXPENSES				
General and administrative expenses	4,997	14.1%	3,308	15.8%
Selling expenses	5,151	14.5%	3,621	17.4%
Depreciation and amortization expense	411	1.2%	227	1.1%
Operating income	1,968	5.2%	695	3.3%
Interest expense	451	1.3%	131	0.6%
Tax expense	31	0.1%	49	0.2%
Minority interest in net income of affiliate	161	0.5%	73	0.4%
NET INCOME	1,325	3.7%	442	2.1%
EBITDA	2,379	6.7%	922	4.4%

Net sales increased 70% from approximately \$20,855,000 in the year ended December 31, 2004 to approximately \$35,535,000 for the year ended December 31, 2005. This sales increase was primarily attributable to increased distribution of Summer's products throughout the customer base, with increases of more than \$6,000,000 at Toys R Us and Target.

Gross profit increased 60% from approximately \$7,851,000 for the year ended December 31, 2004 to approximately \$12,527,000 for the year ended December 31, 2005. This increase was primarily attributable to the 70% increase in net sales, combined with sales of lower margin products during 2005 which resulted in an increase of cost of goods sold as a percentage of sales from 62.4% in the year ended December 31, 2004 to 64.8% in the year ended December 31, 2005.





**Table of Contents**

General and administrative expenses increased from approximately \$3,308,000 for the year ended December 31, 2004 to approximately \$4,997,000 for the year ended December 31, 2005. This increase was primarily attributable to increases in headcount in order to build the infrastructure required to support the rapid sales increase, leading to payroll and benefits increases of approximately \$958,000. In addition, there were significant increases in insurance costs (approximately \$196,000), external product development costs (approximately \$124,000) and professional fees (approximately \$120,000).

Selling expenses increased from approximately \$3,621,000 for the year ended December 31, 2004 to approximately \$5,151,000 for the year ended December 31, 2005. This increase was primarily attributable to increased commissions, freight and royalties associated with the higher level of sales during 2005.

Depreciation and amortization expense increased from approximately \$227,000 for the year ended December 31, 2004 to approximately \$411,000 for the year ended December 31, 2005. This increase was primarily attributable to increased capital spending during 2004 which resulted in higher depreciation expense in 2005.

Interest expense increased from approximately \$131,000 for the year ended December 31, 2004 to approximately \$451,000 for the year ended December 31, 2005. This increase was primarily attributable to increased borrowing levels in 2005 to support the rapid growth of the company.

Net income increased from approximately \$442,000 for the year ended December 31, 2004 to approximately \$1,325,000 for the year ended December 31, 2005. This increase was primarily attributable to the increased sales as described above.

*Year ended December 31, 2004 compared with year ended December 31, 2003*

**Summer Infant and Affiliates****Consolidated Statements of Income**

(In thousands)

	Year Ended December 31, 2004		Year Ended December 31, 2003	
Net sales	\$ 20,855	100.0%	\$ 17,580	100.0%
Cost of goods sold	13,004	62.4%	11,101	63.1%
Gross profit	7,851	37.6%	6,479	36.9%
OPERATING EXPENSES				
General and administrative expenses	3,308	15.9%	2,420	13.8%
Selling expenses	3,621	17.4%	2,406	13.7%
Depreciation and amortization expense	227	1.1%	144	0.8%
Operating income	695	3.3%	1,509	8.8%
Interest expense	131	0.6%	120	0.7%
Other expense (income)	0	0.0%	116	0.7%
Tax expense	49	0.2%	28	0.2%
Minority interest in net income of affiliate	73	0.4%	136	0.8%
<b>NET INCOME</b>	<b>442</b>	<b>2.1%</b>	<b>1,109</b>	<b>6.3%</b>
EBITDA	922	4.4%	1,537	8.7%

Net sales increased 19% from approximately \$17,580,000 in the year ended December 31, 2003 to approximately \$20,855,000 for the year ended December 31, 2004. This sales increase was primarily attributable to increased distribution of Summer's products throughout Summer's customer base, including the first full year of sales to Target, which accounted for over \$1,000,000 of the increase.



**Table of Contents**

Gross profit increased 21% from approximately \$6,479,000 for the year ended December 31, 2003 to approximately \$7,851,000 for the year ended December 31, 2004. This increase was primarily attributable to the 19% increase in net sales. There was also a slight improvement in the gross profit percentage, as cost of goods sold as a percentage of sales decreased from 63.2% for the year ended December 31, 2003 to 62.4% for the year ended December 31, 2004.

General and administrative expenses increased from approximately \$2,420,000 for the year ended December 31, 2003 to approximately \$3,308,000 for the year ended December 31, 2004. This increase was primarily attributable to increases in headcount in order to build the infrastructure required to support the sales increase.

Selling expenses increased from approximately \$2,406,000 for the year ended December 31, 2003 to approximately \$3,621,000 for the year ended December 31, 2004. This increase was primarily attributable to increased commissions, freight and royalties associated with the higher level of sales during 2004.

Depreciation and amortization expense increased from approximately \$144,000 for the year ended December 31, 2003 to approximately \$227,000 for the year ended December 31, 2004. This increase was primarily attributable to increased capital spending during 2003 which resulted in higher depreciation expense in 2004.

Interest expense increased from approximately \$120,000 for the year ended December 31, 2003 to approximately \$131,000 for the year ended December 31, 2004. This increase was primarily attributable to increased borrowing levels in 2004 to support the growth of the company.

Net income decreased from approximately \$1,109,000 for the year ended December 31, 2003 to approximately \$442,000 for the year ended December 31, 2004. This decrease was primarily attributable to the increases in general and administrative and selling expenses as described above.

**Liquidity and Capital Resources**

Summer generally funds its operations and working capital needs through cash generated from operations and borrowings under its credit facility. In addition, Summer has entered into two other note payable agreements (one in 2005 and the other in 2006).

Summer's sales have increased significantly over the past several years. For the year ended December 31, 2003, net sales were \$17.6 million. For the year ended December 31, 2006, net sales are expected to exceed \$50 million. This sales growth has led to a substantial increase in working capital requirements, specifically accounts receivable and inventory. The typical cash flow cycle is as follows:

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

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

A summary of inventory and accounts receivable is as follows (in \$000's):

	September 30,	December 31,	December 31,
	2006	2005	2004
Inventory	11,337	7,860	5,029
Accounts Receivable	10,567	6,210	3,517

As of September 30, 2006, Summer maintained an allowance for doubtful accounts of \$76.



## **Table of Contents**

Summer has been able to fund its increased working capital through asset-based lines of credit with banks. The lenders generally follow a borrowing base formula that allows advances based on the levels of accounts receivable and inventory. Summer's current line of credit contains traditional borrowing base formulas.

The majority of capital expenditures for Summer are for tools related to new product introductions. Summer receives indications from retailers generally around the middle of each year as to what products the retailer will be taking into its product line for the upcoming year. Based on these indications, Summer will then acquire the tools required to build the products. The majority of these expenditures are therefore made in the third and fourth quarters of each year so that initial shipments of products can be made in December and January (the typical time frame for new product shipments). In most cases the payments for the tools are spread out over a three to four month period.

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

Summer's strategy for funding its business going forward is a combination of the following: increased profitability; increased borrowing lines as required with traditional lenders (asset-based); and utilization of the proceeds available from the business combination with KBL to fund its business as well as potential acquisitions. The KBL business combination with, if successfully completed, will provide more than \$20,000,000 of available cash. These proceeds could potentially be used to pay off the existing debt of Summer; fund working capital increases going forward; acquire other businesses; pay dividends; or repurchase KBL common stock or warrants. Even if the existing debt is paid down, it is likely that Summer will continue to maintain available lines of credit on an asset-backed basis in order to fund working capital needs in the future.

Net cash used in operations was approximately (\$2,248,000) and (\$1,420,000) for the years ended December 31, 2005 and 2004 respectively. Summer has generated positive net income for each of the past three years but has used cash in operations due to increased working capital requirements resulting from rapid sales increases over the past several years. Net cash provided by operations was approximately \$1,139,000 for the year ended December 31, 2003.

Net cash used in investing activities was approximately (\$1,981,000), (\$478,000) and (\$404,000) for the years ended December 31, 2005, 2004 and 2003 respectively. The major investing activity is for capital expenditures, primarily molds and tooling related to new product introductions.

Net cash provided by financing activities was approximately \$4,605,000 and \$1,786,000 for the years ended December 31, 2005 and 2004 respectively. The primary source of funds during the past three years has been borrowings under the lines of credit established by Summer. These borrowings have been made in order to fund the working capital increases that have occurred as a result of the rapid sales growth of Summer over this time frame. Net cash used in financing activities was approximately (\$37,000) for the year ended December 31, 2003.

In October 2003, Summer entered into a \$1,150,000 term loan with a bank. Borrowings under this loan bore interest at 5.92% per annum. The loan was paid off in June 2005.

In March 2005, Summer entered into a \$1,050,000 subordinated term loan payable with a business development company. The note has a 48-month term and calls for monthly principal payments of \$23,000 plus 12% interest through December 2008. It is secured by all of Summer's assets and by a personal guarantee from the majority stockholder of Summer. In addition to the required monthly principal and interest payments, Summer is required to make a royalty payment to the holder of the note on a quarterly basis. The royalty payment is calculated based on 0.25% of SII's net sales for the preceding quarter and is payable within 45 days of the close of the quarter. These royalty payments, which are included in interest expense on the accompanying consolidated statement of income for the year ended December 31, 2005, amounted to approximately \$61,000. The remaining principal balance owed on this note as of September 30, 2006 was approximately \$630,000.

**Table of Contents**

Summer, through Faith Realty, entered into a \$500,000 construction loan in February 2006. This loan is being used for site development and construction of a new building, which will become Summer's new corporate headquarters. The agreement requires interest only payments calculated on a floating or fixed rate based on LIBOR.

In October 2003, Summer entered into a revolving line of credit with a bank which provided for working capital needs with maximum borrowings of \$1,000,000, \$2,000,000, and \$5,000,000 for the years ending December 31, 2003, 2004, and 2005, respectively. Borrowings under the line of credit bear interest at the bank's prime lending rate plus .125% (4.125%, 5.375%, and 6.125% as of December 31, 2003, 2004, and June 2005). The line of credit was paid off in June 2005.

In July 2005, Summer entered into a revolving line of credit with another bank. This line of credit provided for borrowings based on levels of qualified accounts receivable and inventory held by SII and SIE. The line of credit is secured by all assets of Summer. Maximum borrowings at December 31, 2005, on the line of credit were \$7,500,000. Interest on the line of credit is payable at LIBOR (4.9% at December 31, 2005) plus 1.75%. Amounts outstanding under this agreement were approximately \$7,087,000 at December 31, 2005. As of January 1, 2006, the bank increased the maximum allowable borrowings on the line of credit to \$11,000,000, and on July 31, 2006, the bank increased the maximum allowable borrowings to \$13,000,000. In addition, the line of credit has been extended until June 30, 2007. As of September 30, 2006, an aggregate of approximately \$10,567,000 was outstanding under the line of credit.

In connection with the subordinated term loan, Summer is subject to certain covenants, which require, among other things, maintenance of a minimum cash flow to debt service ratio, a total liabilities to tangible net worth ratio and a certain level of net worth. At December 31, 2005, Summer was not in compliance with certain covenants (specifically, the covenants related to the debt-to-equity ratio and the net worth requirement were out of compliance); however, it obtained waivers through January 1, 2007 for all covenant violations. Because the waiver is through January 1, 2007, Summer recorded the liability as a long term liability in the balance sheet. As of September 30, 2006, Summer was in compliance with these covenants.

The total debt of Summer at September 30, 2006 was \$11,925,000. Of this total, \$10,567,000 relates to the revolving line of credit which expires on June 30, 2007. This debt has no required principal payments and interest is paid monthly. Summer expects that it will be able to extend this line of credit with either its existing bank or another bank upon the scheduled termination date of June 30, 2007, because this line of credit is collateralized by inventory and accounts receivable at standard advance rates. Another \$630,000 of the outstanding debt relates to the subordinated loan, which calls for principal payments of \$23,333 per month plus interest. Another \$500,000 of outstanding debt relates to loans for the construction of the new building. No principal payments will be required on this loan until a permanent construction loan has been completed for the entire project. The final \$228,000 of debt relates to capital lease obligations, which call for monthly principal and interest payments.

The following summarizes Summer's significant contractual commitments as of December 31, 2005, which relate to future minimum payments due under non-cancelable licenses, leases and other debt (amounts in thousands):

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt	\$ 840	\$ 280	\$ 560	\$	\$
Capital lease obligations	\$ 296	\$ 65	\$ 231	\$	\$
Operating lease obligations	\$ 1,245	\$ 390	\$ 855	\$	\$
Total	\$ 2,381	\$ 735	\$ 1,646	\$	\$

We believe that Summer's cash flows from operations, cash on hand, funds from the business combination with KBL, and available borrowings will be sufficient to meet Summer's working capital and capital expenditure requirements and provide us with adequate liquidity to meet anticipated operating needs for at least the next 12

**Table of Contents**

months. Summer's cash requirements for the period beyond that are expected to be met by a combination of the cash proceeds from the business combination with KBL plus continued use of bank facilities to meet working capital requirements.

**Non-GAAP Discussion**

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

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

to calculate and support various coverage ratios with Summer's lenders;

to allow lenders to calculate total proceeds they are willing to loan to Summer based on its relative strength compared to other competitors; and

to more accurately compare Summer's operating performance from period to period and company to company by eliminating differences caused by variations in capital structures (which affect relative interest expense), tax positions and amortization of intangibles.

In addition, EBITDA is an important valuation tool used by potential investors when assessing the relative performance of a company in comparison to other companies in the same industry. Although Summer uses EBITDA as a financial measure to assess the performance of its business, there are material limitations to using a measure such as EBITDA, including the difficulty associated with using it as the sole measure to compare the results of one company to another and the inability to analyze significant items that directly affect a company's net income (loss) or operating income because it does not include certain material costs, such as interest and taxes, necessary to operate its business. In addition, Summer's calculation of EBITDA may not be consistent with similarly titled measures of other companies and should be viewed in conjunction with measures that are computed in accordance with GAAP. Summer's management compensates for these limitations in considering EBITDA in conjunction with its analysis of other GAAP financial measures, such as net income (loss).

The following table presents a reconciliation of EBITDA to net income, its most directly comparable GAAP financial measure, on a historical basis, for the periods presented:

**Reconciliation of unaudited EBITDA, as adjusted, to Net Income (In thousands)**

	Nine Months Ended September 30		Fiscal Year Ended December 31		
	2006	2005	2005	2004	2003
Net income	\$ 2,305	\$ 1,194	\$ 1,325	\$ 442	\$ 1,109
Income taxes*	29	13	31	49	28
Minority interest in net income of affiliates	287	156	161	73	136
Interest expense	653	307	451	131	120
Depreciation and amortization	470	306	411	227	144
EBITDA	\$ 3,744	\$ 1,976	\$ 2,379	\$ 922	\$ 1,537



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\* SII is an S Corporation.

## **Table of Contents**

The management of Summer assesses its financial performance in a number of ways, of which EBITDA performance is one factor. In general terms, Summer has been attempting to increase sales and EBITDA each year, with the overall goal being to increase the percentage growth in EBITDA at a faster rate than the sales growth percentage. In terms of that one factor, Summer's performance in 2005 as compared to 2004 showed year over year sales growth of 70%, and EBITDA growth of 158%. In the first nine months of 2006 versus the first nine months of 2005, sales growth was 50%, and EBITDA growth was 89%. Therefore, from a top level perspective, Summer is achieving the goal of growing EBITDA at a higher rate than sales. If EBITDA was growing at a slower rate than sales, management would look for ways to change this trend, including the implementation of potential cost reductions, in order to ensure that the expense structure is properly matched to the level of sales being achieved.

