

Summer Infant, Inc.  
Form 10-K  
February 29, 2012

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 001-33346

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**SUMMER INFANT, INC.**

**Delaware**  
(State or other jurisdiction of  
incorporation)

**20-1994619**  
(I.R.S. Employer  
Identification No.)

**1275 Park East Drive, Woonsocket,  
Rhode Island**  
(Address of Principal Executive Offices)

**02895**  
(Zip Code)

**(401) 671-6550**  
(Registrant's Telephone Number, Including Area Code)

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Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**  
Common Stock, Par Value \$.0001

**Name of Exchange on which registered**  
Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a  
smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based on the closing price of the registrant's Common Stock as reported on the Nasdaq Capital Market on June 30, 2011 was approximately \$72.2 million. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares issued and outstanding of the registrant's common stock as of February 1, 2012 was 17,760,191 (excluding unvested restricted shares that have been issued to employees).

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**FORWARD-LOOKING STATEMENTS**

This annual report on Form 10-K contains, in addition to historical information, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on management's current expectations and include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future, whether or not those words are used. These statements include statements regarding our ability to grow strategically, our position in the markets in which we compete, our ability to increase product penetration, create new products, and meet our growth strategy, our ability to develop proprietary products, grow sales in the future, and make and successfully integrate acquisitions, and our expectations regarding liquidity and capital resources in the future. Forward-looking statements are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in such statements. We caution investors that actual results or business conditions may differ materially from those projected or suggested in forward-looking statements as a result of various factors including, but not limited to, the risk factors discussed in Item 1A. Risk Factors below. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements.

**PART I**

Note that all dollar amounts in Part I are in thousands of U.S. dollars unless otherwise noted.

**Item 1. Business**

**Background**

On March 6, 2007, under an Agreement and Plans of Reorganization, dated as of September 1, 2006, KBL Healthcare Acquisition Corp. II ("KBL"), and its wholly owned subsidiary, SII Acquisition Corp. ("Acquisition Sub"), consummated a transaction by which (i) Summer Infant, Inc. ("SII") was merged with and into Acquisition Sub and (ii) all of the outstanding capital stock of each of Summer Infant Europe, Limited and Summer Infant Asia, Ltd. was acquired directly by KBL. Effective upon closing, KBL changed its name to Summer Infant, Inc. and SII changed its name to Summer Infant (USA), Inc. On March 7, 2007, the securities of Summer Infant, Inc. commenced listing on the Nasdaq Capital Market under the symbols SUMR (common stock), SUMRW (warrants) and SUMRU (units). In 2008, Summer Infant (USA), Inc. created a wholly-owned subsidiary called Summer Infant Canada, Ltd. In March 2011, Summer Infant (USA), Inc. acquired all of the outstanding capital stock of Born Free Holdings, Ltd. Summer Infant, Inc is now a holding company operating through its direct and indirect wholly-owned subsidiaries, Summer Infant (USA), Inc., Summer Infant Europe, Limited, Summer Infant Canada, Ltd., Summer Infant Asia, Ltd. and Born Free Holdings Ltd. The consolidated financial statements of the Company included in this Annual Report include the accounts of its wholly-owned subsidiaries. References to "we," "us," or the "Company" means Summer Infant, Inc. and its consolidated subsidiaries unless otherwise noted.

**General**

We are a designer, marketer, and distributor of branded juvenile health, safety and wellness products (for ages 0-3 years) which are sold principally to large North American and United Kingdom retailers. We currently market products in various product categories including nursery audio/video monitors, safety gates, durable bath products, bed rails, nursery products, booster and potty seats, bouncers, travel accessories, high chairs, swings, feeding products, car seats, and nursery furniture. In the past three years, the Company has completed several acquisitions and therefore added products through acquisition, such as cribs, baby gear and feeding products. In North America our products are sold primarily to retailers including Babies R Us, Target, KMart, Wal-Mart, Buy Buy Baby and Amazon.com. Our largest European-based customers are Mothercare, Toys R Us, Argos and Tesco.

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Our corporate headquarters is located in Woonsocket, Rhode Island. We maintain sales, marketing and distribution offices in England, which service the United Kingdom and other parts of Europe, and in Canada. We maintain through our Hong Kong subsidiary a product development, sales, engineering and quality assurance office in Hong Kong.

## **Strategy**

Our strategy is to grow our 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);
- new product categories; and
- acquisitions.

We have been able to grow our annual revenues historically through a combination of all of the above factors. Each year, we have been able to expand the number of products in our main distribution channel (mass merchant retailers), and have also added new customers each year. Therefore, even with limited new product introductions, we could grow our business by simply selling more of our existing product line to existing customers.

In the future, our growth strategy will be to continue to develop and sell new products to our existing customer base, sell new and existing products to new customers (or expand relationships with existing customers) and to expand in the United Kingdom, Canada, 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 to obtain new innovative products, new product categories, new retail customers or new sales territories. There are several hundred active juvenile product companies, of which we estimate the majority have less than \$10,000 in sales.

## **Products**

We currently sell products in a number of different categories, including nursery audio/video monitors, safety gates, durable bath products, bed rails, infant thermometers, related health and safety products, booster and potty seats, cribs, baby gear, bouncers, swaddling blankets and bottles. No single product generated more than 10% of sales for the year ended December 31, 2011. While a majority of our products are sold under the Summer Infant brand name, we also have several licensing arrangements to sell products under different brand names, including Carter's and Disney. In 2011, we added feeding products to our categories and introduced our new PRODIGY car seat and travel system.

## **Product Development and Design**

We believe that product development is a critical element of our strategy and success to date. Our product strategy is to produce proprietary products that provide distinctive benefits, are visually appealing, provide convenience and will appeal to the mid-tier and upper-tier buyers. Our retail customers are strategically motivated to buy innovative products. Our main product development efforts are located at our Rhode Island

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headquarters, but we also have development efforts in China, Pennsylvania, and the United Kingdom. We also focus on improving existing products based on feedback from our customers. For example, we expect to re-launch our PRODIGY travel system in the third quarter of 2012 with new fashion and an improved stroller platform.

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**Suppliers and Manufacturing**

Except for certain injection-molded products, which are manufactured in the U.S., substantially all of our other products are manufactured in Asia (primarily China) and Israel. We use many different suppliers and we own our molds. Therefore, we are not dependent on any one manufacturer. Our Hong Kong subsidiary provides us with a local sourcing presence and the ability to oversee quality, electronic engineering and other issues that may arise during production. Generally, we are buying finished goods from manufacturers and thus are not directly procuring any raw materials related to the ultimate manufacturing of the products. We have not had any significant disruption of supply to date as a result of raw material shortages, but there is the possibility that shortages could occur in the future based on a variety of factors beyond our control.

Transportation of Asia-made goods to our warehouses typically takes three to four weeks, depending on the location of the warehouse. We maintain our inventory at warehouses located in the United States, Canada, Asia, and the United Kingdom. Most of our customers pick up their goods at regional warehouses. We also use UPS and other common carriers to arrange shipments to customers who request such arrangements, primarily smaller retailers and specialty stores. In 2011, our East Coast distribution center was consolidated into our West Coast distribution center. We anticipate this will better enable us to service our customers.

We use several manufacturers in the United States for certain injection molded products, including bath tubs, potty seats and booster seats, which typically account for between 10% and 15% of our annual sales.

**Sales and Marketing**

Our sales are primarily derived from the sale of juvenile health, safety and wellness products and are recognized upon transfer of title of product to our customers. Our products are marketed and sold through several distribution channels including mass merchant retailers, specialty retailers and direct to consumers.

Sales are made utilizing standard credit terms of 30 to 60 days. We generally accept returns only for defective merchandise.

**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. Our largest direct competitors are Dorel Industries (including Safety 1st and Cosco brands), Evenflo (Evenflo, Gerry, and Snugli brands), Kid Brands, Inc., Fisher-Price (part of Mattel, Inc.), The First Years (a subsidiary of Tomy Corporation) and Graco (a subsidiary of Newell Rubbermaid). In addition, we compete in certain of our product lines with a number of private companies, such as KidCo, Inc. and Munchkin.

The primary methods of competition in the industry consist of product innovation, brand positioning, quality, price and other factors such as timely distribution. Our competitive strengths include our experienced product development staff, our ability to develop new products, brand positioning, relationships with major retailers, and the quality and pricing of our products.

**Intellectual Property**

We rely on a combination of patents, licenses and trade secrets to protect our intellectual property. Our patents currently in effect include various design features related to bedrails, infant seats, bouncers, and potty chairs, with several other patents pending for monitors, baby swings, and other items. The patents expire at various times over the next 20 years. We also have license agreements relating to the use of patented technology owned by third parties in certain of our products.

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**Customers**

Our top seven customers together comprised over 75% of our sales in fiscal 2011. These customers include Babies R Us/Toys R Us, Target, K-Mart, Buy Buy Baby, Amazon.com, Burlington Coat Factory, and Wal-Mart. Of these customers, three generated more than 10% of sales for fiscal 2011: Toys R Us (39%), Walmart (11%) and Target (10%). Because of the concentration of our business with these customers and because we have no long term contracts with these customers, our success depends on our customers' willingness to purchase and provide shelf space for our products.

**Seasonality**

There are not significant variations in seasonal demand for our products. Sales to our retail customers are generally higher in the time frame when retailers take initial shipments of new products. These orders usually incorporate enough product inventory 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.

**Geographic Regions**

In 2011, North America accounted for over 90% of our total net sales; the remaining sales were made in the United Kingdom and all other geographies.

**Regulatory Matters**

We obtain all necessary regulatory agency approvals for each of our 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"). We conduct our own internal testing, which utilizes a "foreseeable use and abuse" testing method and is designed to subject each product to the "worst case scenario." Our products are also frequently tested by independent government certified labs.

**Insurance**

We carry a product liability insurance policy that provides us with \$15,000 of liability coverage with a minimal deductible. We consult with our insurers to ascertain appropriate liability coverage for our product mix. We anticipate increasing our insurance coverage in the future in line with our expanding sales and product breadth.

**Employees**

As of December 31, 2011, we employed a total of 247 full time people, 143 of whom work in the headquarters in Rhode Island. Our employees are not covered by a collective bargaining agreement. We consider our employee relations to be good.

**Available Information**

We maintain our corporate website at [www.summerinfant.com](http://www.summerinfant.com) and we make available, free of charge, through this website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports that we file with or furnish to the Securities and Exchange Commission ("SEC"), as soon as reasonably practicable after we electronically file that material with, or furnish it to, the SEC. Our website also includes corporate governance information, including our Code of Ethics and our Board Committee Charters.



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**Item 1A. Risk Factors**

If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In those cases, the trading price of our common stock could decline.

***The concentration of our 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 our major customers could have a significant impact on our business.***

A number of large, retail customers account for a majority of our sales. In fiscal 2011, Toys R Us generated 39% of our total sales, and seven customers accounted for over 75% of our total sales. Because of the concentration of our business with these customers and because we have no long term contracts with these customers, our success depends on our customers' willingness to continue to purchase and provide shelf space for our products. An adverse change in our relationship with any of our large customers or a change in the financial viability of any of these customers could adversely affect our results of operations and financial condition.

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

Our business and operating results depend largely upon the appeal of our products. Consumer preferences, particularly among parents, whom are often the end purchasers of our products, are constantly changing. Our success will largely depend on our 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. Our product offerings compete with those of many other companies, many of which are much larger and enjoy broader brand recognition and significant distribution channel relationships, which means that our market position is always at risk. Our ability to maintain and increase our current market share will depend upon our 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.

***We are dependent on key personnel, and our ability to grow and compete in our industry will be harmed if we do not retain the continued services of our key personnel, or we fail to identify, hire, and retain additional qualified personnel.***

We are dependent on the efforts of our management team, and the loss of services of members of our management team, each of whom has substantial experience in the juvenile health, safety and wellness markets, could have an adverse effect on our business. If any members of management leave, their departure could have an adverse effect on our operations and could adversely affect our ability to design new products and to maintain and grow the distribution channels for our products.

In addition, if our operations continue to grow in a manner consistent with our historical growth rates, it will be necessary for us to attract and retain additional qualified personnel. The market for qualified and talented product development personnel in the consumer goods market, and the juvenile health, safety and wellness products market specifically is intensely competitive. If we are unable to attract or retain qualified personnel as needed, the growth of our operations could be slowed or hampered. However, we believe that our compensation including salary, performance-based bonuses, and stock award programs provides incentives that are competitive within our industry.

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***Intellectual property claims relating to our products could increase our costs and adversely affect our business.***

We have, from time to time, received claims of alleged infringement of patents relating to certain of our products, and we may face similar claims in the future. These claims relate to alleged patent infringement and are primarily the result of newly issued patents that were not in force when we initially brought the subject products to market. The defense of intellectual property claims can be costly and time consuming, even in circumstances where the claim is without merit. We may be required to pay substantial damages or settlement costs in order to resolve these types of claims. In addition, these claims could materially harm our brand name, reputation and operations.

***We rely on foreign suppliers in Asia to manufacture the majority of our products, and any adverse change in our relationship with our suppliers could harm our business.***

We rely on numerous third-party suppliers located in Asia for the manufacture of most of our products. While we believe that alternative suppliers could be located if required, our product sourcing could be affected if any of these suppliers do not continue to manufacture our products in required quantities or at all, or with the required levels of quality. We enter into purchase orders with our foreign suppliers and do 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 us of our products, causing reduced sales and harm to our reputation and brand name.

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

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

***Because we rely on foreign suppliers and we sell in foreign markets, we are subject to numerous risks associated with international business that could increase our costs or disrupt the supply of our products, resulting in a negative impact on our business and financial condition.***

Our international operations subject us 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,

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

complications in 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 our products or increase our expenses.



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

Because we sell infant and juvenile health, safety and wellness products to consumers, we face product liability risks relating to the use of our products. We also must comply with a variety of product safety and product testing regulations. In particular, our products are subject to, among other statutes and regulations, the Consumer Product Safety Act, the Federal Hazardous Substances Act ("FHSA") and the Consumer Product Safety Improvement Act ("CPSIA"), which empower the Consumer Product Safety Commission (the "CPSC"), to take action against hazards presented by consumer products. With expanded authority under the CPSIA, the CPSC has and continues to adopt new regulations for safety and products testing that apply to our products. These new regulations have or likely will significantly increase the regulatory requirements governing the manufacture and sale of children's products and increase the potential penalties for noncompliance with applicable regulations. The CPSC has the authority to exclude from the market and recall certain consumer products that are found to be potentially hazardous. Consumer product safety laws also exist in some states and cities within the United States and in Canada and Europe, as well as certain other countries. While we take the steps we believe are necessary to comply with these laws and regulations, there can be no assurance that we will be in compliance in the future. If we fail to comply with these laws and regulations, or if we face product liability claims, we may be subject to damage awards or settlement costs that exceed any available insurance coverage and we may incur significant costs in complying with recall requirements. Furthermore, concerns about potential liability may lead us to recall voluntarily selected products. For instance in 2011, we undertook voluntary action to re-label our audio/video nursery monitors and in the fourth quarter of 2011 recorded a charge in connection with the proposed settlement of outstanding litigation related to our analog video nursery monitors. In addition, the CPSC issued a warning regarding sleep positioners during 2010 which resulted in the return of product by retail customers. Complying with existing or any such additional regulations or requirements could impose increased costs on our business. Similarly, increased penalties for non-compliance could subject us to greater expense in the event any of our products were found to not comply with such regulations.

***Competition in our markets could reduce our net sales and profitability.***

We operate in highly competitive markets. We compete with several large domestic and foreign companies and with other producers of infant products. Many of our competitors have longer operating histories, greater brand recognition, and greater financial, technical, marketing and other resources than we have. In addition, we may face competition from new participants in our markets because the infant and juvenile product industry has limited barriers to entry. We experience price competition for our products, competition for shelf space at retailers and competition for licenses, all of which may increase in the future. If we cannot compete successfully in the future, our net sales and profitability will likely decline.

***We may experience difficulties in identifying suitable acquisition targets and integrating strategic acquisitions.***

As part of our growth strategy, we have made strategic acquisitions and intend to continue to pursue acquisitions that are consistent with our mission and enable us to leverage our competitive strengths. While we continue to evaluate potential acquisitions, we may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approval for certain acquisitions or otherwise complete acquisitions in the future. An inability to identify future acquisitions could limit our future growth.

In addition, the integration of operations of those companies we do acquire into our operations involves a number of risks, including:

the acquired business may experience losses that could adversely affect our profitability;

unanticipated costs relating to the integration of acquired businesses may increase our expenses;

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possible failure to obtain any necessary consents to the transfer of licenses or other agreements of the acquired business;

possible failure to maintain customer, licensor and other relationships after the closing of the transaction of the acquired business;

difficulties in achieving planned cost-savings and synergies may increase our expenses or decrease our net sales;

diversion of management's attention could impair their ability to effectively manage our business operations; and

unanticipated management or operational problems or liabilities may adversely affect our profitability and financial condition.

In addition, any future acquisitions or investments may result in:

issuances of dilutive equity securities, which may be sold at a discount to market price;

impairment of goodwill;

use of significant amounts of cash;

the incurrence of debt;

the assumption of significant liabilities;

unfavorable financing terms;

large one-time expenses; and

the creation of intangible assets, including goodwill, the write-down of which may result in significant charges to earnings.

***We may have exposure to greater than anticipated tax liabilities.***

Our provision for income taxes is subject to volatility and could be adversely affected by nondeductible stock-based compensation, earnings being lower than anticipated in jurisdictions where we have lower statutory rates and being higher than anticipated in jurisdictions where we have higher statutory rates, transfer pricing adjustments, not meeting the terms and conditions of tax holidays or incentives, changes in the valuation of our deferred tax assets and liabilities, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, like other companies, we may be subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities, and our federal tax returns for 2009 are currently being audited by the U.S. Internal Revenue Service. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our results of operations.

*A material impairment in the carrying value of acquired goodwill or other intangible assets could negatively affect our consolidated operating results and net worth.*

A portion of our assets is goodwill and other intangible assets, which are reviewed on an annual basis and whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of these assets exceeds the current fair value, the asset is considered impaired and is reduced to fair value, resulting in a non-cash charge to earnings during the period in which any impairment is determined. Events and conditions that could result in impairment include a sustained drop in the market price of our common stock, increased competition or loss of

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market share, product innovation or obsolescence, or a decline of our business related to acquired companies. We cannot accurately predict the amount and timing of any impairment of assets.

***Our debt covenants may affect our liquidity or limit our ability to complete acquisitions, incur debt, make investments, sell assets, merge or complete other significant transactions.***

Our loan agreement includes provisions that place limitations on a number of our activities, including our ability to:

incur additional debt;

create liens on our assets or make guarantees;

make certain investments or loans;

pay dividends; or

dispose of or sell assets or enter into a merger or similar transaction.

Our credit agreement also contains a number of financial covenants. The restrictive covenants in our credit agreement may limit our ability to engage in acts that may be in our best long-term interests. A breach of any of the restrictive covenants in our credit agreement could result in a default under our credit agreement. If a default occurs, the lenders under our credit agreement may elect to declare all outstanding borrowings, together with accrued interest, to be immediately due and payable, to terminate any commitments they have to provide further borrowers, and to exercise any other rights they have under the credit agreement or applicable law.

***We may not be able to maintain compliance with our bank covenants, and our capital resources may not be sufficient to make required payments on our outstanding indebtedness.***

Our ability to maintain compliance with the financial and other covenants under our current loan agreement is dependent upon our ability to continue to execute our business model and current operational plans. If an event of default in such covenants occurs and is continuing among other things, the lenders may accelerate the loans, declare the commitments thereunder to be terminated, seize collateral or take other actions of secured creditors. If the loans are accelerated or commitments terminated, we could face substantial liquidity problems and may be forced to dispose of material assets or operations, seek to obtain equity capital, or restructure or refinance our indebtedness. Such alternative measures may not be available or successful. Also, our bank covenants may limit our ability to dispose of material assets or operations or to restructure or refinance our indebtedness. Even if we are able to restructure or refinance our indebtedness, the economic terms may not be favorable to us. All of the foregoing could have serious consequences to our financial condition and results of operations. Our ability to generate cash to meet scheduled payments with respect to our debt depends on our financial and operating performance, which in turn, is subject to prevailing economic and competitive conditions and the other factors discussed in this "Risk Factors" section. If our cash flow and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and may be forced to dispose of material assets or operations, seek to obtain equity capital, or restructure or refinance our indebtedness. Such alternative measures may not be successful and may not permit us to meet our scheduled debt services obligations. The breach of any covenants or restrictions in our loan agreement could result in a default thereunder, which would permit the lenders to take the actions discussed above.

***We could issue additional common stock, which might dilute the book value of our common stock.***

Our board of directors has authority, without action or vote of our stockholders in most cases, to issue all or a part of our authorized but unissued shares. These stock issuances could be made at a

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price that reflects a discount from the then-current trading price of our common stock. In addition, to raise capital, we may need to issue securities that are convertible into or exchangeable for a significant amount of our common stock. These issuances would dilute current shareholders' ownership percentage which would have the effect of reducing their influence on matters on which stockholders vote, and could dilute the book value per share of Summer Infant common stock. Stockholders may incur additional dilution if holders of stock options, whether currently outstanding or subsequently granted, exercise their options, or if warrant holders exercise their warrants to purchase shares of Summer Infant common stock.

*As a "thinly-traded" stock, large sales can place downward pressure on our stock price.*

Our common stock experiences periods when it could be considered "thinly traded." Finance transactions resulting in a large amount of newly issued shares that become readily tradable, or other events that cause current stockholders to sell shares, could place downward pressure on the trading price of our stock. In addition, the lack of a robust resale market may require a stockholder to sell a large number of shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock.

*Anti-takeover provisions in our organizational documents and Delaware law may limit the ability of our stockholders to control our policies and effect a change of control of our company and may prevent attempts by our stockholders to replace or remove our current management, which may not be in your best interests.*

There are provisions in our certificate of incorporation and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests, and may prevent attempts by our stockholders to replace or remove our current management. These provisions include the following:

our certificate of incorporation provides for three classes of directors with the term of office of one class expiring each year, commonly referred to as a staggered board. By preventing stockholders from voting on the election of more than one class of directors at any annual meeting of stockholders, this provision may have the effect of keeping the current members of our board of directors in control for a longer period of time than stockholders may desire;

our certificate of incorporation authorizes our board of directors to issue shares of preferred stock without stockholder approval and to establish the preferences and rights of any preferred stock issued, which would allow the board to issue one or more classes or series of preferred stock that could discourage or delay a tender offer or change in control; and

our bylaws require advance written notice of stockholder proposals and director nominations.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which, in general, imposes restrictions upon acquirers of 15% or more of our stock. Finally, the board of directors may in the future adopt other protective measures, such as a stockholder rights plan, which could delay, deter or prevent a change of control.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We are headquartered in a 52,000 square facility in Woonsocket, Rhode Island. We have a seven year lease on this facility, with an option to extend for an additional five years. We also lease small offices in Pennsylvania, Arkansas, Canada, Israel, the United Kingdom and Hong Kong.



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We maintain inventory at leased warehouses in California (approximately 442,000 square feet), Canada (approximately 31,000 square feet), Hong Kong (third party warehouse) and the United Kingdom (approximately 16,000 square feet). These leases expire at various times between 2012 and 2016.

**Item 3. Legal Proceedings**

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

Please see "Litigation" under Note 11. Commitments and Contingencies to our consolidated financial statements included in this report concerning the January 2012 proposed settlement of outstanding litigation related to our analog video baby monitor.

**Item 4. Mine Safety Disclosures**

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***Price Range of Common Stock*

On March 7, 2007, our common stock, warrants and units commenced listing on the Nasdaq Capital Market under the symbols "SUMR", "SUMRW" and "SUMRU", respectively.

On March 17, 2008, we announced that effective March 28, 2008, the units will be separated into its component securities, consisting of one share of common stock and two warrants. As a result, beginning in March 2008, the units ceased trading. The warrants expired on April 20, 2009 and ceased trading in April 2009.

The high and low closing prices for our common stock as reported on the Nasdaq Capital Market for the periods indicated below were as follows:

|  | High    | Low     |
|--|---------|---------|
| <b>Fiscal Year Ended December 31, 2010</b> |         |         |
| First Quarter                              | \$ 6.69 | \$ 4.64 |
| Second Quarter                             | \$ 8.25 | \$ 6.47 |
| Third Quarter                              | \$ 8.51 | \$ 6.49 |
| Fourth Quarter                             | \$ 8.15 | \$ 6.59 |
| <b>Fiscal Year Ended December 31, 2011</b> |         |         |
| First Quarter                              | \$ 8.03 | \$ 7.01 |
| Second Quarter                             | \$ 9.22 | \$ 8.00 |
| Third Quarter                              | \$ 8.79 | \$ 6.12 |
| Fourth Quarter                             | \$ 8.20 | \$ 6.12 |

*Holder of Common Stock*

As of January 20, 2012, there were approximately 54 holders of record of our common stock. Because shares of our common stock are held by depositaries, brokers and other nominees, the number of beneficial holders of our shares is substantially larger than the number of record holders.

*Dividend Policy*

There have been no cash dividends declared on our common stock since our company was formed. Dividends are declared at the sole discretion of our Board of Directors. Our intention is not to declare cash dividends and retain all cash for our operations and future acquisitions. In addition, under the terms of our current loan agreement, we are restricted in our ability to pay cash dividends to our stockholders.

*Issuer Repurchases of Equity Securities*

None.

*Recent Sales of Unregistered Securities*

Not applicable.

**Item 6. Selected Consolidated Financial Data**

Not required.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts are in thousands of U.S. dollars, except share and per share data)**

The following discussion is intended to assist in the assessment of significant changes and trends related to our results of operations and financial condition. The information contained in this section has been derived from our consolidated financial statements and should be read together with our consolidated financial statements and related notes included elsewhere in this report. Readers are also encouraged to review and consider our disclosures describing various factors that could affect our business, including the disclosures under the heading "Risk Factors" in this report.

**Company Overview**

We are a designer, marketer, and distributor of branded juvenile health, safety and wellness products which are sold principally to large North American and United Kingdom retailers. We currently market proprietary products in various product categories including nursery audio/video monitors, safety gates, durable bath products, bed rails, infant thermometers, related health and safety products, booster and potty seats, cribs, baby gear, bouncers, feeding items, and swaddling blankets.

Our business has grown organically in all of our markets. We derive our revenues from the sale of health, safety and wellness products for infants and toddlers. Our revenue is driven by our ability to design and market desirable products, identify business opportunities and secure new and renew existing distribution channels. Our income from operations is derived from our ability to generate revenue and collect cash in excess of labor and other costs of providing our products and selling, general and administrative costs.

Our strategy is to grow our 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);

new product categories; and

acquisitions.

We have been able to grow our annual revenues historically through a combination of all of the above factors. Each year, we have been able to expand the number of products in our main distribution channel (mass merchant retailers) and have also added new customers each year. Therefore, even with limited new product introductions, we could grow our business by simply selling more of our existing product line to existing customers.

In the future, our growth strategy will be to continue to develop and sell new products to our existing customer base, sell new and existing products to new customers (or expand relationships with existing customers) and expand in the United Kingdom and in other geographic regions

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(including Japan, Mexico and Australia, among others). In addition, there are a number of potential acquisition candidates that could be pursued to obtain new innovative products, new product categories, new retail customers or new sales territories. There are several hundred active juvenile product companies, of which we estimate the majority have less than \$10 million in sales.

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As we continue to grow through internal initiatives and any future acquisitions, we will incur additional expenses. Two of the key areas in which those increased expenses will likely occur are sales and product development. To grow sales, we 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 we believe we can readily increase sales. Product development expenses will increase as we develop new products in existing and new categories.

If we were to acquire one or more companies as part of our growth strategy, we 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 our management team.

*Sales*

Our revenues are primarily derived from the sale of juvenile health, safety and wellness products and are recognized upon transfer of title of product to our customers. Our products are marketed through several distribution channels including chain retailers, specialty retailers and on-line retailers.

A number of large, North American retail customers account for a majority of our sales. Three customers generated more than 10% of sales for the year ended December 31, 2011, Toys R Us (39%), Walmart (11%), and Target (10%). Because of the concentration of our business with these customers and because we have no long term contracts with these customers, our success depends on our customers' willingness to purchase and provide shelf space for our products.

Over 90% of sales are currently made to customers in North America, with the remaining sales primarily made to customers in the United Kingdom. Sales are made utilizing standard credit terms of 30 to 60 days. We generally accept returns only for defective merchandise.

*Cost of goods sold and other expenses*

Our products are manufactured by third parties, with approximately 85-90% of the dollar value of products being manufactured in Asia with the majority of the balance being manufactured in the United States and Israel. Cost of goods sold primarily represents purchases of finished products from these third party manufacturers. The remainder of our cost of goods sold includes duties on certain imported items, freight-in from suppliers and miscellaneous charges from contract manufacturers. Substantially all of our purchases are made in U.S. dollars; therefore, most of this activity is not subject to currency fluctuations. If our suppliers experience increased raw materials, labor or other costs and pass along those cost increases through higher prices for finished goods, our cost of sales would increase, and to the extent we are unable to pass these price increases along to our customers, our 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 of these variable costs are based on sales to particular customers and others are based on sales of particular products.

There are no significant variations in seasonal demand for our products. Sales to our 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

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depending on when they finalize store layouts for the upcoming year, and whether there are any mid-year product introductions.

**Summary of critical accounting policies and estimates**

This summary of our critical accounting policies is presented to assist in understanding our consolidated financial statements. The consolidated financial statements and notes are representations of our 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.

We make 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 we consider critical in preparing our 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.

*Revenue recognition*

We record revenue when all of the following occur: persuasive evidence of an arrangement exists, product delivery has occurred, the sales price to the customer is fixed or determinable and collectability is reasonably assured. Sales are recorded net of provisions for returns and allowances, cash discounts and markdowns. We base our 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. Customers do not have the right to return products unless the products are defective. We record a reduction of sales for estimated future defective product deductions based on historical experience.

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

*Trade receivables*

Trade receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. On a periodic basis, we estimate doubtful accounts based on historical bad debt, factors related to specific customers' ability to pay and current economic trends. We write off accounts receivable against the allowance when a balance is determined to be uncollectible.

We do 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.

We 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.

*Allowance for doubtful accounts*

The allowance for doubtful accounts represents adjustments to customer trade accounts receivable for amounts deemed uncollectible. The allowance for doubtful accounts reduces gross trade receivables to their estimated net realizable value. The allowance is based on our assessment of the business environment, customers' financial condition, historical trends, customer payment practices, receivable

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aging and customer disputes. We will continue to proactively review our credit risks and adjust customer terms to reflect the current environment.

*Inventory Valuation*

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. Our warehousing costs are charged to expense as incurred. We regularly review slow-moving and excess inventory, and write-down inventories as appropriate. Management uses estimates to record 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, as well as demand for products, customer buying patterns and inventory management could impact the inventory valuation.

*Impairment of Long-Lived Assets*

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered to be impaired when its carrying amount exceeds the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition. Long-lived assets include property and equipment. The amount of impairment loss, if any, is charged by the Company to current operations. For each of the years ended December 31, 2011 and 2010, no such impairment existed.

*Goodwill and Other Intangible Assets*

We account for goodwill and other intangible assets in accordance with accounting guidance that requires that goodwill and intangible assets that have indefinite useful lives and not subject to amortization be tested at least annually for impairment. We evaluate goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of goodwill is tested by comparing the carrying value, including goodwill, to the Company's fair value. If the carrying value exceeds the fair value, a second step is performed to measure the amount of the impairment loss, if any. Under this second step, the implied goodwill value is determined, in the same manner as the amount of goodwill recognized in a business combination, to assess the level of goodwill impairment, if any. We determine the Company's fair value using the income, or discounted cash flows, approach. ("DCF model") and verify the reasonableness of such fair value calculations using the market approach, which utilizes comparable companies' data. The completion of the DCF model requires that we make a number of significant assumptions to produce an estimate of future cash flows. These assumptions include projections of future revenue, costs and working capital changes. In addition, we make assumptions about the estimated cost of capital and other relevant variables, as required, in estimating fair value. The projections that we use in our DCF model are updated annually and will change over time based on the historical performance and changing business conditions. The determination of whether goodwill is impaired involves a significant level of judgment in these assumptions, and changes in our business strategy, government regulations, or economic or market conditions could significantly impact these judgments. We will continue to monitor market conditions and other factors to determine if interim impairment tests are necessary in future periods. As of December 31, 2011, the estimated fair value of the Company exceeded the carrying value of our reporting unit. Management evaluates the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, it is amortized prospectively over its estimated remaining useful life.

Table of Contents*Income taxes*

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 that such benefits will be realized.

Previously, the Company adopted the provisions of a new standard which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized upon adoption and in subsequent periods. Upon the adoption, and at December 31, 2011 and 2010, the Company did not have any uncertain tax positions. No interest and penalties related to uncertain tax positions were accrued at December 31, 2011 and 2010.

The tax years 2007 through 2010 remain open to examination by the major taxing jurisdictions in which the Company operates. The Company's federal tax return for the year ended December 31, 2009 is currently being audited by the Internal Revenue Service. The Company expects no material changes to unrecognized tax positions within the next twelve months.

**Results of Operations**

The following table presents selected condensed consolidated financial information for Summer Infant, Inc. and its subsidiaries for the years ended December 31, 2011 and 2010.

|  | <b>Year ended<br/>December 31, 2011</b> |              | <b>Year Ended<br/>December 31, 2010</b> |              |
|--|---|--------------|---|--------------|
| Net sales                                      | \$ 238,172                              | 100.0%       | \$ 194,485                              | 100.0%       |
| Cost of goods sold                             | 156,787                                 | 65.8%        | 124,994                                 | 64.3%        |
| <b>Gross Profit</b>                            | <b>81,385</b>                           | <b>34.2%</b> | <b>69,491</b>                           | <b>35.7%</b> |
| SG&A expenses                                  | 67,187                                  | 28.2%        | 55,501                                  | 28.5%        |
| Interest, taxes, depreciation and amortization | 10,387                                  | 4.4%         | 7,403                                   | 3.8%         |
| <b>Net Income</b>                              | <b>\$ 3,811</b>                         | <b>1.6%</b>  | <b>\$ 6,587</b>                         | <b>3.4%</b>  |

*Year ended December 31, 2011 compared with year ended December 31, 2010*

Net sales increased 22% from \$194,485 in the year ended December 31, 2010 to \$238,172 for the year ended December 31, 2011. This increase was primarily attributable to organic growth resulting from increased distribution of existing products throughout our customer base, introduction of new products and international growth. In addition, the Company acquired Born Free Holdings, Ltd. in March 2011, which added approximately \$10,175 to net sales in 2011. While net sales increased in 2011, sales were impacted by lower than expected consumer purchases of our new PRODIGY car seat and travel system, reduced inventory levels at retail customers and delays in shipping of certain new products.

Gross profit increased 17% from \$69,491 for the year ended December 31, 2010 to \$81,385 for the year ended December 31, 2011. This increase was primarily attributable to the 22% increase in net sales. Gross profit percentage decreased to 34.2% of sales for the year ended December 31, 2011 from 35.7% in the prior year due to increased costs of raw materials and labor, plus a change in sales mix.

Selling, general and administrative expenses increased 21.1% from \$55,501 for the year ended December 31, 2010 to \$67,187 for the year ended December 31, 2011. This increase was primarily



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attributable to increased variable costs such as co-op advertising allowances as a result of the significant increase in sales. In addition, there were increased expenditures in product development, payroll, professional fees, and warehouse operations. Finally, there were several significant items incurred during 2011 including professional fees and transition costs related to the Born Free acquisition, related to the proposed settlement of outstanding litigation, \$482 related to the closure and relocation of our Rhode Island distribution center and \$773 of severance for three former senior management employees.

Other expenses increased 40% from \$7,403 for the year ended December 31, 2010 to \$10,387 for the year ended December 31, 2011. This increase was attributable to an increase in depreciation and amortization in 2011 and higher interest expense.

**Liquidity and Capital Resources**

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

Our sales have increased significantly over the past several years. 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. Because the majority of our vendors are based in Asia, inventory takes from three to four weeks to arrive from Asia to the various distribution points we maintain in the United States, Canada and the United Kingdom. Payment terms for these vendors are approximately 30-60 days from the date the product ships from Asia, therefore we are generally paying for the product a short time after it is physically received in the United States. The increased sales we have experienced result in increased levels of inventory and, therefore, an increase in the amount of cash required to fund our inventory level.

Sales to customers generally have payment terms of 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.

We have traditionally been able to fund our increased working capital through lines of credit with banks.

The majority of capital expenditures are for tools related to new product introductions. We receive indications from retailers generally around the middle of each year as to what products the retailer will be taking into its product line for the upcoming year. Based on these indications, we will then acquire the tools required to build the products. In most cases the payments for the tools are spread out over a three to four month period.

For the year ended December 31, 2011, net cash provided by operating activities totaled \$9,385, which primarily relates to improved working capital management. At December 31, 2010, net cash used in operating activities totaled \$8,861. The change in net cash relating to operating activities in 2011 as compared to 2010 is largely attributable to decreases in accounts payable and accounts receivable in 2011.

For the year ended December 31, 2011, net cash used in investing activities was approximately \$20,769 which primarily relates to capital expenditures and the Born Free acquisition. At December 31, 2010, net cash used in investing activities was \$8,782. The increase in net cash used in investing activities in 2011 was due primarily to the Born Free acquisition.

For the year ended December 31, 2011, net cash provided by financing activities was approximately \$11,189 which relates to borrowings from our debt facilities to fund the Born Free acquisition and

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working capital growth. At December 31, 2010, net cash provided by financing activities was \$17,377. The decrease in 2011 in net cash provided by financing activities was due primarily to lower borrowings.

