

Summer Infant, Inc.  
Form 10-Q  
August 11, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2009**

**Summer Infant, Inc.**

(Name of Registrant as Specified in Its Charter)

**Commission file 001-33346**

**Delaware**  
(State of Incorporation)

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

**20-1994619**  
IRS Employment Number

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 15, 2009, there were 15,392,782 shares outstanding (including unvested restricted shares) of the registrant's Common Stock, \$.0001 par value per share.

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Summer Infant, Inc.

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**Summer Infant, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**

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

	June 30, 2009 Unaudited	December 31, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,457	\$ 988
Trade receivables, net of allowance for doubtful accounts	31,502	29,358
Inventory, primarily finished goods	26,909	30,882
Prepays and other current assets	1,314	1,495
Deferred tax assets	602	602
<b>TOTAL CURRENT ASSETS</b>	<b>62,784</b>	<b>63,325</b>
Property and equipment, net	11,224	11,212
Goodwill	40,452	40,452
Other intangible assets, net	15,014	15,130
Other assets	222	416
<b>TOTAL ASSETS</b>	<b>\$ 129,696</b>	<b>\$ 130,535</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 21,580	\$ 23,045
Current portion of long-term debt	2,300	1,654
<b>TOTAL CURRENT LIABILITIES</b>	<b>23,880</b>	<b>24,699</b>
Long-term debt, less current portion	35,530	42,277
Other liabilities	3,614	
Deferred tax liabilities	1,348	1,348
<b>TOTAL LIABILITIES</b>	<b>\$ 64,372</b>	<b>68,324</b>
<b>COMMITMENTS AND CONTINGENCIES (note 4)</b>		
<b>STOCKHOLDERS EQUITY</b>		
Common Stock \$.0001 par value, issued and outstanding 15,392,782 and 15,055,782 shares, respectively	1	1
Additional paid in capital	54,594	54,095
Retained earnings	11,043	8,997
Accumulated other comprehensive loss	(314)	(882)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>65,324</b>	<b>62,211</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 129,696</b>	<b>\$ 130,535</b>

See notes to condensed consolidated financial statements

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

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

	Unaudited For the three months ended		Unaudited For the six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net revenues	\$ 38,361	\$ 33,982	\$ 73,210	\$ 62,407
Cost of goods sold	24,744	21,665	47,936	40,154
Gross profit	13,617	12,317	25,274	22,253
Selling, general and administrative expenses (a)	10,795	9,573	21,455	17,461
Net operating income	2,822	2,744	3,819	4,792
Interest income (expense), net	(475)	(585)	(896)	(967)
Income before provision for income taxes	2,347	2,159	2,923	3,825
Income tax expense	704	833	877	1,495
<b>NET INCOME</b>	<b>\$ 1,643</b>	<b>\$ 1,326</b>	<b>\$ 2,046</b>	<b>\$ 2,330</b>
<b>NET INCOME PER SHARE- BASIC</b>	<b>\$ 0.11</b>	<b>\$ 0.09</b>	<b>\$ 0.14</b>	<b>\$ 0.16</b>
Weighted average shares outstanding - basic	15,143,032	14,917,738	15,135,801	14,415,605
<b>NET INCOME PER SHARE - DILUTED</b>	<b>\$ 0.11</b>	<b>\$ 0.09</b>	<b>\$ 0.13</b>	<b>\$ 0.16</b>
Weighted average shares outstanding- diluted	15,392,782	14,917,738	15,392,782	14,415,605

See notes to condensed consolidated financial statements.

(a) Includes non-cash stock compensation expense of \$499 and \$180 for the six months ended June 30, 2009 and 2008, respectively, and expense of \$134 and \$90 for the three months ended June 30, 2009 and 2008, respectively. The total also includes non-capitalizable deal-related fees of \$214 for the three and six months ended June 30, 2008.