### **Recently Issued Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised in 2004), *Share Based Payment* (SFAS 123(R)), which superseded SFAS No. 123, *Accounting for Stock-Based Compensation*, and APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires the recognition of stock-based compensation expense in the financial statements. Effective January 1, 2006, the Company adopted SFAS No. 123(R). The implementation of SFAS 123(R) had no impact on the condensed combined financial statements of income for the six month period ending June 30, 2006 since there are no stock options issued or outstanding.

In June of 2005, the FASB issued Statement of Financial Accounting Standards No. 154, (SFAS 154), *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting for and reporting a change in accounting principle. SFAS 154 requires the retrospective application to prior periods' financial statements of the direct effect of a voluntary change in accounting principle unless it is impracticable. APB No. 20 required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. The Company has adopted the provisions of SFAS 154 and does not expect any material effect on its results of operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently reviewing this new standard to determine its effects, if any, on the Company's results of operations or financial position.

There are no other recently issued accounting pronouncements that need to be considered when reading the financial statements or related footnotes.

### **Quantitative and Qualitative Disclosures About Market Risk**

Summer's exposure to market risk is limited to interest rate risk associated with Summer's credit facilities and foreign currency exchange risk associated with Summer's foreign operations.

Based on Summer's interest rate exposure on variable rate borrowings at December 31, 2005, a one percentage point increase in average interest rates on Summer's borrowings would increase future interest

**Table of Contents**

expense by approximately \$6,000 per month. Summer determined these amounts based on approximately \$7,087,000 of variable rate borrowings at December 31, 2005, multiplied this amount by 1% and divided by twelve. Summer is currently not using any interest rate collars or hedges to manage or reduce interest rate risk. As a result, any increase in interest rates on Summer's variable rate borrowings would increase interest expense and reduce net income.

The majority of Summer's operating activities are conducted in US dollars. Approximately 10% of Summer's sales are denominated in other currencies such as British pounds sterling or Canadian dollars. Summer's purchases of finished goods from Chinese manufacturers are denominated in US dollars. A 10% change in the exchange rate of the US dollar with respect to Canadian dollars or British pounds sterling would not have a significant impact on Summer's earnings.

**Table of Contents****DIRECTORS AND EXECUTIVE OFFICERS OF KBL FOLLOWING THE ACQUISITION**

At the effective time of the acquisition, the board of directors and executive officers of KBL will be as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Dr. Marlene Krauss	62	Chairman of the board and director
Jason Macari	44	Chief executive officer and director
Steven Gibree	40	Executive vice president of product development and director
Martin Fogelman	63	Director
Myra Hart	66	Director
Robert Stebenne	53	Director
Richard Wenz	57	Director
Joseph Driscoll	42	Chief financial officer and treasurer
Rachelle Harel	46	General manager of SIE

DR. MARLENE KRAUSS has been the chief executive officer, secretary and a member of the board of directors of KBL since its inception. Upon consummation of the acquisition, she shall become chairman of the board of KBL. Since November 1998, Dr. Krauss has been a managing member and president of KBL Healthcare Management Inc., a management company that provides investment services to the KBL Healthcare venture capital funds. During this time, Dr. Krauss co-founded or has served on the board of directors of several of KBL's portfolio companies. From April 1993 to August 1994, Dr. Krauss served as chairperson and chief executive officer of KBL Healthcare Acquisition Corp., a blank check company with an objective to acquire an operating business in the healthcare industry. In August 1994, KBL Healthcare Acquisition Corp. merged with Concord Health Group, Inc., an owner, developer and operator of assisted living and long-term care facilities, and Dr. Krauss served as its vice chairperson until February 1996. In August 1991, Dr. Krauss co-founded KBL Healthcare, Inc., a venture capital and investment banking firm engaged in advisory and principal based funding activities for early-stage and middle-market companies in the healthcare field and has served as its chairperson and chief executive officer since its formation. Dr. Krauss received a B.A. from Cornell University, an M.B.A. from Harvard Graduate School of Business Administration and an M.D. from Harvard Medical School. She completed her training as a vitreoretinal surgeon at New York Hospital in 1985. Dr. Krauss is the spouse of Dr. Berk, KBL's current chairman of the board.

JASON MACARI has been the chief executive officer and a director of Summer Infant, Inc. since he founded the company in 2001. Upon consummation of the acquisition, he shall become KBL's chief executive officer and shall maintain his current positions with Summer. Prior to his purchase of Summer's predecessor in 2001, Mr. Macari was vice president of product development and general manager of Safety 1st, Inc., a leading manufacturer of safety and baby products from August 1994 to June 2001. From May 1988 to August 1994, Mr. Macari managed the manufacturing engineering group of the Davol Division of CR Bard, a manufacturer of surgical products. Mr. Macari received his B.S. in Mechanical Engineering from Worcester Polytechnic Institute and his MBA from Bryant College.

STEVEN GIBREE is Summer's executive vice president of product development with management oversight of research and development, product design and engineering and manufacturing relations. Upon consummation of the acquisition, he shall become executive vice president of product development for KBL and Summer. Prior to being recruited to Summer, in November 2001, Mr. Gibree was the vice president of engineering for Little Kids, Inc., a manufacturer of innovative toys, from March 2001 to November 2001. From May 1997 to March 2001, Mr. Gibree was director of engineering at Safety 1st, Inc. From May 1985 to May 1997, Mr. Gibree was employed by Hasbro, rising to project manager for the Kid Dimension Division. Mr. Gibree is a graduate of the Hall Institute of Technology.

MARTIN FOGELMAN will become a member of KBL's board of directors upon consummation of the acquisition. Since April 2003, Mr. Fogelman has been an independent consultant to the baby products industry.

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**Table of Contents**

From 1983 to March 2003, he was senior vice president and general merchandise manager of both Toys R Us, a leading retailer of children's toys, and Babies R Us juvenile products division, a leading retailer of products for infants and toddlers. Mr. Fogelman is a graduate of the University of Buffalo.

MYRA HART will become a member of KBL's board of directors upon consummation of the acquisition. Ms. Hart currently works with several high-growth-potential ventures as a board member, advisor and/or consultant. From July 1995 to June 2006, she was a Professor of Entrepreneurial Management at the Harvard Business School. From 1990 to 1995, Ms. Hart was a doctoral student at Harvard University. From 1985 until 1990, Ms. Hart was employed by Staples, Inc., where she was one of the four founding officers, in various management capacities, with a primary emphasis on strategic planning and growth implementation in new and existing markets. Ms. Hart is a Director of Office Depot, Inc., eCornell, Nina McLemore Inc., Royal Ahold NV, and IntelliVid Corporation. She is also a director of the Center for Women's Business Research and a Trustee of Cornell University. Ms. Hart received a B.A. from Cornell University and an MBA and DBA from Harvard University.

ROBERT STEBENNE will become a member of KBL's board of directors upon consummation of the acquisition. Mr. Stebenne currently owns and manages Bob Stebenne Associates, a firm that provides consulting services in the areas of brand development, product development and strategic planning, among other areas. From February 1999 to July 2002, Mr. Stebenne was the president of new business development for Hasbro Industries. From 1991 to January 1999, he was president of Hasbro's FOB/LC division, where he created a U.S. marketing, sales, product development, finance and logistics group. From 1982 to 1991, he was president of Hasbro's Playskool Baby division. Mr. Stebenne received a B.A. from Roger Williams University.

RICHARD WENZ will become a member of KBL's board of directors upon consummation of the acquisition. Mr. Wenz is a consultant and private investor and currently serves on the Board of Directors of Hunter Fan Company and Easton Bell Sports, Inc. From October 2000 to July 2003 Mr. Wenz was an operating partner/affiliate of DB Capital Partners, the private equity arm of Deutsche Bank A.G. and served on the board of directors of a number of portfolio companies, including NewRoads, Inc. and Jenny Craig International. Mr. Wenz also served as chief executive officer of Jenny Craig International from March 2002 to January 2003. Mr. Wenz was president and chief operating officer of Safety 1st, from February 1997 to May 2000. During 1995 and 1996, Mr. Wenz was the partner in charge of the Chicago office with The Lucas Group, a business strategy consulting firm. Prior to 1995 Mr. Wenz held senior executive positions with Wilson Sporting Goods Co., Electrolux Corporation, The Regina Company and Professional Golf Corporation. Mr. Wenz began his career in 1971 with Arthur Young & Company (predecessor of Ernst & Young) and left the firm as a partner in 1983. Mr. Wenz is a certified public accountant and received a B.S. in accounting from Northern Illinois University.