Based primarily on the above factors, the net cash increase for the year ended December 31, 2011 was approximately \$77, resulting in a cash balance of approximately \$1,215 at December 31, 2011.

We believe that our cash on hand and current banking facilities are sufficient to fund our 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 we cannot access all of the available lines of credit due to not having sufficient assets or consolidated EBITDA (as defined in the credit agreement described below) as required under our loan agreements. There is no assurance that we will meet all of our bank covenants in the future, or that our lender will grant waivers if there are covenant violations. In addition, should we need to raise additional funds through additional debt or equity financings, any sale of additional debt or equity securities may cause dilution to existing stockholders. If sufficient funds are not available or are not available on acceptable terms, our ability to address any unexpected changes in our operations could be limited. Furthermore, there can be no assurance that we will be able to raise such funds if and when they are required. Failure to obtain future funding when needed or on acceptable terms could materially adversely affect our results of operations.

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

In August 2010, we entered into a secured credit agreement with Bank of America, N.A., as Administrative Agent, and each of the financial institutions that is a signatory to the Agreement. The agreement was amended on March 24, 2011 and on November 9, 2011 (as amended, the "Loan Agreement"). The Loan Agreement provides for an \$80,000 working capital revolving credit facility and a \$20,000 "accordion" credit facility. The loan matures on June 30, 2013.

Summer and its subsidiaries, Summer Infant (USA), Inc., Summer Infant Europe Limited, Summer Infant Asia Limited and Summer Infant Canada, Limited are the borrowers under the Loan Agreement. This loan agreement replaced Summer's prior line of credit and is being used principally to fund growth opportunities and for working capital purposes.

Our 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 consolidated EBITDA, as defined in the Loan Agreement, of at least \$20,000 on a trailing twelve month basis as of December 31, 2011, which escalates to \$23,000 by the end of the loan term in 2013, (ii) that Summer and its subsidiaries maintain a ratio of total funded debt to consolidated EBITDA of not greater than 3.25:1.00, and (iii) that Summer and its subsidiaries maintain a ratio of operating cash flow to debt service of not less than 1.50:1.00. Upon utilizing all approved and permitted Add Backs, as defined in the Loan Agreement, the Company is in compliance with these and other covenants at December 31, 2011.

These credit facilities bear interest at a floating rate based on a spread over LIBOR ranging from 200 basis points to 300 basis points, depending upon the ratio of the Company's total funded debt to consolidated EBITDA. The Company has also entered into various interest swap agreements which fixes the interest rates on a portion of the outstanding debt. Only one of these swaps remains active at December 31, 2011. As of December 31, 2011, the rate on these credit facilities averaged 3.69%. In addition, these credit facilities have an unused line fee based on the unused amount of the credit facilities equal to 25 basis points.

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

As of December 31, 2011, we had \$62,000 outstanding of the total committed amount of \$100,000. Availability under the credit facility was approximately \$5,021 at December 31, 2011.

The following table summarizes our significant contractual commitments at December 31, 2011:

| Contractual Obligations                              | Total            | Payment Due by Period |                  |                 | 2015 and beyond |
|--|------------------|-----------------------|------------------|-----------------|-----------------|
|  |                  | 2012                  | 2013             | 2014            |                 |
| Line of credit/acquisition facility                  | \$ 62,000        | \$                    | \$ 62,000        | \$              |                 |
| Estimated future interest payments on line of credit | 3,436            | 2,291                 | 1,145            |                 |                 |
| Operating leases                                     | 6,713            | 1,578                 | 1,441            | 1,342           | \$ 2,352        |
| Capital leases and other liabilities                 | 2,951            | 1,157                 | 706              | 469             | 619             |
| <b>Total contractual cash obligations</b>            | <b>\$ 75,100</b> | <b>\$ 5,026</b>       | <b>\$ 65,292</b> | <b>\$ 1,811</b> | <b>\$ 2,971</b> |

Estimated future interest payments on our line of credit were based upon the interest rates in effect at December 31, 2011.

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

We did not have any off-balance sheet arrangements during either of the years ended December 31, 2011 and 2010.

### **Recently Issued Accounting Pronouncements**

#### ASC Update No. 2010-06

In January 2010, the FASB issued ASC Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements. Update No. 2010-06 requires additional disclosure within the rollforward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, Update No. 2010-06 requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Level 2 and Level 3. We adopted Update No. 2010-06 for our first quarter ended March 31, 2010, except for the disclosure of purchases, sales, issuances and settlements of Level 3 measurements, for which disclosures were required for our first quarter ending March 31, 2011. The adoption of this guidance had no effect on our consolidated financial position or results of operations.

#### ASC Update No. 2009-13

In October 2009, the FASB issued ASC Update No. 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements. The consensus in Update No. 2009-13 supersedes certain guidance in Topic 605 (formerly EITF Issue No. 00-21, Multiple-Element Arrangements). Update No. 2009-13 provides principles and application guidance to determine whether multiple deliverables exist, how the individual deliverables should be separated and how to allocate the revenue in the arrangement among those separate deliverables. Update No. 2009-13 also expands the disclosure requirements for multiple-deliverable revenue arrangements. We adopted Update No. 2009-13 as of

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January 1, 2011. The adoption of this guidance had no effect on our consolidated financial position or results of operations.

ASC Update No. 2010-29

In December 2010, the FASB issued ASC Update No. 2010-29, Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations. Update No. 2010-29 clarifies paragraph 805-10-50-2(h) to require public entities that enter into business combinations that are material on an individual or aggregate basis to disclose pro forma information for such business combinations that occurred in the current reporting period, including pro forma revenue and earnings of the combined entity as though the acquisition date had been as of the beginning of the comparable prior annual reporting period only. We adopted Update No. 2010-29 in the quarter ended March 31, 2011, and the requisite disclosures are reflected in the notes to the consolidated financial statements.

ASU 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income

This ASU requires all nonowner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. However, ASU 2011-12 has deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. Entities should continue to report reclassifications out of accumulated comprehensive income consistent with the presentation requirements in effect before ASU 2011-05.

ASU 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment

The ASU gives an entity the option in its annual goodwill impairment test to first assess revised qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not required.

**Item 8. Financial Statements and Supplementary Data**

The financial statements required by this item are attached to this Annual Report on Form 10-K beginning on Page F-1.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

Not applicable.

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**Item 9A 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 report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2011. Our 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, our disclosure controls and procedures were effective as of December 31, 2011.

*(b) Management's Report on Internal Control over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by a company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. It includes those policies and procedures that:

- 1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of a company are being made only in accordance with authorizations of management and the board of directors of the company; and
- 3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on its financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management has used the criteria established in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework") to evaluate the effectiveness of the Company's internal control over financial reporting. Management has selected the COSO Framework for its evaluation as it is a control framework recognized by the SEC and the Public Company Accounting Oversight Board, that is free from bias, permits reasonably consistent qualitative and quantitative measurement of the Company's internal controls, is sufficiently complete so that relevant controls are not omitted, and is relevant to an evaluation of internal controls over financial reporting.

Management of the Company conducted an evaluation of the effectiveness, as of December 31, 2011, of the Company's internal control over financial reporting and on its evaluation under the COSO Framework, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

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

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item will be contained in our definitive Proxy Statement to be filed with the SEC in connection with our 2012 Annual Meeting of Stockholders (the "2012 Proxy Statement") under the captions "Election of Directors," "Board of Directors Meetings and Committees of the Board," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

We have adopted a Code of Ethics that applies to all our directors, officers and employees. The Code of Ethics is publicly available on our website at [www.summerinfant.com](http://www.summerinfant.com). Amendments to the Code of Ethics and any grant of a waiver from a provision of the Code of Ethics requiring disclosure under applicable SEC and Nasdaq rules will be disclosed on our website.

**Item 11. Executive Compensation**

The information required by this Item will be incorporated by reference from the information under the caption "Executive Compensation" contained in our 2012 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be incorporated by reference from the information under the caption "Ownership of Summer Infant, Inc. Common Stock" contained in our 2012 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be incorporated by reference from the information under the caption "Certain Relationships and Related Transactions" contained in our 2012 Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this item will be incorporated by reference from the information under the captions "Audit Fees", "Audit-Related Fees," "Tax Fees," "All Other Fees" and "Pre-Approval Policies and Procedures" contained in our 2012 Proxy Statement.

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**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) (1) Financial Statements

The list of consolidated financial statements and notes required by this Item 15 (a) (1) is set forth in the "Index to Financial Statements" on page F-1 of this Annual Report.

(2) Financial Statement Schedules

All schedules have been omitted because the required information is included in the financial statements or notes thereto.

(3) Exhibits

The exhibits listed in the "Index to Exhibits" immediately preceding the exhibits are filed as part of this Annual Report.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on the 29th day of February 2012.

SUMMER INFANT, INC.

By: /s/ JASON MACARI

Jason Macari  
*Chief Executive Officer*  
*(Principal Executive Officer)*

By: /s/ JOSEPH DRISCOLL

Joseph Driscoll  
*Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Name</b>                                   | <b>Title</b>   | <b>Date</b>       |
|---|--|-------------------|
| <u>/s/ JASON MACARI</u><br>Jason Macari       | Director and Chief Executive Officer (Principal Executive Officer)   | February 29, 2012 |
| <u>/s/ JOSEPH DRISCOLL</u><br>Joseph Driscoll | Chief Financial Officer (Principal Financial and Accounting Officer) | February 29, 2012 |
| <u>/s/ MARTIN FOGELMAN</u><br>Martin Fogelman | Director   | February 29, 2012 |
| <u>/s/ ROBERT STEBENNE</u><br>Robert Stebenne | Director   | February 29, 2012 |
| <u>/s/ RICHARD WENZ</u><br>Richard Wenz       | Director   | February 29, 2012 |
| <u>/s/ DERIAL SANDERS</u><br>Derial Sanders   | Director   | February 29, 2012 |
| <u>/s/ DAN ALMAGOR</u><br>Dan Almagor         | Director   | February 29, 2012 |

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**Exhibits.**

**Index to Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 2.1                | Agreement and Plans of Reorganization dated as of September 1, 2006, by and among KBL Healthcare Acquisition Corp. II, and its wholly owned subsidiary, SII Acquisition Corp., Summer Infant, Inc. ("SII"), Summer Infant Europe, Limited ("SIE") and Summer Infant Asia, Ltd. ("SIA" and, collectively, with SII and SIE, the "Targets") and the stockholders of the Targets(1)    |
| 2.2                | Purchase and Sale Agreement dated March 24, 2009 between Summer Infant (USA), Inc. and Faith Realty II, LLC(2)  |
| 2.3                | Lease Agreement dated March 24, 2009 between Summer Infant (USA), Inc. and Faith Realty II, LLC(2)  |
| 2.4                | Agreement and Plan of Merger, dated as of April 18, 2008, by and among Summer (USA), Inc., Kiddo Acquisition, Inc., and Kiddopotamus & Company and certain of its stockholders(3)   |
| 2.5                | Stock Purchase Agreement dated as of March 24, 2011, by and among the Registrant, Summer infant (USA), Inc., Born Free Holdings Ltd., and each stockholder of Born Free Holdings Ltd.(4)  |
| 3.1                | Amended and Restated Certificate of Incorporation(5)  |
| 3.2                | Certificate of Amendment to Amended and Restated Certificate of Incorporation(6)  |
| 3.3                | Amended and Restated Bylaws(7)  |
| 4.1                | Specimen Common Stock Certificate(3)  |
| 10.1               | Registration Rights Agreement by and among the Registrant, Jason Macari and Steven Gibree(1)  |
| 10.2**             | 2006 Performance Equity Plan(8)   |
| 10.3**             | Employment Agreement by and between the Registrant and Jason Macari dated February 1, 2010(9)   |
| 10.4               | Change of Control Agreement between the Registrant and Joseph Driscoll(9)   |
| 10.5               | Summer Infant, Inc, 2010 Employee Performance Incentive Plan(9)   |
| 10.6**             | Separation and Release Agreement, dated as of December 10, 2010, between the Registrant and Steven Gibree(10)   |
| 10.7               | Amended and Restated Credit Agreement, dated August 2, 2010, among the Registrant, Summer Infant (USA), Inc., Kiddopotamus & Company, Bank of America, N.A., as administrative agent, swing lender, and L/C issuer, and RBS Citizens, National Association, as Collateral Agent, and other lenders thereto(11)  |
| 10.8               | First Amendment to Amended and Restated Credit Agreement, dated as of March 24, 2011, among the Registrant, Summer Infant (USA), Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer, and RBS Citizens, National Association, as Collateral Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Lead Arranger and Book Manager(4) |

