

Summer Infant, Inc.  
Form 10-Q  
October 31, 2018  
Table of Contents

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

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 29, 2018**

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

**For the transition period from                      to**

**Commission file number 001-33346**

**Summer Infant, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 29, 2018, there were 18,796,362 shares outstanding of the registrant's Common Stock, \$0.0001 par value per share.

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

Table of Contents

**Summer Infant, Inc.**

**Form 10-Q**

**Table of Contents**

	<b>Page Number</b>
<u>Part I.</u>	<u>Financial Information</u>
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (unaudited)</u> 1
	<u>Condensed Consolidated Balance Sheets as of September 29, 2018 (unaudited) and December 30, 2017</u> 1
	<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 29, 2018 and September 30, 2017 (unaudited)</u> 2
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 29, 2018 and September 30, 2017 (unaudited)</u> 3
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 29, 2018 and September 30, 2017 (unaudited)</u> 4
	<u>Notes to Condensed Consolidated Financial Statements</u> 5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 12
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 16
<u>Item 4.</u>	<u>Controls and Procedures</u> 16
<u>Part II.</u>	<u>Other Information</u> 17
<u>Item 1.</u>	<u>Legal Proceedings</u> 17
<u>Item 1A.</u>	<u>Risk Factors</u> 17
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 17
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 17
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 17
<u>Item 5.</u>	<u>Other Information</u> 17
<u>Item 6.</u>	<u>Exhibits</u> 17
<u>Exhibit Index</u>	18
<u>Signatures</u>	19



Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements (unaudited)****Summer Infant, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

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

	(Unaudited) September 29, 2018	December 30, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,059	\$ 681
Trade receivables, net of allowance for doubtful accounts	37,273	36,640
Inventory, net	27,207	34,035
Prepaid and other current assets	1,274	950
<b>TOTAL CURRENT ASSETS</b>	<b>66,813</b>	<b>72,306</b>
Property and equipment, net	9,772	9,640
Other intangible assets, net	13,485	14,046
Deferred tax assets, net	1,920	1,935
Other assets	102	103
<b>TOTAL ASSETS</b>	<b>\$ 92,092</b>	<b>\$ 98,030</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 25,268	\$ 24,642
Accrued expenses	7,588	9,818
Current portion of long term debt	875	3,250
<b>TOTAL CURRENT LIABILITIES</b>	<b>33,731</b>	<b>37,710</b>
Long-term debt, less current portion and unamortized debt issuance costs	44,085	43,772
Other liabilities	2,772	2,906
<b>TOTAL LIABILITIES</b>	<b>80,588</b>	<b>84,388</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock, \$0.0001 par value, 1,000,000 authorized, none issued or outstanding at September 29, 2018 and December 30, 2017, respectively		
Common Stock \$0.0001 par value, authorized, issued and outstanding of 49,000,000, 19,068,011, and 18,796,362 at September 29, 2018 and 49,000,000, 18,901,386, and 18,629,737 at December 30, 2017, respectively	2	2
Treasury Stock at cost (271,649 shares at September 29, 2018 and December 30, 2017)	(1,283)	(1,283)
Additional paid-in capital	77,306	76,848

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

Accumulated deficit	(61,925)	(59,634)
Accumulated other comprehensive loss	(2,596)	(2,291)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>11,504</b>	<b>13,642</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 92,092</b>	<b>\$ 98,030</b>

See notes to condensed consolidated financial statements

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

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

	Unaudited For the three months ended		Unaudited For the nine months ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net sales	\$ 43,838	\$ 43,134	\$ 133,571	\$ 143,053
Cost of goods sold	30,227	29,502	90,974	96,816
Gross profit	13,611	13,632	42,597	46,237
General & administrative expenses	7,623	10,536	29,587	30,060
Selling expenses	3,658	3,117	9,427	11,248
Depreciation and amortization	1,012	1,023	3,087	3,120
Operating income (loss)	1,318	(1,044)	496	1,809
Interest expense, net	1,118	748	3,300	2,206
Income (loss) before provision (benefit) for income taxes	200	(1,792)	(2,804)	(397)
Provision (benefit) for income taxes	82	(549)	(513)	135
Net income (loss)	\$ 118	\$ (1,243)	\$ (2,291)	\$ (532)
Net income (loss) per share:				
BASIC	\$ 0.01	\$ (0.07)	\$ (0.12)	\$ (0.03)
DILUTED	\$ 0.01	\$ (0.07)	\$ (0.12)	\$ (0.03)
Weighted average shares outstanding:				
BASIC	18,788,650	18,606,427	18,723,477	18,557,175
DILUTED	18,878,112	18,606,427	18,723,477	18,557,175

See notes to condensed consolidated financial statements.

Table of Contents**Summer Infant, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (Loss)**

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

	<b>Unaudited For the three months ended</b>		<b>Unaudited For the nine months ended</b>	
	<b>September 29, 2018</b>	<b>September 30, 2017</b>	<b>September 29, 2018</b>	<b>September 30, 2017</b>
Net income (loss)	\$ 118	\$ (1,243)	\$ (2,291)	\$ (532)
Other comprehensive income (loss):				
Changes in foreign currency translation adjustments	95	383	(305)	716
Comprehensive income (loss)	\$ 213	\$ (860)	\$ (2,596)	\$ 184

See notes to condensed consolidated financial statements.