JOSEPH DRISCOLL has been the chief financial officer of Summer since September 2006. Upon consummation of the acquisition, he will also become chief financial officer of KBL. From May 2001 to September 2006, Mr. Driscoll was employed as vice president of finance and later served as chief financial officer for ACT Electronics, Inc., an electronics manufacturer. From May 2000 to May 2001, Mr. Driscoll was employed as vice president of finance for PCI, Inc., an internet based marketing services company. From April 1997 to May 2000, Mr. Driscoll was employed as vice president of finance and later served as chief financial officer for Safety 1st, Inc. From September 1993 to April 1997, Mr. Driscoll was employed as assistant corporate controller and later served as director of financial reporting for Staples, Inc. From July 1986 to February 1992, Mr. Driscoll was employed as an audit manager for KPMG Peat Marwick. From February 1992 to September 1993, Mr. Driscoll was employed as corporate controller for E-II Holdings, Inc., an international consumer products company. Mr. Driscoll received a B.S. in Accounting from Boston College and is a licensed Certified Public Accountant.

RACHELLE HAREL joined SIE in September 2002 and is responsible for starting Summer's sales and distribution operation in the UK and Europe. She is currently SIE's managing director. Upon consummation of the acquisition, she shall become general manager of SIE. Based in the U.K., Ms. Harel has more than 20 years of experience in the U.K. juvenile market, including product safety, retailing, and product development. From

## **Table of Contents**

August 1999 to September 2002, Ms. Harel was employed as vice president of product development for Dorel Europe Ltd., a manufacturer of juvenile consumer products. From June 1995 to August 1999, Ms. Harel was employed as a director at Quality Management Solutions, a consulting company that provided safety and quality control consulting services to small manufacturers. From February 1990 to June 1995, Ms. Harel was employed as quality manager at Mothercare plc, a British retail chain specializing in the juvenile market. From November 1985 to February 1990, Ms. Harel was employed as a team leader at SGS Testing Laboratory, a consumer testing laboratory providing testing and certification services.

## **Meetings and Committees of the Board of Directors of KBL**

During the fiscal year ended December 31, 2005, KBL's board of directors held five meetings. Although KBL does not have any formal policy regarding director attendance at annual stockholder meetings, KBL will attempt to schedule its annual meetings so that all of its directors can attend. KBL expects its directors to attend all board and committee meetings and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.

## **Independence of Directors**

In anticipation of being listed on the Nasdaq Global Market, KBL will adhere to the rules of the Nasdaq Global Market in determining whether a director is independent. The board of directors of KBL also will consult with KBL's counsel to ensure that the board's determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors. The Nasdaq Global Market listing standards define an independent director generally as a person, other than an officer of a company, who does not have a relationship with the company that would interfere with the director's exercise of independent judgment. Consistent with these considerations, the board of directors of KBL has affirmatively determined that, upon appointment to the board of directors of KBL on the closing of the acquisition, Mr. Fogelman, Ms. Hart, Mr. Stebenne and Mr. Wenz will be the independent directors of KBL for the ensuing year.

KBL currently does not have a majority of independent directors and is not required to.

## **Audit Committee**

Upon consummation of the acquisition, the board of directors of KBL will establish an audit committee with Myra Hart, Robert Stebenne and Richard Wenz as its members, each an independent director under the Nasdaq Global Market listing standards, with Mr. Wenz acting as chairman. The purpose of the audit committee will be to appoint, retain, set compensation of, and supervise KBL's independent accountants, review the results and scope of the audit and other accounting related services and review KBL's accounting practices and systems of internal accounting and disclosure controls. Since the KBL audit committee will not be formed until the consummation of the acquisition, it did not meet in the year ended December 31, 2005.

## **Independent Auditors Fees**

The firm of Goldstein, Golub Kescher LLP (GGK) acts as KBL's principal accountant. Through September 30, 2005, GGK had a continuing relationship with American Express Tax and Business Services Inc. (TBS), from which it leased auditing staff who were full time, permanent employees of TBS and through which its partners provide non-audit services. Subsequent to September 30, 2005, this relationship ceased and the firm established a similar relationship with RSM McGladrey, Inc. (RSM). GGK has no full time employees and therefore, none of the audit services performed was provided by permanent full-time employees of GGK. GGK manages and supervises the audit and audit staff and is exclusively responsible for the opinion rendered in connection with its examination. The following is a summary of fees paid or to be paid to GGK and RSM for services rendered.

## **Table of Contents**

During the nine months ended September 30, 2006, the fees incurred to KBL's principal accountant totaled \$18,000 for the review of KBL's March 31, 2006, June 30, 2006 and September 30, 2006 Quarterly Reports on Form 10-QSB. In addition, we incurred \$2,338 in connection with merger accounting considerations and other issues.

During the fiscal year ended December 31, 2005, the fees incurred to KBL's principal accountant totaled \$39,480, representing \$25,000 for the services performed in connection with KBL's initial public offering and \$14,480 in connection with the review of KBL's Quarterly Reports on Form 10-QSB for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005. In addition, we incurred \$15,000 in connection with KBL's December 31, 2005 audit.

GGK will serve as principal accountant of KBL after the acquisition.

### *Audit-related fees*

During 2005, KBL's principal accountant did not render assurance and related services reasonably related to the performance of the audit or review of financial statements.

### *Tax fees*

During 2005, we paid TBS approximately \$1,800 in connection with tax return preparation.

### *All other fees*

During 2005, there were no fees billed for products and services provided by the principal accountant other than those set forth above.

### *Audit committee pre-approval policies and procedures*

Since the KBL audit committee will not be formed until the consummation of the acquisition, the audit committee did not pre-approve any accounting-related or tax services. However, the KBL board of directors has approved the services described above. In accordance with Section 10A(i) of the Securities Exchange Act of 1934, before KBL engages its independent accountant to render audit or permitted non-audit services, the engagement will be approved by the audit committee. Since the KBL audit committee will not be formed until the consummation of the acquisition, it has not yet met or prepared a committee report.

## **Code of Ethics**

In April 2005, KBL's board of directors adopted a code of ethics that applies to KBL's directors, officers and employees. A copy of KBL's code of ethics may be obtained free of charge by submitting a request in writing to KBL Healthcare Acquisition Corp. II, 757 Third Avenue, 21st Floor, New York, New York 10017.

## **Compensation Committee Information**

Upon consummation of the acquisition, the board of directors of KBL will establish a compensation committee with Martin Fogelman, Myra Hart and Richard Wenz shall serve as its members. Ms Hart will be the initial chairperson of this committee. The purpose of the compensation committee will be to review and approve compensation paid to KBL's officers and to administer Summer's incentive compensation plans, including authority to make and modify awards under such plans. Initially, the only plan will be the 2006 performance equity plan.

## **Table of Contents**

### **Nominating Committee Information**

Upon consummation of the acquisition, KBL will form a nominating committee in connection with the consummation of the acquisition. The members will be Martin Fogelman, Robert Stebenne and Richard Wenz, each an independent director under The Nasdaq Global Market listing standards. Mr. Stebenne will serve as the initial chairperson of this committee. The nominating committee will be responsible for overseeing the selection of persons to be nominated to serve on KBL's board of directors. The nominating committee will consider persons identified by its members, management, stockholders, investment bankers and others. During the period commencing with the closing of the acquisition and ending immediately after the 2008 annual meeting of the company, the nominees for KBL's board of directors will be determined pursuant to the terms of the voting agreement and approved by the nominating committee.

