

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 28, 2019

Or

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

For the transition period from _____ to _____

Commission File No. 001-33346

SUMMER INFANT, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation)

20-1994619

(I.R.S. Employer
Identification No.)

1275 Park East Drive, Woonsocket, Rhode Island

(Address of principal executive offices)

02895

(Zip Code)

(401) 671-6550

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, Par Value \$0.0001	SUMR	Nasdaq Capital Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

Large accelerated filer Accelerated filer Non-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 Act). Yes No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates as of June 29, 2019, was \$4.2 million (and has not been adjusted to reflect the reverse stock split effective March 13, 2020). For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares issued and outstanding of the registrant's common stock as of March 16, 2020 was 2,108,743 (excluding unvested restricted shares that have been issued to employees) reflecting the reverse stock split effective March 13, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

When used in this report, the terms “Summer,” the “Company,” “we,” “us,” and “our” mean Summer Infant, Inc. and its subsidiaries. Note that all dollar amounts in Part I are in thousands of U.S. dollars unless otherwise noted.

Item 1. Business

Overview

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 recognized authority in the juvenile product industry, providing parents and caregivers a full range of innovative, high-quality, and high-value products to care for babies and toddlers. We seek to improve the quality of life of parents, 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, on our partner’s websites, and our own direct to consumer websites. In North America, our customers include Amazon.com, Wal-Mart, Target, Buy Buy Baby, Home Depot, and Lowe’s. Our largest European-based customers are Argos and Amazon. 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 2019, we announced our new brand and product strategy, and are doing business under the name SUMR Brands. We believe this “family of brands” approach better reflects our strategic vision and evolving consumer expectations. As described below in “Sales and Marketing,” we seek to leverage our brands, Summer™, SwaddleMe® and born free®, to cover multiple consumer demographics, retailers, and channels.

Strategic Priorities

Our goal is to become a globally recognized leader in the juvenile product industry by creating products that families everywhere need, want, love and depend on. We will continue to support a roadmap for sustainable growth in 2020 and beyond by developing and launching new products based on consumer demand, while also strengthening our core product offerings. Additionally, we will continue to expand our reach through a portfolio of brands, strategically positioned to appeal to multiple consumer demographics, and further develop our key customer relationships. We believe the following key strategic priorities position us to capitalize on market trends and fuel our future growth:

- **Growth through product.** We continuously seek to create differentiated products that appeal to consumers who increasingly demand high-quality, long-lasting products that make family life easier, safer, and more fun. We pride ourselves as leaders of innovation within the juvenile products industry. We strive to deliver innovation in various ways based upon product category, including design innovation in potties and gates, new convenience features in bath and strollers, inventive technology in our baby video monitors, and an expanded range of safe-sleep solutions within our SwaddleMe® branded product line. In 2020, we are launching a new infant car seat and travel system that offers many high-end features at a competitive price point. We believe that this expansion will allow us to reach the first-time expectant parent market in a meaningful way and bring them through our entire product line as their babies grow.
- **Growth through brand.** By developing a strategic approach to our consumer brands, we believe we are positioned to expand our appeal to a wide variety of consumer demographics while providing retailer differentiation. We continue to take a digital-first approach to marketing

communications and brand development. By implementing online marketing, marketing automation, social publishing/listening, and digital analytics tools, we believe we will be able to communicate more effectively with consumers of our products and understand what is important to them. In addition, we expect to continue to focus on online merchandising to drive conversion rates both in-store and online, as a majority of consumers research products online before buying either at retail or through e-commerce.

- **Growth through distribution.** We have strong partnerships with our suppliers in the U.S., Mexico, and Asia. We believe that our ability to develop products that are preferred by consumers and cost-efficient gives us a competitive advantage in meeting our customer demands. We have long-standing relationships with our brick and mortar and e-commerce retail customers in the U.S., and will continue to focus on strengthening them to increase our presence in stores and online.
- **Continuous infrastructure improvement.** A large percentage of our 2019 efforts and planned 2020 activities are focused on operational cost reductions, product sourcing and tariff mitigation, and streamlining improvements. Active programs include ongoing SKU reductions and rationalization, consolidation of UK distribution operations into our China facility, warehouse labor reductions, leasehold rationalization and the subletting of excess space where applicable. Additionally, we plan on increasing our direct import business, relocating product manufacturing in Asia to realize reduced tariffs and lower costs, and overall supply chain/order management staff consolidation.

Products

We currently market our products in several product categories including gates, potty, bath, entertainers, baby monitors, specialty blankets, strollers, car seats and travel systems. We are a North American market leader in the gate, bath, and the potty categories as well as a North American market leader in the convenience stroller segment. We market our core products, under our Summer™, SwaddleMe®, and born free® brand names.

Within gates, we offer a product range of more than 30 products. Our line of gates offer versatility that covers use in home, ease of installation, and aesthetically pleasing designs. We appeal to consumers with our combination of high quality and various designs matching home décor. We continue to receive positive feedback from retailers as we expand our portfolio.

We first entered the infant bathing category in 2002, and we have continued to create useful and safe solutions for bathing. Our innovative bath product, My Bath Seat™ continues to be extremely popular with consumers. We have an established roadmap for developing products in the four phases of bathing (sponges, bathers, bath tubs, and bath seats) to address consumer needs as baby grows, and to create loyalty to our brands, with new products available in 2020.

Our My Size™ Potty and the My Size™ Potty Train & Transition have been well-received by retailers and consumers alike. In 2020, we expect to continue to offer consumers more options in this product line and to obtain incremental placements with our retail customers. We are a market share leader in potties, with additional offerings that support different consumer needs and various price points in regards to potty training.

We are a North American market leader in the convenience segment of strollers. Our 3Dlite® Convenience Stroller continues to be a favorite among parents. We have continued to expand our 3D line of lightweight, affordable, feature rich strollers with the 3Dlite® +, a new lightweight convenience stroller with refined fashion and new features as well as the 3Dgo and 3D Pac. In 2020, we will also be launching the modular travel system with an infant car seat.

Our monitors were first introduced in 2001 and are distinguished by ease of use, innovative features, and their high quality. Currently, we offer audio and video monitors under the Summer™ brand. Our monitors feature high quality components, intended to fulfill the desire for consumers to connect with baby at any time or place. 2019 saw the successful launch of our Baby Pixel monitor, and we have continued to expand the product line with offerings including Baby Pixel Zoom HD and Baby Pixel Cadet.

Our specialty blankets include SwaddleMe® specialty blankets as well as our expanded line of Slumber Buddy soothers. Acquired in 2008, SwaddleMe® continues to be a trusted brand synonymous with infant safe sleep. A new brand refresh, SwaddleMe branded website, and an expanded range of products are expected to launch in early 2020.

Product Development and Design

A thorough understanding of our consumer, the competition, and our customer retail partners drives our product development. Developing and marketing innovative solutions are a critical element of our strategy. We strive to produce proprietary products that offer distinctive benefits, are visually appealing, and provide safe, thoughtful solutions.

We conduct market analysis in our geographic regions of priority, evaluate identified opportunities, and design products accordingly. The majority of our products are currently designed at our Rhode Island headquarters. When appropriate, we also partner with manufacturers in Asia on product development. In addition to new product development, we continuously look for ways to improve upon existing products based on consumer insights with a strong focus on the end-user experience.

Suppliers and Manufacturing

The majority of our products are manufactured in Asia (primarily China). We also use manufacturers in the United States and Mexico for certain injection-molded products, including bath tubs, potty seats and booster seats.

We are not dependent on any one supplier as we use many different manufacturers and presently own the tooling and molds used for our products. Our Hong Kong subsidiary provides us with an Asian sourcing presence and the ability to oversee quality, electronic engineering and other issues that may arise during production. Generally, we buy finished goods from manufacturers, and thus do not directly procure raw materials for product manufacturing. Historically, we have not experienced any significant disruption of supply as a result of raw material shortages or other manufacturing factors, but there is the possibility that shortages could occur in the future based on a variety of factors beyond our control.

Asian-made goods are shipped on the water to our warehouses, which typically takes up to four weeks. We also utilize a direct import program, to reduce costs and shipping time to certain customers. We maintain inventory in warehouses located in the United States and Canada as well as a third-party logistics warehouse in China. Most of our customers pick up their goods at our warehouses. We also deliver shipments direct to customers for sales from our own website and our consumer replacements program as well as for other smaller retail partners that request such arrangements.

Sales and Marketing

Our products are largely marketed and sold through our own direct sales force. We have also established a strong network of independent manufacturers' representatives and distributors to provide sales and customer service support for retail customers in North America and internationally. We seek to expand our direct-to-consumer sales, which we believe will also increase overall brand awareness. Sales are recognized upon transfer of title to our customers and are made utilizing standard credit terms of approximately 60 days. We generally accept returns only for defective merchandise.

Marketing, promotion and consumer engagement are key elements in the juvenile industry. Historically, a significant percentage of our promotional spending has been structured in coordination with large retail partners. We continue to focus our marketing efforts on growing brand awareness among our target consumer demographic, optimizing marketing investments, and executing an integrated marketing strategy. We believe an important component of our future growth is based on speaking to the right customer, with the right content, in the right channel, at the right time. We have implemented online marketing, social media, and digital analytics tools, which allow us to better measure the performance of our marketing activities, learn from our consumers, and receive valuable insights into industry and competitor activities.

Customer service is a critical component of our marketing strategy. We maintain a U.S.-based internal customer service department that responds to customer inquiries, investigates and resolves issues, and is available to assist customers and consumers during business hours. In 2019, we launched live chat on our direct-to-consumer websites to allow consumers to connect with the consumer service team as they research products or shop on our branded websites.

Competition

The juvenile product industry has many participants, none of which has dominant market share, though certain companies may have disproportionate strength in specific product categories. We compete with a number of different companies in a variety of categories, although there is no single company that competes with us across all of our product categories. Our largest direct competitors are Tomy Company, Ltd., Dorel Industries, Inc., Regalo Baby®, Munchkin®, GB® (Goodbaby International Holdings, Ltd.), Graco® (a subsidiary of Newell Rubbermaid), Chicco®, Fisher-Price® (a subsidiary of Mattel, Inc.), Aden & Anais®, and Motorola® (a licensed brand of Binatone Communications Group).

The primary method of competition in the industry consists of brand positioning, product innovation, quality, price, and timely distribution. Our competitive strengths include our ability to develop innovative new products, speed to market, our relationships with major retailers, and the quality and pricing of our products.

Intellectual Property

We rely on a combination of trademarks, patents, and trade secrets to protect our intellectual property. Our current U.S. patents include various design features related to safety gates, bouncers, bathers, and monitors with several other patents under review by the United States Patent and Trademark Office (USPTO). The issued patents expire at various times depending on the date of issuance during the next 15 years. In certain circumstances, we will partner with third parties to develop proprietary products, and, where appropriate, we have license agreements related to the use of third-party innovation in our products. The duration of our trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

Customers

Sales to the Company's top seven customers together comprised approximately 81% of our sales in fiscal 2019 and 77% of our sales in fiscal 2018. Of these customers, three generated more than 10% of sales for fiscal 2019: Amazon.com (26%), Walmart (25%), and Target (17%). In fiscal 2018, three customers generated more than 10% of sales: Amazon.com (23%), Walmart (23%), and Target (16%).

We have no long-term contracts with these customers, and as a result, our success depends heavily on our customers' willingness to purchase and provide shelf space for our products.

Seasonality

We do experience some variations in seasonal demand for our products in our second and third quarters of each year. However, we expect to generate higher than average volumes for the initial shipment of new products which typically includes enough inventory to fill each store plus additional amounts to be kept at the customer's distribution center. The timing of these initial shipments varies by customer depending on when they finalize store layouts for the upcoming year and whether there are any mid-year product introductions.

Regulatory Matters

Each of our products is designed to comply with all applicable mandatory and voluntary safety standards. In the United States, these safety standards are promulgated by federal, state and independent agencies such as the US Consumer Product Safety Commission, ASTM, the Federal Communications Commission, the Food and Drug Administration, the Federal Trade Commission, and various states Attorney Generals and state regulatory agencies. All of our products are independently tested by third party laboratories accepted by the Consumer Product Safety Commission to verify compliance to applicable safety standards. A similar approach is used to design and test products sold internationally.

Insurance

We carry product liability insurance that provides us with \$15 million coverage with a minimal deductible. We consult with our insurers to ascertain appropriate liability coverage for our product mix. We believe our current coverage is adequate for our existing business and will continue to evaluate our coverage in the future in line with our expanding sales and product breadth.

Employees

As of December 28, 2019, we had 159 employees, 156 of whom were full time employees and 74 of whom worked in our Rhode Island headquarters.

Available Information

The Company is incorporated under the laws of the State of Delaware. Our principal executive offices are located at 1275 Park East Drive, Woonsocket, Rhode Island 02895, and our telephone number is (401) 671 6550. We maintain our corporate website at www.summerinfant.com.

We file reports with the Securities and Exchange Commission ("SEC"), including an annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports that we file with, or furnish to, the SEC. The SEC maintains an Internet website, www.sec.gov, that contains reports, proxy and information statements and other information that we file electronically with the SEC. Our website also includes corporate governance information, including our Code of Ethics and our Board committee charters. The information contained on our website does not constitute a part of this report.

Item 1A. Risk Factors

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected and the trading price of our common stock could decline. The risk factors listed below are not exhaustive. We operate in a very competitive and rapidly changing environment in which new factors may emerge from time to time, and it is not possible for management to predict the impact of all of these factors on our business, financial condition or results of operations.

Our business may be materially adversely impacted due to the recent coronavirus outbreak in the U.S.

Our business may be materially adversely impacted by the effects of the recent coronavirus outbreak in the U.S. In addition to other risks related to the outbreak noted below, such as to our supply chain or a temporary closure of our distribution facility, as of the date of this filing, multiple retail stores in the U.S. have temporarily closed their stores in response to the outbreak, and state governments are taking action to curtail public activities. A significant portion of our sales in 2019 were made to large and small retail stores. We cannot at this time accurately predict what effects the closure of our customers' stores and the coronavirus outbreak in the U.S. will have on our sales in 2020, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, the length of voluntary business closures and governmental actions taken in response to the outbreak. More generally, a widespread health crisis could adversely affect the U.S. economy, resulting in an economic downturn that could affect demand for our products and therefore impact our results.

The concentration of our business with certain retail customers means that changes in the purchasing policies of these customers could have a significant impact on our business and operating results.

In fiscal 2019, sales to our top seven customers, including Amazon.com, Wal-Mart, and Target, accounted for approximately 81% of our total sales. We do not have long-term commitments or contracts with any of our retail customers, and retailers make purchases by delivering one-time purchase orders. As such, any customer could potentially renegotiate the terms of our business relationship at any time, which might include reducing overall purchases of our products, altering pricing, reducing the number and variety of our products carried and the shelf space allotted for our products, and reducing cooperative advertising or marketing support. Because of the current concentration of our business with these retail customers, a change in our relationship with any of these customers could adversely affect our results of operations and financial condition.

Increased tariffs, additional tariffs or other import or export taxes on our products could have an adverse impact on the cost of our product, the demand for our products and our business, financial condition and results of operations. Further, any suspension, revocation, expiration, non-renewal or other loss of our temporary exemption from certain tariffs could adversely affect our business, financial condition and results of operations.

The United States and other countries have levied tariffs and taxes on certain goods, including products imported into the United States from China. The majority of our products are manufactured outside the United States, mainly in China, and imported for sale in the United States. Tariffs enacted in 2018 and 2019 impacted our 2018 and 2019 results, and caused market disruption amongst our major customers. While we took actions to mitigate the impact of these tariffs and are exploring alternative sources of supply outside of China, if existing tariffs are increased or if additional tariffs or trade restrictions are implemented by the United States, China or other countries, the cost of our products

manufactured in China or other countries and imported into the United States would increase substantially, which would force us to increase the prices of the affected products.

In December 2019, an exclusion for metal safety gates was granted by the USTR, retroactive to the date of implementation (September 2018). Any amounts we paid in respect of such tariffs between the time of their implementation and the date the exclusion was granted will be refunded. However, the exclusion is temporary and expires in August 2020. While the USTR is expected to publish a process to seek extension of the exclusion, there can be no guarantee that the exclusion will be extended past August 2020. Any suspension, revocation, expiration, non-renewal or other loss of the granted exclusion could adversely affect our business, financial condition and results of operations. We would be required to negotiate for increased prices to mitigate the impact of the tariffs, which in turn could impact demand for our products.

There is no assurance that we would be successful in mitigating the impact of increased or additional tariffs, and any increase in pricing to allow us to maintain reasonable margins could adversely affect the demand for those products and may result in decreased profitability and lower sales, thereby having an adverse effect on our business, results of operations and financial condition.

We may not achieve some or all of the expected benefits of or savings from our restructuring initiatives, and our restructuring initiatives may adversely impact our business, financial condition and results of operations.

In 2020, we announced restructuring initiatives to further streamline our operations and improve our financial outlook. We may not be able to obtain the cost savings and benefits that are initially anticipated in connection with these restructuring initiatives. Reorganization and restructuring can require a significant amount of management and other employees' time and focus, which may divert attention from operating and growing our business. If these initiatives are not implemented in a timely manner, anticipated cost savings and benefits are not realized, business disruption occurs during the pendency of or following such actions, or unanticipated charges are incurred, particularly if material, there may be a negative effect on our business, financial condition and results of operations.

The intense competition in our market could reduce our net sales and profitability.

We operate in a highly competitive market and compete with several large domestic and foreign companies and with smaller producers of infant and juvenile products. Many of our competitors have longer operating histories, greater brand recognition, and greater financial, technical, marketing and other resources than us, or have greater e-commerce and social media presence than us. We experience price competition for our products and competition for shelf space at retailers, all of which may increase in the future. If we cannot adjust to changes in our market and compete successfully in the future, our net sales and profitability will likely decline.

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

Our business and operating results depend largely upon providing our customers with products that appeal to the end user. Consumer preferences are constantly changing, particularly among parents whom are often the end purchasers of our products. Our success largely depends on our ability to identify emerging trends in the infant and juvenile health, safety and wellness marketplace, and to design quality products that address consumer preferences and prove safe and cost effective.

Our ability to maintain and increase our current market share will depend upon our ability to anticipate changes in consumer preferences and satisfy these preferences, enhance existing products, develop and introduce new products, grow existing distribution channels and seek additional distribution channels for these products, successfully market the products and, ultimately, achieve

consumer acceptance of these products. A failure to achieve market acceptance of our products could harm our ability to grow our business.

An inability to develop and introduce planned new products or product lines in a timely and cost-effective manner may damage our business.

In developing new products and product lines, we have anticipated dates for associated product introductions. When we state that we will introduce, or anticipate introducing, a particular product or product line at a certain time in the future, those expectations are based on completing the associated development, implementation, marketing work, and manufacturing in accordance with our currently anticipated development schedule. Unforeseen delays or difficulties in the development process, significant increases in the planned cost of development, changes in anticipated consumer demand for our products, and delays in the manufacturing process may cause the introduction date for products to be later than anticipated or, in some situations, may cause a product introduction to be discontinued. The risk is also heightened by the sophistication of certain products we are designing, in terms of combining digital and analog technologies, and providing greater innovation and product differentiation. If we are unable to manufacture, source and ship new products in a timely manner and on a cost effective basis, it could have an adverse effect on our business and operating results.

If we do not maintain sufficient inventory levels or if we are unable to deliver our products to our customers in sufficient quantities, or on a timely basis, or if our inventory levels are too high, our operating results will be adversely affected.

Our business places stringent demands on our inventory forecasting and production planning processes. This inventory management approach may be particularly challenging when combined with “just-in-time” inventory management systems commonly used by customers to minimize their inventory levels. If we fail to meet tight shipping schedules, we could damage our relationships with customers, increase our shipping costs or cause sales opportunities to be delayed or lost. To deliver our merchandise on a timely basis, we need to maintain adequate inventory levels of the desired products. This approach requires us to begin to place orders for components for certain products up to a year in advance, and we procure a significant amount of product months in advance of certain time periods. At the time we place factory orders, we may not have firm orders from customers or a complete understanding of what consumer demand for those products will be. If our inventory forecasting processes are not accurate, it may result in inventory levels in excess of the levels forecasted and we may not have sufficient space at our main distribution center to accommodate excess inventory. As a result, we could be required to record inventory write-downs for excess and obsolete inventory, and/or incur additional expense for storage of excess inventory, which would adversely affect our operating results. In addition, if our processes result in our inventory levels being too low to meet customer demand, we may lose sales, which could adversely affect our operating results.

Covenants in our credit facility and term loan agreement may affect our liquidity or limit our ability to complete acquisitions, incur debt, make investments, sell assets, merge or complete other significant transactions. Deviations from expected results of operations and expected cash requirements could result in a failure to meet financial covenants, which would adversely affect our financial condition and results of operations.

We rely on our credit facility and cash generated from our operations to meet our working capital needs. Our credit facility and term loan agreement include certain covenants that place limitations on or restrict a number of our activities, including our ability to incur additional debt, create liens on our assets or make guarantees, make certain investments or loans, pay dividends or make distributions, dispose of or sell assets, or enter into a merger or similar transaction.

These restrictive covenants may limit our ability to engage in acts that may be in our best long-term interests. In addition, if we do not maintain a specified level of availability under our credit facility and term loan agreement, we will be required to comply with a fixed charge coverage ratio financial covenant. Any significant deviation in actual results from our expected results of operations, or in the timing of material expenditures from current estimates, any significant business or product acquisitions, or other significant unanticipated expenses could result in us not meeting applicable financial covenants.

Non-compliance with the covenants in our credit facility and term loan agreement could result in us being unable to utilize borrowings under our credit facility, a circumstance which potentially could occur when operating shortfalls would most require supplementary borrowings to enable us to continue to fund our operations. If access to our credit facility is limited or terminated, our liquidity would be constrained, affecting our operations and growth prospects, and we would need to seek amendments to our credit facility or obtain additional equity or debt financing or face default. There is no assurance that such financing would be available on acceptable terms or at all. Furthermore, any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants that could impede our ability to effectively operate and grow our business in the future.

Liquidity problems or bankruptcy of our key retail customers could have a significant adverse effect on our business, financial condition, and results of operations.

A significant portion of our revenue is with key retail customers. Due to the current pressure on traditional brick-and-mortar retailers, there is increased risk that retailers may suffer material losses or file for a petition for bankruptcy. Sales to retail customers are typically made on credit without collateral. If a customer files for bankruptcy, our pre-petition accounts receivable may not be realized and post-petition orders reduced or cancelled. The bankruptcy laws may severely limit our ability to collect pre-petition accounts receivable. If key customers, cease doing business as a result of bankruptcy, or significantly reduce the number of stores operated and therefore the amount of products ordered from us, it could have an adverse effect on our business, financial condition, and results of operations, including our ability to access availability under our credit facility.

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

While most of our sales continue to be in North America, we operate facilities and sell products in countries outside the United States. Additionally, as we discuss below, we utilize third-party suppliers and manufacturers located in Asia to produce a majority of our products. These sales and manufacturing operations, including operations in emerging markets that we have entered, may enter, or may increase our presence in, are subject to the risks associated with international operations, including:

- economic and political instability;
- restrictive actions by foreign governments;
- greater difficulty enforcing intellectual property rights and weaker laws protecting intellectual property rights;
- trade restrictions;
- work stoppages or other changes in labor conditions;
- disease epidemics and health-related concerns, such as the H1N1 virus, coronavirus, or SARS outbreaks in recent years, which could result in closed factories, reduced workforces, scarcity of

raw materials, scrutiny or embargo of goods produced in infected areas, or delays in manufacturing or shipment of products to the U.S.;

- reduction in business activity in some parts of the world;
- currency fluctuations and devaluations;
- changes in import duties or import or export restrictions;
- compliance with anti-bribery and anti-corruption regulations;
- untimely shipping of product and unloading of product through West Coast ports, as well as untimely truck delivery to our warehouses;
- complications in complying with the laws and policies of the United States affecting the importation of goods, including duties, quotas, and taxes;
- limitations on repatriation of foreign earnings; and
- complications in complying with foreign tax laws.

Future changes to the U.S. tariff and import/export regulations could have a negative effect on our results of operations. Due to our reliance of manufacturers located in China, from which we import a majority of our products, the occurrence of such trade reforms or restrictions could impact our business in an adverse manner.

As a result of our international operations, we are subject to the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption and anti-bribery laws. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals. Our failure to successfully comply with any such legal requirements could subject us to monetary liabilities and other sanctions that could harm our business and financial condition.

Also, because we generate some of our revenue outside the United States but report our financial results in U.S. dollars, our financial results are impacted by fluctuations in foreign currency exchange rates. If the U.S. dollar is strong against foreign currencies, our translation of foreign currency denominated revenue or expense could result in lower U.S. dollar denominated net revenue and expense.

Earthquakes, floods, fire, epidemics or other catastrophic events out of our control may damage or impact the operations of our primary distribution facility and harm our results of operations.

Our primary distribution facility is located in Riverside, California, near major earthquake faults. A catastrophic event, such as an earthquake, flood, fire, or other natural or manmade disaster, could impact operations at this facility. In addition, the state of California has declared a state of emergency related to the recent coronavirus outbreak, and operations at our distribution facility could be disrupted or required to close if there are any employees who are diagnosed with the coronavirus or there is a governmentally-imposed quarantine or other geographic limitations imposed on companies doing business in California. Any of these events could impair distribution of our products, damage inventory, interrupt critical functions, or otherwise affect our business negatively, harming our results of operations.

Any adverse change in our relationship with our suppliers could harm our business.

We rely on numerous third-party suppliers located in Asia for the manufacture of most of our products. While we believe that alternative suppliers could be located if required, our product sourcing could be affected if any of these suppliers do not continue to manufacture our products in required quantities or at all, or with the required levels of quality. We do not have any long-term supply contracts with our foreign suppliers; rather, we enter into purchase orders with these suppliers. In addition, difficulties encountered by these suppliers in the countries where they operate, such as fire, accident, natural disasters, outbreaks of contagious diseases, or political unrest, could halt or disrupt production at the affected locations, resulting in delay or cancellation of orders. For instance, the recent coronavirus outbreak in China may result in delays in manufacturing of our products due to closure of factories and delays in shipping products to the U.S., which could impact our sale forecasts and inventory levels. Any of these events could result in delayed deliveries by us of our products, causing reduced sales and harm to our reputation and brand name.

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

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

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

We receive, from time to time, claims of alleged infringement of patents relating to certain of our products, and we may face similar claims in the future. The defense of intellectual property claims can be costly and time consuming, even in circumstances where the claim is without merit. We may be required to pay substantial damages or settlement costs in order to resolve these types of claims. In addition, these claims could materially harm our brand name, reputation and operations.

As a manufacturer of consumer products, we are subject to various government regulations and may be subject to additional regulations in the future, violation of which could subject us to sanctions or otherwise harm our business. In addition, we could be the subject of future product liability suits, product recalls, and other claims relating to the use of our products, which could harm our business.

Because we produce infant and juvenile health, safety and wellness consumer products, we are subject to significant government regulation and face product liability risks relating to consumer use of our products. We must comply with a variety of state and federal product safety and product testing regulations. In particular, our products are subject to the Consumer Product Safety Act, the Federal Hazardous Substances Act (“FHSA”) and the Consumer Product Safety Improvement Act (“CPSIA”), which empower the Consumer Product Safety Commission (the “CPSC”), to take action against hazards presented by consumer products. With expanded authority under the CPSIA, the CPSC has and continues to adopt new regulations for safety and products testing that apply to our products. These regulations have or likely will significantly increase the regulatory requirements governing the manufacture and sale of children’s products and increase the potential penalties for noncompliance with applicable regulations. The CPSC has the authority to exclude from the market and recall certain consumer products that are found to be potentially hazardous. Consumer product safety laws also exist in some states and cities within the United States and in Canada and Europe, as well as certain other countries. If we fail to comply with these laws and regulations, or if we face product liability claims, we may be subject to damage awards or settlement costs that exceed any available insurance coverage and we may incur significant costs in complying with recall requirements.

We maintain a quality control program to help ensure compliance with applicable product safety requirements. Nonetheless, we have experienced, and may in the future experience, issues in products that may lead to product liability, personal injury or property damage claims, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities. A product recall could have an adverse effect on our results of operations and financial condition, depending on the product affected by the recall and the extent of the recall efforts required. A product recall could also negatively affect our reputation and the sales of other products. Furthermore, concerns about potential liability may lead us to voluntarily recall selected products. Complying with existing or new regulations or requirements could impose increased costs on our business operations, decrease sales, increase legal fees and other costs, and put us at a competitive disadvantage compared to other manufacturers not affected by similar issues with products, any of which could have an adverse effect on our financial condition. Similarly, increased penalties for non-compliance could subject us to greater expense if our products were found to not comply with such regulations.

In addition to product liability risks relating to the use by consumers of our products, we also must comply with a variety of state and federal laws and regulations which prohibit unfair or deceptive trade practices, including dissemination of false or misleading advertising. While we take steps that we believe are necessary to comply with these laws and regulations, there can be no assurance that we will always be in compliance. Compliance with these various laws and regulations could impose significant costs on our business if we fail to comply, and could result in monetary liabilities and other penalties and lead to significant negative media attention and consumer dissatisfaction, which could have an adverse effect on our business, financial condition and results of operations.

Our success is dependent in part on our executive officers, and management turnover can create uncertainties and could disrupt and impact our business.

Our success depends in part on the efforts of our senior management team and other key personnel. Changes in our company as a result of management transition, including the fact that our current Chief Executive Officer is serving on an interim basis, can be inherently difficult to manage and may cause disruption to our business due to, among other things, diverting management's attention away from the Company's day-to-day business, negatively impacting relationships with our key retail customers, suppliers and employees, or causing a deterioration in workplace morale. If our interim CEO were to resign, we would be forced to expend significant time and money in the pursuit of a replacement.

We may have exposure to greater than anticipated tax liabilities that, if not identified, could negatively affect our consolidated operating results and net worth.

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

A material impairment in the carrying value of other intangible assets could negatively affect our consolidated results of operations and net worth.

A portion of our assets are intangible, which are reviewed on an annual basis and/or whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of these assets exceeds the current fair value, the asset is considered impaired and is reduced to fair value, resulting in a non-cash charge to earnings during the period in which any impairment is determined. If we make changes in our business strategy, our future operating performance was to fall significantly below forecast levels or if external conditions adversely affect our business operations, we may be required to record an impairment charge for intangibles, which would lead to decreased assets and reduced net operating results and net worth.

We may be unable to adequately protect our information systems from cyberattacks, which could result in the disclosure of confidential or proprietary information, including personal data, damage our reputation, disrupt our operations and subject us to significant financial and legal exposure.

We rely on information technology systems, including systems managed by third parties, across our operations, including for management of our supply chain, sale and delivery of our products, and various other processes and transactions, including credit card processing for online sales. In the course of our operations, we may collect and use confidential customer data and a variety of personal data. A successful cyberattack could result in the theft or destruction of intellectual property, data, or other misappropriation of assets, or otherwise compromise our confidential or proprietary information and disrupt our operations. Cyberattacks are increasing in their frequency, sophistication and intensity, including wrongful conduct by hostile foreign governments, industrial espionage, wire fraud and other forms of cyber fraud, the deployment of harmful malware, denial-of-service and social engineering fraud. Cyberattacks have become increasingly difficult to detect, and a successful cyberattack could cause serious negative consequences for us, including the disruption of operations and the misappropriation of confidential business information or personal data. Although we devote resources to protect our information systems, we realize that cyberattacks are a threat, and there can be no assurance that our efforts will prevent information security breaches that would result in business, legal, financial or reputational harm to us, or would have a material adverse effect on our results of operations and financial condition. Any failure to prevent or mitigate security breaches or improper access to, use of, or disclosure of personal data could result in significant liability under state, federal and international laws regarding data privacy, and may cause a material adverse impact to our reputation and potentially disrupt our business.

Our stock price has been and may continue to be volatile.

The market price of our common stock has been, and is likely to continue to be, volatile. When we or our competitors announce new products, experience quarterly fluctuations in operating results, announce strategic relationships, acquisitions or dispositions, change earnings estimates, publish financial results or other material news, our stock price is often affected. The volatility of our stock price may be accentuated during periods of low volume trading, which may require a stockholder wishing to sell a large number of shares to do so in increments over time to mitigate any adverse impact of the sales on the market price of our stock.

We may not be able to maintain our listing on Nasdaq.

Our common stock currently trades on The Nasdaq Capital Market. This market has continued listing requirements that we must continue to maintain to avoid delisting, including, among others, a minimum bid price requirement of \$1.00 per share and any of: (i) a minimum stockholders' equity of \$2.5 million; (ii) a market value of listed securities of \$35 million; or (iii) net income from continuing operations of \$500,000 in the most recently completed fiscal year or in two of the last three fiscal years.

Our results of operations and our fluctuating stock price directly impact our ability to satisfy these listing standards. If we are unable to maintain these listing standards, we may be subject to delisting. In 2019, we received a letter from the Nasdaq Stock Market notifying us that we are not in compliance with the minimum bid price requirement. In order to regain compliance with this requirement, on March 13, 2020 we implemented a 1-for-9 reverse stock split. As of March 16, 2020, the closing bid price of our common stock was \$2.55 per share. However, there is no guarantee that our stock price will remain above \$1.00, and the history of similar reverse stock splits for companies in like circumstances is varied. A delisting from The Nasdaq Capital Market would result in our common stock being eligible for quotation on “over-the-counter” markets, which is generally considered to be a less efficient system than listing on markets such as Nasdaq or other national exchanges because of lower trading volumes, transaction delays and reduced security analyst and news media coverage. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our common stock. Additionally, trading of our common stock on over-the-counter markets may make us less desirable to institutional investors and may, therefore, limit our future equity financing options and could negatively affect the liquidity of our stock.

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

There are provisions in our certificate of incorporation and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests, and may prevent attempts by our stockholders to replace or remove our current management. These provisions in our certificate of incorporation include authorization for our Board of Directors to issue shares of preferred stock without stockholder approval and to establish the preferences and rights of any preferred stock issued, and to issue one or more classes or series of preferred stock that could discourage or delay a tender offer or change in control. Our bylaws require advance written notice of stockholder proposals and director nominations.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are headquartered in a 62,500 square foot facility in Woonsocket, Rhode Island. We have a lease on this facility, which will expire in 2021. We also lease small offices in Arkansas, Canada, the United Kingdom and Hong Kong.

We maintain inventory at leased warehouses in California (approximately 460,000 square feet) and Canada (approximately 61,000 square feet). These leases expire at various times through 2023.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the Nasdaq Capital Market under the symbol “SUMR”.

Holder of Common Stock

As of March 16, 2020, there were 35 holders of record of our common stock. Because shares of our common stock are held by depositaries, brokers and other nominees, the number of beneficial holders of our shares is substantially larger than the number of record holders.

Issuer Repurchases of Equity Securities

None.

Recent Sales of Unregistered Securities

Not applicable.

Item 6. Selected Consolidated Financial Data

Not required.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Note that all dollar amounts in this Item 7 are in thousands of U.S. dollars, except share and per share data.

Overview

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 recognized authority in the juvenile product industry, providing parents and caregivers a full range of innovative, high-quality, and high-value products to care for babies and toddlers. We seek to improve the quality of life of parents, 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, on our partner’s websites, and our own direct to consumer websites. In North America, our customers include Amazon.com, Wal-Mart, Target, Buy Buy Baby, Home Depot, and Lowe’s. Our largest European-based customers are Argos and Amazon. 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.

While sales in the fourth quarter of 2019 increased 6.6% from the previous year quarter, sales for the full year 2019 remained relatively flat, declining by 0.3%. The year over year decrease reflected the loss of \$2,954 of sales to Babies R Us, a subsidiary of Toys R Us (“TRU”), that did not recur in fiscal 2019 as a result of the liquidation of TRU in 2018. We also experienced softened demand in the latter half of 2019, that we believe was as a result of price increases instituted to mitigate trade tariffs. In addition, sales in 2019 to our mid-tier customers and international sales declined, affected by fewer channels and a stronger dollar. We were encouraged to see increased business with other customers and we also achieved sales growth in our gate, potty, stroller, changing pad, soother, and booster categories.

Our results in 2019 were impacted by trade tariffs on imported Chinese goods that were first instituted in September 2018. We believe that we have mitigated most of the effect of tariffs during fiscal 2019 through increased wholesale price increases, cost concessions, and moving certain production to other countries. In addition, in December 2019, the Office of the U.S. Trade Representative announced the exclusion of tariffs on metal baby gates effective immediately and retroactive to September 2018. As a result of previously paid metal baby gate tariffs, we recognized a \$1,848 tariff refund receivable and reduced the value of our metal baby gate inventory by \$378 on our balance sheet as of December 28, 2019 and recorded a \$1,470 benefit to cost of sales in the fourth quarter of 2019. While certain of our products are still subject to ongoing tariffs, in light of the recent trade agreement between the U.S. and China, we expect an improved tariff outlook for 2020, but there is no assurance that our mitigation efforts will be successful, or that U.S. and China trade relations will improve in the future.

Gross margins were flat in fiscal 2019 with the prior year at 31.7%. Selling expenses increased in fiscal 2019 by \$2,110 due to an increase in customer program terms and higher digital marketing costs primarily for new product launches and on-line marketing initiatives. General and administrative expenses declined in fiscal 2019 by \$4,057 due to lower labor and other costs as a result of cost reduction actions taken in the three months ended March 30, 2019 and fiscal 2018 included a non-recurring \$1,813 increase in our allowance for bad debts due to the liquidation of TRU’s U.S. assets. We also recorded a \$911 non-cash, deferred tax charge relating to the valuation of non-deductible interest expense in 2019.

Primarily as a result of higher selling costs and the \$911 deferred tax valuation charge, we ended fiscal 2019 with a net loss of \$1.98 per share as compared to a net loss of \$2.07 per share in fiscal 2018.

In early 2020, we announced restructuring initiatives to further streamline operations and improve our financial outlook. If all the anticipated initiatives are implemented, we expect that these actions will result in annualized cost savings of approximately \$7.5 million when complete. In addition to headcount savings and supplier cost concessions already implemented, we expect to sublease a portion of our warehousing facility in Riverside, California, and to vacate our distribution center located in the U.K. by the end of the first quarter of fiscal 2020.

As discussed below in Liquidity and Capital Resources, we recently amended our loan agreements, and as noted above, we began implementing restructuring initiatives to streamline operations and reduce costs. We are currently assessing the potential impact of the coronavirus outbreak on our business, including on our suppliers outside of the U.S. and on our distribution center located in California. Based on the information currently available to us, we expect that we may experience delays in shipment of our products to the U.S. and some delays in manufacturing of products. These potential delays may adversely affect our financial condition and results of operations in the near term, however, at this point, the extent of such impact is uncertain. To the extent we do not meet our financial projections, are unable to mitigate the impact of ongoing tariffs, are impacted by the coronavirus outbreak, or are not successful in implementing or realizing the savings anticipated from our

restructuring initiatives, our business, financial position, results of operations and cash flows would be adversely affected.

Reverse Stock Split

In March 2020, we successfully completed a 1-for-9 reverse stock split of our Company's issued and outstanding shares of common stock in order to regain compliance with Nasdaq's minimum bid price requirement. Unless otherwise indicated, the financial statements and accompanying notes included in this Annual Report on Form 10-K give effect to the reverse stock split as if it occurred at the first period presented.

Summary of Critical Accounting Policies and Estimates

The following summary of our critical accounting policies is presented to assist in understanding our consolidated financial statements. The consolidated financial statements and notes are representations of our management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements. Additional information about our accounting policies and estimates may be found in Note 1 to our consolidated financial statements included in this report.

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

Revenue Recognition

We recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what we expect to receive in exchange for the goods or services. Our principal activity from which we generate revenue is product sales. 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. 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 customer, 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.

Trade Receivables

Trade receivables are carried at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The allowance for doubtful accounts represents adjustments to customer trade accounts receivable for amounts deemed uncollectible. The allowance for doubtful accounts reduces gross trade receivables to their estimated net realizable value. The 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.

Inventory Valuation

Inventory is comprised of finished goods and is stated at the lower of cost, inclusive of freight and duty, or market (net realizable value) using the first-in, first-out (FIFO) method or net realizable value. Our warehousing costs are charged to expense as incurred. We regularly review slow-moving and excess inventory and write-down inventories as appropriate. Management uses estimates to record write-downs based on its review of inventory by product category including length of time on hand and estimates of future orders for each product. Changes in consumer preferences, as well as demand for products, customer buying patterns and inventory management could impact the inventory valuation.

Long-Lived Assets with Finite Lives

We review long-lived assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered to be impaired when its carrying amount exceeds both the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition and the asset's fair value. Long-lived assets include property and equipment and finite-lived intangible assets. The amount of impairment loss, if any, is charged by us to current operations.

Indefinite-Lived Intangible Assets

We account for indefinite-lived intangible assets in accordance with accounting guidance that requires indefinite-lived intangible assets be tested annually for impairment and more frequently if events or changes in circumstances indicate that the asset might be impaired. Our annual impairment testing is conducted in the fourth quarter of every year.

We test indefinite-lived intangible assets for impairment by comparing the asset's fair value to its carrying amount. If the fair value is less than the carrying amount, the excess of the carrying amount over fair value is recognized as an impairment charge and the adjusted carrying amount becomes the asset's new accounting basis.

Management also 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.

Income Taxes

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and 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 that such benefit will be realized.

We recognize interest and penalties, if any, related to uncertain tax positions in interest expense. On a global basis, the open tax years subject to examination by major taxing jurisdictions in which we operate is between 2013 and 2019.

Results of Operations

The following table presents selected consolidated financial information for our Company for the fiscal years ended December 28, 2019 (“fiscal 2019”) and December 29, 2018 (“fiscal 2018”).

	Year ended December 28, 2019		Year Ended December 29, 2018	
Net sales	173,181	100.0%	\$173,619	100.0%
Cost of goods sold	118,296	68.3%	118,500	68.3%
Gross profit	54,885	31.7%	55,119	31.7%
General and administrative expenses	34,823	20.1%	38,880	22.4%
Selling expenses	14,540	8.4%	12,430	7.1%
Depreciation and amortization	3,720	2.2%	4,182	2.4%
Income (loss) from operations	1,802	1.0%	(373)	(0.2)%
Interest expense, net	4,871	2.8%	4,442	2.5%
Loss before provision (benefit) for income taxes	(3,069)	(1.8)%	(4,815)	(2.7)%
Provision (benefit) for income taxes	1,095	(0.6)%	(564)	0.3%
Net loss	<u>\$ (4,164)</u>	<u>(2.4)%</u>	<u>\$ (4,251)</u>	<u>(2.4)%</u>

Fiscal 2019 Compared with Fiscal 2018

Net sales decreased 0.3% to \$173,181 for fiscal 2019 from \$173,619 for fiscal 2018 due mainly to the fact that fiscal 2018 included \$2,954 of sales to Babies R Us, a subsidiary of Toys R Us (“TRU”), which did not recur in fiscal 2019 as a result of the liquidation of TRU in 2018. For fiscal 2019, sales to our top three customers increased by approximately 7.1% over the prior fiscal year and sales increased across several of our product categories such as in gates, potty, strollers, changing pads, soothers, and boosters. However, these increases were offset by (a) the negative impact of increased tariffs imposed on goods imported into the United States from China that led to higher retail price points that resulted in softened demand and by (b) a decline in our mid-tier and international sales that were affected by fewer distribution channels and a stronger dollar.

Cost of goods sold includes the cost of the finished product from suppliers, duties and tariffs on certain imported items, freight-in from suppliers, and miscellaneous charges. The components of cost of goods sold remained substantially the same for fiscal 2019 as compared to fiscal 2018.

Gross profit decreased 0.4% to \$54,885 for fiscal 2019 from \$55,119 for fiscal 2018, and gross margin was the same for fiscal 2019 and fiscal 2018 at 31.7%. The additional tariffs imposed in fiscal 2019 depressed our gross margins throughout the fiscal year as compared to fiscal 2018. By the fourth quarter, however, we were able to offset much of the existing tariffs through increased customer prices,

supplier cost concessions, and moving certain production to other lower or non-tariff countries. In addition, in December 2019, the Office of the U.S. Trade Representative announced the exclusion of tariffs on metal baby gates effective immediately and retroactive to September 2018 resulting in a \$1,848 tariff refund due to the Company. We recorded \$1,470 of the tariff refund as a benefit to cost of sales in the fourth quarter of 2019 to reflect the portion attributable to fiscal 2019. The remaining \$378 of the tariff refund will be taken as a benefit when the remaining tariffed metal baby gate inventory held as of December 28, 2019 is sold off in fiscal 2020.

General and administrative expenses declined 10.4% to \$34,823 for fiscal 2019 compared to \$38,880 for fiscal 2018 and decreased as a percent of sales to 20.1% for fiscal 2019 from 22.4% for fiscal 2018. The decrease in dollars and as a percent of sales was primarily attributable to lower labor and other costs as a result of cost reduction actions taken in the three months ended March 30, 2019 and a non-recurring \$1,813 increase in our allowance for bad debts due to the liquidation of TRU's U.S. assets in fiscal 2018.

Selling expenses increased by 17.0% to \$14,540 for fiscal 2019 from \$12,430 for fiscal 2018 and as a percent of sales to 8.4% for fiscal 2019 from 7.1% for fiscal 2018. The increase in selling expense dollars and as a percent of net sales for the fiscal 2019 was primarily attributable to increased cooperative advertisement and consumer advertisement costs primarily for new product launches and on-line marketing initiatives as compared to fiscal 2018, which also included a larger component of direct import sales.

Depreciation and amortization decreased to \$3,720 for fiscal 2019 from \$4,182 in fiscal 2018. Capital expenditures decreased in fiscal 2019 to \$1,991 from \$3,472 in fiscal 2018.

Net interest expense increased 9.7% to \$4,871 for fiscal 2019 from \$4,442 in fiscal 2018. Interest expense increased primarily as a result of higher debt levels during fiscal 2019 compared to fiscal 2018. In addition, average interest rates under our current credit facilities signed in June 2018 are higher than our previous credit facilities on a full year basis.

For fiscal 2019, we recorded a \$1,095 tax provision on \$3,069 of pretax loss for the period. The tax provision for fiscal 2019 included a \$911 valuation allowance for nondeductible interest expense, a \$191 adjustment for the forfeiture of unexercised stock options, and a \$333 valuation allowance against our United Kingdom subsidiary's net operating loss deferred tax asset until such time as we can demonstrate it is more likely than not that these assets will be used in the near future. For fiscal 2018, we recorded a \$564 tax benefit on \$4,815 of pretax loss for the period. The tax provision for fiscal 2018 included a \$933 charge due to the new Tax Act. The Tax Act allows for interest expense to be deductible for tax purposes up to 30% of adjusted taxable income. Any interest not deductible can be carried forward indefinitely. We recorded an interest deduction limitation deferred tax asset of \$933 and recorded an offsetting full valuation allowance on this asset until such time as we can demonstrate it is more likely than not that the asset will be used in the near future.

Liquidity and Capital Resources

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

Cash Flows

The majority of our inventory is sourced from Asia which takes approximately three to four weeks to arrive at the various distribution points we maintain in the United States, Canada and the United Kingdom and payment terms for these vendors are approximately 60-75 days from the date the product ships from Asia. In turn, sales to customers generally have payment terms of approximately 60 days, resulting in an account 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 facility.

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

For fiscal 2019, net cash provided by operating activities was approximately \$1,535 generated primarily from operating performance. For fiscal 2018, net cash provided by operating activities was approximately \$5,546 generated primarily from operating performance and a reduction in net working capital.

For fiscal 2019, net cash used in investing activities was approximately \$2,326. For fiscal 2018, net cash used in investing activities was approximately \$3,472. The decline in the use of cash in investing activities was primarily attributable to a reduction in capital expenditures in fiscal 2019.

For fiscal 2019, net cash provided by financing activities was approximately \$719 to fund our capital expenditures. For fiscal 2018, net cash used in financing activities was approximately \$1,999, reflecting repayments on our credit facility and the proceeds from our new Term Loan.

Based primarily on the above factors, net cash decreased for fiscal 2019 by \$326, resulting in a cash balance of approximately \$395 at fiscal year end.

The following table summarizes our significant contractual commitments at fiscal 2019 year end:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Payment Due by Fiscal Period</u>				
		<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024 and beyond</u>
Revolving Facility	\$32,226	—	—	—	32,226	
Term Loan Facility	16,406	875	875	875	13,781	
Estimated future interest payments on						
Revolving Facility	4,880	1,440	1,347	1,255	838	
Estimated future interest payments on Term						
Loan Facility	6,398	1,743	1,647	1,552	1,456	
Operating leases	5,356	2,709	2,170	323	154	
Capital leases and other liabilities	786	669	117			
Total contractual cash obligations	<u>\$66,052</u>	<u>\$7,436</u>	<u>\$6,156</u>	<u>\$4,005</u>	<u>\$48,455</u>	<u>\$0</u>

Estimated future interest payments on our Revolving Facility and Term Loan Facility are based upon the interest rates in effect at December 28, 2019.

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 is 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 projections, do not adequately control expenses, or adjust our operations accordingly, we may experience constraints on our liquidity and may not meet the financial and other covenants under our credit facility and term loan agreement, which could impact our availability. 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 or agree to amend the terms of our agreements with them if there are covenant violations. In such case, we may be required to seek to raise additional funds through debt or equity financings, restructure our existing debt, engage in strategic collaborations, and/or a strategic transaction that is in the best interest of our stockholders. Any such financing or strategic transaction could result in significant dilution to our existing stockholders, depending on the terms of the transaction. If we are unable to identify a strategic transaction, raise additional funds, and/or restructure our existing debt, our operations could be limited and we may not be able to meet all of our obligations under our credit facility and term loan agreement.

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

We and our wholly owned subsidiary, Summer Infant (USA), Inc., are parties to a Second Amended and Restated Loan and Security Agreement with Bank of America, N.A., as agent, that provides for a \$48,000 asset-based revolving credit facility (as it may be amended from time to time, the “Restated BofA Agreement”). Total borrowing capacity under the Restated BofA Agreement is based on a borrowing base, which is defined as 85% of eligible receivables 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 applicable reserves. Loans under the Restated BofA Agreement are scheduled to mature on 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 described below, and certain of our subsidiaries are guarantors.

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. We are 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 and certain financial covenants. Among other restrictions, the Company is restricted in its ability to incur additional debt, make acquisitions or investments, dispose of assets, or make distributions unless in each case certain conditions are satisfied. Through the end of fiscal 2020, the Company is required to achieve (i) a minimum net sales amount for each three consecutive months, measured at the end of each month, and (ii) a trailing 12-month minimum adjusted EBITDA amount, measured at the end of each month. In addition, if availability falls below a specified amount, a springing covenant would be in effect requiring the Company to 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.

As of December 28, 2019, the interest rates for base-rate loans and LIBOR-rate loans under the Restated BofA Agreement were 6.50% and 4.625%, respectively. At December 28, 2019, the amount outstanding under the asset-based revolving credit facility was \$32,226, total borrowing capacity was \$39,109, and borrowing availability was \$6,883.

Following the end of fiscal 2019, we amended the Restated BofA Agreement on January 17, 2020 and March 10, 2020. For additional information on the Restated BofA Agreement and the recent amendments, please see Note 5 and Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K.

Term Loan

We and our wholly owned subsidiary, Summer Infant (USA), Inc., are parties to a Term Loan and Security Agreement with Pathlight Capital LLC, as agent, pursuant to which we received a \$17,500 term loan (as it may be amended from time to time, the “Term Loan Agreement”). Principal on the term loan is repaid on a quarterly basis in installments of \$219, and interest payments are due monthly, in arrears, provided that, in connection with the recent amendments to our Term Loan Agreement, principal payments for March, June and September 2020 have been suspended. In addition, in connection with the recent amendments to our Term Loan Agreement, the term loan began to accrue PIK (payment in kind) interest at an annual rate of 4.0% in March 2020, which interest will become payable upon repayment of the term loan or earlier upon the occurrence of certain events. The term loan matures on June 28, 2023. Obligations under the Term Loan Agreement are also subject to 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 asset-based revolving credit facility, and certain of our subsidiaries are guarantors.

The Term Loan Agreement contains customary affirmative and negative covenants and certain financial covenants that are substantially the same as the Restated BofA Agreement described above.

The interest rate for the Term Loan Agreement was 10.91% as of December 28, 2019. The amount outstanding under the Term Loan Agreement at December, 28, 2019 was \$16,406.

Following the end of fiscal 2019, we amended the Term Loan Agreement on January 17, 2020 and March 10, 2020. For additional information on the Term Loan Agreement and recent amendments, please see Note 5 and Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements during the year ended December 28, 2019 or the year ended December 29, 2018.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. Leases are classified as either operating or finance, and classification is based on criteria similar to past lease accounting, but without explicit bright lines. In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” (“ASU 2018-10”), which provides narrow amendments to clarify how to apply certain aspects of the new lease standard, and ASU No. 2018-11, “Leases (Topic 842)—Targeted Improvements” (ASU 2018-11), which addresses implementation issues related to the new lease standard. The guidance became effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years.

The Company adopted the standard on the effective date of December 30, 2018 by applying the new lease requirements at the effective date. The Company also elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows the Company to carry forward the historical lease classification. The impact of the adoption of ASC 842-Leases (“ASC 842”) on the consolidated balance sheet on the date of adoption was an increase of \$6,411 in assets and an increase of \$7,037 of liabilities for the recognition of right-of-use

assets and lease liabilities. The adoption of ASC 842 was immaterial to the consolidated results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and a subsequent amendment to the initial guidance, ASU 2018-19 Codification Improvements to Topic 325, Financial Instruments-Credit Losses (collectively, Topic 326). Topic 326 requires measurement and recognition of expected credit losses for financial assets held, which include, but are not limited to, trade and other receivables. The new standard is effective for fiscal years beginning after December, 15, 2022. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

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.

Special Note Regarding Forward Looking Statements

This report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements concern management’s current assumptions, estimates, beliefs, plans, strategies and expectations and anticipated events or trends and similar expressions concerning matters that are not historical facts. Such forward-looking information may be identified by terms such as “expect,” “anticipate,” “believe,” “outlook,” “may,” “estimate,” “should,” “predict” and similar terms or variations thereof, and includes statements regarding our expectations with respect to the benefits of and savings from our restructuring initiatives, including an expected \$7.5 million of annualized cost savings, the potential impact of the coronavirus outbreak in China on our results of operations, our liquidity for the next 12 months, and expected trends and product offerings in 2020. These statements are based on a series of expectations, assumptions, estimates and projections about our Company, are not guarantees of future results or performance, and involve significant risks, uncertainties and other factors, including assumptions and projections, for all forward periods. Our actual results may differ materially from any future results expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- the impact of increased tariffs, additional tariffs or import or export taxes on the cost of our products and therefore demand for our products, or the suspension, non-renewal or revocation of any exclusion from tariffs on our products;
- the concentration of our business with certain retail customers who may change their purchasing policies or suffer liquidity problems or bankruptcy;
- our ability to compete by introducing new products or enhancing existing products that satisfy consumer preferences;
- our ability to develop and introduce new products in a timely and cost effective manner;
- our ability to compete effectively with larger and smaller companies that have more financial resources and greater e-commerce presence than us;
- our ability to implement and to achieve the expected benefits and savings of our restructuring initiatives;
- our ability to manage inventory levels and meet customer demand;
- our ability to maintain sufficient availability under and to comply with financial and other covenants in our credit facility and term loan agreement;
- our ability to manage our debt to provide additional liquidity to support growth;

- the potential disruption to our business resulting from the coronavirus outbreak, including our suppliers located outside the U.S. and our distribution facility located in California;
- 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;
- our ability to protect our intellectual property;
- compliance with safety and testing regulations for our products;
- product liability claims arising from use of our products;
- our ability to identify and hire a permanent President and CEO;
- potential exposure to greater than anticipated tax liabilities;
- an impairment of other intangible assets;
- any failure, inadequacy or interruption of our information technology systems resulting from cyberattacks or other failures that may disrupt our operations and lead to disclosure of confidential or proprietary data; and
- our ability to maintain the listing of our common stock on the Nasdaq Stock Market.

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, please refer to the “Risk Factors” section of this report for additional information regarding factors that could affect our results of operations, financial condition and liquidity.

We intend our forward-looking statements to speak only as of the time of such statements and do not undertake or plan to update or revise them as more information becomes available or to reflect changes in expectations, assumptions or results. We cannot give any assurance that such expectations or forward-looking statements will prove to be correct. An occurrence of, or any material adverse change in, one or more of the risk factors or risks and uncertainties referred to in this report or included in our other periodic reports filed with the SEC could materially and adversely impact our operations and our future financial results.

Any public statements or disclosures by us following this report that modify or impact any of the forward-looking statements contained in or accompanying this report will be deemed to modify or supersede such outlook or other forward-looking statements in or accompanying this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Interim Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 28, 2019. Our principal executive officer and principal financial officer have concluded, based on their evaluation, that our disclosure controls and procedures were effective as of December 28, 2019.

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

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

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

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

The Company's management has used the criteria established in the 2013 "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework") to evaluate the effectiveness of the Company's internal control over financial reporting.

Management of the Company conducted an evaluation of the effectiveness, as of December 28, 2019, of the Company's internal control over financial reporting and based on its evaluation under the COSO Framework, management has concluded that the Company's internal control over financial reporting was effective as of December 28, 2019.

(c) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 28, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information relating to directors, director nominees and executive officers of the Company is set forth in our definitive Proxy Statement to be filed with the SEC in connection with our 2020 Annual Meeting of Stockholders (the “2020 Proxy Statement”) and is incorporated herein by reference.

The information relating to Section 16(a) beneficial ownership reporting compliance is set forth in the 2020 Proxy Statement and is incorporated herein by reference.

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

The information relating to the Company’s Audit Committee and its designated audit committee financial expert is set forth in the 2020 Proxy Statement and is incorporated herein by reference.

The information concerning procedures by which stockholders may recommend director nominees is set forth in the 2020 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information relating to executive compensation and the Company’s Compensation Committee is set forth in the 2020 Proxy Statement and is incorporated herein by reference, provided that the information under the caption “Compensation Committee Report” shall be deemed “furnished” and shall not be deemed “filed” with this report, not deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, except only as may be expressly set forth in any such filing by specific reference.

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

The information relating to security ownership of management, certain beneficial owners, and the Company’s equity plans is set forth in the 2020 Proxy Statement and is incorporated herein by reference.

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

The information relating to certain relationships and related party transactions and director independence is set forth in the 2020 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information relating to the independent registered public accounting firm fees and services and the Company’s pre-approval policies and procedures for audit and non-audit services provided by such accounting firm is set forth in the 2020 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements

The list of consolidated financial statements and notes required by this Item 15(a)(1) is set forth in the “Index to Financial Statements” on page F-1 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules

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

(3) Exhibits

The exhibits required by Item 601 of Regulation S-K and Item 15(b) are listed in the “Index to Exhibits” below.

(b) Exhibits

The exhibits listed in the “Index to Exhibits” below are filed as part of this Annual Report on Form 10-K.

Item 16. Form 10-K Summary

Not applicable.

Index to Exhibits

Exhibit No.	Description
2.1	Agreement and Plans of Reorganization, dated as of September 1, 2006, by and among KBL Healthcare Acquisition Corp. II, and its wholly owned subsidiary, SII Acquisition Inc., and Summer Infant, Inc., Summer Infant Europe Limited, Summer Infant Asia, Ltd. and their respective stockholders (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 5, 2006)
2.2	Purchase and Sale Agreement, dated March 24, 2009, between Summer Infant (USA), Inc. and Faith Realty II, LLC (Incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q/A filed on August 18, 2009)
2.3	Lease Agreement, dated March 24, 2009, between Summer Infant (USA), Inc. and Faith Realty II, LLC (Incorporated by reference to Exhibit 2.2 to the Registrant's Quarterly Report on Form 10-Q/A filed on August 18, 2009)
2.4	Stock Purchase Agreement, dated as of March 24, 2011, by and among the Registrant, Summer Infant (USA), Inc., Born Free Holdings Ltd., and each stockholder of Born Free Holdings Ltd. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on March 28, 2011)
3.1+	Amended and Restated Certificate of Incorporation, as amended
3.2	Amended and Restated Bylaws, as amended through May 5, 2016 (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 9, 2016)
4.1	Specimen Common Stock Certificate (Incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-A filed on March 6, 2007)
4.2+	Description of Registrant's Securities
10.1	Registration Rights Agreement by and among the Registrant, Jason Macari and Steven Gibree (Incorporated by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K filed on September 5, 2006)
10.2*	2006 Performance Equity Plan (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 29, 2008, SEC File No. 001-33346)
10.3**	Second Amended and Restated Loan and Security Agreement, dated as of June 28, 2018, among Summer Infant, Inc. and Summer Infant (USA), Inc., as borrowers, the guarantors from time to time party thereto, the financial institutions from time to time party thereto as lenders, and Bank of America, N.A., as agent for the lenders (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 29, 2018)
10.4	Amendment No. 1 to Second Amended and Restated Loan and Security Agreement, dated as of March 25, 2019, among Summer Infant, Inc. and Summer Infant (USA), Inc., as borrowers, the guarantors from time to time party thereto, the financial institutions from time to time party thereto as lenders, and Bank of America, N.A., as agent for the lenders (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 7, 2019)

Exhibit No.	Description
10.5**	Amendment No. 2 to Second Amended and Restated Loan and Security Agreement, dated as of November 1, 2019, among Summer Infant, Inc. and Summer Infant (USA) Inc., as borrowers, the guarantors from time to time party thereto, the financial institutions from time to time party thereto as lenders, and Bank of America, N.A., as agent for the lenders (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2019)
10.6**	Term Loan and Security Agreement, dated as of June 28, 2018, among Summer Infant, Inc. and Summer Infant (USA), Inc., as borrowers, the guarantors from time to time party thereto, the financial institutions from time to time party thereto as lenders, and Pathlight Capital LLC, as agent for the lenders (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 29, 2018)
10.7	Amendment No. 1 to Term Loan and Security Agreement, dated as of March 25, 2019, among Summer Infant, Inc. and Summer Infant (USA), Inc., as borrowers, the guarantors from time to time party thereto, the financial institutions from time to time party thereto as lenders, and Pathlight Capital LLC, as agent for the lenders (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 7, 2019)
10.8**	Amendment No. 2 to Term Loan and Security Agreement, dated as of November 1, 2019, among Summer Infant, Inc. and Summer Infant (USA) Inc., as borrowers, the guarantors from time to time party thereto, the financial institutions from time to time party thereto as lenders, and Pathlight Capital LLC, as agent for the lenders (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2019)
10.9*	2012 Incentive Compensation Plan, as amended (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 5, 2015)
10.10*	Summer Infant, Inc. Form of Indemnification Agreement (for officers and directors) (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 17, 2014, SEC File No. 001-33346)
10.11	Amendment to Lease, dated May 13, 2015, by and between Faith Realty II, LLC and Summer Infant (USA), Inc. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2015)
10.12	Second Amendment to Lease, dated January 22, 2018, by and between Faith Realty II, LLC and Summer Infant (USA), Inc. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 26, 2018)
10.13*	Summer Infant, Inc. Change in Control Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 9, 2018)
10.14*	Offer Letter by and between the Registrant and Paul Francese (Incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed on February 20, 2019)
10.15*	Separation Agreement and General Release by and among Summer Infant, Inc., Summer Infant (USA), Inc. and Mark Messner, dated as of November 19, 2019 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 20, 2019)
10.16+	Engagement Letter, effective as of December 9, 2019, between Summer Infant, Inc. and Winter Harbor LLC

Exhibit No.	Description
21.1	List of Subsidiaries (Incorporated by reference to Exhibit 21.1 to the Registrant's Annual Report on Form 10-K filed on March 13, 2013)
23.1+	Consent of Independent Registered Public Accounting Firm
31.1+	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement.

** Portions of this Exhibit have been omitted pursuant to a grant of confidential treatment.

+ Filed herewith.

Summer Infant, Inc. and Subsidiaries
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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Summer Infant, Inc. and its subsidiaries (the Company) as of December 28, 2019 and December 29, 2018, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 28, 2019 and December 29, 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2010.

Boston, Massachusetts

March 18, 2020

Summer Infant, Inc. and Subsidiaries
Consolidated Balance Sheets

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

	December 28, 2019	December 29, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 395	\$ 721
Trade receivables, net of allowance for doubtful accounts of \$542 and \$304 at December 28, 2019 and December 29, 2018, respectively	32,787	31,223
Inventory, net	28,056	36,066
Prepays and other current assets	2,946	997
TOTAL CURRENT ASSETS	64,184	69,007
Property and equipment, net	8,788	9,685
Intangible assets, net	12,896	13,300
Right of use assets, noncurrent	4,578	—
Deferred tax assets, net	996	2,127
Other assets	101	97
TOTAL ASSETS	\$ 91,543	\$ 94,216
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 25,396	\$ 28,120
Accrued expenses	7,289	8,939
Lease liabilities, current	2,495	—
Current portion of long-term debt	875	875
TOTAL CURRENT LIABILITIES	36,055	37,934
Long-term debt, less current portion and unamortized debt issuance costs . .	45,359	44,641
Lease liabilities, noncurrent	2,546	—
Other liabilities	2,000	2,371
TOTAL LIABILITIES	85,960	84,946
STOCKHOLDERS' EQUITY		
Preferred Stock, \$0.0001 par value, 1,000,000 authorized, none issued or outstanding at December 28, 2019 and December 29, 2018	—	—
Common Stock \$0.0009 par value, authorized, issued and outstanding of 5,444,445, 2,138,926, and 2,108,743 at December 28, 2019 and 5,444,445, 2,121,362, and 2,091,178 at December 29, 2018, respectively	2	2
Treasury Stock at cost (30,184 shares at December 28, 2019 and December 29, 2018)	(1,283)	(1,283)
Additional paid-in capital	77,715	77,396
Accumulated deficit	(69,088)	(64,924)
Accumulated other comprehensive loss	(1,763)	(1,921)
TOTAL STOCKHOLDERS' EQUITY	5,583	9,270
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 91,543	\$ 94,216

See notes to consolidated financial statements.

Summer Infant, Inc. and Subsidiaries
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.

	<u>For the fiscal year ended</u>	
	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Net sales	\$ 173,181	\$ 173,619
Cost of goods sold	118,296	118,500
Gross profit	54,885	55,119
General and administrative expenses	34,823	38,880
Selling expenses	14,540	12,430
Depreciation and amortization	3,720	4,182
Operating income (loss)	1,802	(373)
Interest expense, net	4,871	4,442
Loss before provision (benefit) for income taxes	(3,069)	(4,815)
Provision (benefit) for income taxes	1,095	(564)
Net loss	<u>\$ (4,164)</u>	<u>\$ (4,251)</u>
Net loss per share, basic and diluted	\$ (1.98)	\$ (2.04)
Weighted average shares outstanding, basic and diluted	2,100,730	2,082,714

See notes to consolidated financial statements.

Summer Infant, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss

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

	For the fiscal year ended	
	December 28, 2019	December 29, 2018
Net loss	\$(4,164)	\$(4,251)
Other comprehensive income (loss):		
Foreign currency translation adjustments	158	(669)
Comprehensive loss	<u>\$(4,006)</u>	<u>\$(4,920)</u>

See notes to consolidated financial statements.

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

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

	For the fiscal year ended	
	December 28, 2019	December 29, 2018
Cash flows from operating activities:		
Net loss	\$(4,164)	\$ (4,251)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt expense	316	1,963
Depreciation and amortization	3,720	4,182
Stock-based compensation	319	523
Write off of unamortized deferred financing costs	—	518
Deferred income taxes	1,084	(193)
Amortization of right of use assets	1,833	—
Changes in assets and liabilities, net of effects of acquisitions		
(Increase) decrease in accounts receivable	(1,583)	3,035
Decrease (increase) in inventory	8,328	(2,524)
(Increase) in prepaids and other current assets	(1,939)	(71)
(Decrease) in lease liabilities	(1,370)	—
Decrease (increase) in other assets	(10)	(42)
(Decrease) increase in accounts payable and accrued expenses	(4,999)	2,406
Net cash provided by operating activities	<u>1,535</u>	<u>5,546</u>
Cash flows from investing activities:		
Acquisitions of property and equipment	(1,991)	(3,472)
Acquisitions of intangible assets	(335)	—
Net cash used in investing activities	<u>(2,326)</u>	<u>(3,472)</u>
Cash flows from financing activities:		
Repayment of Prior Term Loan Facility	—	(5,000)
Repayment of Prior FILO Facility	—	(1,250)
Payment of financing fees and expenses	—	(1,958)
Proceeds from New Term Loan Facility	—	17,500
Repayment of New Term Loan Facility	(875)	(219)
Net borrowings (repayments) on revolving facilities	1,594	(11,097)
Issuance of common stock upon exercise of stock options	—	25
Net cash provided by (used in) financing activities	<u>719</u>	<u>(1,999)</u>
Effect of exchange rate changes on cash and cash equivalents	(254)	(35)
Net (decrease) increase in cash and cash equivalents	(326)	40
Cash and cash equivalents at beginning of year	721	681
Cash and cash equivalents at end of year	<u>\$ 395</u>	<u>\$ 721</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 3,781</u>	<u>\$ 2,944</u>
Cash paid during the year for income taxes	<u>\$ 7</u>	<u>\$ 280</u>

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
For the Fiscal Years Ended December 28, 2019 and December 29, 2018

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

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Accumulated Comprehensive Loss</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at December 30, 2017, as reported	2,069,971	\$2	\$76,848	\$(1,283)	\$(59,634)	\$(2,291)	\$13,642
Revision for foreign currency adjustments					(1,039)	1,039	
Balance at December 30, 2017, as revised	2,069,971	\$2	\$76,848	\$(1,283)	\$(60,673)	\$(1,252)	\$13,642
Issuance of common stock upon vesting of restricted shares	18,923						
Issuance of common stock upon exercise of stock options	2,284		25				25
Stock-based compensation			523				523
Net loss for the year					(4,251)		(4,251)
Foreign currency translation adjustment						(669)	(669)
Balance at December 29, 2018	2,091,178	\$2	\$77,396	\$(1,283)	\$(64,924)	\$(1,921)	\$ 9,270
Issuance of common stock upon vesting of restricted shares	17,565						
Stock-based compensation			319				319
Net loss for the year					(4,164)		(4,164)
Foreign currency translation adjustment						158	158
Balance at December 28, 2019	2,108,743	\$2	77,715	\$(1,283)	\$(69,088)	\$(1,763)	\$ 5,583

See notes to consolidated financial statements.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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 monitoring, safety, nursery, and baby gear. Most products are sold under our core brand names of Summer™, SwaddleMe®, and born free®.

Reverse Stock Split

As a subsequent event, on March 13, 2020, the Company successfully completed its reverse stock split and reduced its common stock outstanding by a ratio of one for nine. Per ASC 505-10, if a reverse stock split occurs after the date of the latest reported balance sheet but before the release of the financial statements, then such changes in the capital structure must be given retroactive effect in the balance sheet. As such, the reverse stock split has been retroactively applied to all years reported in these financial statements.

Basis of Presentation and Principles of Consolidation

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

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

Fiscal Year

The Company's fiscal year ends on the Saturday closest to December 31 of each calendar year. There were fifty two weeks in the fiscal years ended December 28, 2019 and December 29, 2018.

Reclassification

Previously reported amounts have been revised in the accompanying consolidated balance sheet and statements of stockholders' equity to properly state certain foreign currency transactions. As of December 29, 2018 and December 30, 2017, accumulated deficit has been increased by \$1,039 and accumulated comprehensive loss has been decreased by the same amount. These revisions had no impact on the company's net income and total stockholders' equity for the year ended December 29, 2018.

Summary of Significant Accounting Policies

Revenue Recognition

As of December 31, 2017, the Company adopted FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). The 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.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The impact of the adoption was immaterial. 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 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 customer, 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.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Trade Receivables

Trade receivables are carried at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to specific customers’ ability to pay and current economic trends. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible. 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 fiscal year ended	
	December 28, 2019	December 29, 2018
Allowance for doubtful accounts, beginning of period	\$304	\$ 1,622
Charges to costs and expenses	316	1,963
Account write-offs and other	<u>(78)</u>	<u>(3,281)</u>
Allowance for doubtful accounts, end of period	<u>\$542</u>	<u>\$ 304</u>

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 ultimate expected net proceeds from the disposals of excess inventory are less than the carrying cost of the merchandise.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and lease liabilities in the Company’s consolidated balance sheets.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The components of a lease should be split into three categories: lease components (e.g., land, building, etc.), non-lease components (e.g., common area maintenance, maintenance, consumables, etc.), and non-components (e.g., property taxes, insurance, etc.). Then the fixed and in-substance fixed contract consideration (including any related to non-components) must be allocated based on fair values to the lease components and non-lease components. Although separation of lease and non-lease components is required, certain practical expedients are available to entities. Entities electing the practical expedient would not separate lease and non-lease components. Rather, they would account for each lease component and the related non-lease component together as a single component. The Company's facilities operating leases have lease and non-lease components to which the Company has elected to apply the practical expedient and account for each lease component and related non-lease component as one single component. The lease component results in a ROU asset being recorded on the balance sheet. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Property and Equipment

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

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

Long-Lived Assets with Finite Lives

The Company reviews long-lived assets with finite lives for impairment on an asset group level whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered to be impaired when its carrying amount exceeds both the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition and the assets' fair value. Long-lived assets include property and equipment and finite-lived intangible assets. The amount of impairment loss, if any, is charged by the Company to current operations.

Indefinite-Lived Intangible Assets

The Company accounts for intangible assets in accordance with accounting guidance that requires that intangible assets with indefinite useful lives be tested annually for impairment and more frequently

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

if events or changes in circumstances indicate that the asset might be impaired. The Company's annual impairment testing is conducted in the fourth quarter of every year.

The Company tests indefinite-lived intangible assets for impairment by comparing the asset's fair value to its carrying amount. If the fair value is less than the carrying amount, the excess of the carrying amount over fair value is recognized as an impairment charge and the adjusted carrying amount becomes the assets' new cost basis.

Management also 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.

Fair Value Measurements

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

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

Level 1—Quoted prices for identical instruments in active markets.

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

Level 3—Significant inputs to the valuation model are unobservable.

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

The Company's financial instruments include cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses, and short and long-term borrowings. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, and accrued expenses approximate fair value. The carrying value of the Company's debt approximates fair value since the stated rate is similar to rates currently available to the Company for debt with similar terms and remaining maturities.

The Company's assets measured at fair value on a nonrecurring basis include long-lived assets and finite-lived intangibles. The Company tests its indefinite-lived assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the carrying value may exceed its fair value. The resulting fair value measurements are considered to be Level 3 inputs.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, it is more likely than not that such benefits will be realized. Deferred income tax assets are recorded on a net basis as a long term asset.

The Company follows the applicable 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.

Translation of Foreign Currencies

The assets and liabilities of the Company's European, Canadian, Israeli, and Asian operations, each of which uses its local currency as their functional currency, have been translated into U.S. dollars at year-end exchange rates and the income and expense accounts of these subsidiaries have been translated at average rates prevailing during each respective year. Resulting translation adjustments are made to a separate component of stockholders' equity within accumulated other comprehensive loss. Foreign exchange transaction gains and losses are included in the accompanying consolidated statements of operations.

Shipping Costs

Shipping costs to customers are included in selling expenses and amounted to approximately \$3,509 and \$2,045 for the fiscal years ended December 28, 2019 and December 29, 2018, respectively.

Advertising Costs

The Company charges advertising costs to selling expense as incurred. Advertising expense, which consists primarily of promotional and cooperative advertising allowances provided to customers, was approximately \$10,379 and \$9,555 for the fiscal years ended December 28, 2019 and December 29, 2018, respectively.

Segment Information

Operating segments are identified as components of an enterprise about which separate, discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company views its operations and manages its business as one operating segment utilizing an omni-channel distribution strategy.

Net Loss Per Share

Basic earnings per share is calculated by dividing net loss for the period by the weighted average number of common stock outstanding during the period.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Diluted loss per share for the Company is computed by dividing net loss by the dilutive weighted average shares outstanding which includes: the dilutive impact (using the “treasury stock” method) of “in the money” stock options and unvested restricted shares issued to employees. Options to purchase 101,320 and 123,114 shares of the Company’s common stock and 22,392 and 30,220 of restricted shares were not included in the calculation, due to the fact that these instruments were anti-dilutive for the fiscal years ended December 28, 2019 and December 29, 2018, respectively.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. Leases are classified as either operating or finance, and classification is based on criteria similar to past lease accounting, but without explicit bright lines. In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” (“ASU 2018-10”), which provides narrow amendments to clarify how to apply certain aspects of the new lease standard, and ASU No. 2018-11, “Leases (Topic 842)—Targeted Improvements” (ASU 2018-11), which addresses implementation issues related to the new lease standard. The guidance became effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years.

The Company adopted the standard on the effective date of December 30, 2018 by applying the new lease requirements at the effective date. The Company also elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows the Company to carry forward the historical lease classification. The impact of the adoption of ASC 842-Leases (“ASC 842”) on the consolidated balance sheet on the date of adoption was an increase of \$6,411 in assets and an increase of \$7,037 of liabilities for the recognition of right-of-use assets and lease liabilities. The adoption of ASC 842 was immaterial to the consolidated results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and a subsequent amendment to the initial guidance, ASU 2018-19 Codification Improvements to Topic 325, Financial Instruments-Credit Losses (collectively, Topic 326). Topic 326 requires measurement and recognition of expected credit losses for financial assets held, which include, but are not limited to, trade and other receivables. The new standard is effective for fiscal years beginning after December, 15, 2022. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

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.

2020 Plan

The Company believes that its existing plan will generate sufficient cash which, along with its existing cash and availability under its facilities, will enable it to fund operations through at least the next 12 months. However, should the Company require additional cash, the Company would identify other cost reductions or seek additional resources.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 fiscal year ended	
	December 28, 2019	December 29, 2018
United States	\$148,326	\$145,534
All Other	24,855	28,085
	\$173,181	\$173,619

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

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 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 2019 fall under the provisions of the practical expedient and have therefore been expensed.

3. PROPERTY AND EQUIPMENT

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

	For the fiscal year ended		Depreciation/ Amortization Period
	December 28, 2019	December 29, 2018	
Computer-related	\$ 4,511	\$ 4,556	5 years
Tools, dies, prototypes, and molds	27,457	28,361	1 - 5 years
Building	4,156	4,156	30 years
Other	7,474	7,148	1 - 15 years
	43,598	44,221	
Less: accumulated depreciation	34,810	34,536	
Property and equipment, net	\$ 8,788	\$ 9,685	

Property and equipment included amounts acquired under capital leases of approximately \$589 and \$589 at December 28, 2019 and December 29, 2018, respectively, with related accumulated depreciation of approximately \$115 and \$31, respectively. Total depreciation expense was \$2,982 and \$3,436 for the fiscal years ended December 28, 2019 and December 29, 2018, respectively.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	For the fiscal year ended	
	December 28, 2019	December 29, 2018
Brand names	\$ 11,819	\$ 11,819
Patents and licenses	4,101	3,766
Customer relationships	6,946	6,946
Other intangibles	1,882	1,882
	<u>24,748</u>	<u>24,413</u>
Less: accumulated amortization	<u>(11,852)</u>	<u>(11,113)</u>
Intangible assets, net	<u>\$ 12,896</u>	<u>\$ 13,300</u>

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 assets have indefinite lives (a brand name). Total of intangibles not subject to amortization amounted to \$8,400 for the fiscal years ended December 28, 2019 and December 29, 2018.

Amortization expense amounted to \$738 and \$746 for the fiscal years ended December 28, 2019 and December 29, 2018, respectively.

The Company performed its annual indefinite-lived intangible asset impairment analysis in the fourth fiscal quarter. No asset impairment was recorded for the fiscal years ended December 28, 2019 and December 29, 2018.

Estimated amortization expense for the remaining definite-lived assets for the next five years is as follows:

<u>Fiscal Year ending</u>	
2020	488
2021	488
2022	488
2023	488
2024	488

5. DEBT

Bank of America Credit Facility. On June 28, 2018, the Company and Summer Infant (USA), Inc., 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 (as amended, the “Restated BofA Agreement”). The Restated BofA Agreement replaced the Company’s prior credit facility with Bank of America, and provided for an asset-based revolving credit facility, with a \$5,000 letter of credit sub-line facility. Total revolver commitments under the credit facility were \$60,000 as of December 28, 2019, and were reduced to \$48,000 as of March 10, 2020. 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 of eligible

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT (Continued)

inventory or (ii) 85% of the net orderly liquidation value 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). The Restated BofA Agreement was amended on March 25, 2019 and November 1, 2019 to, among other things, (i) modify certain definitions, (ii) increase the applicable margins on base rate and LIBOR revolver loans by 50 basis points, (iii) modify the definition of Financial Covenant Trigger Amount; and (iv) require that the Company engage a financial advisor to assist with providing a weekly, 13-week cash flow forecast. Subsequent to fiscal year end, on January 17, 2020 and March 10, 2020, the Company entered into further amendments to the Restated BofA Agreement. See Note 12 for information regarding these amendments.

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 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 and financial covenants. Among other restrictions, the Company is restricted in its ability to incur additional debt, make acquisitions or investments, dispose of assets, or make distributions unless in each case certain conditions are satisfied. Through the end of fiscal 2020, the Company is required to achieve (i) a minimum net sales amount for each three consecutive months, measured at the end of each month, and (ii) a trailing 12-month minimum adjusted EBITDA amount, measured at the end of each month. In addition, if availability falls below a specified amount, a springing covenant would be in effect requiring the Company to 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 Agreement and the occurrence of a change of control. In the event of a default, the lenders may declare all of the obligations of the Company and its subsidiaries under the Restated BofA Agreement immediately due and payable. For events of default relating to insolvency and receivership, all outstanding obligations automatically become due and payable without any action on the part of the lenders.

As of December 28, 2019, under the Restated BofA Agreement, the rate on base-rate loans was 6.50% and the rate on LIBOR-rate loans was 4.625%. The amount outstanding on the Restated BofA Agreement at December 28, 2019 was \$32,226. Total borrowing capacity at December 28, 2019 was \$39,109 and borrowing availability was \$6,883.

Prior to entering into the Restated BofA Agreement, the Company and Summer Infant (USA), Inc. 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").

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT (Continued)

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” 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 stepped down over time. As noted above, all obligations under the 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 on April 21, 2018.

Term Loan Agreement. On June 28, 2018, the Company and Summer Infant (USA), Inc., as borrowers, entered into a Term Loan and Security Agreement (as amended, 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 Term Loan Agreement was amended on March 25, 2019 and November 1, 2019 to, among other things, (i) amend certain definitions to be consistent with the Restated BofA Agreement, (ii) amend the definition of IP Advance Rate Reduction; and (iii) consistent with the Restated BofA Agreement, require that the Company engage a financial advisor to assist with providing a weekly, 13-week cash flow forecast. Subsequent to fiscal year end, on January 17, 2020 and March 10, 2020, the Company entered into further amendments to the Term Loan Agreement was further amended. See Note 12 for information regarding these amendments.

The principal of the Term Loan is being repaid, on a quarterly basis, in installments of \$219, with the first installment having been paid on December 1, 2018, until paid in full on termination, provided that, in connection with the recent amendments to the Term Loan Agreement, principal payments for March, June and September 2020 have been suspended, and such payments will resume effective March 2021. The Term Loan bears interest at an annual rate equal to LIBOR, plus 9.0%. Interest payments are due monthly, in arrears. In addition, in connection with the recent amendments to the Term Loan Agreement, the term loan began to accrue PIK (payment in kind) interest at an annual rate of 4.0% in March 2020, which interest will become payable upon the earlier to occur of (i) the repayment of the term loan in full, (ii) a sale or merger of the Company, (iii) the occurrence of default or event of default under the Term Loan Agreement, or (iv) the Company achieving adjusted EBITDA of \$12 million (calculated on a trailing, 12-month basis). If, and only if, the PIK interest becomes due and payable as a result of the Company achieving the adjusted EBITDA event noted in clause (iv),

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT (Continued)

then the Company will pay all PIK interest then due and thereafter, PIK interest will continue to accrue and be paid on each subsequent anniversary of such event. 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 and financial covenants that are substantially the same as the Restated BofA Agreement. Through the end of fiscal 2020, the Company is required to achieve (i) a minimum net sales amount for each three consecutive months, measured at the end of each month, and (ii) a trailing 12-month minimum adjusted EBITDA amount, measured at the end of each month. 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 or the occurrence of a change of control. In the event of a default, the lenders may declare all of the obligations of the Company and its subsidiaries under the Term Loan Agreement immediately due and payable. For events of default relating to insolvency and receivership, all outstanding obligations automatically become due and payable without any action on the part of the lenders.

As of December 28, 2019, the interest rate on the Term Loan was 10.91%. The amount outstanding on the Term Loan at December 28, 2019 was \$16,406.

The Restated BofA Agreement and the Term Loan Agreement were evaluated to determine the proper accounting treatment for the refinancing transaction as of June 28, 2018. 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 second amended and restated credit facility, resulting in the write off of \$518 in remaining unamortized deferred financing costs for the twelve months ended December 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 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:

<u>Fiscal Year ending:</u>	
2020	875
2021	875
2022	875
2023	46,007
Total	<u>\$48,632</u>

Unamortized debt issuance costs were \$2,398 at December 28, 2019 and \$2,395 at December 29, 2018, and are presented as a direct deduction of long-term debt on the consolidated balance sheets.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT (Continued)

Sale-Leaseback

On March 24, 2009, Summer Infant (USA), Inc., (“Summer USA”) the Company’s wholly owned subsidiary, entered into a definitive agreement with Faith Realty II, LLC, a Rhode Island limited liability company (“Faith Realty”) (the owner of which is Jason Macari, the former Chief Executive Officer, former director of the Company, and current investor), pursuant to which Faith Realty purchased the corporate headquarters of the Company located at 1275 Park East Drive, Woonsocket, Rhode Island (the “Headquarters”), for \$4,052 and subsequently leased the Headquarters back to Summer USA for an annual rent of \$390 during the initial seven year term of the lease, payable monthly and in advance. The original lease was to expire on the seventh anniversary of its commencement. Mr. Macari had given a personal guarantee to secure the Faith Realty debt on its mortgage; therefore, due to his continuing involvement in the building transaction, the transaction had been recorded as a financing lease, with no gain recognition.

On February 25, 2009, the Company’s Board of Directors (with Mr. Macari abstaining from such action) approved the sale leaseback transaction. In connection therewith, the Board of Directors granted a potential waiver, to the extent necessary, if at all, of the conflict of interest provisions of the Company’s Code of Ethics, effective upon execution of definitive agreements within the parameters approved by the Board. In connection with granting such potential waiver, the Board of Directors engaged independent counsel to review the sale leaseback transaction and an independent appraiser to ascertain (i) the value of the Headquarters and (ii) the market rent for the Headquarters. In reaching its conclusion that the sale leaseback transaction is fair to the Company, the Board of Directors considered a number of factors, including Summer USA’s ability to repurchase the headquarters at 110% of the initial sale price at the end of the initial term. The Company’s Audit Committee approved the sale leaseback transaction (as a related party transaction) and the potential waiver and recommended the matter to a vote of the entire Board of Directors (which approved the transaction).

On May 13, 2015, Summer USA entered into an amendment (the “Amendment”) to its lease dated March 24, 2009 (the “Lease”) with Faith Realty (the “Landlord”). Pursuant to the Amendment, (i) the initial term of the Lease was extended for two additional years, such that the initial term would end on March 31, 2018, and the term of the Lease could be extended at Summer USA’s election for one additional term of three years (rather than five years) upon twelve months’ prior notice, (ii) the annual rent for the last two years of the newly amended initial term was set at \$429 and the annual rent for the extension period, if elected, was set at \$468 and (iii) the Landlord agreed to provide an aggregate improvement allowance of not more than \$78 for the newly amended initial term, to be applied against Summer USA’s monthly rent, and an additional improvement allowance of \$234 for the extension term, if elected, to be applied against Summer USA’s monthly rent during such extension term. The Amendment was reviewed and approved by the audit committee because it was a related party transaction.

On January 22, 2018, Summer USA entered into a second amendment (the “Second Amendment”) to the Lease. Pursuant to the Second Amendment, (i) the term of the Lease was extended to March 31, 2021, with no further rights of extension, (ii) the annual rent for the last three years of the newly amended term was set at \$468, (iii) Summer USA no longer has the option to purchase the property subject to the Lease and (iv) the Landlord and Summer USA agreed to certain expenses, repairs and modifications to the property that is subject to the Lease. The Second

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. DEBT (Continued)

Amendment was reviewed and approved by the audit committee because it was a related party transaction.

At December 28, 2019, approximately \$441 of the lease obligation was included in accrued expenses, with the balance of approximately \$2,000 included in other liabilities, in the accompanying consolidated balance sheet. This obligation is reduced each month (along with a charge to interest expense) as the rent payment is made to Faith Realty.

Approximate future minimum sale-leaseback payments due under the lease is as follows:

<u>Fiscal Year Ending:</u>	
2020	468
2021	<u>117</u>
Total	<u>\$585</u>

6. INCOME TAXES

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) that significantly revised the U.S. tax code effective January 1, 2018 by, among other things, lowering the corporate income tax rate from a top marginal rate of 35% to a flat 21%, limiting deductibility of interest expense and performance based incentive compensation and implementing a territorial tax system. As a result of the Tax Act in the fiscal year ending December 28, 2019 and December 29, 2018 the Company had non-deductible interest for tax purposes resulting in a deferred tax asset in the amount of \$1,880 and \$933 respectively. The Company recorded a valuation allowance on the value of this deferred tax asset until such time as it becomes more likely than not that this asset will be recognized.

The provision (benefit) for income taxes is summarized as follows:

	<u>Fiscal 2019</u>	<u>Fiscal 2018</u>
Current:		
Federal	\$ —	\$ —
Foreign	—	(382)
State and local	<u>11</u>	<u>11</u>
Total current	11	(371)
Deferred:		
Federal	\$ 683	\$ 114
Foreign	222	(109)
State and local	<u>179</u>	<u>(198)</u>
Total deferred	<u>1,084</u>	<u>(193)</u>
Total provision (benefit)	<u>\$1,095</u>	<u>\$(564)</u>

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. INCOME TAXES (Continued)

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

	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Deferred tax assets:		
Accounts receivable	\$ 53	\$ 43
Inventory and Unicap reserve	506	492
Interest deduction limitation	1,880	933
Lease Liability and accrued expenses	1,093	—
Research and development credit	2,547	3,059
Foreign tax credit	795	795
Net operating loss carry-forward	<u>2,256</u>	<u>2,699</u>
Total deferred tax assets	<u>9,130</u>	<u>8,021</u>
Deferred tax liabilities:		
Intangible assets and other	(2,099)	(1,834)
ROU Assets and deferred rent	(1,036)	—
Property, plant and equipment	<u>(54)</u>	<u>(42)</u>
Total deferred tax liabilities	<u>(3,189)</u>	<u>(1,876)</u>
Valuation allowance	<u>(4,945)</u>	<u>(4,018)</u>
Deferred tax liabilities and valuation allowance	<u>(8,134)</u>	<u>(5,894)</u>
Net deferred income tax asset	<u>\$ 996</u>	<u>\$ 2,127</u>

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

	<u>Fiscal 2019</u>	<u>Fiscal 2018</u>
Tax benefit at statutory rate	\$ (644)	\$(1,014)
State income taxes, net of U.S. federal income tax benefit . . .	150	(147)
Adjustment to uncertain tax position	—	(325)
Stock options	17	46
Foreign tax rate differential	(5)	108
Tax credits	312	(515)
Non-deductible expenses	117	158
Expiration of unexercised stock options	191	—
Increase in valuation allowance	927	1,229
Other	<u>30</u>	<u>(104)</u>
Total benefit	<u>\$1,095</u>	<u>\$ (564)</u>

As of December 28, 2019, the Company had approximately \$2,955 of US federal and state net operating loss carry forwards (or “NOLs”) to offset future federal taxable income. The federal NOL will begin to expire in 2031 and the state NOL began to expire in 2019. As of December 28, 2019, the Company had approximately \$874, \$322, \$2,871, \$489, and \$1,753 of NOLs in Canada, Australia, Israel, Asia, and the United Kingdom, respectively, which can be carried forward indefinitely.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. INCOME TAXES (Continued)

Authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported, if based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all evidence, including the Company's past earnings history and future earnings forecast, management determined that a valuation allowance in the amount of \$2,270 at December 28, 2019 and \$2,290 at December 29, 2018 relating to certain state tax credits and foreign NOLs was necessary. Due to the Tax Act, the Company determined a valuation allowance in the amount of \$2,675 at December 28, 2019 and \$1,728 at December 29, 2018 relating to interest deduction limitations and foreign tax credits was necessary.

A summary of the Company's adjustment to its uncertain tax positions in fiscal years ended December 28, 2019 and December 29, 2018 is set forth below:

	December 28, 2019	December 29, 2018
Balance, at beginning of the year	\$—	\$ 325
Decrease for lapses of statute of limitations	—	(325)
Balance, at end of year	\$—	\$ —

The unrecognized tax benefits mentioned above included an aggregate of \$65 of accrued interest and penalty balances related to uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The entire balance of \$325 was reversed as of the year-ended December 29, 2018 due to lapse of statute of limitations.

The Company is subject to U.S. federal income tax, as well as to income tax of multiple state and foreign tax jurisdictions. On a global basis, the open tax years subject to examination by major taxing jurisdictions in which the Company operates is between two to six years.

7. SHARE BASED COMPENSATION

The Company is currently authorized to issue up to 188,889 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. The Company was authorized to issue up to 333,334 shares for equity awards under its 2006 Performance Equity Plan ("2006 Plan"). In March 2017, the 2006 Plan expired and no additional equity awards can be granted under the 2006 Plan.

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 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. The application of this standard resulted in share-based compensation expense for the twelve months ended December 28, 2019 and December 29, 2018 of \$319 and \$523, respectively. Share based compensation expense is included in selling, general and administrative expenses.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. SHARE BASED COMPENSATION (Continued)

As of December 28, 2019, there are 71,468 shares available to grant under the 2012 Plan.

Stock Options

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 for grants of “plain vanilla” stock options as 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 in fiscal 2019 and 2018 is based on awards that are ultimately expected to vest.

The following table summarizes the weighted average assumptions used for options granted during the fiscal years ended December 28, 2019 and December 29, 2018.

	<u>Fiscal 2019</u>	<u>Fiscal 2018</u>
Expected life (in years)	5.0	4.9
Risk-free interest rate	2.3%	2.7%
Volatility	64.2%	64.1%
Dividend yield	0.0%	0.0%
Forfeiture rate	24.2%	23.2%

The weighted-average grant date fair value of options granted during the year ended December 28, 2019 was \$3.42 per share. The weighted-average grant date fair value of options granted during the year ended December 29, 2018 was \$4.95 per share.

A summary of the status of the Company’s options as of December 28, 2019 and changes during the year then ended is presented below:

	<u>Number Of Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at beginning of year	123,114	\$18.00
Granted	27,112	\$ 6.30
Canceled or expired	48,906	\$19.08
Outstanding at end of year	<u>101,320</u>	<u>\$14.31</u>
Options exercisable at December 28, 2019	<u>56,266</u>	<u>\$18.36</u>

Outstanding stock options vested and expected to vest as of December 28, 2019 is 87,771. The intrinsic value of options exercised totaled was \$0 and \$18 for the fiscal years ended December 28, 2019 and December 29, 2018, respectively.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. SHARE BASED COMPENSATION (Continued)

The following table summarizes information about stock options at December 28, 2019:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Remaining Contractual Life	Weighted Average Exercise Price
\$3.52 - \$9.00	37,223	9.0	\$ 6.75	5,556	8.5	\$ 7.47
\$9.01 - \$13.50	16,128	7.8	\$11.25	11,074	7.7	\$11.07
\$13.51 - \$18.00	31,139	6.7	\$16.83	24,195	6.6	\$16.56
\$18.01 - \$32.00	14,667	5.4	\$24.30	13,278	5.2	\$24.66
\$32.01 - \$64.00	2,163	1.4	\$64.53	2,163	1.4	\$64.53
	101,320	7.4	\$14.31	56,266	6.5	\$18.36

The aggregate intrinsic value of options outstanding and exercisable at December 28, 2019 and December 29, 2018 are \$0, respectively. As of December 28, 2019, there was approximately \$117 of unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a remaining weighted-average vesting period of 2.2 years.

Restricted Stock Awards

Restricted stock awards require no payment from the grantee. The related compensation cost of each award is calculated using the market price on the grant date and is expensed equally over the vesting period. A summary of restricted stock awards made in the year ended December 28, 2019, is as follows:

	Number of Shares	Grant Date Fair Value
Non-vested restricted stock awards as of December 29, 2018 . .	30,220	\$15.75
Granted	19,167	\$ 6.21
Vested and released	18,545	\$12.87
Forfeited	8,450	\$13.86
Non-vested restricted stock awards as of December 28, 2019 . .	22,392	\$10.80

As of December 28, 2019, there was approximately \$121 of unrecognized compensation cost related to non-vested stock compensation arrangements granted under the Company's stock incentive plan for restricted stock awards. That cost is expected to be recognized over the next 2.2 years.

As a subsequent event, on March 13, 2020, the Company completed a 1-for-9 reverse stock split reducing the outstanding common shares to 2,108,743. All of the above transactions occurred prior to the completion of the reverse stock split and, the issuances noted above had the effect of being divided by nine.

8. PROFIT SHARING PLAN

Summer Infant (USA), Inc. maintains a defined contribution salary deferral plan under Section 401(k) of the Internal Revenue Code. All employees who meet the plan's eligibility requirements can participate. Employees may elect to make contributions up to federal limitations. In

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. PROFIT SHARING PLAN (Continued)

2007, the Company adopted a matching plan which was further amended in 2013, and which was funded throughout the year. For the years ended December 28, 2019 and December 29, 2018, the Company recorded 401(k) matching expense of \$311 and \$380, respectively.

9. MAJOR CUSTOMERS

Sales to the Company's top seven customers together comprised approximately 81% of our sales in fiscal 2019 and 77% of our sales in fiscal 2018. Of these customers, three generated more than 10% of sales for fiscal 2019: Amazon.com (26%), Walmart (25%), and Target (17%). In fiscal 2018, three customers generated more than 10% of sales: Amazon.com (23%), Walmart (23%), and Target (16%).

10. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space and distribution centers primarily related to its Riverside California, Canada, United Kingdom, and Hong Kong operations. In November 2019, the Company signed a new two-year lease agreement to continue occupying the same office space in Hong Kong. The agreement did not include any termination or extension options. In connection with these leases, there were no cash incentives from the landlord to be used for the construction of leasehold improvements within the facility. Our headquarters in Woonsocket, Rhode Island continues to be accounted for as a sale-leaseback lease.

The Company identified and assessed the following significant assumptions in recognizing the right-of-use asset and corresponding liabilities:

- *Expected lease term*—The expected lease term includes both contractual lease periods and, when applicable, cancelable option periods when it is reasonably certain that the Company would exercise such options. These leases have remaining lease terms between 1.75 and 3.5 years. The Canada lease has one 5-year extension option that has also not been included in the lease term.
- *Incremental borrowing rate*—The Company's lease agreements do not provide an implicit rate. As the Company does not have any external borrowings for comparable terms of its leases, the Company estimated the incremental borrowing rate based on secured borrowings available to the Company for the next 5 years. This is the rate the Company would have to pay if borrowing on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment.
- *Lease and non-lease components*—In certain cases the Company is required to pay for certain additional charges for operating costs, including insurance, maintenance, taxes, and other costs incurred, which are billed based on both usage and as a percentage of the Company's share of total square footage. The Company determined that these costs are non-lease components and they are not included in the calculation of the lease liabilities because they are variable. Payments for these variable, non-lease components are considered variable lease costs and are recognized in the period in which the costs are incurred.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. COMMITMENTS AND CONTINGENCIES (Continued)

The components of the Company's lease expense for the year ended December 28, 2019 were as follows:

	Year Ended December 28, 2019
Operating lease cost	\$ 2,499
Variable lease cost	1,152
Total lease expense	\$ 3,651
Weighted-average remaining lease term	2.1 years
Weighted-average discount rate:	5.00%

Cash paid for amounts included in the measurement of the Company's lease liabilities were \$2,613 for the year ended December 28, 2019.

As of December 28, 2019, the present value of maturities of the Company's operating lease liabilities were as follows:

Fiscal Year Ending:	
2020	\$2,690
2021	2,159
2022	321
2023	153
2024	0
Less imputed interest	(282)
Total	\$5,041

Prior to the adoption of ASU 2016-02 and for the year ended December 29, 2018, the Company recognized rent expense on a straight-line basis over the lease period and recorded deferred rent expense for rent expense incurred but not yet paid. The Company also recorded deferred rent attributable to cash incentives received under its lease agreements which are amortized to rent expense over the lease term. During the year ended December 29, 2018, the Company recognized rent expense of \$2,736.

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. COMMITMENTS AND CONTINGENCIES (Continued)

Disclosures related to periods prior to adoption of the new lease standard:

Under ASC 840 “Leases”, approximate future minimum rental payments due under these leases as of December 29, 2018 were as follows:

<u>Fiscal Year Ending:</u>	
2019	\$2,627
2020	2,556
2021	2,048
2022	323
2023 and beyond	<u>154</u>
Total(a)	<u>\$7,708</u>

(a) Amounts exclude payments for sales-leaseback transaction of the Woonsocket headquarters.

Employment Contracts

In accordance with applicable local law, Summer Infant Europe Limited is required to have employment contracts with all of its employees. In connection with these contracts, Summer Infant Europe Limited makes individual pension contributions to certain employees at varying rates from 1-7% of the employee’s annual salary, as part of their total compensation package. These pension contributions are expensed as incurred. There are no termination benefit provisions in these contracts.

Litigation

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

11. GEOGRAPHICAL INFORMATION

The Company sells products throughout the United States, Canada, and the United Kingdom, and various other parts of the world. The Company does not disclose product line revenues as it is not practicable for the Company to do so.

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

	For the fiscal year ended	
	December 28, 2019	December 29, 2018
United States	\$148,326	\$145,534
All Other	<u>24,855</u>	<u>28,085</u>
	<u>\$173,181</u>	<u>\$173,619</u>

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. GEOGRAPHICAL INFORMATION (Continued)

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

	<u>December 28, 2019</u>	<u>December 29, 2018</u>
United States	\$80,693	\$82,631
All Other	<u>10,850</u>	<u>11,585</u>
	<u>\$91,543</u>	<u>\$94,216</u>

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

	<u>December 28, 2019</u>	<u>December 29, 2018</u>
United States	\$24,804	\$23,165
All Other	<u>2,555</u>	<u>2,044</u>
	<u>\$27,359</u>	<u>\$25,209</u>

12. SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after December 28, 2019 through the date of this Annual Report on Form 10-K except as set forth herein

Loan Amendments

Following the end of the period covered by this report, the Company and Summer Infant (USA), Inc., as borrowers, entered into amendments to each of the Restated BofA Agreement and the Term Loan Agreement as described below. Please see Note 5 for additional information regarding the Restated BofA Agreement and the Term Loan Agreement.

Amendments to Restated BofA Agreement.

On January 17, 2020, the Company and Summer Infant (USA), Inc., as borrowers, entered into Amendment No. 3 to the Restated BofA Agreement (the “BofA Amendment No. 3”). BofA Amendment No. 3 amended the terms of the Restated BofA Agreement to, among other things, (a) modify the definition of Financial Covenant Trigger Amount so that the amount is \$4,000 through February 29, 2020, and at any time thereafter, \$5,000; and (ii) reduce the lenders’ aggregate revolver commitments to \$50,000.

On March 10, 2020, the Company and Summer Infant (USA), Inc., as borrowers, entered into Amendment No. 4 to the Restated BofA Agreement (the “BofA Amendment No. 4”). BofA Amendment No. 4 amended the terms of the Restated BofA Agreement to, among other things: (a) amend the definition of EBITDA to exclude fees and expenses paid to Winter Harbor and any investment bank retained by the Company; (b) modify the definition of Financial Covenant Trigger Amount so that the amount is (i) \$3,000 through May 31, 2020, (ii) \$3,500 from June 1 through June 30, 2020, (iii) \$3,750 from July 1 through August 31, 2020, (iv) \$4,000 from September 1 through September 30, 2020, (v) \$4,250 from October 1 through October 31, 2020, (vi) \$4,500 from November 1 through November 30, 2020, and (vii) \$5,000 at any time from and after December 1, 2020; (c) reduce

SUMMER INFANT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SUBSEQUENT EVENTS (Continued)

the lenders' aggregate revolver commitments to \$48,000; (d) require that the Company meet certain minimum net sales amounts for each period of three consecutive fiscal months through the three-month period ending December 31, 2020; (e) require that the Company meet a certain minimum EBITDA (as defined in the Restated BofA Agreement) as of the end of each fiscal month, calculated on a trailing 12-month period; (f) increase the applicable margin and applicable unused line fee rate; and (g) modify certain reporting requirements.

Amendment to Term Loan Agreement.

On January 17, 2020, the Company and Summer Infant (USA), Inc., as borrowers, entered into Amendment No. 3 to the Term Loan Agreement (the "Term Loan Amendment No. 3"). Term Loan Amendment No. 3 amended the terms of the Term Loan Agreement to, among other things, (a) modify the definition of Financial Covenant Trigger Amount to be consistent with the BofA Amendment and (ii) modify the definition of IP Advance Rate Reduction to provide that the amount of reduction will be 5.0 percentage points through February 29, 2020, and at any time thereafter, 10.0 percentage points

On March 10, 2020, the Company and Summer Infant (USA), Inc., as borrowers, entered into Amendment No. 4 to the Term Loan Agreement (the "Term Loan Amendment No. 4"). Term Loan Amendment No. 4 amended the terms of the Term Loan Agreement to, among other things, (a) amend the definition of Term Loan Borrowing Base to deduct a specified equipment reserve amount from the calculation of the borrowing base; (b) amend the definitions of EBITDA and Financial Covenant Trigger Amount consistent with BofA Amendment No. 4; (c) modify the definition of IP Advance Rate to be 55%, provided that such rate shall be reduced by 1.0% per month on and after the earlier of (i) the due date of the Company's borrowing base certificate for September 2020 and (ii) the date such borrowing base certificate is delivered; (d) suspend principal payments on the term loan for 2020, such payments to resume in March 2021; (e) require that the Company meet certain financial covenants, consistent with BofA Amendment No. 4; and (f) modify certain reporting requirements, consistent with BofA Amendment No. 4.

In addition, pursuant to Term Loan Amendment No. 4, beginning on March 10, 2020, the term loan will begin to bear additional interest, to be paid in kind ("PIK interest") at annual rate of 4.0%, such PIK interest to be payable upon the earliest to occur of (i) the sale or merger of the Company, (ii) the repayment in full of the term loan and termination of commitments, (iii) the occurrence of a default or event of default under the Term Loan Agreement, (iv) the Company achieving adjusted EBITDA of \$12.0 million (calculated on a trailing 12-month basis). If PIK interest becomes due and payable as a result of the Company achieving adjusted EBITDA event described in clause (iv), then the Company shall pay all outstanding PIK interest accrued as of such date and PIK interest shall continue to accrue thereafter and be paid on each subsequent anniversary of such event.

Reverse Stock Split

The Company filed a Certificate of Amendment to its Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a 1-for-9 reverse stock split of the Company's issued and outstanding shares of common stock, effective following the close of business on March 13, 2020. Unless otherwise indicated, the financial statements and accompanying notes give effect to the 1-for-9 reverse stock split as if it occurred at the first period presented.

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended **December 28, 2019**

Or

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

For the transition period from _____ to _____
Commission File No. **001-33346**

SUMMER INFANT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation)

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

1275 Park East Drive, Woonsocket, Rhode Island
(Address of principal executive offices)

02895
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$0.0001	SUMR	Nasdaq Capital Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

Large accelerated filer Accelerated filer Non-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 Act). Yes No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates as of June 29, 2019, was \$4.2 million (and has not been adjusted to reflect the reverse stock split effective March 13, 2020). For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares issued and outstanding of the registrant's common stock as of March 16, 2020 was 2,111,427 (excluding unvested restricted shares that have been issued to employees) reflecting the reverse stock split effective March 13, 2020.

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-K (this “Amendment”) amends our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, originally filed with the Securities and Exchange Commission on March 18, 2020 (the “Original Filing”). We are filing this Amendment to amend Part III of the Original Filing to include the information required by and not included in Part III of the Original Filing, as we do not intend to file a definitive proxy statement for an annual meeting of stockholders within 120 days of the end of our fiscal year ended December 28, 2019. In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment new certifications of our principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Accordingly, Item 15 of Part IV has also been amended to reflect the filing of these new certifications.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing.

As used in this Amendment, unless the context requires otherwise, “our company,” “Summer,” “our” and “we” means Summer Infant, Inc. and its consolidated subsidiaries.

**INDEX TO AMENDMENT NO. 1 TO FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 28, 2019**

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers

Information concerning our current executive officers is set forth below. All executive officers hold their positions for an indefinite term and serve at the pleasure of the Company's Board of Directors (the "Board").

Stuart Noyes, 56, was appointed our Interim Chief Executive Officer in December 2019. Mr. Noyes is managing partner of Winter Harbor, LLC, a consulting firm specializing in turnaround and restructuring services, which he co-founded in January 2012. He has more than 25 years of experience in executive and general management, operations, procurement, creditor negotiations, and finance, providing strategic and tactical turnaround solutions to a variety of clients. From February 2016 through April 2016, Mr. Noyes served as Chief Restructuring Officer of The Mid-States Supply Company, which filed a voluntary petition for bankruptcy in February 2016. From September 2016 through November 2016, Mr. Noyes served as Chief Restructuring Officer for TPP Acquisition (d/b/a The Picture People), which filed a voluntary petition for bankruptcy in September 2016. From November 2012 until December 2015, Mr. Noyes served as Chief Restructuring Officer, and then Assignee for Creditors, of AFL Quality, Inc. and its related entities, AFL Quality NY LLC and DGF, Inc., which were subject to an involuntary petition for liquidation in February 2013 that was later dismissed in April 2013. From Mr. Noyes is a member of the Turnaround Management Association and holds a Master of Business Administration from the University of Utah and Bachelor of Business Administration from the University of Maine.

Paul Francese, 64, was appointed our Senior Vice President and Chief Financial Officer in November 2018. Mr. Francese previously served as our Chief Financial Officer from September 2012 until November 2014. Most recently, Mr. Francese was Chief Financial Officer of Rain Carbon Inc., a global chemical company, which he joined in 2015. Mr. Francese was Chief Financial Officer of OCI Enterprises Inc., a soda ash, hydrogen peroxide and sodium percarbonate producer and solar energy developer, from December 2004 until September 2012. Prior to joining OCI Enterprises, Mr. Francese served as Chief Financial Officer of Cannondale Bicycle Corp, a designer and manufacturer of high-end bicycles and consumer sporting goods accessories. Mr. Francese holds a B.A. from Rutgers University and a M.B.A. from the University of New Haven.

Directors

Our Board currently has six directors, and one vacancy. Biographical information for our current directors is set forth below.

Evelyn D'An, 58, a director since November 2016, is President of D'An Financial Services, a strategic consulting firm she established in 2004. She also worked in various positions of increasing responsibility at Brightstar Corporation from 2010-2014, prior to which she provided the company with consulting/advisory services. Her last position at Brightstar was CFO of the joint venture Brightstar ERV, managing all financial aspects of the organization, which handles the recycling of mobile devices. Ms. D'An was employed by Ernst & Young from 1986 until 2004 and became the first Hispanic female partner in the Southeast region. Since March 2018, Ms. D'An has served as a director of Enochian Biosciences, Inc., a publicly traded, pre-clinical stage biotechnology company. She graduated with a Masters of Accounting from Florida International University and a Bachelor of Science from the State University of Albany.

Martin Fogelman, 76, a director since March 2007, is an independent consultant and private investor in the juvenile products industry. He was instrumental in the conception and development of the Babies R Us retail chain and served as senior vice president of both Toys R Us and Babies R Us, where he was employed from 1986 to May 2003. From May 2003 until March 2007, Mr. Fogelman was President of Baby Trend, Inc., a manufacturer of infant products. He also served as an advisory board member of Babygenics Products, pbc, a baby healthcare products company.

Robin Marino, 65, a director since August 2015, is currently an independent brand consultant. From June 2011 to November 2014, Ms. Marino served as Group President, Accessories and Home, of LFUSA/Global Brands Group (GBG), a branded apparel, footwear, fashion accessories and related lifestyle product company, where she oversaw five divisions. Prior to joining GBG, Ms. Marino was President and CEO of Merchandising at Martha Stewart Living Omnimedia, which she originally joined in 2005. Ms. Marino was also President and COO of Kate Spade from 1999 to 2005. Prior to that, she served in a variety of management positions for fashion and retail companies such as Burberry Limited, Wathne LTD and Federated Department Stores, Inc. Ms. Marino served as a director of Hampshire Group, Limited from February 2016 until September 2016. Ms. Marino holds a B.B.A. from Stetson University.

Alan Mustacchi, 59, a director since May 2015, served most recently as Executive Vice President, Capital Markets of GreenSky, Inc., a technology-focused consumer finance platform, from November 2014 until April 2020. Prior to joining GreenSky, Mr. Mustacchi was Managing Director and Head of Consumer Products & Specialty Retail Investment Banking of Dresner Partners, a middle market investment bank specializing in merger & acquisition advisory, institutional private placements of debt and equity, financial restructuring and corporate turnaround, valuation and strategic consulting, from 2013 until 2014. From 2005 until 2013, