

Summer Infant, Inc.
Form 10-Q
November 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

Summer Infant, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Commission file number **001-33346**

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

20-1994619
(IRS Employer Identification No.)

1275 Park East Drive
Woonsocket, RI 02895
(Address of principal executive offices and Zip Code)

(401) 671-6550
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

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to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of October 23, 2011, there were 17,427,844 shares outstanding of the registrant's Common Stock, \$.0001 par value per share.

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

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

	Unaudited September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,923	\$ 1,138
Trade receivables, net of allowance for doubtful accounts	55,756	46,693
Inventory, net	43,798	45,853
Prepays and other current assets	3,751	2,783
Deferred tax assets	1,269	1,269
TOTAL CURRENT ASSETS	106,497	97,736
Property and equipment, net	15,940	14,958
Goodwill	57,617	50,375
Other intangible assets, net	30,342	14,745
Other assets	21	181
TOTAL ASSETS	\$ 210,417	\$ 177,995
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 41,462	\$ 35,651
Current portion of long term debt	512	1,256
TOTAL CURRENT LIABILITIES	41,974	36,907
Long term debt, less current portion	63,259	51,963
Other liabilities	3,800	4,579
Deferred tax liabilities	8,085	8,085
TOTAL LIABILITIES	117,118	101,534
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Common Stock \$.0001 par value, issued and outstanding 17,422,835 and 15,450,227, respectively	2	1
Treasury Stock at cost (141,134 shares at September 30, 2011)	(956)	
Additional paid-in capital	70,283	56,431
Retained earnings	24,652	20,490
Accumulated other comprehensive income (loss)	(682)	(461)
TOTAL STOCKHOLDERS EQUITY	93,299	76,461
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 210,417	\$ 177,995

See notes to condensed consolidated financial statements

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

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

	Unaudited		Unaudited	
	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net revenues	\$ 63,342	\$ 49,800	\$ 182,803	\$ 143,399
Cost of goods sold	41,347	31,854	120,895	90,022
Gross profit	21,995	17,946	61,908	53,377
Selling, general and administrative expenses	16,641	13,189	48,957	39,469
Stock-based compensation expense	335	159	837	498
Depreciation and amortization	1,562	1,414	4,646	3,897
Operating income	3,457	3,184	7,468	9,513
Interest expense, net	(774)	(454)	(2,096)	(1,135)
Income before provision for income taxes	2,683	2,730	5,372	8,378
Income tax expense	604	652	1,209	2,346
NET INCOME	\$ 2,079	\$ 2,078	\$ 4,163	\$ 6,032
Net income per share Basic	\$ 0.12	\$ 0.14	\$ 0.25	\$ 0.39
Weighted average shares outstanding basic	17,547,739	15,437,477	16,971,628	15,429,225
Net income per share Diluted	\$ 0.11	\$ 0.13	\$ 0.23	\$ 0.37
Weighted average shares outstanding - diluted	18,366,097	16,524,547	17,832,691	16,360,771

See notes to condensed consolidated financial statements.

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

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

	Unaudited	
	For the nine months ended	
	September 30,	September 30,
	2011	2010
Cash flows from operating activities:		
Net income	\$ 4,163	\$ 6,032
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	4,646	3,897
Non-cash stock option expense	837	498
Change in value of interest rate swap agreements	(209)	(332)
Changes in assets and liabilities, net of effects of acquisition:		
Increase in accounts receivable	(7,016)	(10,626)
(Increase) decrease in inventory	4,519	(14,410)
Increase in accounts payable and accrued expenses	997	6,144
(Increase) decrease in prepaids and other assets	(773)	37
Net cash provided by (used in) operating activities	7,164	(8,760)
Cash flows from investing activities:		
Acquisitions of property and equipment	(4,888)	(6,542)
Acquisition of Born Free, net of cash acquired	(13,960)	
Net cash used in investing activities	(18,848)	(6,542)
Cash flows from financing activities:		
Net borrowings on debt and other long-term liabilities	9,984	14,939
Issuance of common stock upon exercise of stock options	2,407	
Net cash provided by financing activities	12,391	14,939
Effect of exchange rate changes on cash and cash equivalents	78	694
NET INCREASE IN CASH AND CASH EQUIVALENTS	785	331
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,138	932
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,923	\$ 1,263
Non cash investing activities:		
Capital lease obligation	\$ 390	\$ 286
Issuance of common stock in conjunction with acquisition of Born Free	\$ 9,651	\$
Cash paid for interest	\$ 1,943	\$ 1,412
Cash paid (refunded) for taxes	\$ (302)	\$ 1,245

See notes to condensed consolidated financial statements.

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SUMMER INFANT, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The accompanying interim condensed consolidated financial statements of Summer Infant, Inc. and its subsidiaries (the Company, or Summer) are unaudited, but in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods. Accordingly, they do not include all information and notes required by generally accepted accounting principles accepted in the United States of America (GAAP) for complete financial statements. The results of operations for interim periods are not necessarily indicative of results to be expected for the entire fiscal year or any other period. The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes for the year ended December 31, 2010 appearing in the Company s Annual Report on Form 10-K filed on March 22, 2011.

All significant intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. All dollar amounts in the notes to the financial statements are in thousands of US dollars except share and per share amounts.

Income Taxes

The provision for income taxes is based on the Company s estimated annualized effective tax rate for the year. The Company does not provide U.S. tax on foreign earnings considered permanently invested.

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carry forwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence it is more likely than not such benefits will be realized. The Company recognizes interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest and penalties related to uncertain tax positions were accrued at September 30, 2011. The tax years 2007 through 2010 remain open to examination by the major taxing jurisdictions in which the Company operates.

Use of Estimates

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The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenue, expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience, applicable laws and regulations, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results could differ from those estimates.

Net Income Per Share

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

Translation of Foreign Currencies

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 quarter and the income and expense accounts of these affiliates have been translated at average rates prevailing during each respective quarter. Resulting translation adjustments are made to a separate component of stockholders' equity within accumulated other comprehensive income (loss).

Revenue Recognition

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

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 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

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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, 2010, the estimated fair value of the Company substantially exceeded the carrying value. 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.

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Recently Issued Accounting Pronouncements

ASC Update No. 2010-06

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standard Codification (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. 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 for material business combinations for which the acquisition date is on or after January 1, 2011. (See Note 2)

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.

Table of Contents**2. 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 next twelve months 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 a decrease in acquired accounts receivable 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 expenses of approximately \$1,415 were incurred during the nine months ended September 30, 2011, of which \$635 relates to professional fees, and \$780 relates to transition costs incurred with the ongoing integration of Born Free.

Under the purchase method of accounting, the total preliminary purchase price for Born Free has been assigned to the net tangible and intangible assets acquired and liabilities assumed, based on various preliminary estimates of their values by the Company's management. Management's estimates and assumptions are subject to change upon the finalization of the valuation and may be adjusted in accordance with FASB ASC Topic 805, Business Combinations. Valuations of all tangible and intangible assets, including customer relationships, trade name and intellectual property, have not been finalized. The Company has made a preliminary adjustment to goodwill and intangible assets, assigning \$16,400 to intangible assets. In addition, the estimated fair value of the contingent earn-out has not been completed as of September 30, 2011. The assignment of the purchase price (including the estimated earn-out of up to \$13,000) is expected to be completed in the fourth quarter of 2011. Accordingly, the purchase price assignment is not finalized. The acquisition will be 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.

Preliminary calculation of assignment consideration:

	March 24, 2011	
Cash	\$	14,000
Stock		9,607*
Provisional Consideration	\$	23,607

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

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	March 24, 2011	
Trade Receivables	\$	2,226
Inventory		3,615
Prepays, and other current assets		39
Property and equipment, net		1,333
Other intangible assets, net		16,400
Accounts payable		(4,970)
		18,643
Goodwill		4,964
Total assigned preliminary purchase price	\$	23,607

* 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 \$7,400 from March 25, 2011 to September 30, 2011 and \$3,400 for the three months ended September 30, 2011.

The pro forma effect on net revenues, earnings, and earnings per share amounts for the nine months ended September 30, 2011 and 2010, assuming the Born Free transaction had closed on January 1, 2010, are as follows:

	Nine Months Ended			
	September 30			
	2011		2010	
Net Revenues	\$	186,276	\$	155,718
Net Income		2,989		5,318
Earnings per share	\$	0.16	\$	0.30

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3. DEBT

On March 24, 2011, in connection with its acquisition of Born Free, the Company and its subsidiaries entered into an amendment of its existing amended and restated credit agreement with Bank of America, N.A. and the other lenders thereunder (the Amended Loan Agreement). Among other changes, the Amended Loan Agreement provided for (i) an increase in the maximum amount of credit available from \$60,000 to \$80,000, (ii) a one-time right exercisable after September 30, 2011 to request an additional increase in the aggregate commitments under the Amended Loan Agreement by an amount not exceeding \$20,000, (iii) a new maturity date of June 30, 2013, and (iv) revised financial covenants of the Company as described below. As additional security for the increased commitment, the Company granted the lenders a security interest in 65% of the capital stock of the newly-acquired Born Free.

The Company's ability to borrow under the Amended Loan Agreement is subject to its ongoing compliance with a number of financial and other covenants, including the following: (i) the Company and its subsidiaries maintain and earn on a consolidated basis as of the last day of each fiscal quarter trailing 12 month EBITDA (defined below) of not less than \$20,000 beginning with the quarter ending on June 30, 2011 and increasing over the remaining term of the Amended Loan Agreement to \$26,000 for each quarter ending on or after December 30, 2012; (ii) that the Company and its subsidiaries maintain a ratio of consolidated total funded debt to consolidated EBITDA of not greater than (a) 3.50:1.00 through September 30, 2011 and (b) 3.25:1.00 on December 31, 2011 and thereafter; and (iii) that the Company and its subsidiaries maintain a fixed charge ratio of at least 1.50:1.00.

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 EBITDA. As of September 30, 2011, the blended interest rate for these credit facilities was 4.15%. 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 total amount outstanding on these facilities at September 30, 2011 was \$63,000.

For purpose of the Amended Loan Agreement, EBITDA means consolidated net income (excluding extraordinary gains and extraordinary losses) plus (a) the following to the extent deducted in calculating consolidated net income: (i) consolidated interest charges (ii) the provision for federal, state, local and foreign income taxes payable by the Company and its subsidiaries (iii) depreciation and amortization expense, and (iv) other non-recurring expenses of the Company and its subsidiaries reducing consolidated net income, and minus (b) the following to the extent included in calculating consolidated net income: (i) federal, state, local and foreign income tax credits of the Company and its subsidiaries and (ii) all non-cash items increasing consolidated net income.

The Amended 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 Amended 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.

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4. FAIR VALUE MEASUREMENTS

The Company follows ASC 2101-06 regarding measuring fair value and 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 the Company's 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. Management concludes there has been no material change in the Company's credit risk nor that of Bank of America and therefore the valuation of the liability is reasonable.

The Company recognizes the fair value of interest rate swaps (see Note 5) using Level 2 inputs.

As of September 30, 2011 the fair value of the swaps now reflects a liability of approximately \$136, which is included in other liabilities on the accompanying balance sheet. The change in fair value of the swap liability for the three and nine months ended September 30, 2011 of approximately \$50 and \$209 respectively is recorded in interest expense. The interest rate swaps are not accounted for as hedges.

The notional amounts under the interest rate swap agreements total \$3,553, which is approximately 5.6% of the Company's total outstanding bank debt at September 30, 2011.

5. DERIVATIVE INSTRUMENTS

The Company is exposed to interest rate risk primarily through its borrowing activities. The Company's long-term debt is a variable rate instrument. The Company held one interest rate swap contract at September 30, 2011 under which the Company agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to, in turn, receive an amount equal to a specified variable rate of interest times the same notional principal amount.

The Company uses 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 Amended Loan Agreement (described in Note 3) to mitigate interest rate risk.

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The interest rate swap contracts require payment of a fixed rate of interest and the receipt of a variable rate of interest at the LIBOR one month index rate plus 150-200 basis points on a notional amount of indebtedness.

	Rate	Notional Amount	Effective Date	Maturity Date	Mark-to-Market at September 30, 2011	
Swap 1	7.06%	3,553	June 21, 2007	June 7, 2012	\$	(136)
					\$	(136)

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6. COMMITMENTS AND CONTINGENCIES

Litigation

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

7. STOCK OPTIONS AND RESTRICTED SHARES

The Company has granted stock-based awards 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 2006 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 and who are deemed to have contributed or to have the potential to contribute to the Company's success. The Company has issued both stock options and restricted shares to employees and Board members.

Share-based compensation expense for the nine months ended September 30, 2011 and 2010 was approximately \$837 and \$498, respectively. As of September 30, 2011, there were 1,852,300 stock options outstanding and 235,629 unvested restricted shares outstanding.

During the three months ended September 30, 2011, the Company granted 1,000 stock options. The key assumptions used in determining the valuation included:

- Expected life - 6 years
- Volatility - 55%
- Discount rate - 1.71%

In March 2011, the Board of Directors approved the 2010 bonus plan payout of \$1,044, which consisted of the following: (i) \$210 in cash bonuses; and (ii) \$834 in restricted stock grants (or 113,613 shares), of which 50% had an immediate vesting and 50% vest in one year. In April 2011, 56,807 restricted shares were issued, which represents the vested portion of the total grant of 113,613 restricted shares. The non-vested portion of the restricted stock grant will be expensed from March 2011 to March 2012. Also, in June 2011, 109,515 restricted shares were granted to employees as part of a long-term incentive plan which have a four year vesting schedule, and 18,750 shares were granted to the Board of Directors as part of their compensation arrangements. All shares issued to the board of directors vested immediately.

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

Forward-Looking Statements and Factors That May Affect Results

In addition to the historical information contained in this report, this report contains 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. Forward-looking statements relate to our expectations, intentions, or strategies regarding future matters, including our ability to grow our business through developing new products, obtaining new customers, increasing our sales territory, making strategic acquisitions, integrating our acquired businesses, and our anticipated cash flow for the next 12 months. It is important to note that our actual results could differ materially from those projected in such forward-looking statements contained in this report. You are cautioned not to place undue reliance on our forward-looking statements.

All forward-looking statements included in this document are based on information available to us on the date hereof. These statements are based on current expectations that involve numerous risks and uncertainties. These risks and uncertainties include the Company's ability to integrate acquired businesses, the concentration of the Company's business with retail customers; the ability of the Company to compete in the industry; the Company's dependence on key personnel; the Company's reliance on foreign suppliers; and other risks as detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and subsequent filings with the Securities and Exchange Commission. All these matters are difficult or impossible to predict accurately, many of which may be beyond our control. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate.

The information contained in this section has been derived from the Company's consolidated financial statements and should be read together with the consolidated financial statements and related notes included elsewhere in this filing. All dollar amounts in the following section are in thousands of US dollars except for per share amounts.

The following discussion is intended to assist in the assessment of significant changes and trends related to the results of operations and financial condition of Summer Infant, Inc. and its consolidated subsidiaries. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

Summary of Critical Accounting Policies and Estimates

The FASB Accounting Standards Codification (Codification) is the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

The Company's critical accounting policies are disclosed in the Company's Annual Report on Form 10-K and discussed in Note 1 to the unaudited consolidated financial statements included in this report. There have been no material changes to these policies during 2011. The

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consolidated financial statements and notes are representations of management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the consolidated financial statements. Management of the Company makes certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. 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.

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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 UK retailers. We currently market proprietary products in various product categories including nursery audio/video monitors, safety gates, durable bath products, bed rails, infant feeding, furniture, baby gear, infant thermometers and related health and safety products, booster and potty seats and bouncers. Our business has grown organically in all our markets. We derive revenues from the sale of these products. 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 cost of providing our product and selling, general and administrative costs.

Our strategy is to grow our sales through a variety of methods, including:

- increasing product penetration (more products at each store);
- increasing store penetration (more stores within each retail customer);
- introducing new products (at existing and new customers);
- obtaining new mass merchant retail customers;
- developing new distribution channels (food and drug chains, price clubs, home centers, and web-based retailers);
- entering new geographies (international expansion);
- entering new product categories; and
- making strategic acquisitions.

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Historically we have been able to grow our annual revenues significantly 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, and the number of mass merchant retailers, and have also added new customers each year.

For 2011 and beyond, 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 and expand in the United Kingdom and in other geographic regions (such as Japan, Mexico and Australia).

Acquisition of Born Free

In the past we have pursued, and we expect to continue to pursue, potential strategic acquisitions to obtain new innovative products, new product categories, new retail customers or new sales territories. In March 2011, we acquired all of the capital stock of Born Free Holdings Ltd. (Born Free) pursuant to the terms and conditions of a Stock Purchase Agreement by and among us, our wholly owned subsidiary Summer Infant (USA), Inc., Born Free and the stockholders of Born Free. Born Free is a manufacturer of baby bottles, drinking cups, and other feeding related items. The aggregate consideration paid to the Born Free stockholders at closing was \$24,600, consisting of \$14,000 in cash and approximately \$10,600 in shares of our common stock. In addition, the Born Free stockholders may receive earn-out payments upon achievement of certain financial targets over the next twelve months up to a maximum amount of \$13,000, of which up to \$6,500 may be paid in shares of our common stock.

During the second quarter the Born Free operations in the United States, Canada and United Kingdom were all merged into the Company's existing operations in those same countries. As part of the integration, we incurred costs of approximately \$780 related to severance, lease termination and other costs, which are reflected in selling, general and administrative expenses in our financial statements. We are now handling all product development, sales, operations and finance for Born Free in a centralized manner. In addition, a recent, key initiative is the development of new products under the Born Free brand in a variety of feeding categories. We believe these categories have potential for future sales growth, and we have developed a team to drive these efforts.

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 expenses by \$1,000, and increasing treasury stock by \$956 and goodwill by \$44. There could be additional adjustments in future periods.

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As we continue to grow through internal initiatives and any additional future acquisitions, we will incur additional expenses. Two of the key areas in which such 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 are expected to increase as we develop new products in existing and new categories. As a result of our acquisition strategy, we will face various challenges such as the integration of the acquired companies' product lines, employees, marketing requirements and information systems. Ongoing infrastructure investment also may be required to support realized growth, including expenditures with respect to upgraded and expanded information systems and enhancing the Company's management team.

Revenues

Our revenues are primarily derived from the sale of branded 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, on-line retailers and direct to consumers.

Over 90% of our sales are currently made to customers in North America, with 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.

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

Cost of goods sold

Our products are manufactured by third parties, with approximately 90% of the dollar value of products being manufactured in Asia and the majority of the balance being manufactured in the United States. 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 US 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 such cost increases through higher prices for finished goods, our costs of sales would increase, and to the extent we are unable to pass such price increases along to our customers, our gross margins would decrease.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of payroll, insurance, professional fees, royalties, freight out to customers, product development costs, advertising and marketing expenses (including co-op advertising allowances as negotiated with certain customers) and sales

commissions. Several of these items fluctuate with sales, some based on sales to particular customers and others based on sales of particular products.

Table of Contents**Results of Operations****Summer Infant and Subsidiaries****Condensed Consolidated Statements of Income****For the Three and Nine Months Ending September 30, 2011 and 2010****(Unaudited)**

	Unaudited		Unaudited	
	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Net revenues	\$ 63,342	\$ 49,800	\$ 182,803	\$ 143,399
Cost of goods sold	41,347	31,854	120,895	90,022
Gross profit	21,995	17,946	61,908	53,377
Selling, general and administrative expenses	16,641	13,189	48,957	39,469
Stock-based compensation expense	335	159	837	498
Depreciation and amortization	1,562	1,414	4,646	3,897
Net operating income	3,457	3,184	7,468	9,513
Interest expense, net	(774)	(454)	(2,096)	(1,135)
Income before provision for income taxes	2,683	2,730	5,372	8,378
Income tax expense	604	652	1,209	2,346
NET INCOME	\$ 2,079	\$ 2,078	\$ 4,163	\$ 6,032

Three months ended September 30, 2011 compared with three months ended September 30, 2010

Net revenues increased 27.2 % from approximately \$49,800 for the three months ended September 30, 2010 to approximately \$63,342 for the three months ended September 30, 2011. This increase was primarily attributable to increased distribution of our products throughout our customer base and new product introductions. Significant increases were noted in many key customer accounts. Approximately \$3,400 of revenue was generated by sales of Born Free products, which we acquired on March 24, 2011.

Gross profit increased 22.6% from approximately \$17,946 for the three months ended September 30, 2010 to approximately \$21,995 for the three months ended September 30, 2011. Cost of goods was unfavorably impacted in the three months ended September 30, 2011 by approximately \$115 related to shipping issues and other costs associated with damage caused by Hurricane Irene. The gross profit as a percentage of sales decreased to 34.7 % from 36.0% in the prior year. The decrease as a percentage of sales is primarily due to higher costs of finished goods from the Company's vendors in Asia and the US, in addition to an increased mix of lower margin products.

Selling, general and administrative expenses (excluding depreciation, amortization, and non-cash stock-based compensation expense) increased from approximately \$13,189 for the three months ended September 30, 2010 to approximately \$16,641 for the three months ended

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September 30, 2011. This increase was primarily attributable to increases in headcount, higher variable selling expenses due to the increase in sales, increased promotional costs, and costs associated with new product development. Selling, general and administrative expenses decreased to 26.3 % of net sales in the three months ended September 30, 2011 from 26.5% of net sales in the three months ended September 30, 2010. SG&A was impacted by \$170 of costs related to shipping issues and other costs associated with damage caused by Hurricane Irene and \$482 of charges related to the closure of our east coast warehouse in September 2011.

Interest expense increased from \$454 for the three months ended September 30, 2010 to approximately \$774 for the three months ended September 30, 2011, primarily due to the \$14,000 borrowed to finance the Born Free acquisition, and higher levels of borrowing used to fund the working capital growth of the Company.

Income tax expense decreased from \$652 for the three months ended September 30, 2010 to approximately \$604 for the three months ended September 30, 2011 primarily due to lower pre-tax income and a lower effective tax rate in 2011.

Nine months ended September 30, 2011 compared with nine months ended September 30, 2010

Net revenues increased 27.5% from approximately \$143,399 for the nine months ended September 30, 2010 to approximately \$182,803 for the nine months ended September 30, 2011. This increase was primarily attributable to increased distribution of our products throughout our customer base, and new product introductions. Significant increases were noted in many key customer accounts. Approximately \$7,400 of revenue was generated by sales of Born Free products, which we acquired on March 24, 2011.

Gross profit increased 16% from approximately \$53,377 for the nine months ended September 30, 2010 to approximately \$61,908 for the nine months ended September 30, 2011. Three items impacted gross profit during the nine months ended September 30, 2011; a) \$500 in estimated duties owed on a product due to a reclassification of the item for customs purposes; b) \$150 in inventory write downs associated with the settlement of an intellectual property dispute; and c) cost of goods was unfavorably impacted by approximately \$115 related to shipping issues and other costs associated with damage caused by Hurricane Irene. The gross profit as a percentage of sales decreased to 33.9% from 37.2% in the prior year. The decrease as a percentage of sales is primarily due to the effect of the above described items; higher costs of finished goods from the Company's vendors in Asia and the US, in addition to an increased mix of lower margin products.

Selling, general and administrative expenses (excluding depreciation, amortization, and non-cash stock-based compensation expense) increased from approximately \$39,469 for the nine months ended September 30, 2010 to approximately \$48,957 for the nine months ended September 30, 2011. This increase was primarily attributable to increases in headcount, higher variable selling expenses due to the increase in sales, increased promotional costs, and costs associated with new product development. Also incurred during the nine months ended September 30, 2011 were the following: a) Born Free transition costs of \$780; b) legal expenses related to an intellectual property dispute of \$199; c) \$211 of costs related to re-labeling video monitors; d) \$635 of acquisition-related professional fees; e) \$170 of costs related to shipping issues and other costs associated with damage caused by Hurricane Irene; f) \$482 of charges related to the closure of our east coast warehouse in September 2011. Selling, general and administrative expenses decreased to 26.8% of net sales in the nine months ended September 30, 2011 from 27.5% of net sales in the nine months ended September 30, 2010.

Interest expense increased from \$1,135 for the nine months ended September 30, 2010 to approximately \$2,096 for the nine months ended September 30, 2011, primarily due to the \$14,000 borrowed to finance the Born Free acquisition, and higher levels of borrowing used to fund the working capital growth of the Company.

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Income tax expense decreased from \$2,346 for the nine months ended September 30, 2010 to approximately \$1,209 for the nine months ended September 30, 2011, primarily due to lower pre-tax income and a lower effective tax rate in 2011.

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 trade receivables and inventory. The typical cash flow cycle is as follows:

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- Inventory is purchased to meet expected demand plus a safety stock. Because the majority of our vendors are based in Asia, inventory takes from four to six 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, Canada and the United Kingdom. The increased sales we have experienced result in the requirement for increased levels of inventory purchases, 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 our 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 tooling 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 nine months ended September 30, 2011, net cash provided by operating activities was \$7,164. This was primarily due to increases in accounts receivable, accounts payable and accrued liabilities and decreases in inventory.

Net cash used in investing activities was \$18,848, which primarily relates to the acquisition of Born Free Holdings Ltd.

Net cash provided by financing activities was \$12,391, which relates to borrowings on the line of credit to acquire Born Free Holdings Ltd.

Based on the above factors, the net cash increase for the nine months ended September 30, 2011 was \$785, resulting in a cash balance of \$1,923 at September 30, 2011.

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.

On March 24, 2011, in connection with its acquisition of Born Free, the Company and its subsidiaries entered into an amendment of its existing amended and restated credit agreement with Bank of America, N.A. and the other lenders thereunder (the Amended Loan Agreement). Among other changes, the Amended Loan Agreement provided for (i) an increase in the maximum amount of credit available from \$60,000 to \$80,000, (ii) a one-time right exercisable after September 30, 2011 to request an additional increase in the aggregate commitments under the Amended

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Loan Agreement by an amount not exceeding \$20,000, (iii) a new maturity date of June 30, 2013, and (iv) revised financial covenants of the Company as described below. As additional security for the increased commitment, the Company granted the lenders a security interest in 65% of the capital stock of the newly-acquired Born Free.

The Company's ability to borrow under the Amended Loan Agreement is subject to its ongoing compliance with a number of financial and other covenants, including the following: (i) the Company and its subsidiaries maintain and earn on a consolidated basis as of the last day of each fiscal quarter trailing 12 month EBITDA (defined below) of not less than \$20,000 beginning with the quarter ending on June 30, 2011 and increasing over the remaining term of the Amended Loan Agreement to \$26,000 for each quarter ending on or after December 30, 2012; and (ii) that the Company and its subsidiaries maintain a ratio of consolidated total funded debt to consolidated EBITDA of not greater than (A) 3.50:1.00 through September 30, 2011 and (B) 3.25:1.00 on December 31, 2011 and thereafter; and (iii) that the Company and its subsidiaries maintain a fixed charge ratio of at least 1.50:1.00.

For purposes of the Amended Loan Agreement, EBITDA means consolidated net income (excluding extraordinary gains and extraordinary losses) plus (a) the following to the extent deducted in calculating consolidated net income: (i) consolidated interest charges (ii) the provision for federal, state, local and foreign income taxes payable by the Company and its subsidiaries (iii) depreciation and amortization expense, and (iv) other non-recurring expenses of the Company and its subsidiaries reducing consolidated net income, and minus (b) the following to the extent included in calculating consolidated net income: (i) federal, state, local and foreign income tax credits of the Company and its subsidiaries and (ii) all non-cash items increasing consolidated net income.

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 EBITDA. As of September 30, 2011, the blended interest rate for these credit facilities was 4.15%. 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 total amount outstanding on these facilities at September 30, 2011 was \$63,000.

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

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

ITEM 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as of September 30, 2011. Our principal executive officer and principal financial officer have concluded, based on this evaluation, that our controls and procedures were effective as of September 30, 2011.

(b) Changes in Internal Control Over Financial Reporting

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

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

Not required.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits

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

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Signatures

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

Summer Infant, Inc.

November 10, 2011

/s/ Jason Macari
Jason Macari
Chief Executive Officer

November 10, 2011

/s/ Joseph Driscoll
Joseph Driscoll
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to 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

* 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.