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

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

	(Unaudited)	
	For the nine months ended	
	September 29, 2018	September 30, 2017
Cash flows from operating activities:		
Net loss	\$ (2,291)	\$ (532)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,087	3,150
Stock-based compensation expense	433	375
Write off of unamortized deferred financing costs	518	
Provision for allowance for doubtful accounts	1,496	2,178
Changes in assets and liabilities:		
(Increase) decrease in trade receivables	(2,418)	959
Decrease (increase) in inventory	6,474	(812)
(Increase) decrease in prepaids and other assets	(359)	246
Decrease in accounts payable and accrued expenses	(1,496)	(6,785)
Net cash provided by (used in) operating activities	5,444	(1,221)
Cash flows from investing activities:		
Acquisitions of property and equipment	(2,644)	(2,011)
Net cash used in investing activities	(2,644)	(2,011)
Cash flows from financing activities:		
Proceeds from issuance of common stock upon exercise of stock options	25	6
Repayment of Prior Term Loan Facility	(5,000)	(1,000)
Repayment of Prior FILO	(1,250)	(1,250)
Payment of financing fees and expenses	(1,958)	
Proceeds from New Term Loan Facility	17,500	
Net (repayments) borrowings on revolving facilities	(11,871)	4,974
Net cash (used in) provided by financing activities	(2,554)	2,730
Effect of exchange rate changes on cash and cash equivalents	132	264
Net increase (decrease) in cash and cash equivalents	378	(238)
Cash and cash equivalents, beginning of period	681	999
Cash and cash equivalents, end of period	\$ 1,059	\$ 761
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,207	\$ 1,684
Cash paid for income taxes	\$ 4	\$ 25

See notes to condensed consolidated financial statements.

Table of Contents

**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

*Nature of Operations*

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

*Basis of Presentation and Principles of Consolidation*

The accompanying interim, condensed consolidated financial statements of the Company are unaudited, but in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods. Accordingly, they do not include all information and notes required by generally accepted accounting principles in the United States of America ( GAAP ) for complete financial statements. The results of operations for interim periods are not necessarily indicative of results to be expected for the entire fiscal year or any other period. The balance sheet at December 30, 2017 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 30, 2017 included in its Annual Report on Form 10-K filed with the SEC on February 20, 2018.

It is the Company's policy to prepare its financial statements on the accrual basis of accounting in conformity with GAAP. The interim condensed consolidated financial statements include the accounts of its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidation.

All dollar amounts included in the Notes to Condensed Consolidated Financial Statements are in thousands of U.S. dollars, except share and per share amounts.

*Revenue Recognition*

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

As of December 31, 2017, the Company adopted FASB ASC Topic 606, *Revenue from Contracts with Customers* ( ASC 606 ). The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects to receive in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance.

The Company reviewed all contracts at the date of initial application and elected to use the modified retrospective transition method, where the cumulative effect of the initial application is recognized as an adjustment to opening retained earnings at December 31, 2017. Therefore, comparative prior periods have not been adjusted and continue to be reported under FASB ASC Topic 605, Revenue Recognition, ( ASC 605 ). The adoption of the new revenue recognition guidance was immaterial to the Company's condensed consolidated statements of operations, comprehensive (loss) income, balance sheet, and cash flows as of and for the nine months ending September 29, 2018. Refer to Note 2 for additional information regarding the Company's adoption of ASC 606.

The Company's principal activities from which it generates its revenue is product sales. The Company has one reportable segment of business.

Revenue is measured based on consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation in a contract by transferring control over a product to a customer when product delivery occurs. Consideration is typically paid approximately 60 days from the time control is transferred. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a

Table of Contents

customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in selling costs.

A performance obligation is a promise in a contract to transfer a distinct product to the customer, which for the Company is transfer of juvenile products to its customers. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as the customer receives the benefit of the performance obligation.

A transaction price is the amount of consideration the Company expects to receive under the arrangement. The Company is required to estimate variable consideration (if any) and to factor that estimation into the determination of the transaction price. The Company conducts its business with customers through valid purchase or sales orders each of which is considered a separate contract because individual orders are not interdependent on one another. Product transaction prices on a purchase or sale order are discrete and stand-alone. Purchase or sales orders may be issued under either a customer master service agreement or a reseller allowance agreement. Purchase or sales orders, master service agreements, and reseller allowance agreements which are specific and unique to each customers, may include product price discounts, markdown allowances, return allowances, and/or volume rebates which reduce the consideration due from customers. Variable consideration is estimated using the most likely amount method, which is based on our historical experience as well as current information such as sales forecasts.

Contracts may also include cooperative advertising arrangements where the Company allows a discount from invoiced product amounts in exchange for customer purchased advertising that features the Company's products. These allowances are generally based upon product purchases or specific advertising campaigns. Such allowances are accrued when the related revenue is recognized. These cooperative advertising arrangements provide a distinct benefit and fair value and are accounted for as direct selling expenses.

*Use of Estimates*

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

*Allowance for Doubtful Accounts*

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. Amounts are considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable.

Changes in the allowance for doubtful accounts are as follows:

		For the nine months ended	
	September 29, 2018		September 30, 2017
Allowance for doubtful accounts, beginning of period	\$	1,622	\$ 63
Charges to costs and expenses, net		1,768	2,178
Account write-offs		(272)	
Allowance for doubtful accounts, end of period	\$	3,118	\$ 2,241

*Inventory Valuation*

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

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 income tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carry-forwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, that it is more likely than not that such benefits will be realized. The net deferred tax assets and liabilities are presented as noncurrent.

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

*Net Income (Loss) Per Share*

Basic earnings (loss) per share for the Company is computed by dividing net income (loss) 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 shares.