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.9               | Second Amendment to Amended and Restated Credit Agreement, dated as of November 9, 2011, among the Registrant, Summer Infant (USA), Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer, and RBS Citizens, National Association, as Collateral Agent |
| 10.10**            | Separation Agreement and Release, dated as of October 17, 2011, between the Registrant and Jeffrey Hale(12)  |
| 10.11**            | Offer Letter and Change of Control Agreement between the Registrant and David S. Hemendinger(12)   |
| 10.12**            | Non-Qualified Stock Option Agreement between the Registrant and David S. Hemendinger   |
| 10.13**            | Restricted Stock Award Agreement between the Registrant and David S. Hemendinger   |
| 21.1               | List of Subsidiaries(13)   |
| 23.1               | Consent of Independent Registered Public Accounting Firm   |
| 31.1               | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2               | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1               | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)  |
| 32.2               | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)  |
| 101.INS*           | XBRL Instance Document   |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document  |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB*           | XBRL Taxonomy Extension Labels Linkbase Document   |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document   |

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\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

\*\* Management contract or compensatory plan or arrangement

(1) Incorporated by reference to Annexes of the Registrant's Definitive Proxy Statement on Schedule 14A filed February 13, 2007

(2) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q/A filed August 18, 2009

(3) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed April 24, 2008

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- (4) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed March 8, 2011.
- (5) Incorporated by reference to Exhibits to the Registrant's Form 8-A filed March 6, 2007
- (6) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed June 7, 2010
- (7) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed November 21, 2011
- (8) Incorporated by reference to Appendix A to the Registrant's Definitive Proxy on Schedule 14A filed on April 29, 2008
- (9) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed February 4, 2010
- (10) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed December 13, 2010
- (11) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2010
- (12) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed October 19, 2011
- (13) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K filed March 27, 2008

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**Summer Infant, Inc. And Subsidiaries  
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| <u>Consolidated Balance Sheets</u>                             | <u>F-3</u>        |
| <u>Consolidated Statements of Income</u>                       | <u>F-4</u>        |
| <u>Consolidated Statements of Cash Flows</u>                   | <u>F-5</u>        |
| <u>Consolidated Statements of Stockholders' Equity</u>         | <u>F-6</u>        |
| <u>Notes to Consolidated Financial Statements</u>              | <u>F-7 - F-26</u> |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Summer Infant, Inc.

We have audited the accompanying consolidated balance sheets of Summer Infant, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summer Infant, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

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McGladrey & Pullen, LLP  
Boston, Massachusetts  
February 29, 2012

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Table of Contents**Summer Infant, Inc. and Subsidiaries****Consolidated Balance Sheets**

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

|  | December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| <b>CURRENT ASSETS</b>  |                      |                      |
| Cash and cash equivalents  | \$ 1,215             | \$ 1,138             |
| Trade receivables, net of allowance for doubtful accounts of \$110 and \$90 at December 31, 2011 and 2010, respectively      | 47,670               | 46,693               |
| Inventory, net   | 50,014               | 45,853               |
| Prepays and other current assets   | 4,095                | 2,783                |
| Deferred tax assets  | 265                  | 1,269                |
| <b>TOTAL CURRENT ASSETS</b>  | <b>103,259</b>       | <b>97,736</b>        |
| Property and equipment, net  | 17,682               | 14,958               |
| Goodwill   | 61,908               | 50,375               |
| Other intangible assets, net   | 30,045               | 14,745               |
| Other assets   | 21                   | 181                  |
| <b>TOTAL ASSETS</b>  | <b>\$ 212,915</b>    | <b>\$ 177,995</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                      |
| <b>CURRENT LIABILITIES</b>   |                      |                      |
| Line of credit and current portion of long-term debt (Including capital lease)   | 736                  | 1,256                |
| Accounts payable and accrued expenses  | 40,633               | 35,651               |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>41,369</b>        | <b>36,907</b>        |
| Long-term debt, less current portion   | 62,479               | 51,963               |
| Other liabilities  | 3,726                | 4,579                |
| Deferred tax liabilities   | 11,439               | 8,085                |
| <b>TOTAL LIABILITIES</b>   | <b>119,013</b>       | <b>101,534</b>       |
| <b>STOCKHOLDERS' EQUITY</b>  |                      |                      |
| Common Stock \$.0001 par value, issued and outstanding 17,717,667 and 15,450,227 at December 31, 2011 and 2010, respectively | 2                    | 1                    |
| Treasury Stock at cost (141,134 shares at December 31, 2011)   | (956)                |                      |
| Additional paid-in capital   | 71,158               | 56,431               |
| Retained earnings  | 24,301               | 20,490               |
| Accumulated other comprehensive loss   | (603)                | (461)                |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>93,902</b>        | <b>76,461</b>        |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 212,915</b>    | <b>\$ 177,995</b>    |

See notes to consolidated financial statements

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

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

|   | <b>For the year ended</b> |                     |
|---|---------------------------|---------------------|
|   | <b>December 31,</b>       | <b>December 31,</b> |
|   | <b>2011</b>               | <b>2010</b>         |
| Net sales   | \$ 238,172                | \$ 194,485          |
| Cost of goods sold                                  | 156,787                   | 124,994             |
| Gross profit  | 81,385                    | 69,491              |
| Selling, general and administrative expenses        | 67,187                    | 55,501              |
| Gain on settlement of acquisition related liability |                           | (1,770)             |
| Depreciation and amortization                       | 6,377                     | 5,384               |
| Net operating income                                | 7,821                     | 10,376              |
| Interest expense, net                               | (2,790)                   | (1,734)             |
| Income before provision for income taxes            | 5,031                     | 8,642               |
| Provision for income taxes                          | 1,220                     | 2,055               |
| <b>NET INCOME</b>                                   | <b>\$ 3,811</b>           | <b>\$ 6,587</b>     |
| Net income per share BASIC                          | \$ 0.22                   | \$ 0.43             |
| Weighted average shares outstanding BASIC           | 17,097,361                | 15,431,806          |
| Net income per share DILUTED                        | \$ 0.21                   | \$ 0.40             |
| Weighted average shares outstanding DILUTED         | 17,820,621                | 16,408,594          |

See notes to consolidated financial statements



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

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

|   | <b>For the year ended</b> |                     |
|---|---------------------------|---------------------|
|   | <b>December 31,</b>       | <b>December 31,</b> |
|   | <b>2011</b>               | <b>2010</b>         |
| <b>Cash flows from operating activities:</b>  |                           |                     |
| Net income  | \$ 3,811                  | \$ 6,587            |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                           |                     |
| Change in value of interest rate swap agreements  | (257)                     | (476)               |
| Depreciation and amortization   | 6,377                     | 5,384               |
| Stock-based compensation  | 1,187                     | 1,057               |
| Deferred income taxes   | 4,358                     | 2,279               |
| Changes in assets and liabilities, net of effects of acquisitions                           |                           |                     |
| (Increase) decrease in accounts receivable  | 990                       | (14,752)            |
| Increase in inventory   | (1,936)                   | (14,442)            |
| Increase in prepaids and other current assets   | (1,344)                   | (331)               |
| Decrease in other assets  | 160                       | 56                  |
| Increase (decrease) in accounts payable and accrued expenses                                | (3,961)                   | 5,777               |
| Net cash provided by (used in) operating activities   | 9,385                     | (8,861)             |
| <b>Cash flows from investing activities:</b>  |                           |                     |
| Acquisitions of property and equipment  | (6,688)                   | (7,902)             |
| Acquisitions of other intangible assets   | (121)                     |                     |
| Acquisitions, net of cash acquired  | (13,960)                  | (880)               |
| Net cash used in investing activities   | (20,769)                  | (8,782)             |
| <b>Cash flows from financing activities:</b>  |                           |                     |
| Net borrowings of debt  | 9,187                     | 17,345              |
| Issuance of common stock upon exercise of stock options                                     | 2,002                     | 32                  |
| Net cash provided by financing activities   | 11,189                    | 17,377              |
| Effect of exchange rate changes on cash and cash equivalents                                | 272                       | 472                 |
| Net increase in cash and cash equivalents   | 77                        | 206                 |
| Cash and cash equivalents at beginning of year  | 1,138                     | 932                 |
| Cash and cash equivalents at end of year  | \$ 1,215                  | \$ 1,138            |
| Supplemental disclosure of cash flow information:   |                           |                     |
| Cash paid during the year for interest  | \$ 2,622                  | \$ 1,829            |
| Cash paid during the year for income taxes  | \$ 1,257                  | \$ 2,069            |
| Non cash investing and financing activities:  |                           |                     |
| Issuance of common stock in conjunction with the acquisitions (see note 1)                  | \$ 9,652                  | \$                  |
| Capital lease obligations incurred  | \$ 1,146                  | \$ 713              |
| Issuance of common stock Butterfly Earn-out   | \$ 931                    | \$                  |
| Supplemental Disclosures of Cash Flow Information:  |                           |                     |
| Summary of entities acquired in purchase business combinations                              |                           |                     |

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|  |    |          |    |
|--|----|----------|----|
| Fair value of assets acquired                            | \$ | 21,274   | \$ |
| Goodwill Acquired  | \$ | 11,532   | \$ |
| Liabilities Assumed                                      | \$ | (9,239)  | \$ |
| Issuance of Common Stock in conjunction with acquisition | \$ | (9,607)  | \$ |
| Cash Paid  | \$ | (13,960) | \$ |

See notes to consolidated financial statements

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Table of Contents**Consolidated Statements of Stockholders' Equity****For the Years Ended December 31, 2011 and 2010**

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

|  | Commons Stock |        | Additional<br>Paid in<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Comprehensive<br>Income |                         | Total<br>Equity |
|--|---------------|--------|----------------------------------|-------------------|----------------------|--|-------------------------|-----------------|
|  | Shares        | Amount |                                  |                   |                      | (Loss)                                 | Comprehensive<br>Income |                 |
| <b>Balance at December 31, 2009</b>                        | 15,356,727    | \$ 1   | \$ 55,342                        |                   | \$ 13,903            | \$ (266)                               |                         | \$ 68,980       |
| Issuance of common stock upon vesting of restricted shares | 80,750        |        |                                  |                   |                      |  |                         |                 |
| Issuance of common stock upon exercise of stock options    | 12,750        |        | 32                               |                   |                      |  |                         | 32              |
| Stock-based compensation                                   |               |        | 1,057                            |                   |                      |  |                         | 1,057           |
| Net income for the year                                    |               |        |                                  |                   | 6,587                |  | 6,587                   |                 |
| Foreign currency translation adjustment                    |               |        |                                  |                   |                      | (195)                                  | (195)                   |                 |
| <b>Total comprehensive income</b>                          |               |        |                                  |                   |                      |  | 6,392                   | 6,392           |
| <b>Balance at December 31, 2010</b>                        | 15,450,227    | \$ 1   | \$ 56,431                        |                   | \$ 20,490            | \$ (461)                               |                         | \$ 76,461       |
| Acquisition of Born Free                                   | 1,510,989     | \$ 1   | 10,607                           | (956)             |                      |  |                         | 9,652           |
| Issuance of common stock Butterfly Earn-Out                | 129,618       |        | 931                              |                   |                      |  |                         | 931             |
| Issuance of common stock upon vesting of restricted shares | 156,233       |        |                                  |                   |                      |  |                         |                 |
| Issuance of common stock upon exercise of stock options    | 470,600       |        | 2,002                            |                   |                      |  |                         | 2,002           |
| Stock-based compensation                                   |               |        | 1,187                            |                   |                      |  |                         | 1,187           |
| Net income for the year                                    |               |        |                                  |                   | 3,811                |  | 3,811                   |                 |
| Foreign currency translation adjustment                    |               |        |                                  |                   |                      | (142)                                  | (142)                   |                 |
| <b>Total comprehensive income</b>                          |               |        |                                  |                   |                      |  | 3,669                   | 3,669           |
| <b>Balance at December 31, 2011</b>                        | 17,717,667    | \$ 2   | \$ 71,158                        | \$ (956)          | \$ 24,301            | \$ (603)                               |                         | \$ 93,902       |

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

All significant intercompany accounts and transactions have been eliminated in the consolidation.

All dollar amounts are in thousands of U.S. dollars except share and per share amounts.

**Company History**

On March 6, 2007, under an Agreement and Plan of Reorganization, dated as of September 1, 2006 ("Acquisition Agreement"), KBL Healthcare Acquisition Corp. II ("KBL"), and its wholly owned subsidiary, SII Acquisition Corp. ("Acquisition Sub"), consummated a transaction by which (i) Summer Infant, Inc. ("SII") was merged with and into Acquisition Sub and (ii) all of the outstanding capital stock of each of Summer Infant Europe, Limited ("SIE") and Summer Infant Asia, Ltd. ("SIA") was acquired directly by KBL. As used in this Report, the term "Company" means the registrant on a post-acquisition basis. At the closing of the acquisition, the Summer stockholders received from the Company an aggregate of \$20,000 cash and 3,916,667 shares of company common stock.

Effective upon closing, the Company changed its name to Summer Infant, Inc. and SII changed its name to Summer Infant (USA), Inc. Thus, the Company became a holding company called Summer Infant, Inc. operating through its wholly-owned subsidiaries, Summer Infant (USA), Inc., Summer Infant Europe, Limited, and Summer Infant Asia, Ltd.

On November 7, 2008, Summer Infant (USA), Inc. created a wholly-owned subsidiary called Summer Infant Canada, Ltd. ("SIC"). On March 24, 2011, the Company and Summer Infant (USA) acquired all the outstanding capital stock of Born Free Holdings Ltd., which is now a wholly-owned subsidiary.

**Company Overview**

The Company is a designer, marketer, and distributor of branded juvenile health, safety and wellness products which are sold principally to large North American and United Kingdom retailers. The Company currently markets products in various product categories including nursery audio/video monitors, safety gates, durable bath products, bed rails, nursery products, booster and potty seats, bouncers, travel accessories, high chairs, swings, feeding products, car seats, and nursery furniture.

*Nature of Operations and Basis of Presentation and Principles of Consolidation*

It is the Company's policy to prepare its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of its wholly-owned subsidiaries.

**Summary of Significant Accounting Policies**

*Revenue Recognition*

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

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

records a reduction of sales for estimated future defective product deductions based on historical experience.

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

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, cash and cash equivalents include money market accounts and investments with an original maturity of three months or less. At times, the Company possesses cash balances in excess of federally-insured limits.

*Trade Receivables*

Trade receivables are carried at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to specific customers' ability to pay and current economic trends. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

*Inventory Valuation*

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

*Property and Equipment*

Property and equipment are recorded at cost. The Company owns the molds used in the production of its products by third party manufacturers. Capitalized mold costs include costs incurred for the pre-production design and development of the molds.

Depreciation is provided over the estimated useful lives of the respective assets using either straight-line or accelerated methods.

*Impairment of Long-Lived Assets*

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered to be impaired when its carrying amount exceeds the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition. Long-lived assets include property and equipment. The amount of impairment loss, if any, is charged by the Company to current operations. For each of the years ended December 31, 2011 and 2010, no such impairment existed.

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Goodwill and Other Intangible Assets*

The Company accounts for goodwill and other intangible assets in accordance with accounting guidance that 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. Management evaluates the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, it is amortized prospectively over its estimated remaining useful life. For the years ended December 31, 2011 and 2010, the Company has determined that no such impairment existed.

*Fair Value Measurements*

Effective January 1, 2008, the Company adopted ASC 820 Fair Value Measurements and Disclosures which establishes a new framework for measuring fair value and expands related disclosures. Broadly, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The standard established a three-level valuation hierarchy based upon observable and non-observable inputs.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

The Company maintains policies and procedures to value instruments using the best and most relevant data available. In addition, the Company utilizes risk management resources that review valuation, including independent price validation.

The Company has used derivatives to fix interest rates. As a matter of policy, the Company does not use derivatives for speculative purposes. This is a requirement in the Company's loan agreement to mitigate interest rate risk.

The Company recognizes the fair value of interest rate swaps using Level 2 inputs.

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## SUMMER INFANT, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Fair Values of Derivative Instruments

|   | 2011                   |            | Liability Derivatives            |                        | 2010       |                                  |
|---|------------------------|------------|----------------------------------|------------------------|------------|----------------------------------|
|   | Balance Sheet Location | Fair Value | Change in Fair Value Gain/(Loss) | Balance Sheet Location | Fair Value | Change in Fair Value Gain/(Loss) |
| (In Thousands of Dollars)   |                        |            |                                  |                        |            |                                  |
| As of December 31   |                        |            |                                  |                        |            |                                  |
| Derivatives not designated as effective hedging instruments under Subtopic 815-20       |                        |            |                                  |                        |            |                                  |
| Interest rate contracts   | Other liabilities      | \$ (88)    | \$ 257                           | Other liabilities      | \$ (345)   | \$ 476                           |
| Total derivatives not designated as effective hedging instruments under Subtopic 815-20 |                        | \$ (88)    |                                  | \$ (345)               |            |                                  |

The notional amounts under the interest rate swap agreements total \$3,522 which is approximately 6% of the Company's total outstanding bank debt at December 31, 2011.

The Company's financial instruments include cash and cash equivalents, accounts and notes receivable, interest rate swaps, accounts payable, accrued expenses, and short and long-term borrowings. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value. The carrying value of long-term borrowings approximates fair value, which is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

*Income taxes*

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 that such benefits will be realized.

Previously, the Company adopted the provisions of a new standard which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized upon adoption and in subsequent periods. Upon the adoption, and at December 31, 2011 and 2010, the Company did not have any uncertain tax positions. No interest and penalties related to uncertain tax positions were accrued at December 31, 2011 and 2010.

The tax years 2007 through 2010 remain open to examination by the major taxing jurisdictions in which the Company operates. The Company's federal tax return for the year ended December 31, 2009 is currently being audited by the Internal Revenue Service. The Company expects no material changes to unrecognized tax positions within the next twelve months.

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Translation of Foreign Currencies*

The assets and liabilities of the Company's European, Canadian, Israeli, and Asian operations have been translated into U.S. dollars at year-end exchange rates. All assets and liabilities of the Company's foreign affiliates are translated into U.S. dollars at the exchange rate in effect at the end of the year and the income and expense accounts of these affiliates 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 (loss). Transaction gains and losses are included in the statements of income.

*Shipping Costs*

Shipping costs are included in selling expenses and amounted to approximately \$2,329 and \$3,260 for the years ended December 31, 2011 and 2010, respectively.

*Advertising Costs*

The Company charges advertising costs to selling, general and administration expense as incurred. Advertising expense, which consists primarily of promotional and cooperative advertising allowances provided to customers, was approximately \$17,565 and \$15,455 for the years ended December 31, 2011 and 2010, respectively.

*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 is calculated by dividing net income for the period by the weighted average number of common stock outstanding during the period.

Diluted earnings per share for the Company is computed by dividing net income by the sum of: the weighted-average number of shares of common stock outstanding during the period; the dilutive impact (using the "treasury stock" method) of "in the money" stock options; and unvested restricted shares issued to employees. Options to purchase 50,150 and 28,000 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 years ended December 31, 2011 and 2010, respectively.

*New Accounting Pronouncements*

ASC Update No. 2010-29

In December 2010, the FASB issued ASC Update No. 2010-29, Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations. Update No. 2010-29 clarifies paragraph 805-10-50-2(h) to require public entities that enter into business combinations that are material on an individual or aggregate basis to disclose pro forma information for such business combinations that occurred in the current reporting period, including pro forma



Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

revenue and earnings of the combined entity as though the acquisition date had been as of the beginning of the comparable prior annual reporting period only. The Company adopted Update No. 2010-29 in the quarter ended March 31, 2011, and the requisite disclosures are reflected in the notes to the consolidated financial statements.

## ASU 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income

This ASU requires all nonowner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. However, ASU 2011-12 has deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. Entities should continue to report reclassifications out of accumulated comprehensive income consistent with the presentation requirements in effect before ASU 2011-05.

## ASU 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment

This ASU gives an entity the option in its annual goodwill impairment test to first assess revised qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.

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

**2. PROPERTY AND EQUIPMENT**

Property and equipment, at cost, consist of the following:

|                                     | <b>December 31,</b>   |                  | <b>Depreciation/<br/>Amortization Period</b> |
|-------------------------------------|-----------------------|------------------|--|
|                                     | <b>2011</b>           | <b>2010</b>      |  |
|                                     | <b>(In Thousands)</b> |                  |  |
| Computer-related                    | \$ 3,639              | \$ 3,166         | 5 years                                      |
| Tools and dies and Prototypes/molds | 19,638                | 14,944           | 1 - 5 years                                  |
| Building                            | 4,156                 | 4,156            | 30 years                                     |
| Other                               | 5,702                 | 3,000            | various                                      |
|                                     | 33,135                | 25,266           |  |
| Less accumulated depreciation       | 15,453                | 10,308           |  |
| <b>Property and Equipment, net</b>  | <b>\$ 17,682</b>      | <b>\$ 14,958</b> |  |

Property and equipment includes amounts acquired under capital leases of approximately \$2,537 and \$1,628 at December 31, 2011 and 2010, respectively, with related accumulated depreciation of approximately \$464 and \$394, respectively. Total depreciation expense was \$5,154 and \$4,425 for the years ended December 31, 2011 and 2010, respectively.

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## SUMMER INFANT, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. GOODWILL AND INTANGIBLE ASSETS

*Goodwill*

Goodwill is tested for impairment on an annual basis and more frequently if facts and circumstances indicate goodwill carrying values exceed estimated fair values. Because the Company has fully integrated its acquisitions, it has determined that it has only one reporting unit for purposes of testing for goodwill impairment. Based on the impairment tests performed, there was no impairment of goodwill in 2011 or 2010.

The change in goodwill during the years ended December 31, 2011 and December 31, 2010 was as follows:

|                                    | (In Thousands) |           |
|------------------------------------|----------------|-----------|
|                                    | 2011           | 2010      |
| Balance at beginning of year       | \$ 50,375      | \$ 49,496 |
| Acquisitions and other adjustments | 11,532         | 879       |
| Balance at end of year             | \$ 61,907      | \$ 50,375 |

*Intangible assets*

Intangible assets consist of the following:

|                                | December 31,   |           |
|--------------------------------|----------------|-----------|
|                                | 2011           | 2010      |
|                                | (In Thousands) |           |
| Brand names                    | \$ 22,700      | \$ 10,900 |
| Patents and licenses           | 1,711          | 1,581     |
| Customer lists                 | 6,946          | 2,355     |
| Other intangibles              | 1,886          | 1,886     |
|                                | 33,243         | 16,722    |
| Less: Accumulated amortization | (3,198)        | (1,976)   |
| Intangible assets, net         | \$ 30,045      | \$ 14,745 |

The amortization period for the majority of the intangible assets ranges from 5 to 15 years for those assets that have an estimated life; certain of the assets have indefinite lives (including brand names and several significant customer relationships). Total of intangibles not subject to amortization amounted to \$22,546 and \$10,746 for the years ended December 31, 2011 and 2010, respectively. There was no impairment of intangible assets in 2011 or 2010.

Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. GOODWILL AND INTANGIBLE ASSETS (Continued)**

Amortization expense amounted to \$1,222 and \$959 for the years ended December 31, 2011 and 2010, respectively. Estimated amortization expense for the next five years is as follows:

| Year ending December 31, | (In Thousands) |
|--------------------------|----------------|
| 2012                     | \$ 1,080       |
| 2013                     | 998            |
| 2014                     | 626            |
| 2015                     | 586            |
| 2016                     | 586            |

**4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following:

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2011             | 2010             |
|   | (In Thousands)   |                  |
| Accounts payable                                    | \$ 22,775        | \$ 20,122        |
| Customer advertising and allowances                 | 4,251            | 4,703            |
| Accrued purchases of inventory                      | 6,701            | 7,869            |
| Other (none in excess of 5% of current liabilities) | 6,906            | 2,957            |
| <b>Total</b>  | <b>\$ 40,633</b> | <b>\$ 35,651</b> |

**5. DEBT***Credit Facilities*

In August 2010, the Company entered into a secured credit facility with Bank of America, N.A., as Administrative Agent, and each of the financial institutions a signatory to the agreement. The agreement was amended on March 24, 2011 and on November 9, 2011 (as amended, the "Loan Agreement"). The Loan Agreement provides for an \$80,000 working capital revolving credit facility and a \$20,000 "accordion" credit facility. The Loan Agreement was amended on November 9, 2011, which modified certain financial covenants. The amounts outstanding under the revolving credit facility are payable in full upon maturity. The credit facilities mature on June 30, 2013. The amount outstanding on the credit facilities at December 31, 2011 was \$62,000, and the amount of availability was approximately \$5,021.

Aggregate maturities of long term debt related to this note are as follows:

|                          | (In Thousands) |               |
|--------------------------|----------------|---------------|
| Year ending December 31: | 2012           | \$ 0          |
|                          | 2013           | 62,000        |
| <b>Total</b>             | <b>\$</b>      | <b>62,000</b> |

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. DEBT (Continued)**

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. This credit facility is secured by substantially all of the assets of the Company.

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 consolidated EBITDA (as defined in the Loan Agreement) of at least \$20,000 for the twelve months ended December 31, 2011, which increases to \$23,000 on a quarterly basis over the remainder of the term; (ii) that the Company and its subsidiaries maintain a ratio of total funded debt to consolidated EBITDA of not greater than 3.25:1.00, and (iii) that the Company and its subsidiaries maintain a ratio of operating cash flow to debt service of not less than 1.50:1.00. Upon utilizing all approved and permitted Add Backs, as defined in the Loan Agreement, the Company is in compliance with these and all other covenants at December 31, 2011.