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

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

	Unaudited	
	For the six months ended	
	June 30, 2009	June 30, 2008
Cash flows from operating activities:		
Net income	\$ 2,046	\$ 2,330
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	2,029	1,125
Non-cash stock option expense	499	180
Deferred taxes		(243)
Changes in assets and liabilities net of effects of acquisition:		
Increase in accounts receivable	(3,033)	(2,806)
(Increase) decrease in inventory	4,304	(2,724)
Increase (decrease) in accounts payable and accrued expenses	(544)	1,203
Decrease in prepaids and other current assets	213	437
(Increase) decrease in other assets	194	(50)
Net cash provided by (used in) operating activities	5,708	(548)
Cash flows from investing activities:		
Acquisitions of property and equipment	(1,897)	(1,339)
Acquisition of Basic Comfort, Inc., Kiddopotamus & Company and Summer Infant, Inc. net of cash acquired of \$61		(15,374)
Net cash used in investing activities	(1,897)	(16,713)
Cash flows from financing activities:		
Net borrowings (repayments) on debt and other long-term liabilities	(6,389)	18,500
Proceeds from sale of building	3,903	0
Net cash provided by (used in) financing activities	(2,486)	18,500
Effect of exchange rate changes on cash and cash equivalents	144	(134)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,469	1,105
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	988	1,771
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,457	\$ 2,876
Non cash investing activities:		
Issuance of common stock in conjunction with the acquisition of Basic Comfort, Inc., Kiddopotamus & Company (2008)	\$	\$ 4,657
New capital lease obligations	\$ 234	\$ 148

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying interim condensed consolidated financial statements of Summer Infant, Inc. (the Company) are unaudited, but in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods. Accordingly, they do not include all information and notes required by generally accepted accounting principles for complete financial statements. The results of operations for interim periods are not necessarily indicative of results to be expected for the entire fiscal year or any other period. The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes for the year ended December 31, 2008 filed on Form 10-K on March 25, 2009.

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

*Income taxes.*

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

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with SFAS No. 109. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, the Company had no unrecognized tax benefits. During the second quarter of 2009, the Company recognized no adjustments for uncertain tax benefits.

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, it is more likely than not such benefits will be realized. The Company recognizes interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest and penalties related to uncertain tax positions were accrued at June 30, 2009. The tax years 2005 through 2008 remain open to examination by the major taxing jurisdictions in which the Company operates. The Company expects no material changes to unrecognized tax positions within the next twelve months.

*Use of Estimates*

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

*Net Income Per Share*

Basic earnings per share for the Company is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. The number of common shares outstanding includes 249,750 unvested restricted shares that were issued in the first quarter of 2009. Options to purchase 1,452,600 and 1,040,000 shares of the Company's common stock were not included in the calculation, due to the fact that these options were anti-dilutive for the three and six months ended June 30, 2009 and 2008, respectively.



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*Acquisitions*

The pro forma results for the six (6) months ended June 30, 2008, assuming the Basic Comfort and Kiddopotamus transactions had closed on January 1, 2008 are as follows (in thousands of US dollars, except per share data):

	<b>2008</b>	
Net revenues	\$	68,336
Net income	\$	2,797
Earnings per share: diluted		0.19 per share

*New Accounting Pronouncements*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 for its financial assets and liabilities. The adoption of SFAS 157 did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations, or SFAS No. 141(R). This statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of SFAS No. 141(R) are effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this statement, as applicable on January 1, 2009. The adoption of SFAS 141(R) did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements-An Amendment to Accounting Research Bulletin (ARB) No. 51, or SFAS No. 160. This statement amends ARB No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). In addition, SFAS No. 160 also includes expanded disclosure requirements regarding interests of the parent and its non-controlling interest. The provisions of SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this statement, as applicable on January 1, 2009. The adoption of SFAS 160 did not have a material impact on the Company's financial position or results of operations.

In February 2008, the FASB issued Staff Position (FSP) No. 157-1 and FSP No. FSP 157-2. FSP No. 157-1 removes certain leasing transactions from the scope of SFAS No. 157. FSP No. 157-2 partially defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities that are recognized at fair value on a nonrecurring basis. Under FSP No. 157-2, the effective date for non-financial assets and liabilities that are recognized at the fair value on a nonrecurring basis will be for fiscal years beginning after November 15, 2008. FSP No. 157-2 is effective for the Company on January 1, 2009. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

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In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS 142-3 ). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible assets* (SFAS No. 142 ). The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (R). FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and is effective for the Company January 1, 2009. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