KBL does not have any restrictions on stockholder nominations under its certificate of incorporation or bylaws. The only restrictions are those applicable generally under Delaware corporate law and the federal proxy rules. Prior to the consummation of the Acquisition Agreement, KBL has not had a nominating committee or a formal means by which stockholders can nominate a director for election. Currently the entire board of directors decides on nominees, on the recommendation of one or more members of the board. None of the current members of the board of directors is independent. Currently, the board of directors will consider suggestions from individual stockholders, subject to evaluation of the person's merits. Stockholders may communicate nominee suggestions directly to any of the board members, accompanied by biographical details and a statement of support for the nominees. The suggested nominee must also provide a statement of consent to being considered for nomination. Although there are no formal criteria for nominees, the board of directors believes that persons should be actively engaged in business endeavors.

### **Election of Directors; Voting Agreement**

Certain of the KBL Inside Stockholders specifically, Dr. Marlene Krauss, Dr. Zachary Berk and Mr. Michael Kaswan and all of the Summer stockholders have entered into a voting agreement. Immediately after consummation of the acquisition, and assuming no conversions of KBL common stock, the parties to the voting agreement will own approximately 38.5% of KBL's outstanding common stock in the aggregate. The voting agreement provides that the Summer stockholders, on the one hand, and such KBL Inside Stockholders, on the other hand, will each designate two directors and mutually designate three additional directors to KBL's board. Each of the parties to the voting agreement will vote for such designees as directors of KBL until immediately following the election that will be held in 2009. KBL will be obligated to provide for its board of directors to be comprised of seven members and to enable the election to the board of directors of the persons designated by the parties to the voting agreement. The voting agreement is attached to this proxy statement as *Annex D*. We encourage you to read the voting agreement in its entirety.

Immediately upon the consummation of the acquisition, the directors of KBL will be Mr. Jason Macari, Mr. Steven Gibree, Dr. Marlene Krauss, Mr. Martin Fogelman, Ms. Myra Hart and Mr. Robert Stebenne and Mr. Richard Wenz. Under the terms of the voting agreement, all of the Summer stockholders, on the one hand, and the KBL Inside Stockholders who are party to the voting agreement, on the other hand, have agreed to vote for the designees to KBL's board of directors through the election in 2009 as follows:

in the class to stand for reelection in 2007 Myra Hart and Robert Stebenne.

in the class to stand for reelection in 2008 Steven Gibree, Martin Fogelman and Richard Wenz.

in the class to stand for reelection in 2009 Dr. Marlene Krauss and Jason Macari.

KBL's directors do not currently receive any cash compensation for their services as members of the board of directors. However, in the future, non-employee directors may receive certain cash fees and stock awards that the KBL board of directors may determine to pay.



## **Table of Contents**

### **Executive Compensation**

No executive officer of KBL has received any cash or non-cash compensation for services rendered to KBL. Each executive officer has agreed not to take any compensation prior to the consummation of a business combination.

Commencing April 21, 2005 and ending upon the consummation of the acquisition, KBL has and will continue to pay KBL Healthcare Management Inc., an affiliate of Dr. Zachary Berk, KBL's chairman of the board and president, Dr. Marlene Krauss, KBL's chief executive officer and secretary, and Michael Kaswan, KBL's chief operating officer and member of KBL's board of directors, a fee of \$7,500 per month fee for providing KBL with office space and certain office and secretarial services. Other than this \$7,500 per-month fee, no compensation of any kind, including finders and consulting fees, have been or will be paid to any of KBL's officers for services rendered prior to the closing of the acquisition. However, KBL's executive officers are reimbursed for any out-of-pocket expenses incurred in connection with activities on KBL's behalf such as identifying potential target business and performing due diligence on suitable business combinations. As of September 30, 2006, an aggregate of approximately \$15,000 has been reimbursed to them for such expenses.

Upon consummation of the proposed acquisition of the Summer companies, KBL will operate in the health, safety and wellness industry. In connection with the acquisition of the Summer companies, KBL will enter into employment agreements with each of Dr. Krauss, for her to serve as KBL's chairman of the board, Mr. Macari, for him to serve as KBL's chief executive officer, with Mr. Gibree for him to serve as KBL's executive vice president of product development, and Ms. Harel for her to serve as director and general manager of Summer Infant Europe.

The policies of KBL with respect to the compensation of the aforementioned executive officers and other executive officers following the acquisition will be administered by KBL's board in consultation with its compensation committee. This committee will be formed from the independent directors joining KBL upon consummation of the acquisition. Martin Fogelman, Myra Hart and Richard Wenz shall serve as its members. Ms Hart will be the initial chairperson of this committee. The compensation policies followed by KBL will be intended to provide for compensation that is sufficient to attract, motivate and retain executives of outstanding ability and potential and to establish an appropriate relationship between executive compensation and the creation of shareholder value. To meet these goals, the compensation committee will be charged with recommending executive compensation packages to KBL's board of directors.

It is anticipated that performance-based and equity-based compensation will be an important foundation in executive compensation packages as KBL believes it is important to maintain a strong link between executive incentives and the creation of shareholder value. KBL believes that performance and equity-based compensation can be an important component of the total executive compensation package for maximizing shareholder value while, at the same time, attracting, motivating and retaining high-quality executives. The employment agreements to be entered into by KBL with Mr. Macari and Mr. Gibree, each of whom will be key executives in connection with the general operations of the business of the combined companies, and the adoption of the proposed 2006 Performance Equity Plan reflect what KBL believes is a focus on performance- and equity-based compensation. Since KBL will not have a compensation committee until completion of the acquisition, KBL has not yet adopted any formal guidelines for allocating total compensation between equity compensation and cash compensation for executives hired in the future.

### **Compensation Discussion and Analysis**

Overall, KBL will seek to provide total compensation packages that are competitive in terms of potential value to its executives, and which are tailored to the unique characteristics and needs of KBL within its industry in order to create an executive compensation program that will adequately reward its executives for their roles in creating value for KBL shareholders. KBL intends to be competitive with other similarly situated companies in its industry following completion of the acquisition.

## **Table of Contents**

The compensation decisions regarding KBL's executives will be based on KBL's need to attract individuals with the skills necessary for KBL to achieve its business plan, to reward those individuals fairly over time, and to retain those individuals who continue to perform at or above KBL's expectations.

It is anticipated that KBL's executives' compensation will have three primary components—salary, cash incentive bonus and stock-based awards. KBL will view the three components of executive compensation as related but distinct. Although KBL's compensation committee will review total compensation, KBL does not believe that significant compensation derived from one component of compensation should negate or reduce compensation from other components. KBL anticipates determining the appropriate level for each compensation component based in part, but not exclusively, on its view of internal equity and consistency, individual performance and other information deemed relevant and timely. Since KBL's compensation committee will not be formed until consummation of the acquisition, KBL has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid out compensation, between cash and non-cash compensation, or among different forms of compensation.

In addition to the guidance provided by its compensation committee, KBL may utilize the services of third parties from time to time in connection with the hiring and compensation awarded to executive employees. This could include subscriptions to executive compensation surveys and other databases.

KBL's compensation committee will be charged with performing an annual review of KBL's executive officers' cash compensation and equity holdings to determine whether they provide adequate incentives and motivation to executive officers and whether they adequately compensate the executive officers relative to comparable officers in other companies.

### *Benchmarking of Cash and Equity Compensation*

KBL believes it is important when making compensation-related decisions to be informed as to current practices of similarly situated publicly held companies in the health, safety and wellness industries. KBL expects that the compensation committee will stay apprised of the cash and equity compensation practices of publicly held companies in the health, safety and wellness and related industries through the review of such companies' public reports and through other resources. It is expected that any companies chosen for inclusion in any benchmarking group would have business characteristics comparable to KBL, including revenues, financial growth metrics, stage of development, employee headcount and market capitalization. While benchmarking may not always be appropriate as a stand-alone tool for setting compensation due to the aspects of KBL post-acquisition business and objectives that may be unique to KBL, KBL generally believes that gathering this information will be an important part of its compensation-related decision-making process.