These credit facilities bear interest at a floating rate based on a spread over LIBOR ranging from 200 basis points to 300 basis points, depending upon the ratio of the Company's total funded debt to consolidated EBITDA. The Company has also entered into various interest swap agreements which effectively fix the interest rates on a portion of the outstanding debt of which one is still active at December 31, 2011. As of December 31, 2011, the rate on these credit facilities averaged 3.69%. In addition, these credit facilities have an unused line fee based on the unused amount of the credit facilities equal to 25 basis points.

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

During 2010, the Company also initiated an agreement to borrow against certain international receivables. Approximately \$831 relating to this agreement is included in the current portion of long term debt at December 31, 2010. This agreement was terminated in 2011.

**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 Chief Executive Officer of the Company, and his spouse), pursuant to which Faith Realty purchased the corporate headquarters of the Company located at 1275 Park East Drive, Woonsocket, Rhode Island (the "Headquarters"), for \$4,052 and subsequently leased the Headquarters back to Summer USA for an annual rent of \$390 during the initial seven year term of the lease, payable monthly and in advance. The lease will expire on the seventh 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 additional period of five years. If Summer USA elects to extend the term of the lease for an additional five years, the annual rent for the first two years of the extension term shall be equal to \$429 and for the final three years of the extension term shall be equal to \$468. In addition, during the first six 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 (110% of the initial sale price). With the majority of the proceeds of the sale of the Headquarters Summer USA paid off the

Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. DEBT (Continued)**

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 transaction has been recorded as a financing lease, with no gain recognition. At December 31, 2011, approximately \$102 was included in accounts payable and accrued expenses, with the balance of approximately \$3,638 included in other liabilities, in the accompanying consolidated balance sheet. This obligation is reduced each month (along with a charge to interest expense) as the rent payment is made to Faith Realty.

On February 25, 2009, the Company's board of Directors (with Mr. Macari abstaining from such action) approved the sale leaseback transaction. 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 sale leaseback transaction 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 sale leaseback transaction is 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 sale leaseback transaction (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).

**6. INCOME TAXES**

The provision for income taxes is summarized as follows:

|                              | 2011           |    | 2010  |
|------------------------------|----------------|----|-------|
|                              | (In Thousands) |    |       |
| Current:                     |                |    |       |
| Federal                      | \$ (74)        | \$ | (268) |
| Foreign                      | 907            |    | 769   |
| State and Local              | 135            |    | 273   |
| Total Current                | 968            |    | 774   |
| Deferred (primarily federal) | 252            |    | 1,281 |
| Total expense                | \$ 1,220       | \$ | 2,055 |

Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. INCOME TAXES (Continued)**

The tax effects of temporary differences that comprise the deferred tax liabilities and assets are as follows:

|  | 2011               | 2010              |
|--|--------------------|-------------------|
|  | (In Thousands)     |                   |
| <b>Assets (Liabilities)</b>  |                    |                   |
| Deferred tax asset-current:  |                    |                   |
| Accounts receivable and inventory reserves                           | \$ 265             | \$ 361            |
| Research and development credit carry-forward and other              |                    | 908               |
| <b>Net deferred tax asset-current</b>                                | <b>265</b>         | <b>1,269</b>      |
| Deferred tax (liability) asset-non-current:                          |                    |                   |
| Research and development credit and net operating loss carry-forward | 1,877              |                   |
| Intangible assets and other  | (9,573)            | (5,620)           |
| Property, plant and equipment  | (3,067)            | (2,465)           |
| <b>Total deferred tax liability</b>                                  | <b>(10,763)</b>    |                   |
| <b>Valuation allowance</b>   | <b>(676)</b>       |                   |
| <b>Net deferred tax liability non-current:</b>                       | <b>(11,439)</b>    | <b>(8,085)</b>    |
| <b>Net deferred income tax liability</b>                             | <b>\$ (11,174)</b> | <b>\$ (6,815)</b> |

The following reconciles the provision for income taxes at the U.S. federal income tax statutory rate to the expense in the consolidated financial statements:

|  | 2011            | 2010            |
|--|-----------------|-----------------|
|  | (In Thousands)  |                 |
| Tax expense at statutory rate                              | \$ 1,711        | \$ 2,938        |
| State income taxes, net of U.S. federal income tax benefit | (419)           | 371             |
| Stock options  | 155             | 250             |
| Foreign dividend   | 544             | 0               |
| Valuation allowance of state R&D credits                   | 676             | 0               |
| Foreign tax rate differential                              | (1,207)         | (1,098)         |
| Tax credits  | (161)           | (364)           |
| Non-deductible expenses                                    | 114             | 10              |
| Other  | (193)           | (52)            |
| <b>Total expense</b>                                       | <b>\$ 1,220</b> | <b>\$ 2,055</b> |

The Company had undistributed earnings from its foreign subsidiaries of approximately \$14,316 at December 31, 2011 which is all considered to be permanently reinvested due to the Company's plans to reinvest such earnings for future expansion in certain foreign jurisdictions. The amount of taxes attributable to the permanently reinvested undistributed earnings is not practicably determinable.

As of Dec. 31, 2011, the Company has approx. \$1,529,000 of net operating loss carryforwards to offset future federal taxable income. Such carryforwards begin to expire in 2028. The Company also has approx. \$212K of net operating losses in the United Kingdom which can be carried forward indefinitely.



Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. INCOME TAXES (Continued)**

Authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported, if based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all evidence, including the Companies' past earnings history and future earnings forecast, management has determined that a valuation allowance in the amount of \$676K relating to certain state tax credits is necessary at Dec. 31, 2011.

Upon the adoption, and at December 31, 2011 and 2010, the Company did not have any uncertain tax positions. No interest and penalties related to uncertain tax positions were accrued at December 31, 2011 and 2010. The tax years 2008 through 2010 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.

**7. STOCK OPTIONS AND RESTRICTED SHARES**

The Company has granted stock options and restricted shares 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 the Company or its subsidiaries and who are deemed to have contributed or to have the potential to contribute to our success. The Company accounts for options under the fair value recognition standard. The application of this standard resulted in share-based compensation expense for the years ended December 31, 2011 and 2010 of \$1,187 and \$1,057, respectively. Stock based compensation expense is included in selling, general and administrative expenses. There were no share-based payment arrangements capitalized as part of the cost of an asset.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Summer has insufficient history by which to estimate the expected term of the options, but used an estimate for grants of "plain vanilla" stock options based on a formula prescribed by the SEC. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized in the consolidated financial statements in 2011 and 2010 is based on awards that are ultimately expected to vest.

The following table summarizes the weighted average assumptions used for options granted during the year ended December 31, 2011 and 2010.

|                          | 2011  | 2010  |
|--------------------------|-------|-------|
| Expected life (in years) | 6.0   | 6.0   |
| Risk-free interest rate  | 1.71% | 1.18% |
| Volatility               | 55%   | 55%   |
| Dividend yield           | 0%    | 0%    |
| Forfeiture rate          | 10%   | 10%   |

The weighted-average grant date fair value of options granted during the year ended December 31, 2011 was \$ 3.84 per share which totals \$379 for the 98,650 options granted during such period. During



Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. STOCK OPTIONS AND RESTRICTED SHARES (Continued)**

the year ended December 31, 2010, the weighted-average grant date fair value of options granted was \$3.19 per share which totaled \$603 for the 189,500 options granted during the year.

A summary of the status of the Company's options as of December 31, 2011 and changes during the year then ended is presented below:

|  | Number Of<br>Shares | Weighted-<br>Average<br>Exercise<br>Price |
|--|---------------------|---|
| Outstanding at beginning of year         | 2,187,850           | \$ 3.90                                   |
| Granted                                  | 98,650              | \$ 7.32                                   |
| Exercised                                | (470,600)           | \$ 4.25                                   |
| Canceled                                 | (220,500)           | \$ 3.17                                   |
| Outstanding at end of year               | 1,595,400           | \$ 4.08                                   |
| Options exercisable at December 31, 2011 | 1,182,250           | \$ 3.96                                   |

The intrinsic value of options exercised totaled \$1.702 and \$10 for the years ended December 31, 2011 and 2010, respectively.

The following table summarizes information about stock options at December 31, 2011:

| Year Granted | Range of<br>Exercise<br>Prices | Options Outstanding   |   |  | Options Exercisable   |  |
|--------------|--------------------------------|-----------------------|---|--|-----------------------|--|
|              |                                | Number<br>Outstanding | Remaining<br>Contractual<br>Life<br>(years) | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price |
| 2007         | \$5.20 -<br>\$5.25             | 623,500               | 5.5   | \$ 5.22                                  | 623,500               | \$ 5.22                                  |
| 2009         | \$2.14 -<br>\$4.33             | 741,750               | 7.2   | \$ 2.35                                  | 525,875               | \$ 2.33                                  |
| 2010         | \$5.36 -<br>\$7.79             | 131,500               | 8.5   | \$ 5.94                                  | 32,8750               | 5.99                                     |
| 2011         | \$6.70 -<br>\$8.00             | 98,650                | 9.5   | \$ 7.32                                  |                       |  |

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2011 is \$2,308 and \$1,449, respectively.

|   | Number of<br>Options | Grant Date<br>Fair Value |
|---|----------------------|--------------------------|
| Non-Vested options at December 31, 2010 | 1,039,650            | \$ 1.40                  |
| Options Granted                         | 98,650               | 3.84                     |
| Options Vested                          | (504,650)            | 1.33                     |
| Options forfeited                       | (220,500)            | 1.37                     |
| Non-Vested options at December 31, 2011 | 413,150              | 2.08                     |

As of December 31, 2011, there was approximately \$889 of unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a remaining weighted-average vesting period of 2 years.



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## SUMMER INFANT, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**7. STOCK OPTIONS AND RESTRICTED SHARES (Continued)**

Restricted stock awards require no payment from the grantee. The related compensation cost of each award is calculated using the market price on the grant date and is expensed equally over the vesting period. A summary of restricted stock awards for the Company's stock incentive plan for the year ended December 31, 2011, is as follows:

|  | Number of<br>Shares | Grant<br>Date<br>Fair Value |
|--|---------------------|-----------------------------|
| Unvested restricted stock awards as of December 31, 2010 | 156,500             | \$ 2.40                     |
| Granted  | 261,878             | 7.62                        |
| Vested   | (156,233)           | 5.26                        |
| Forfeited  | (30,016)            | 6.00                        |
| Unvested restricted stock awards as of December 31, 2011 | 232,129             | \$ 5.91                     |

As of December 31, 2011, there was approximately \$896 of unrecognized compensation cost related to non-vested stock compensation arrangements granted under the Company's stock incentive plan for restricted stock awards. That cost is expected to be recognized over the next three years. The Company did not grant any restricted stock awards prior to 2009.

The Company is authorized to issue up to 3,000,000 stock options and restricted shares under the 2006 Plan. As of December 31, 2011, there are 422,888 shares available to grant under the 2006 Plan.

**8. CAPITAL LEASE OBLIGATIONS**

The Company leases certain equipment under capital leases which expire over the next several years.

The leases require monthly payments of principal and interest, imputed at interest rates ranging from 3% to 18% per annum.

The capital lease liability balance of approximately \$1,261 and \$844 is included in debt on the consolidated balance sheets as of December 31, 2011 and 2010, respectively, (of which approximately \$395 is included in long-term debt each year, and the balance is in current portion of long-term debt). The minimum future lease payments, including principal and interest, are approximately \$1,332 and \$2,972, respectively.

**Future Minimum Lease Payments**

|                        | Total | 2012 | 2013 | 2014 | 2015 | 2016<br>& Beyond |
|------------------------|-------|------|------|------|------|------------------|
| Capital Lease Payments | 1,332 | 781  | 329  | 90   | 79   | 53               |
| Interest               | (71)  | (44) | (14) | (8)  | (4)  | (1)              |
| Principal              | 1,261 | 737  | 315  | 82   | 75   | 52               |

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. PROFIT SHARING PLAN**

Summer Infant (USA), Inc maintains a defined contribution salary deferral plan (the Plan) under Section 401(k) of the Internal Revenue Code. All employees who meet the Plan's eligibility requirements can participate. Employees may elect to make contributions up to 25% of their compensation. In 2007, the Company adopted a matching plan which was funded throughout the year. For the years ended December 31, 2011 and 2010, the Company recorded 401(k) matching expense of \$211 and \$200, respectively.

**10. MAJOR CUSTOMERS**

Sales to three customers comprised approximately 39%, 11%, and 10%, respectively, for the year ended December 31, 2011. Amounts due from these three customers comprised approximately 39%, 12%, and 11% of trade receivables, respectively, at December 31, 2011. Sales to one customer comprised approximately 51% of sales for the year ended December 31, 2010. Amounts due from the one customer comprised approximately 46% of trade receivables at December 31, 2010.

**11. COMMITMENTS AND CONTINGENCIES**

*Royalty Commitments*

Summer Infant (USA), Inc has entered into various license agreements with third parties for the use of product designs and trade names for the products manufactured by the Company. These agreements have termination dates through December 2013. Royalty expense under these licensing agreements for the years ended December 31, 2011 and 2010 were approximately \$2,475 and \$2,139, respectively.

*Customer Agreements*

The Company enters into annual agreements with its customers in the normal course of business. These agreements define the terms of product sales including in some instances cooperative advertising costs and product return privileges (for defective products only) or defective allowances (which are based upon historical experience). These contracts are generally annual in nature and obligate the Company only as to products actually sold to the customer.

*License Agreements and Lease Commitments*

For lease agreements with escalation clauses, the Company records the total rent to be paid under the lease on a straight-line basis over the term of the lease, with the difference between the expense recognized and the cash paid recorded as a deferred rent liability included in accounts payable and accrued expenses on the balance sheet for amounts to be recognized within twelve months and in other liabilities for amounts to be recognized after twelve months from the balance sheet date, in the consolidated balance sheets. Lease incentives are recorded as deferred rent at the beginning of the lease term and recognized as a reduction of rent expense over the term of the lease.

Summer Infant (USA), Inc. leases an office under a four year agreement which requires monthly payments of approximately \$4 through July 2012.

SIE leases office space under a non-cancelable operating lease agreement. This lease is for a five-year term through April 2012, and requires monthly payments of approximately \$6. In addition, SIE is required to pay its proportionate share of property taxes.

Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. COMMITMENTS AND CONTINGENCIES (Continued)**

Summer Infant Canada, Ltd. entered into a five-year lease for office and warehouse space under a non-cancelable operating lease agreement expiring March 2013. The Company is obligated as part of the lease to pay maintenance expenses as well as property taxes and insurance costs as defined in the agreement. Monthly payments for the initial year are approximately \$13 and escalate over the course of the lease term. Summer Infant Canada, Ltd. has the option to renew this lease for one additional period of five years under the same terms and conditions.

Summer Infant (USA) Inc. entered into a 72 month lease in September 2010 for warehouse space under a non-cancelable operating lease agreement. The Company is obligated to pay certain common area maintenance charges including insurance and utilities. The initial lease term is 10 months of free rent followed by 6 monthly payments of approximately \$64 and escalate over the course of the lease term.

During November 2011, SIA entered into a two year office lease which requires monthly payments of \$6 through October 2013.

Approximate future minimum rental payments due under these leases are as follows(a):

| <b>Year Ending</b> | <b>(In Thousands)</b> |
|--------------------|-----------------------|
| December 31, 2012  | \$ 1,528              |
| December 31, 2013  | 1,426                 |
| December 31, 2014  | 1,342                 |
| December 31, 2015  | 1,397                 |
| December 31, 2016  | 956                   |
| <b>Total</b>       | <b>\$ 6,649</b>       |

(a) Amounts exclude payments for Sales-Leaseback transaction as described in Note 5.

Rent expense (excluding taxes, fees and other charges) for the years ended December 31, 2011 and 2010 totaled approximately \$1,627 and \$2,519, respectively.

*Employment Contracts*

In accordance with United Kingdom and EU law, SIE has employment contracts with all employees. In connection with these contracts, SIE is required to fund the individual pension contributions of certain employees at varying rates from 5% to 10% of the employee's annual salary, as part of their total compensation package. These pension contributions are expensed as incurred. There are no termination benefit provisions in these contracts.

*Litigation*

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. In October 2009, a purported class action suit was filed in the State of Illinois against the Company and Toys "R" Us alleging violations of the Illinois Consumer Fraud and Deceptive Business Practices Act and similar laws in other states, the Magnuson-Moss Warranty Act, negligence and other claims relating to analog video

Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. COMMITMENTS AND CONTINGENCIES (Continued)**

baby monitors. The plaintiffs alleged that the Company sold the video monitors without disclosing that the monitors' unencrypted signals could be viewed outside the consumer's home. Warnings concerning the unencrypted signals were included in the instructions accompanying the monitors, but did not appear on the monitors' retail packaging. The Company believes that the claims set forth in the complaint were without merit and proceeded to defend these claims. In December 2009, the case was removed to the United States District Court, Northern District of Illinois, Eastern Division.

In January 2012, the parties filed the proposed settlement agreement with the court and received preliminary approval of the settlement. The proposed settlement certifies for purposes of the settlement only a class consisting of all persons residing within the United States and Puerto Rico who purchased or received as a gift certain of our analog video monitors between December 9, 2004 and January 11, 2012. Under a settlement, the Company will pay \$1,675 to be distributed among the plaintiffs and to cover administrative costs and attorneys' fees and costs in exchange for a release of all claims by the class members. The Company will also disclose in advertising (including on the website) and analog video monitor packaging that broadcast signals of analog video monitors are susceptible to reception by other monitors within an unimpeded range of 300 feet. Of the total proposed settlement cost, approximately \$506 will be covered under existing insurance policies, with the remaining \$1,169 to be paid by the Company. The settlement is subject to the final approval of the court, and the hearing on the final approval of the settlement is scheduled for May 16, 2012. If the court rejects the settlement, the settlement agreement will be terminated and have no force or effect, and the case will continue to be litigated. Consequently the Company has taken a \$1,501 charge to earnings during the fourth quarter in order to establish a reserve that relates to the proposed settlement; this amount includes the Company's portion of the settlement (\$1,169) plus legal and other costs associated with this case.

Other than the matter described above, the Company is not aware of any such proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the results of operations or financial condition.

**12. GEOGRAPHICAL INFORMATION**

The Company distributes branded durable baby products throughout the United States, Canada, and the United Kingdom, and various other parts of the world.

The following is a table that presents net revenue by geographic area:

|               | <b>December 31,</b>   |                   |
|---------------|-----------------------|-------------------|
|               | <b>2011</b>           | <b>2010</b>       |
|               | <b>(In Thousands)</b> |                   |
| North America | \$ 221,796            | \$ 180,664        |
| All Other     | 16,376                | 13,821            |
|               | <b>\$ 238,172</b>     | <b>\$ 194,485</b> |

Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. GEOGRAPHICAL INFORMATION (Continued)**

The following is a table that presents total assets by geographic area:

|               | 2011           | 2010       |
|---------------|----------------|------------|
|               | (In Thousands) |            |
| North America | \$ 188,129     | \$ 170,002 |
| Europe        | 7,153          | 5,652      |
| Asia/Other    | 17,633         | 2,341      |
|               | \$ 212,915     | \$ 177,995 |

**13. BUTTERFLY LIVING ACQUISITION**

On July 17, 2009, the Company entered into an Asset Purchase Agreement (the "Acquisition Agreement") to acquire Butterfly Living, LLC ("Butterfly"), under which the Company acquired certain assets and liabilities of Butterfly, an innovative manufacturer of infant cribs, headquartered in Pennsylvania.

Total purchase price recorded in connection with the acquisition was approximately \$4,100, including approximately \$3,600 representing the estimated fair value of contingent earn-out consideration to be paid quarterly through 2013 based on the achievement of certain financial targets. The first payment was due in April 2010. Approximately \$74 was paid in cash upon closing.

The estimated earn-out liability was calculated using a discount rate of 3.27% to discount the \$4,000 potential future liability to its present value, then reduced for certain closing adjustments to \$3,600. Management concluded that the full potential earn out should be recorded at the time of acquisition (net of present value) based upon current sales generated by Butterfly products as well as projections of future business. In the fourth quarter of 2010, the Company recorded a gain of \$1,770 relating to a reduction in the estimated fair value of the earn-out at December 31, 2010, resulting primarily from a forecasted decline in the earnings expected from specific products included in the earn-out. The related earn-out was subsequently settled in February 2011 at an amount approximating the December 31, 2010 carrying value.

The following table summarizes the activity of the earn-out liability from the date of the acquisition:

|                              | (In Thousands) |         |
|------------------------------|----------------|---------|
| Initially recorded           | \$             | 3,569   |
| Payments and adjustments     |                | (1,799) |
| Reduction of liability       |                | (1,770) |
| Balance at December 31, 2011 | \$             | 0       |

Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. ACQUISITION OF BORN FREE HOLDINGS LTD.**

On March 24, 2011, the Company acquired all of the capital stock of Born Free Holdings Ltd. ("Born Free") pursuant to the terms and conditions of a Stock Purchase Agreement (the "Purchase Agreement") by and among the Company, its wholly owned subsidiary Summer Infant (USA), Inc., Born Free and the stockholders of Born Free. The aggregate consideration paid by the Company to the Born Free stockholders at closing was \$24,607 (subject to adjustment), consisting of \$14,000 in cash and approximately \$10,607 in shares of the Company's common stock, or 1,510,989 shares based on a price per share of \$7.02 (the closing price on the date of acquisition). In addition, the Born Free stockholders may receive earn-out payments upon achievement of certain financial targets over the twelve months subsequent to the acquisition up to a maximum amount of \$13,000, of which up to \$6,500 may be paid in shares of the Company's common stock (or 925,926 shares based on a price per share of \$7.02). A portion of the shares issued at closing was, and, if achieved, a portion of the earn-out payments will be, deposited in escrow for a period of 18 months as security for any breach of the representations, warranties and covenants of Born Free and the Born Free stockholders contained in the Purchase Agreement. On September 30, 2011 the Company received \$1,000 in common stock from the Born Free escrow account due to a preliminary net asset adjustment as defined in the Purchase Agreement. This is accounted for on the balance sheet through an increase in acquired accrued liabilities by \$1,000, and increasing treasury stock by \$956 and goodwill by \$44. There may be additional adjustments in future periods.

The results of operations of Born Free are included in the results of the Company from the date of acquisition forward. Related deal costs were expensed in the 2011 statement of operations.

Under the purchase method of accounting, the total purchase price for Born Free has been assigned to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Approximately \$16,400 and \$11,532 were assigned to certain intangible assets and goodwill, respectively, based on independent valuations received by the Company. In addition, the estimated fair value of the contingent earn-out has been valued at zero as of December 31, 2011 based on the Company's best estimate of the earn-out computation. The acquisition has been recorded as of the closing date, reflecting the assets and liabilities of Born Free (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 Born Free, as a whole, over the net amount of the recognized identifiable assets acquired and liabilities assumed.

The acquisition accounting was finalized during the fourth quarter of 2011.

Calculation of assignment consideration:

|                            | <b>March 24,<br/>2011</b> |
|----------------------------|---------------------------|
| Cash                       | \$ 13,960                 |
| Stock                      | 9,607*                    |
| <b>Total Consideration</b> | <b>\$ 23,567</b>          |



Table of Contents**SUMMER INFANT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. ACQUISITION OF BORN FREE HOLDINGS LTD. (Continued)**

Assignment of purchase price among assets acquired and liabilities assumed as of March 24, 2011:

|  | <b>March 24,<br/>2011</b> |
|--|---------------------------|
| Trade Receivables                                | \$ 2,226                  |
| Inventory  | 2,595                     |
| Property and equipment, net                      | 53                        |
| Brand Name                                       | 11,800                    |
| Customer Relationship                            | 4,600                     |
| Accounts payable and other accrued liabilities   | (5,176)                   |
| Deferred tax liability                           | (4,063)                   |
| Goodwill   | 11,532                    |
| <b>Total assigned preliminary purchase price</b> | <b>\$ 23,567</b>          |

\*  
The stock portion of the acquisition consists of 1,369,855 shares at a price per share of \$7.02.

*Pro forma financial information.* The pro forma financial information presented below is for informational purposes only and is not intended to represent or be indicative of the results of operations that would have been achieved if the Born Free acquisition had been completed as of the date indicated, and should not be taken as representative of the Company's future consolidated results of operations or financial condition. The unaudited pro forma financial information below summarizes the results of operations of the combined entity, as though the acquisition had occurred as of the beginning of the period presented. Preparation of the pro forma financial information required management to make certain judgments and estimates to determine the pro forma adjustments such as purchase accounting adjustments. Revenue generated from Born Free products amounted to \$10,175 from March 25, 2011 to December 31, 2011.

The pro forma effect on net revenues, earnings, and earnings per share amounts for the twelve months ended December 31, 2011, and 2010, assuming the Born Free transaction had closed on January 1, 2010, are as follows:

|                            | <b>Twelve Months Ended<br/>December 31</b> |             |
|----------------------------|--|-------------|
|                            | <b>2011</b>                                | <b>2010</b> |
| Net Revenues               | \$ 241,645                                 | \$ 210,400  |
| Net Income                 | 2,650                                      | 5,244       |
| Diluted earnings per share | \$ 0.15                                    | \$ 0.29     |

**15. SUBSEQUENT EVENTS**

The Company has evaluated all events or transactions that occurred after December 31, 2011 through the date of this Annual Report; no subsequent event disclosures are required.