In June 2008, the FASB issued EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( EITF 03-6-1 ). EITF 03-6-1 states that unvested share-based payment

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awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities as defined in EITF 03-6-1, Participating Securities and the Two-Class Method under FASB Statement No. 128, and therefore should be included in computing earnings per share using the two-class method. According to EITF-03-6-1, a share-based payment award is a participating security when the award includes nonforfeitable rights to dividends or dividend equivalents. The EITF was effective for the Company beginning January 1, 2009. The adoption of EITF 03-6-1 did not have a material impact on the financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ( FAS 165 ), which establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before financial statements are issued. The Company adopted the provisions of FAS 165 for the quarter ended June 30, 2009. The adoption of FAS 165 did not have a material effect on the consolidated financial statements.

In June 2009, the FASB issued FAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles . FAS 168 will become the source of authoritative U.S. generally accepted accounting principles, superceding all then-existing non-SEC accounting and reporting standards. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of FAS 168 to have an impact on the Company's results of operations, financial condition, or cash flows.

The Company does not believe that any other recently issued, but not yet effective accounting standards will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

**2. DEBT**

*Credit Facilities*

On April 10, 2008, the Company entered into two new three-year secured credit facilities (the Loan Agreement ) with Bank of America, N.A., as Administrative Agent, and each of the financial institutions as signatory to the Loan Agreement. The Loan Agreement provides for a \$36,000,000 working capital revolving credit facility and a \$10,000,000 non-restoring acquisition credit facility. The new credit facilities mature on June 30, 2011. The Company and its subsidiaries, Summer Infant (USA), Inc., Summer Infant Europe Limited, Summer Infant Asia Limited and Summer Infant Canada, Limited are the borrowers under this Loan Agreement.

The Company's ability to borrow under the Loan Agreement is subject to its ongoing compliance with a number of financial and other covenants, including the following: (i) that the Company and its subsidiaries maintain a net worth of \$50,000,000 plus the sum of 50% of net income earned in each fiscal year, (ii) that the Company and its subsidiaries maintain a ratio of total funded debt to EBITDA of not greater than 3.50:1.00, and (iii) that the Company and its subsidiaries maintain a ratio of operating cash flow to debt service of not less than 1.25:1.00. Furthermore, if the Company's ratio of total funded debt to EBITDA is greater than 3.25:1.00 for any fiscal year, the aggregate amount that may be borrowed under the Loan Agreement will be determined by reference to a borrowing base. The Company is in compliance with all covenants as of June 30, 2009.

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These new credit facilities bear interest at a floating rate based on a spread over LIBOR ranging from 150 basis points to 200 basis points, depending upon the ratio of the Company's total funded debt to EBITDA. As of June 30, 2009, the blended interest rate for these credit facilities was 3.81%. In addition, these new credit facilities have an unused line fee based on the unused amount of the credit facilities equal to 25 basis points.

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

### **3. SALE LEASEBACK**

On March 24, 2009 the Company entered into a definitive agreement with Faith Realty II, LLC, a Rhode Island limited liability company ( Faith Realty ) (the members of which are Jason Macari, the current Chairman of the board of Directors and President of the Company, and his spouse), pursuant to which Faith Realty will purchase the corporate headquarters of

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the Company located at 1275 Park East Drive, Woonsocket, Rhode Island (the Headquarters ) and subsequently lease the Headquarters back to Summer USA (collectively, the Transactions ). Pursuant to the terms of that certain Purchase and Sale Agreement between Summer USA and Faith Realty, dated as of March 24, 2009, Faith Realty purchased the Headquarters for \$4,052,500 and then leased the Headquarters back to Summer USA for an annual rent of \$390,000 during the initial seven (7) year term of the lease, payable monthly and in advance. The lease will expire on the seventh (7th) anniversary of its commencement unless an option period is exercised by Summer USA. At that time, Summer USA will have the opportunity to extend the lease for one (1) additional period of five (5) years. If Summer USA elects to extend the term of the lease for an additional five (5) years, the annual rent for the first two (2) years of the extension term shall be equal to \$429,000 and for the final three (3) years of the extension term shall be equal to \$468,000. In addition, during the first six (6) months of the last lease year of the initial term of the lease Summer USA has the option to repurchase the Headquarters for \$4,457,750 (110% of the initial sale price). The Transactions were consummated concurrently with the execution of the definitive agreements. With the majority of the proceeds of the sale of the headquarters Summer USA paid off the construction loan relating to the Headquarters. Mr. Macari has given a personal guarantee to secure the Faith Realty debt on its mortgage; therefore, due to his continuing involvement in the building transaction and the Company's option to repurchase the building, the building will remain on the books of the Company and the transaction has been recognized as a financing, with no gain. In Q1 of 2009 the Company recorded a finance obligation under Other Liabilities of \$3,902,000 in regards to this transaction, of which \$228,000 was recorded as a current liability. This obligation is reduced each month as the rent payment is made to Faith Realty.