### *Compensation Components*

**Base Salary.** Generally, KBL, working with the compensation committee, anticipates setting executive base salaries at levels comparable with those of executives in similar positions and with similar responsibilities at comparable companies. KBL will seek to maintain base salary amounts at or near the industry norms while avoiding paying amounts in excess of what KBL believes is necessary to motivate executives to meet corporate goals. It is anticipated base salaries will generally be reviewed annually, subject to terms of employment agreements, and that the compensation committee and board will seek to adjust base salary amounts to realign such salaries with industry norms after taking into account individual responsibilities, performance and experience.

**Annual Bonuses.** KBL intends to design utilize cash incentive bonuses for executives to focus them on achieving key operational and financial objectives within a yearly time horizon. Near the beginning of each year, the board, upon the recommendation of the compensation committee and subject to any applicable employment agreements, will determine performance parameters for appropriate executives. At the end of each year, the board and compensation committee will determine the level of achievement for each corporate goal.

## **Table of Contents**

The performance parameters for which each of Mr. Macari and Gibree are eligible to receive cash bonuses under the terms of the employment agreements to be executed in connection with the consummation of the acquisition will be set by the compensation committee each year, within 45 days of approval of such year's annual budget.

KBL will structure cash incentive bonus compensation so that it is taxable to its employees at the time it becomes available to them. At this time, it is not anticipated that any executive officer's annual cash compensation will exceed \$1 million, and KBL has accordingly not made any plans to qualify for any compensation deductions under Section 162(m) of the Internal Revenue Code.

**Equity Awards.** KBL also will use stock options and other stock-based awards to reward long-term performance. KBL believes that providing a meaningful portion of its executives' total compensation package in stock options and other stock-based awards will align the incentives of its executives with the interests of KBL's shareholders and with KBL's long-term success. The compensation committee and board will develop their equity award determinations based on their judgments as to whether the complete compensation packages provided to KBL's executives, including prior equity awards, are sufficient to retain, motivate and adequately award the executives.

Equity awards will be granted through KBL's 2006 Performance Equity Plan, which was adopted by KBL board and is being submitted to the stockholder of KBL for their consideration at the special meeting. All of KBL's employees, directors, officers and consultants will be eligible to participate in the 2006 Performance Equity Plan. The material terms of the 2006 Performance Equity Plan are further described in the section of this proxy statement entitled "2006 Performance Equity Plan Proposal." No awards have been made under the plan as of the date of this proxy statement. It is anticipated that all options granted under the plan in the future will have an exercise price at least equal to the fair market of KBL's common stock on the date of grant.

KBL will account for any equity compensation expense under the rules of SFAS 123R, which requires a company to estimate and record an expense for each award of equity compensation over the service period of the award. Accounting rules also will require KBL to record cash compensation as an expense at the time the obligation is accrued. Until KBL achieves sustained profitability, the availability to it of a tax deduction for compensation expense is not material to its financial position.

**Severance Benefits.** KBL currently has no severance benefits plan. KBL may consider the adoption of a severance plan for executive officers and other employee in the future. The employment agreements to be entered into by the persons who will initially serve as executive officers of KBL following consummation of the acquisition provide for certain rights and obligations in the event of the termination of employment as more fully described in the section of this proxy statement entitled "Employment Agreements."

**Other Compensation.** KBL will establish and maintain various employee benefit plans, including medical, dental, life insurance and 401(k) plans. These plans will be available to all salaried employees and will not discriminate in favor of executive officers. KBL may extend other perquisites to its executives that are not available to our employees generally.

## **Employment Agreements**

### *Marlene Krauss*

In connection with the consummation of the acquisition, Dr. Krauss will enter into an employment agreement with KBL. Under the terms of the employment agreement, Dr. Krauss will serve as the Chairman of the board of KBL for an initial term of three years. Dr. Krauss will not be required to devote her full business time to this position. The employment agreement provides that Dr. Krauss will receive an annual base salary of \$125,000. The employment agreement provides that, in the event of the termination of Dr. Krauss's employment by KBL without cause or upon termination of her employment as a result of KBL's breach of the employment agreement, KBL will continue to pay her base salary in accordance with KBL's normal payroll schedule for a

**Table of Contents**

period of 12 months from the date of termination. The employment agreement contains certain restrictive covenants that prohibit Dr. Krauss from disclosing information that is confidential to KBL and its subsidiaries. The employment agreement also provides that if Dr. Krauss engages in competitive activity, such activity would be grounds for termination of her employment for cause.

*Jason Macari*

In connection with the consummation of the acquisition, Mr. Macari will enter into a full-time employment agreement with KBL. Under the terms of the employment agreement, Mr. Macari will serve as the chief executive officer of KBL and Summer for an initial term of three years. The employment agreement provides that Mr. Macari will receive an annual base salary of \$275,000. Mr. Macari also may be awarded a bonus in an amount equal to up to 50% of his base salary during any fiscal year during the employment term. One half of such bonus would be based on his performance against performance criteria for such fiscal year to be set, in writing, by KBL's compensation committee within 45 days after the Board of Directors approves the budget for such year and the remaining portion would be awarded in the discretion of the compensation committee. The employment agreement provides that, in the event of the termination of Mr. Macari's employment by KBL without cause or upon termination of his employment as a result of KBL's breach of the employment agreement, KBL will continue to pay him his base salary in accordance with KBL's normal payroll schedule for a period of 12 months from the date of termination. The employment agreement contains certain restrictive covenants that prohibit Mr. Macari from disclosing information that is confidential to KBL and its subsidiaries and generally prohibits him, during the employment term and for one year thereafter, from soliciting or hiring the employees of KBL and its subsidiaries or competing with KBL or Summer.

*Steven Gibree*

In connection with the consummation of the acquisition, Mr. Gibree will enter into a full-time employment agreement with KBL. Under the terms of the employment agreement, Mr. Gibree will serve as the executive vice president of product development of KBL and Summer for an initial term of three years. The employment agreement provides that Mr. Gibree will receive an annual base salary of \$220,000. Mr. Gibree also may be awarded a bonus in an amount equal to up to 50% of his base salary during any fiscal year during the employment term. One half of such bonus would be based on his performance against performance criteria for such fiscal year to be set, in writing, by KBL's compensation committee within 45 days after the Board of Directors approves the budget for such year and the remaining portion would be awarded in the discretion of the compensation committee. The employment agreement provides that, in the event of the termination of Mr. Gibree's employment by KBL without cause or upon termination of his employment as a result of KBL's breach of the employment agreement, KBL will continue to pay him his base salary in accordance with KBL's normal payroll schedule for a period of 12 months from the date of termination. The employment agreement contains certain restrictive covenants that prohibit Mr. Gibree from disclosing information that is confidential to KBL and its subsidiaries and generally prohibits him, during the employment term and for one year thereafter, from soliciting or hiring the employees of KBL and its subsidiaries or competing with KBL or Summer.

*Joseph Driscoll*

In September 2006, Mr. Driscoll entered into a full-time employment agreement with Summer. Under the terms of the employment agreement, Mr. Driscoll will serve as the chief financial officer of Summer and, after the consummation of the acquisition, of KBL, for an initial term of two years. The employment agreement provides that Mr. Driscoll will receive an annual base salary of \$170,000. Mr. Driscoll will also receive a cash bonus of \$50,000 upon the consummation of the Acquisition. Mr. Driscoll also may be awarded a bonus in an amount equal to up to 25% of his base salary during fiscal year 2007 provided, that Summer attains its projected revenue, net income and other performance criteria goals as determined in writing by the Compensation Committee of the Board prior to or within sixty (60) days after Summer's operating budget is established for calendar 2007. The employment agreement provides that, in the event of the termination of Mr. Driscoll's

**Table of Contents**

employment by Summer without cause or upon termination of his employment as a result of Summer's breach of the employment agreement, Summer will continue to pay him his base salary in accordance with Summer's normal payroll schedule for a period of six months from the date of termination. The employment agreement contains certain restrictive covenants that prohibit Mr. Driscoll from disclosing information that is confidential to Summer, KBL and its subsidiaries and generally prohibits him, during the employment term and for one year thereafter, from soliciting or hiring the employees of Summer, KBL and its subsidiaries or competing with Summer or KBL.