*Translation of Foreign Currencies*

All assets and liabilities of the Company's foreign subsidiaries, each of whose functional currency is in its local currency, are translated into U.S. dollars at the exchange rate in effect at the end of the quarter and the income and expense accounts of these affiliates have been translated at average rates prevailing during each respective quarter. Resulting translation adjustments are made to a separate component of stockholders equity within accumulated other comprehensive (loss) income. Foreign exchange transaction gains and losses are included in the accompanying interim, condensed consolidated statement of operations.

*Recently Issued Accounting Pronouncements*

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), ( new lease standard ). The new lease standard will supersede the current guidance for lease accounting and will require lessees to recognize right-to-use assets and related lease liabilities on the balance sheet for leases with lease terms greater than twelve months. The objective is to increase transparency and comparability among organizations regarding lease accounting and disclosing key information about leasing arrangements. In July 2018, FASB issued ASU 2018-10, Codification Improvements to Topic 842 (Leases), which provides narrow amendments to clarify how to apply certain aspects of the new lease standard. The effective date for both standards for the Company will be the first quarter of fiscal year 2019, with early adoption permitted. The Company is evaluating the impact the adoption of this new standard will have on its consolidated financial statements and believes it is following an appropriate timeline to allow for proper recognition, presentation and disclosure upon adoption effective the beginning of fiscal year 2019.

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

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. REVENUE

#### *Disaggregation of Revenue*

The Company's revenue is primarily from distinct fixed-price product sales in the juvenile product market, to similar customers and channels utilizing similar types of contracts that are short term in nature (less than one year). The Company does not sell service agreements or goods over a period of time and does not sell or utilize customer financing arrangements or time-and-material contracts.

The following is a table that presents net sales by geographical area:

	For the three months ended September 29, 2018		For the nine months ended September 29, 2018	
United States	\$	36,707	\$	111,210
All Other		7,131		22,361
Net Sales	\$	43,838	\$	133,571

All Other consists of Canada, Europe, South America, Mexico, Asia, and the Middle East.

Table of Contents

*Contract Balances*

The Company does not have any contract assets such as work-in-process or contract liabilities such as customer advances. All trade receivables on the Company's condensed consolidated balance sheet are from contracts with customers.

*Contract Costs*

Costs incurred to obtain a contract are capitalized unless short term in nature. As a practical expedient, costs to obtain a contract that are short term in nature are expensed as incurred. All contract costs incurred in 2018 fall under the provisions of the practical expedient and have therefore been expensed.

**3. DEBT**

*Credit Facilities*

*Bank of America Credit Facility.* On June 28, 2018, the Company and Summer USA, as borrowers, entered into a Second Amended and Restated Loan and Security Agreement with Bank of America, N.A., as agent, the financial institutions party to the agreement from time to time as lenders, and certain subsidiaries of the Company as guarantors (the Restated BofA Agreement). The Restated BofA Agreement replaced the Company's prior credit facility with Bank of America, and provides for a \$60,000, asset-based revolving credit facility, with a \$5,000 letter of credit sub-line facility. The total borrowing capacity is based on a borrowing base, which is defined as 85% of eligible receivables plus the lesser of (i) 70% of the value or (ii) 85% of the net orderly liquidation value (NOLV) of eligible inventory, less applicable reserves. The scheduled maturity date of loans under the Restated BofA Agreement is June 28, 2023 (subject to customary early termination provisions).

All obligations under the Restated BofA Agreement are secured by substantially all the assets of the Company, including a first priority lien on accounts receivable and inventory and a junior lien on certain assets subject to the term loan lender's first priority lien as described below. Summer Infant Canada Limited and Summer Infant Europe Limited, subsidiaries of the Company, are guarantors under the Restated BofA Agreement. Proceeds from the loans were used to satisfy existing debt, pay fees and transaction expenses associated with the closing of the Restated BofA Agreement and may be used to pay obligations under the Restated BofA Agreement, and for lawful corporate purposes, including working capital.

Loans under the Restated BofA Agreement bear interest, at the Company's option, at a base rate or at LIBOR, plus applicable margins based on average quarterly availability under the Restated BofA Agreement. Interest payments are due monthly, payable in arrears. The Company is also required to pay an annual non-use fee on unused amounts, as well as other customary fees as are set forth in the Restated BofA Agreement. The Restated BofA Agreement contains customary affirmative and negative covenants. Among other restrictions, the Company is restricted in its



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

ability to incur additional debt, make acquisitions or investments, dispose of assets, or make distributions unless in each case certain conditions are satisfied. In addition, if availability falls below a specified amount, then the Company must maintain a fixed charge coverage ratio at the end of each fiscal month of at least 1.0 to 1.0 for the twelve-month period then ended.

The Restated BofA Agreement also contains customary events of default, including a cross default with the term loan and the occurrence of a change of control. In the event of a default, all of the obligations of the Company and its subsidiaries under the Restated BofA 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 September 29, 2018, under the Restated BofA Agreement, the rate on base-rate loans was 6.25% and the rate on LIBOR-rate loans was 4.25%. The amount outstanding on the Restated BofA Agreement at September 29, 2018 was \$29,957. Total borrowing capacity at September 29, 2018 was \$41,993 and borrowing availability was \$12,036.

Prior to entering into the Restated BofA Agreement, the Company and Summer USA were parties to an amended and restated loan and security agreement with Bank of America, N.A., as agent, which provided for an asset-based credit facility (the Prior Credit Facility). The Prior Credit Facility consisted of a \$60,000 asset-based revolving credit facility, with a \$10,000 letter of credit sub-line facility (the Revolving Facility), a \$5,000 first in last out (FILO) revolving credit facility (the FILO Facility) and a \$10,000 term loan facility (the Term Loan Facility). The total borrowing capacity under the Revolving Facility was based on a borrowing base, generally defined as 85% of the value of eligible accounts plus the lesser of (i) 70% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less reserves. The total borrowing capacity under the FILO Facility was based on a borrowing base, generally defined as a specified percentage of the value of eligible accounts that steps down over time, plus a specified percentage of the value of eligible inventory that steps down over time. As noted above, all obligations under the

Table of Contents

Revolving Facility and Term Loan Facility were repaid in connection with the Restated BofA Agreement and Term Loan Agreement described below. Loans under the FILO Facility were repaid April 21, 2018.