On February 25, 2009, the Company's board of Directors (with Mr. Macari and Mr. Gibree abstaining from such action) approved the Transactions, subject to the negotiation and execution of definitive agreements within the parameters approved by the Board. In connection therewith, the board granted a potential waiver, to the extent necessary, if at all, of the conflict of interest provisions of the Company's Model code of Ethics, effective upon execution of definitive agreements within the parameters approved by the Board. In connection with granting such potential waiver, the Board of Directors engaged independent counsel to review the proposed Transactions and an independent appraiser to ascertain (i) the value of the Headquarters and (ii) the market rent for the Headquarters. In reaching its conclusion that the Transactions are fair to the Company, the Board of Directors considered a number of factors, including Summer USA's ability to repurchase the headquarters at 110% of the initial sale price at the end of the initial term.

In addition, the Company's Audit Committee approved the Transactions (as a related party transaction) and the potential waiver and recommended the matter to a vote of the entire Board of Directors (which approved the transaction).

4. **COMMITMENTS AND CONTINGENCIES**

*Litigation*

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

5. **STOCK OPTIONS AND RESTRICTED SHARES**

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

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. The adoption of SFAS 123(R) resulted in share-based compensation expense for the

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three and six months ended June 30, 2009 of approximately \$365,000 and \$499,000, respectively. There were 475,000 stock options granted during the six months ended June 30, 2009. As of June 30, 2009, there were 1,452,600 stock options outstanding. In addition, there were 349,000 restricted shares issued to employees during the six months ended June 30, 2009. The key assumptions used in the Black-Scholes valuation for the options granted in 2009 were as follows:

Expected life of options	-	4 years
Volatility	-	35%
Discount rate	-	2.49%

6. **SUBSEQUENT EVENT- ACQUISITION**

On July 17, 2009, the Company acquired certain assets and assumed certain liabilities of Butterfly Living, Inc., a developer and distributor of infant cribs. The purchase price includes potential earn out payments over the next 4.5 years which could total up to \$5,000,000 over that time frame if all targets are reached.

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

*The statements contained in this Report on Form 10-Q, that are not purely historical, are forward-looking information and statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These include statements regarding our expectations, intentions, or strategies regarding future matters. All forward-looking statements included in this document are based on information available to us on the date hereof. It is important to note that our actual results could differ materially from those projected in such forward-looking statements contained in this Form 10-Q. The forward-looking statements contained herein are based on current expectations that involve numerous risks and uncertainties. These risks include the concentration of the Company s business with retail customers; the ability of the Company to compete in the industry; the Company s dependence on key personnel; the Company s reliance on foreign suppliers; and other risks as detailed in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and subsequent filings with the Securities and Exchange Commission All these matters are difficult or impossible to predict accurately, many of which may be beyond our control. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate.*

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

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

*Summary of critical accounting policies and estimates*

The Company s critical accounting policies are disclosed in the Company s Annual Report on Form 10-K. There have been no material changes to these policies during the first six months of 2009. 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 is engaged in the design, marketing and distribution of juvenile products. The majority of its revenues are derived from retail customers in North America. The Company also maintains a research and development staff in Asia (no revenues are generated directly out of Asia).

*Income taxes*

The provision for income taxes is based on our estimated annualized effective tax rate for the year. Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with SFAS No. 109. Tax positions must meet a more-likely-than-not recognition threshold at the effective

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date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, we had no unrecognized tax benefits. During the second quarter of 2009, we recognized no adjustments for uncertain tax benefits.

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carry-forwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, it is more likely than not such benefits will be realized. We recognize interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest and penalties related to uncertain tax positions were accrued at June 30, 2009. The tax years 2005 through 2008 remain open to examination by the major taxing jurisdictions in which we operate. We expect no material changes to unrecognized tax positions within the next twelve months.

**Company Overview**

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

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

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

- New product categories

Summer has been able to grow its annual revenues by over \$100,000,000 over the past seven years through a combination of all of the above factors. Each year it has been able to expand the number of products into its main distribution channel, mass merchant retailers, and has also added new customers each year. Therefore, even without new product introductions, Summer could grow its business by simply selling more of its existing product line to existing customers.

For 2009 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), and to expand in the UK and in other geographic regions (including Japan, Mexico and Australia, among others).

Summer's growth strategy has included acquisitions.

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

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

On July 17, 2009, the Company acquired certain assets of Butterfly Living, Inc., a developer and distributor of infant cribs.

Summer intends to pursue additional potential acquisition candidates 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, walkers, and other categories. Summer may look to develop its own products in these categories or attempt to gain entrance into these categories through acquisitions.

As Summer continues to grow through internal initiatives and any additional future acquisitions, it will incur additional expenses. Two of the key areas in which such increased expenses will likely occur are sales and product development. 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

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products in specific areas in which Summer believes it can readily increase sales. Product development expenses will increase as Summer develops new products in existing and new categories. As a result of its acquisition strategy, Summer will face various challenges such as the integration of the acquired companies' product lines, employees, marketing requirements and information systems. Ongoing infrastructure investment also may be required to support realized growth, including expenditures with respect to upgraded and expanded information systems and enhancing the company's management team.

*Sales*

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

Approximately 95% of sales are currently made to customers in North America, with the remaining 5% 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.

*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, product development costs, advertising and marketing expenses (including co-op advertising allowances as negotiated with certain customers) and sales commissions. Several of these items fluctuate with sales, some based on sales to particular customers and others based on sales of particular products.

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

**Results of Operations**

## Summer Infant and Subsidiaries

## Consolidated Statements of Income

For the Three and Six Months Ending June 30, 2009 and 2008

(In thousands)

	Three Months Ended June 30, 2009 (unaudited)		Three Months Ended June 30, 2008 (unaudited)		Six Months Ended June 30, 2009 (unaudited)		Six Months Ended June 30, 2008 (unaudited)		
Net Sales	\$	38,361	100.0%	\$	33,982	100.0%	\$	62,407	100.0%
Cost of Goods Sold		24,744	64.5%		21,665	63.8%		40,154	64.3%
Gross Profit		13,617	35.5%		12,317	36.2%		22,253	35.7%
OPERATING EXPENSES									
Selling, general and administrative expenses (excluding depreciation, amortization, non-capitalizable deal fees and non-cash stock option expense)		9,633	25.1%		8,615	25.3%		15,942	25.6%
EBITDA(a)	\$	3,984	10.4%	\$	3,702	10.9%	\$	6,311	10.1%

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(a) See non-GAAP discussion below regarding the computation of EBITDA.

*Three months ended June 30, 2009 compared with three months ended June 30, 2008*

Net sales increased from approximately \$33,982,000 in the three months ended June 30, 2008 to approximately \$38,361,000 for the three months ended June 30, 2009, an increase of approximately 13%. This sales increase was primarily attributable to increased distribution of Summer's products throughout Summer's customer base, plus new product introductions. Increases were noted in most of the significant customers.

Gross profit increased from approximately \$12,317,000 for the three months ended June 30, 2008 to approximately \$13,617,000 for the three months ended June 30, 2009. The gross profit as a percentage of sales decreased to 35.5% from 36.2% in the prior year. The decrease as a percentage of sales is due to increased costs of finished goods from the Company's vendors in Asia and the US. The increase in these costs is due to increased raw material and labor costs, in addition to the devaluation of the US dollar relative to the Chinese RMB.