*Rachelle Harel*

In connection with the consummation of the acquisition, Rachelle Harel will enter into a full-time employment agreement with SIE. Under the terms of the employment agreement, Ms. Harel will serve as the director and general manager of SIE until she or SIE terminates the agreement by giving at least six months' prior written notice to the other party. The employment agreement provides that Ms. Harel will receive an annual base salary of £81,300. Ms. Harel also may be awarded a bonus in the discretion of the board of directors of KBL. The employment agreement contains certain restrictive covenants that prohibit Ms. Harel from disclosing information that is confidential to KBL and Summer and their subsidiaries and generally prohibits her, during the employment term and for one year thereafter, from soliciting or hiring the employees of KBL and its subsidiaries, or during the employment term and for six months thereafter, competing with KBL or Summer.

**Table of Contents****BENEFICIAL OWNERSHIP OF SECURITIES****Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth information regarding the beneficial ownership of KBL's common stock as of February 6, 2007 and after consummation of the acquisition by:

each person known by us to be the beneficial owner of more than 5% of KBL's outstanding shares of common stock either on February 6, 2007 or after the consummation of the acquisition;

each of KBL's current executive officers and directors;

each person who will become director upon consummation of the acquisition;

all KBL's current executive officers and directors as a group; and

all of KBL's executive officers and directors as a group after the consummation of the acquisition.

This table assumes that no holder of shares of KBL's common stock issued in its IPO converts such shares into cash.

At any time prior to the special meeting, during a period when they are not then aware of any material nonpublic information regarding KBL or Summer or KBL's securities, the KBL Inside Stockholders, the Summer Stockholders and/or their respective affiliates, may enter into a written plan to purchase KBL securities pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934. Further, the KBL Inside Stockholders, the Summer Stockholders and/or their respective affiliates, may engage in other permissible public market purchases, as well as private purchases, of securities at any time prior to the special meeting of stockholders. The ownership percentages listed below do not include any such shares which may be purchased after February 6, 2007.

Name and Address of Beneficial Owner (1)	Beneficial ownership of KBL common stock on , 2007		Beneficial ownership of KBL common stock after the consummation of the acquisition	
	Number of Shares	Percent of Class before Acquisition	Number of Shares	Percent of Class after Acquisition
Dr. Marlene Krauss	1,499,426(2)	13.4%	2,849,426(4)	17.3%
Dr. Zachary Berk	1,499,426(2)	13.4%	2,849,426(4)	17.3%
Michael Kaswan	400,000(3)	3.6%	600,000(5)	3.9%
Jason Macari			3,528,463(6)	23.3%
Steven Gibree			388,204(6)	2.6%
Myra Hart				
Martin Fogelman				
Robert Stebenne				
Richard Wenz				
Joseph Driscoll				
Rachelle Harel				
Jeffrey Feinberg (7)	1,034,700(8)	9.2%	1,034,700(8)	6.8%
Fir Tree, Inc. (9)	864,700(10)	7.7%	2,594,100(11)	15.4%
Remy W. Trafelet (12)	771,000(13)	6.9%	771,000(13)	5.1%
Azimuth Opportunity, Ltd. (14)	579,900(15)	5.1%	579,900(15)	3.8%

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All current KBL directors and executive officers as a group (three individuals)	1,899,426(16)	17.0%	3,449,426(17)	20.7%
All post-acquisition directors and executive officers as a group (nine individuals)			6,194,664(18)	37.6%

(1) Unless otherwise noted, the business address of each of the following is 757 Third Avenue, 21<sup>st</sup> Floor, New York, New York, 10017.

**Table of Contents**

- (2) Includes 356,568 shares of common stock held in trust for the benefit of the children of Drs. Krauss and Berk. The indicated shares include 927,997 shares owned by each of Dr. Krauss and Dr. Berk, although each disclaims beneficial ownership of the shares owned by the other. Does not include 180,000 shares of common stock such person may receive in the event that Mr. Kaswan's shares do not vest as described below in footnote 3. Also does not include 1,350,000 shares of common stock issuable upon exercise of warrants held by Dr. Krauss or family members that are not currently exercisable, but will become exercisable upon consummation of the acquisition. The immediately foregoing number of warrants represents 1,000,000 warrants purchased by Dr. Krauss in open market transactions during the 40-day period following the IPO, plus 500,000 additional warrants she purchased in open market transactions since November 24, 2006, less 100,000 warrants she transferred to a family member and 50,000 warrants she transferred to Mr. Kaswan.
- (3) Of these shares, 160,000 shares shall vest in full upon the consummation of a business combination and 200,000 shares vest in full when the shares are released from escrow provided Mr. Kaswan is still an employee of KBL Healthcare Management, Inc. 50% of all unvested shares shall revert back to each of Drs. Berk and Krauss. Does not include 200,000 shares of common stock issuable upon the exercise of warrants that are not currently exercisable, but will become exercisable upon consummation of the acquisition.
- (4) Represents the shares included in note (2), above, and 1,350,000 shares of common stock issuable upon exercise of the warrants noted in note (2), which become exercisable upon consummation of the transaction. Dr. Berk disclaims beneficial ownership over such warrants and their underlying shares.
- (5) Represents the shares included for Mr. Kaswan in note (3), above, and 200,000 shares of common stock issuable upon exercise of the warrants noted in note (3), which become exercisable upon consummation of the transaction.
- (6) Represents the shares of common stock to be issued at the consummation of the acquisition, but does not include any of the aggregate of 2,500,000 additional shares that may be issued after the consummation of the acquisition as Contingent Shares.
- (7) The business address of Jeffrey Feinberg is 2775 Via de la Valle, Suite 204, Del Mar, California 92014.
- (8) Represents 1,034,700 shares of common stock held by Jeffrey Feinberg and JLF Asset Management, LLC ( JLF ). Mr. Feinberg and JLF share the voting and disposition over these shares. Mr. Feinberg is the managing member of JLF. The foregoing information was derived from a Schedule 13G filed with the SEC January 29, 2007.
- (9) The business address of Fir Tree, Inc. is 535 Fifth Avenue, 31st Floor, New York, New York 10017.
- (10) Does not include (i) 1,072,228 shares of common stock issuable upon exercise of warrants held by Sapling, LLC that are not exercisable until consummation of the acquisition or (ii) 657,172 shares of common stock issuable upon exercise of warrants held by Fir Tree Recovery Master Fund, L.P. that are not exercisable until consummation of the acquisition. The foregoing information was derived from a Schedule 13G filed with the SEC on May 6, 2005.
- (11) Includes (i) 1,072,228 shares of common stock issuable upon exercise of warrants held by Sapling, LLC that become exercisable upon consummation of the acquisition and (ii) 657,172 shares of common stock issuable upon exercise of warrants held by Fir Tree Recovery Master Fund, L.P. that become exercisable upon consummation of the acquisition. The foregoing information was derived from a Schedule 13G filed with the SEC on May 6, 2005.
- (12) The business address of Remy W. Trafelet, is 900 Third Avenue, 5th Floor, New York, New York 10022.
- (13) Represents shares of common stock held by Trafelet Capital Management, L.P., and Trafelet & Company LLC. Remy W. Trafelet controls these entities. The foregoing information was derived from a Schedule 13G filed with the SEC on February 9, 2007.
- (14) The business address of Azimuth Opportunity, Ltd. ( Azimuth ) is c/o WSmiths Finance, Nemours Chambers, P.O. Box 3170, Road Town, Tortola, British Virgin Islands.
- (15) Represents 579,900 shares of common stock held by Azimuth. Peter W. Poole is a director of Azimuth. The foregoing information was derived from a Schedule 13G filed with the SEC July 28, 2006.



**Table of Contents**

- (16) Does not include 1,550,000 shares of common stock issuable upon exercise of warrants held by KBL's officers and directors and affiliates thereof that are not currently exercisable, but will become exercisable upon consummation of the acquisition.
- (17) Includes all of the shares included for Dr. Krauss, Dr. Berk and Mr. Kaswan in notes (2) and (3), above, as well as the shares issuable upon exercise of the 1,550,000 of the warrants noted in notes (5) and (6), above.
- (18) Includes all of the shares included for Dr. Krauss in note (2), above, all of the shares included for Messrs. Macari and Gibree in note (6), above, and the shares issuable upon exercise of the 1,350,000 of the warrants noted in note (4), above.

**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS****KBL Related Party Transactions**

In December 2004, we issued 875,000 shares of KBL's common stock to the following individuals for \$25,000 in cash, at an average purchase price of approximately \$0.029 per share as set forth below:

<b>Name</b>	<b>Number of Shares</b>	<b>Relationship to Us</b>
Dr. Zachary Berk	337,500	Chairman of the Board and President
Dr. Marlene Krauss	337,500	Chief Executive Officer and Director
The Juliana Pearl Berk-Krauss	52,000	Stockholder
Trust u/a dated July 27, 1998		
The Olivia Jade Berk-Krauss Trust	52,000	Stockholder
u/a dated July 27, 1998		
The Alexander Maxwell Berk-	52,000	Stockholder
Krauss Trust u/a dated July 27, 1998		
Joe Williamson	17,500	Advisor
Eileen More	17,500	Advisor
Sandra Santos	9,000	Stockholder

Each of Drs. Berk and Krauss subsequently transferred 87,500 shares of common stock to Michael Kaswan, KBL's chief operating officer and a member of KBL's board of directors. Effective January 26, 2005, KBL's board of directors authorized a stock dividend of 0.428571 shares of common stock for each outstanding share of common stock and effective March 24, 2005, KBL's board of directors authorized a stock dividend of 0.6 shares of common stock for each outstanding share of common stock, effectively lowering the purchase price to \$0.0125 per share.

Pursuant to an escrow agreement between KBL, the KBL Inside Stockholders and Continental Stock Transfer & Trust Company (Continental), all of the shares listed above were placed in escrow, with Continental acting as escrow agent, pursuant to an escrow agreement, until the earliest of:

April 21, 2008;

KBL's liquidation; or

the consummation of a liquidation, merger, stock exchange or other similar transaction which results in all of KBL's stockholders having the right to exchange their shares of common stock for cash, securities or other property subsequent to KBL's consummating a business combination with a target business.

During the escrow period, these shares cannot be sold, but the holders thereof will retain all other rights as stockholders, including, without limitation, the right to vote their shares of common stock and the right to receive cash dividends, if declared. If dividends are declared and payable in shares of common stock, such dividends will also be placed in escrow. If KBL is unable to effect a business combination and liquidate, none of KBL's Founders will receive any portion of the liquidation proceeds with respect to common stock owned by them prior to KBL's initial public offering.

KBL also entered into a registration rights agreement with the KBL Inside Stockholders and their affiliates pursuant to which the holders of the majority of the shares will be entitled to make up to two demands that KBL register these shares. The holders of the majority of these shares may

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elect to exercise these registration rights at any time after the date on which these shares of common stock are released from escrow. In addition, these

**Table of Contents**

stockholders have certain piggy-back registration rights on registration statements filed subsequent to the date on which these shares of common stock are released from escrow. KBL will bear the expenses incurred in connection with the filing of any such registration statements.

Each of the KBL Inside Stockholders also entered into a letter agreement with KBL and EarlyBirdCapital pursuant to which, among other things:

each agreed to vote all of their shares of KBL common stock owned by him or her in accordance with the majority vote of the IPO Shares voted at a special meeting if KBL solicits approval of its stockholders for a business combination;

if KBL fails to consummate a business combination by April 21, 2007 under certain limited circumstances), each agreed to take all reasonable actions within his power to cause KBL to liquidate as soon as reasonably practicable;

each waived any and all rights he or she may have to receive any distribution of cash, property or other assets as a result of such liquidation with respect to his or her pre-IPO shares;

each agreed to present to KBL for its consideration, prior to presentation to any other person or entity, any suitable opportunity to acquire an operating business, until the earlier of KBL's consummation of a business combination, KBL's liquidation or until such time as he or she ceases to be an officer or director of KBL, subject to any pre-existing fiduciary obligations he or she might have;

each agreed that KBL could not consummate any business combination which involves a company which is affiliated with any of them unless KBL obtains an opinion from an independent investment banking firm reasonably acceptable to EarlyBirdCapital that the business combination is fair to KBL's stockholders from a financial perspective;

each agreed that he or she and his or her affiliates will not be entitled to receive and will not accept any compensation for services rendered to KBL prior to the consummation of KBL's business combination; and

each agreed that he or she and his or her affiliates will not be entitled to receive or accept a finder's fee or any other compensation in the event he or her or his or her affiliates originate a business combination.

Dr. Krauss and certain of her affiliates also purchased an aggregate of 1,000,000 warrants in the public market during the first 40 days following KBL's IPO for an aggregate purchase price of \$610,000 (or approximately \$0.61 per warrant), pursuant to a binding written agreement between Dr. Krauss and EarlyBirdCapital, Inc., entered into in connection with KBL's IPO. This agreement was entered into by Dr. Krauss at a time when she was not in possession of any material non-public information relating to KBL. Such warrants had an aggregate market value of \$940,000 based upon the last sale price of \$0.94 per warrant on the OTCBB on February 6, 2007, the record date. All of the warrants will become worthless if the acquisition is not consummated.

In November 2006, Mr. Kaswan purchased an additional 150,000 warrants in open market purchases. In addition, during the period from November 24, 2006 through the record date, Dr. Krauss has purchased an aggregate of 500,000 additional warrants. The 650,000 warrants purchased by Dr. Krauss and Mr. Kaswan since November 1, 2006 had an aggregate market value of \$611,000 based upon the last sale price of \$0.94 per warrant on the OTCBB on February 6, 2007, the record date. All of the warrants will become worthless if the acquisition is not consummated.

KBL Healthcare Management Inc., an affiliate of Drs. Berk and Krauss and Michael Kaswan, has agreed that, through the acquisition of a target business, it will make available to KBL a small amount of office space and certain office and secretarial services, as KBL may require from time to time. KBL has agreed to pay KBL Healthcare Management Inc. \$7,500 per month for these services.

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During 2005, Dr. Marlene Krauss advanced an aggregate of \$100,000 to KBL to cover expenses related to KBL's initial public offering. The loans were payable without interest on the earlier of January 14, 2006 or the consummation of the IPO. These loans were repaid from the net proceeds of the IPO.

## **Table of Contents**

On December 5, 2006, the Company borrowed \$20,000 from Dr. Krauss. The loan is unsecured, non-interest bearing and will be repaid on the earlier of the consummation by KBL of a business combination or upon demand by Dr. Krauss; provided, however, that if a business combination is not consummated, KBL will be required to repay the loan only to the extent it has sufficient funds available to it outside of the trust account.

KBL will reimburse its officers and directors for any reasonable out-of-pocket business expenses incurred by them in connection with certain activities on KBL's behalf such as identifying and investigating possible target businesses and business combinations.

Other than the \$7,500 per-month administrative fee and reimbursable out-of-pocket expenses payable to KBL's officers and directors, no compensation or fees of any kind, including finders and consulting fees, will be paid to any of them or to any of their respective affiliates for services rendered to KBL prior to or with respect to the business combination.

All ongoing and future transactions between KBL and any of its officers and directors or their respective affiliates, will be on terms believed by KBL to be no less favorable than are available from unaffiliated third parties and will require prior approval in each instance by a majority of the members of KBL's board who do not have an interest in the transaction.

## **Summer Related Party Transactions**

Summer intends to relocate to a new, 52,000 square foot headquarters/warehouse facility in Woonsocket, Rhode Island currently under construction, and expects move into its new facility by the end of June 2007. The facility plans provide for 12,000 square feet of office space and a 40,000 square foot warehouse. The Woonsocket facility is expected to replace the Cumberland contract warehouse facility and the North Smithfield office headquarters. Faith Realty, an affiliated company owned by Messrs. Macari and Gibree, is the owner of the building. Summer has guaranteed the obligations of Faith Realty under its \$500,000 construction loan with Bank of America. In connection with the acquisition, all of the assets and liabilities of Faith Realty shall be transferred to Merger Sub.