Borrowings under the Revolving Facility generally accrue interest, at the Company's option, at a base rate or at LIBOR, plus applicable margins based on average quarterly availability and ranging between 2.0% and 2.5% on LIBOR borrowings and 0.5% and 1.0% on base rate borrowings. Loans under the FILO Facility and Term Loan Facility accrued interest, at the Company's option, at a base rate or at LIBOR, plus a margin of 4.25% on LIBOR borrowings and 2.75% on base rate borrowings. From April 24, 2018 through May 21, 2018, interest on the Revolving Facility accrued an additional 2.0% on the then applicable interest rate.

*Term Loan Agreement.* On June 28, 2018, the Company and Summer USA, as borrowers, entered into a Term Loan and Security Agreement (the "Term Loan Agreement") with Pathlight Capital LLC, as agent, each lender from time to time a party to the Term Loan Agreement, and certain subsidiaries of the Company as guarantors, providing for a \$17,500 term loan (the "Term Loan"). Proceeds from the Term Loan were used to satisfy existing debt, pay fees and transaction expenses associated with the closing of the Term Loan and may be used to pay obligations under the Term Loan Agreement, and for lawful corporate purposes, including working capital. The Term Loan is secured by a lien on certain assets of the Company, including a first priority lien on intellectual property, machinery and equipment, and a pledge of (i) 100% of the ownership interests of domestic subsidiaries and (ii) 65% of the ownership interests in certain foreign subsidiaries of the Company, and a junior lien on certain assets subject to the liens under the Restated BofA Agreement described above. The Term Loan matures on June 28, 2023. Summer Infant Canada Limited and Summer Infant Europe Limited, subsidiaries of the Company, are guarantors under the Term Loan Agreement.

The principal of the Term Loan will be repaid, on a quarterly basis, in installments of \$219, with the first installment to be paid on December 1, 2018, until paid in full on termination. The Term Loan bears interest at an annual rate equal to LIBOR, plus 9.0%. Interest payments are due monthly, in arrears. Obligations under the Term Loan Agreement are also subject to restrictions on prepayment and a prepayment penalty if the Term Loan is repaid prior to the third anniversary of the closing of the Term Loan.

The Term Loan Agreement contains customary affirmative and negative covenants that are substantially the same as the Restated BofA Agreement. In addition, if availability falls below a specified amount, then the Company must maintain a fixed charge coverage ratio at the end of each fiscal month of at least 1.0 to 1.0 for the twelve-month period then ended. The Term Loan Agreement also contains events of default, including a cross default with the Restated BofA Agreement and the occurrence of a change of control. In the event of a default, all of the obligations of the Company and its subsidiaries under the Term 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 September 29, 2018, the interest rate on the Term Loan was 11.4%. The amount outstanding on the Term Loan at September 29, 2018 was \$17,500.

The refinancing transaction was evaluated to determine the proper accounting treatment for the transaction. Accordingly, debt extinguishment accounting was used to account for the prepayment of the prior term loan facility and to prepay two members of the lender group for the prior credit facility with Bank of America that did not continue in the amended and restated credit facility, resulting in the write off of \$518 in remaining unamortized deferred financing costs for the nine months ended September 29, 2018. Debt modification accounting was used for the remaining member of the lender group for the prior credit facility, resulting in remaining unamortized deferred financing costs of \$675 and the

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

new financing costs of \$1,958 to be capitalized and amortized over the life of the new credit facility.

Aggregate maturities of bank debt related to the Restated BofA Agreement and the Term Loan Agreement:

<b>Fiscal Year ending:</b>		
2018		219
2019		875
2020		875
2021		875
2022 and thereafter	\$	44,613
Total	\$	47,457

Unamortized debt issuance costs were \$2,497 at September 29, 2018 and \$1,127 at December 30, 2017, and are presented as a direct deduction of long-term debt on the consolidated balance sheets.

Table of Contents**4. INTANGIBLE ASSETS**

Intangible assets consisted of the following:

	September 29, 2018	December 30, 2017
Brand names	\$ 11,819	\$ 11,819
Patents and licenses	3,766	3,766
Customer relationships	6,946	6,946
Other intangibles	1,882	1,882
	24,413	24,413
Less: Accumulated amortization	(10,928)	(10,367)
Intangible assets, net	\$ 13,485	\$ 14,046

The amortization period for the majority of the intangible assets ranges from 5 to 20 years for those assets that have an estimated life; certain of the assets have indefinite lives (brand names). Total of intangibles not subject to amortization amounted to \$8,400 as of September 29, 2018 and December 30, 2017.

**5. COMMITMENTS AND CONTINGENCIES***Litigation*

The Company is a party to various routine claims, litigation and administrative complaints incidental to its business, including claims involving product liability, employee matters and other general liability claims, most of which are covered by insurance. 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.

**6. SHARE BASED COMPENSATION**

The Company is currently authorized to issue up to 1,700,000 shares for equity awards under the Company's 2012 Incentive Compensation Plan (as amended, 2012 Plan). Periodically, the Company may also grant equity awards outside of its 2012 Plan as inducement grants for new hires.