Selling, general and administrative expenses increased from approximately \$8,615,000 for the three months ended June 30, 2008 to approximately \$9,633,000 for the three months ended June 30, 2009. This increase was primarily attributable to increases in headcount, higher variable selling expenses due to the increase in sales, and costs associated with the opening of new distribution centers to support the increase in sales. Selling, general and administrative expenses decreased to 25.1% of net sales in the three months ended June 30, 2009 from 25.3% of net sales in the three months ended June 30, 2008. This decrease as a percentage of sales was primarily due to the leveraging of the Company's fixed cost structure over a larger sales base.

EBITDA (as defined) increased from approximately \$3,702,000 for the three months ended June 30, 2008 to approximately \$3,984,000 for the three months ended June 30, 2009, an increase of approximately 8%. This increase was primarily attributable to the increased sales and gross profit dollars as described above.

*Six months ended June 30, 2009 compared with six months ended June 30, 2008*

Net sales increased from approximately \$62,407,000 in the six months ended June 30, 2008 to approximately \$73,210,000 for the six months ended June 30, 2009, a 17% increase. This sales increase was primarily attributable to increased distribution of Summer's products throughout Summer's customer base, plus new product introductions. Increases were noted in most of the significant customers. In addition, the year to date sales in 2009 includes six months of activity for the products acquired from Kiddopotamus and Basic Comfort (businesses which were acquired in March and April of 2008), while the prior year numbers only include approximately three months of activity for these products, which accounts for approximately \$5,000,000 of the year to date increase.

Gross profit increased from approximately \$22,253,000 for the six months ended June 30, 2008 to approximately \$25,274,000 for the six months ended June 30, 2009. The gross profit as a percentage of sales decreased to 34.5% from 35.7% in the prior year. The decrease as a percentage of sales is due to increased costs of finished goods from the Company's vendors in Asia and the US. The increase in these costs is due to

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increased raw material and labor costs, in addition to the devaluation of the US dollar relative to the Chinese RMB.

Selling, general and administrative expenses increased from approximately \$15,942,000 for the six months ended June 30, 2008 to approximately \$18,927,000 for the six months ended June 30, 2009. This increase was primarily attributable to increases in headcount, higher variable selling expenses due to the increase in sales, and costs associated with the opening of new distribution centers to support the increase in sales. Selling, general and administrative expenses increased to 25.8% of net sales in the six months ended June 30, 2009 from 25.6% of net sales in the six months ended June 30, 2008.

EBITDA tabled from approximately \$6,311,000 for the six months ended June 30, 2008 to approximately equal to the \$6,347,000 for the six months ended June 30, 2009.

### **Liquidity and Capital Resources**

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

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Summer's sales have increased significantly over the past several years. For the year ended December 31, 2003, net sales were \$17,600,000. For the year ended December 31, 2008, net sales exceeded \$132,000,000. This sales growth has led to a substantial increase in working capital requirements, specifically accounts receivable and inventory. The typical cash flow cycle is as follows:

- Inventory is purchased to meet expected demand plus a safety stock. Since the majority of Summer's vendors are based in Asia, inventory takes from four to six weeks to arrive from Asia to the various distribution points Summer maintains in the US and the UK. Payment terms for these vendors average 60 days from the date the product ships from Asia, therefore Summer is generally paying for the product a short time after it is physically received in the US. The increased sales Summer has experienced result in increased levels of inventory, and therefore an increase in the amount of cash required to fund its inventory level.
- Sales to customers generally have payment terms of 30 to 60 days. The increased sales have resulted in an increase in the level of accounts receivable, and therefore have increased the amount of cash required to fund working capital.

Summer had traditionally been able to fund its increased working capital through lines of credit with banks.

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.

For the six months ended June 30, 2009, net cash provided by operating activities was \$5,708,000. This was primarily due to the net income generated year to date, in addition to the significant reduction in inventory due to improved working capital management.

Net cash used in investing activities was \$1,897,000, which primarily relates to cash paid for additions to property, plant and equipment.

Net cash used in financing activities was \$2,486,000, which relates to repayments on the construction loan with funds provided by the sale/leaseback of Summer's principle offices in Woonsocket, Rhode Island and repayments of the line of credit due to positive cash flow.

Based on the above factors, the net cash increase for the six months ended June 30, 2009 was \$1,469,000, resulting in a cash balance of \$2,457,000 at June 30, 2009.

Summer believes that its cash on hand and current banking facilities are sufficient to fund its cash requirements for at least the next 12 months. However, unforeseen circumstances, such as softness in the retail industry or deterioration in the business of a significant customer, could create



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a situation where Summer cannot access all of the available lines of credit due to not having sufficient assets or EBITDA. In addition, there is no assurance that Summer will meet all of its bank covenants in the future, or that its lenders will grant waivers if there are covenant violations.

Summer's strategy for funding its business going forward is a combination of increased profitability, and if necessary, negotiation of increased borrowing lines as required with traditional lenders.

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

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

Summer's ability to borrow under the Loan Agreement is subject to its ongoing compliance with a number of financial and other covenants, including the following: (i) that Summer and its subsidiaries maintain a net worth of \$50,000,000 plus the sum of 50% of net income earned in each fiscal year, (ii) that Summer and its subsidiaries maintain a

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ratio of total funded debt to EBITDA of not greater than 3.50:1.00, and (iii) that Summer and its subsidiaries maintain a ratio of operating cash flow to debt service of not less than 1.25:1.00. Furthermore, if Summer's ratio of total funded debt to EBITDA is greater than 3.25:1.00 for any fiscal year, the aggregate amount that may be borrowed under the Loan Agreement will be determined by reference to a borrowing base.

These new credit facilities bear interest at a floating rate based on a spread over LIBOR ranging from 150 basis points to 200 basis points, depending upon the ratio of the Company's total funded debt to EBITDA. As of June 30, 2009, the blended interest rate for these credit facilities was 3.81%. In addition, these new credit facilities have an unused line fee based on the unused amount of the credit facilities equal to 25 basis points.

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

The Company was in compliance with all covenants under its line of credit as of June 30, 2009.

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

**Non-GAAP Discussion**

In addition to its GAAP results, Summer considers non-GAAP measures of its performance. EBITDA, as defined below, is an important supplemental financial measure of Summer's performance that is not required by, or presented in accordance with, GAAP. EBITDA represents net income (loss) before income taxes, minority interest in net income of affiliates, interest expense, non-cash stock option 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 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.

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

Table of Contents**Reconciliation of unaudited EBITDA to Net Income (in \$000 s) :**

	<b>Six Months Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
Net income	\$ 2,046	\$ 2,330
Income taxes	877	1,495
Non-cash stock option expense	499	180
Non-capitalizable deal-related fees		214
Interest expense	896	967
Depreciation and amortization	2,029	1,125
EBITDA, as defined	\$ 6,347	\$ 6,311

**ITEM 4T. Controls and Procedures***(a) Evaluation of Disclosure Controls and Procedures*

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report, Summer carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as of June 30, 2009. Summer's Principal Executive Officer and Principal Financial Officer have concluded, based on their evaluation, that as of the end of the period covered by this report, the Company's controls and procedures were effective as of June 30, 2009.

*(b) Changes in Internal Control Over Financial Reporting*

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

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**PART II. OTHER INFORMATION**

**ITEM 1A. Risk Factors**

There have been no material changes pertaining to risk factors that were contained in the Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 25, 2009, and amended by Amendment No. I, filed on April 30, 2009.

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

The Company's Annual Meeting of Shareholders was held on June 10, 2009. There was one matter presented to shareholders for a vote; total shares voted were 11,560,485, and the results of the voting were as follows:

1. Election of directors - to elect three directors to serve for three years, with terms expiring in 2012:

Steve Gibree Votes for: 10,924,203; votes withheld 636,282

Martin Fogelman Votes for: 8,802,303; votes withheld 2,758,182

Richard Wenz Votes for: 9,478,181; votes withheld 2,082,314

Each individual was, therefore, elected to the Board of Directors to serve three-year terms.

**ITEM 6. Exhibits**

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

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

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

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

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**Signatures**

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

**Summer Infant, Inc.**

August 11, 2009

/s/ Jason Macari  
Jason Macari  
Chief Executive Officer

August 11, 2009

/s/ Joseph Driscoll  
Joseph Driscoll  
Chief Financial Officer