Under the 2012 Plan, awards may be granted to participants in the form of non-qualified stock options, incentive stock options, restricted stock, deferred stock, restricted stock units and other stock-based awards. Subject to the provisions of the plans, awards may be granted to employees, officers, directors, advisors and consultants who are deemed to have rendered or are able to render significant services to the Company or its

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

subsidiaries and who are deemed to have contributed or to have the potential to contribute to the Company's success. The Company accounts for options under the fair value recognition standard. Share-based compensation expense for the three months ended September 29, 2018 and September 30, 2017 was \$118 and \$100, respectively, and share-based compensation expense for the nine months ended September 29, 2018 and September 30, 2017 was \$433 and \$375, respectively. Share based compensation expense is included in general and administrative expenses.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the table below. The Company uses the simplified method to estimate the expected term of the options, but used an estimate for grants of plain vanilla stock options based on a formula prescribed by the Securities and Exchange Commission. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation expense recognized in the consolidated financial statements is based on awards that are ultimately expected to vest.

As of September 29, 2018, there were 1,183,510 stock options outstanding and 335,750 unvested restricted shares outstanding.

During the nine months ended September 29, 2018, the Company granted 341,240 stock options and 170,000 shares of restricted stock, respectively. The following table summarizes the weighted average assumptions used for stock options granted during the nine months ended September 29, 2018 and September 30, 2017.

	<b>For the Nine Months Ended September 29, 2018</b>	<b>For the Nine Months Ended September 30, 2017</b>
Expected life (in years)	4.9	4.9
Risk-free interest rate	2.7%	1.9%
Volatility	64.0%	71.4%
Dividend yield	0%	0%
Forfeiture rate	23.1%	22.6%

Table of Contents

As of September 29, 2018, there were 856,182 shares available to grant under the 2012 Plan.

**Restricted Stock Units**

On July 13, 2016, the Company granted 100,000 performance-based RSUs to its new Chief Executive Officer. The RSUs represent the right to receive shares of the Company's common stock upon achievement of specified performance metrics, and only vest if such performance metrics are achieved for fiscal year 2017 and fiscal year 2018. The RSUs expire if the performance metrics are not achieved or if employment is terminated. The fair value of the RSUs will be recognized as they are earned and when it is probable that the performance conditions will be met. In 2017, 50,000 of the RSUs expired as the performance metrics for 2017 were not achieved. The Company has not recognized any compensation expense in 2018 related to this award as it is unlikely that performance metrics will be achieved.

**7. WEIGHTED AVERAGE COMMON SHARES**

Basic and diluted earnings or loss per share (EPS) is based upon the weighted average number of common shares outstanding during the period. Diluted weighted average number of common shares outstanding also included common stock equivalents such as stock options and restricted shares. The Company does not include the anti-dilutive effect of common stock equivalents in the calculation of dilutive common shares outstanding. The computation of diluted common shares for the three months ended September 29, 2018 excluded 1,117,327 stock options and 312,471 shares of restricted stock outstanding. The computation of diluted common shares for the nine months ended September 29, 2018 excluded 1,183,510 stock options and 335,750 shares of restricted stock outstanding. The computation of diluted common shares for the three months ended September 30, 2017 excluded 1,078,726 stock options and 348,516 shares of restricted stock outstanding. The computation of diluted common shares for the nine months ended September 30, 2017 excluded 1,078,726 stock options and 348,516 shares of restricted stock outstanding.

**8. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the filing date of this Quarterly Report on Form 10-Q and determined that no subsequent events occurred that would require recognition in the consolidated financial statements or disclosure in the notes thereto.

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking information and statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All forward-looking statements included in this document are based on information available to us on the date hereof. It is important to note that our actual results could differ materially from those projected in such forward-looking statements contained in this Quarterly Report on Form 10-Q. These forward-looking statements include statements concerning our expectations regarding the impact of the Toys R Us bankruptcy and liquidation of its U.S. assets on future results; the impact of recently imposed tariffs or new tariffs on the cost of our imported products and pricing of our products; the effectiveness of and expected savings from our cost reduction efforts; the expected impact of the recently completed refinancing on future growth and liquidity; our business strategy and future growth and profitability; our ability to deliver high quality, innovative products to the marketplace; our ability to maintain and build upon our existing customer and supplier relationships; our expected cash flow and liquidity for the next 12 months; and our ability to build awareness of our core brands. These statements are based on current expectations that involve numerous risks and uncertainties. These risks and uncertainties include the concentration of our business with retail customers; liquidity problems or bankruptcy of our customers and their ability to pay us in a timely manner; our ability to introduce new products or improve existing products that satisfy consumer preferences; our ability to develop new or improved products in a timely and cost-efficient manner; our ability to compete with larger and more financially stable companies in our markets; our ability to comply with financial and other covenants in our debt agreements; our dependence on key personnel; our reliance on foreign suppliers and potential disruption in foreign markets in which we operate; increases in the cost of raw materials used to manufacture our products; compliance with safety and testing regulations for our products; product liability claims arising from use of our products; unanticipated tax liabilities; an impairment of other intangible assets; and other risks as detailed in our Annual Report on Form 10-K for the year ended December 30, 2017, this Quarterly Report on Form 10-Q and subsequent filings with the Securities and Exchange Commission. All these matters are difficult or impossible to predict accurately, many of which may be beyond our control. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate.*

The following discussion is intended to assist in the assessment of significant changes and trends related to the results of operations and financial condition of our Company and our consolidated subsidiaries. This Management's Discussion and Analysis should be read together with the unaudited interim condensed consolidated financial statements and related notes included elsewhere in this filing and with our consolidated financial statements for the year ended December 30, 2017 included in our Annual Report on Form 10-K for the year ended December 30, 2017 ( 2017 Form 10-K ).

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

**Overview**

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

We are an infant and juvenile products company originally founded in 1985 and have publicly traded on the Nasdaq Stock Market since 2007 under the symbol SUMR. We are a leader in product innovation in the juvenile industry, providing parents and caregivers a full range of high-quality, high-value products to care for babies and toddlers. We seek to improve the quality of life of both caregivers and babies through our product offerings, while at the same time maximizing shareholder value over the long term.

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

In the third quarter of 2018, sales increased modestly as compared to the prior year period, indicating that we have made significant progress in offsetting sales lost from the bankruptcy of Toys R Us, Inc. (TRU), the parent company of a former major customer, Babies R Us, originally filed in September 2017. In the third quarter of 2018, we experienced growth across our major customers and many product categories. For the nine months ended September 29, 2018, sales decreased 6.6% as compared to the prior period, reflecting the loss of sales due to TRU bankruptcy and subsequent liquidation of its U.S. assets in 2018. Net income per diluted share for the quarter was \$0.01 per share as compared to a net loss of \$0.07 per share for the comparable prior period.

While we are encouraged by our growth in the third quarter, we expect our results in the fourth quarter of 2018 and beyond to be impacted by the recently enacted 10% tariff on goods imported into the United States from China, with the potential for the tariff



Table of Contents

to increase to 25% on January 1, 2019. While the impact of prior tariffs was not material to our business, the newly-imposed 10% tariff will materially impact the cost of certain of our products, including high volume products, for the foreseeable future. We have begun and will continue efforts to mitigate the impact of the tariffs, including through price increases and exploring alternative sources of supply outside of China. However, there is no assurance that our customers will accept price increases or that we will be successful in mitigating the impact of the tariffs, and the increase in the cost of certain of our products as a result of the tariffs that is not offset by our mitigation efforts could have an adverse effect on our business, financial position, results of operations and cash flows.

**Summary of Critical Accounting Policies and Estimates**

There have been no significant changes in our critical accounting policies and estimates during the three months ended September 29, 2018 from our critical accounting policies and estimates disclosed under Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Form 10-K except for the adoption of the new revenue recognition accounting policy in the first quarter of fiscal 2018 as noted in Note 1 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

**Results of Operations**

	For the three months ended (Unaudited)		For the nine months ended (Unaudited)	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net sales	\$ 43,838	\$ 43,134	\$ 133,571	\$ 143,053
Cost of goods sold	30,227	29,502	90,974	96,816
Gross profit	13,611	13,632	42,597	46,237
General & administrative expenses	7,623	10,536	29,587	30,060
Selling expenses	3,658	3,117	9,427	11,248
Depreciation and amortization	1,012	1,023	3,087	3,120
Operating income (loss)	1,318	(1,044)	496	1,809
Interest expense, net	1,118	748	3,300	2,206
Income (loss) before provision (benefit) for income taxes	200	(1,792)	(2,804)	(397)
Provision (benefit) for income taxes	82	(549)	(513)	135
Net income (loss)	\$ 118	\$ (1,243)	\$ (2,291)	\$ (532)

***Three Months ended September 29, 2018 compared with Three Months ended September 30, 2017***

Net sales increased 1.6% from \$43,134 for the three months ended September 30, 2017 to \$43,838 for the three months ended September 29, 2018. The increase was primarily a result of increased business across all of our major customers and several of our product categories such as potties, positioners, gates, and specialty blankets as former TRU business migrates to other existing channels. Sales to TRU totaled \$5,136 in the three months ended September 30, 2017.

Cost of goods sold includes cost of the finished product from suppliers, duties on certain imported items, freight-in from suppliers, and miscellaneous charges. The components of cost of goods sold remained substantially the same for the quarter ended September 29, 2018 as

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

compared to the quarter ended September 30, 2017.

Gross profit decreased 0.2% from \$13,632 for the three months ended September 30, 2017 to \$13,611 for the three months ended September 29, 2018. Gross margin as a percent of net sales declined from 31.6% for the three months ended September 30, 2017 to 31.1% for the three months ended September 29, 2018. Gross margin decreased primarily due to \$400 in costs associated with a major retail promotion and higher closeout sales in the fiscal 2018 quarter related to exclusive and excess inventory associated with TRU.

General and administrative expenses decreased 27.6% from \$10,536 for the three months ended September 30, 2017 to \$7,623 for the three months ended September 29, 2018. General and administrative expenses decreased from 24.4% of net sales for the three months ended September 30, 2017 to 17.4% of net sales for the three months ended September 29, 2018. The decline in dollars and as a percent of sales reflecting a \$535 adjustment to decrease allowance for bad debt due to a partial recovery from TRU in the three months ending September 29, 2018 as compared to a \$2,120 charge to increase our allowance for bad debt due to the TRU bankruptcy in the three months ending September 30, 2017.

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

### Table of Contents

Selling expenses increased 17.4% from \$3,117 for the three months ended September 30, 2017 to \$3,658 for the three months ended September 29, 2018. Selling expenses also increased as a percent of net sales from 7.2% for the three months ended September 30, 2017 to 8.3% for the three months ended September 29, 2018. The increase in selling expense and as a percent of sales was primarily attributable to increased cooperative advertisement including a \$190 customer post-audit adjustment and higher freight costs partially offset by lower consumer advertising costs.

Depreciation and amortization decreased 1.1% from \$1,023 for the three months ended September 30, 2017 to \$1,012 for the three months ended September 29, 2018. The decrease in depreciation was attributable to the timing of capital investment primarily over the past year.

Interest expense increased 49.5% from \$748 for the three months ended September 30, 2017 to \$1,118 for the three months ended September 29, 2018. Interest expense increased primarily as a result of higher average interest rates under our new credit facilities and the impact of Federal interest rate hikes over the past year.

For the three months ended September 30, 2017, we recorded a \$549 tax benefit on \$1,792 of pretax loss, reflecting an estimated 30.6% tax rate for the quarter. For the three months ended September 29, 2018, we recorded an \$82 provision for income taxes on \$200 of pretax income, reflecting an estimated 41.0% tax rate for the quarter. The tax rates exceed statutory rates primarily due to the effect of permanent differences such as the non-deductibility of depreciation in our Hong Kong subsidiary.

### *Nine Months ended September 29, 2018 compared with Nine Months ended September 30, 2017*

Net sales decreased 6.6% from \$143,053 for the nine months ended September 30, 2017 to \$133,571 for the nine months ended September 29, 2018. The decrease was primarily a result of a \$15,693 reduction in sales to TRU due to the liquidation of its U.S. assets and a \$4,885 decrease in monitor sales due to increased competition. The decrease in monitor sales excludes any overlapping impact with the decreased sales to TRU. These declines were partially offset by increased business with other customers as former TRU business migrates to other existing channels and growth in our potty, entertainers, and gate categories.

Cost of goods sold includes cost of the finished product from suppliers, duties on certain imported items, freight-in from suppliers, and miscellaneous charges. The components of cost of goods sold remained substantially the same for the nine months ended September 29, 2018 as compared to the nine months ended September 30, 2017.

Gross profit decreased 7.9% from \$46,237 for the nine months ended September 30, 2017 to \$42,597 for the nine months ended September 29, 2018. Gross margin as a percent of net sales decreased from 32.3% for the nine months ended September 30, 2017 to 31.9% for the nine months ended September 29, 2018. Gross profit decreased primarily due to lower sales. Gross margin decreased primarily due to higher closeout sales in the first nine months of fiscal 2018 related to exclusive and excess inventory associated with the TRU liquidation.

General and administrative expenses decreased 1.6% from \$30,060 for the nine months ended September 30, 2017 to \$29,587 for the nine months ended September 29, 2018. General and administrative expenses increased from 21.0% of net sales for the nine months ended

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

September 30, 2017 to 22.2% of net sales for the nine months ended September 29, 2018. The decrease in dollars reflected a net \$1,813 increase in our allowance for bad debts due to the liquidation of TRU's U.S. assets compared to a \$2,120 charge to increase our allowance for bad debt due to the TRU bankruptcy filing in the nine months ended September 30, 2017. The increase in percent of net sales was primarily due to lower sales.

Selling expenses decreased 16.2% from \$11,248 for the nine months ended September 30, 2017 to \$9,427 for the nine months ended September 29, 2018. Selling expenses also decreased as a percent of net sales from 7.9% for the nine months ended September 30, 2017 to 7.1% for the nine months ended September 29, 2018. The decrease in selling expense was primarily attributable to lower sales, customer mix, higher direct import and closeout sales which did not have any associated cooperative advertisement costs, and lower consumer advertising costs. The decrease as a percent of sales was primarily attributable to customer mix, higher direct import and closeout sales which did not have any associated cooperative advertisement costs, and lower consumer advertising costs.

Depreciation and amortization decreased 1.1% from \$3,120 for the nine months ended September 30, 2017 to \$3,087 for the nine months ended September 29, 2018. The decrease in depreciation was attributable to the timing of capital investment primarily over the past year.

Interest expense increased 49.6% from \$2,206 for the nine months ended September 30, 2017 to \$3,300 for the nine months ended September 29, 2018. Interest expense increased primarily as a result of the write off of \$518 of previously unamortized prepaid

Table of Contents

finance fees associated with the repayment of existing debt from the proceeds of our June 2018 refinancing and higher average interest rates under our new credit facilities and the impact of higher interest rates over the past year.

For the nine months ended September 30, 2017, we recorded a \$135 provision for income taxes on \$397 of pretax loss. The tax provision on pretax loss for the nine months ended September 30, 2017 was attributable to certain permanent non-deductible expenses in foreign jurisdictions. For the nine months ended September 29, 2018, we recorded a \$513 benefit for income taxes on \$2,804 of pretax loss, reflecting an estimated 18.3% tax rate. The reduction in tax rate was primarily attributable to the lower Federal tax rate enacted under the December 2017 Tax Cuts and Jobs Act that took effect on January 1, 2018.

**Liquidity and Capital Resources**

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

In our typical operational cash flow cycle, inventory is purchased in U.S. dollars to meet expected demand plus a safety stock. Because the majority of our suppliers are based in Asia, inventory takes from three to four weeks to arrive from Asia to the various distribution points we maintain in the United States, Canada and the United Kingdom. Payment terms for these vendors are approximately 60-75 days from the date the product ships from Asia, therefore we are generally paying for the product a short time after it is physically received in the United States. In turn, sales to customers generally have payment terms 60 days, resulting in an accounts receivable and increasing the amount of cash required to fund working capital. To bridge the gap between paying our suppliers and receiving payment from our customers for goods sold, we rely on our credit facilities.

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

For the nine months ended September 29, 2018, net cash provided by operating activities totaled \$5,444. Net cash used in operating activities for the nine months ended September 30, 2017 was \$1,221. The increase in cash provided by operating activities was primarily attributable to lower inventory due to improved operational efficiency resulting in increased inventory turns.

For the nine months ended September 29, 2018, net cash used in investing activities was approximately \$2,644. For the nine months ended September 30, 2017, net cash used in investing activities was \$2,011. The increase was primarily attributable to our investment in our U.S. west coast distribution facility's racking and forklift equipment to improve efficiency and maximize space utilization.

Net cash used by financing activities was approximately \$2,554 for the nine months ended September 29, 2018 and net cash provided by financing activities was approximately \$2,730 for the nine months ended September 30, 2017, reflecting repayments and borrowings on our credit facilities to fund investments and operations noted above.

Based primarily on the above factors, net cash increased for the nine months ending September 29, 2018 by \$378, resulting in a cash balance of approximately \$1,059 at September 29, 2018.

*Capital Resources*

In addition to operating cash flow, we also rely on our asset-based revolving credit facility with Bank of America, N.A. and our term loan agreement with Pathlight Capital to meet our financing requirements, which are subject to changes in our inventory and account receivable levels. We regularly evaluate market conditions, our liquidity profile, and various financing alternatives for opportunities to enhance our capital structure.

If we are unable to meet our current financial forecast, do not adequately control expenses, or adjust our operations accordingly, we may not have access to all of our available lines of credit due to insufficient asset availability. If our availability drops below specified levels, we will be required to meet certain financial covenants under our revolving credit facility and term loan agreement. There is no assurance that we will meet all of our financial or other covenants in the future, or that our lenders will grant waivers if there are covenant violations. In addition, should we seek to raise additional funds through debt or equity financings, any sale of 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.

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

### Table of Contents

Based on past performance and current expectations, we believe that our anticipated cash flow from operations and availability under our existing credit facility are sufficient to fund our working capital, capital expenditures and debt service requirements for at least the next 12 months.

#### *Credit Facilities*

In June, 2018, we entered into (i) a Second Amended and Restated Loan and Security Agreement with Bank of America, N.A., as agent, the financial institutions party to the agreement from time to time as lenders, and certain of our subsidiaries as guarantors, providing for a \$60,000 asset-based revolving credit facility (the Restated BofA Agreement ) and (ii) a Term Loan and Security Agreement with Pathlight Capital LLC, as agent, each lender from time to time a party to the Term Loan Agreement, and certain of our subsidiaries as guarantors, providing for a \$17,500 term loan (the Term Loan Agreement ).

Under the Restated BofA Agreement, total borrowing capacity is based on a borrowing base, which is defined as 85% of eligible receivables plus the lesser of (i) 70% of the value or (ii) 85% of the net orderly liquidation value (NOLV) of eligible inventory, less applicable reserves. The scheduled maturity date of loans under the Restated BofA Agreement is June 28, 2023 (subject to customary early termination provisions). All obligations under the Restated BofA Agreement are secured by substantially all the assets of the Company, including a first priority lien on accounts receivable and inventory and a junior lien on certain assets subject to the term loan lender's first priority lien as described below.

Under the Term Loan Agreement, we will repay the principal of the term loan on a quarterly basis in installments of \$219 with the first installment to be paid on December 1, 2018, until paid in full on termination, and interest payments are due monthly, in arrears. Obligations under the Term Loan Agreement are also subject to restrictions on prepayment and a prepayment penalty if the term loan is repaid prior to the third anniversary of the closing of the term loan. The term loan is secured by a lien on certain assets of the Company, including a first priority lien on intellectual property, machinery and equipment, and a pledge of (i) 100% of the ownership interests of domestic subsidiaries and (ii) 65% of the ownership interests in certain foreign subsidiaries of the Company, and a junior lien on certain assets subject to the liens under the Restated BofA Agreement described above. The Term Loan matures on June 28, 2023.

Proceeds from the Restated BofA Agreement and Term Loan Agreement were used to satisfy existing prior debt, pay fees and transaction expenses associated with the closing of the Restated BofA Agreement and Term Loan, and may be used to pay obligations under the Restated BofA Agreement and Term Loan Agreement, and for lawful corporate purposes, including working capital.

For additional information on the Restated BofA Agreement, the Term Loan Agreement, and our prior loan agreement with Bank of America, please see Note 3 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

As of September 29, 2018, under the Restated BofA Agreement, the rate for base-rate loans was 6.25% and the rate for LIBOR-rate loans was 4.25%. The rate for the Term Loan Agreement was 11.4% as of September 29, 2018. The amount outstanding under the Restated BofA Agreement at September 29, 2018 was \$29,957. Total borrowing capacity under the Restated BofA Agreement at September 29, 2018 was \$41,993 and borrowing availability was \$12,036. The amount outstanding on the Term Loan Agreement at September 29, 2018 was \$17,500.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

**ITEM 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report on Form 10-Q, 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 29, 2018. Our Chief Executive Officer and Chief Financial Officer have concluded, based on this evaluation, that our controls and procedures were effective as of September 29, 2018.



Table of Contents

*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 on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The Company is a party to various routine claims, litigation and administrative complaints incidental to its business, including claims involving product liability, employee matters and other general liability claims, most of which are covered by insurance. 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**

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our 2017 Form 10-K, Part II, Item 1A, Risk Factors, of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, and Part II, Item 1A, Risk Factors, of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information.**

None.

**ITEM 6. Exhibits**

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

Table of Contents

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
31.1	<u>Certification of Chief Executive Officer</u>
31.2	<u>Certification of Chief Financial Officer</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer</u>
32.2	<u>Section 1350 Certification of Chief Financial Officer</u>
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

---

\* Portions of this Exhibit have been omitted pursuant to a request for confidential treatment.

Table of Contents

**Signatures**

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

**Summer Infant, Inc.**

Date: October 31, 2018

By: /s/ Mark Messner  
Mark Messner  
Chief Executive Officer (Principal Executive Officer)

Date: October 31, 2018

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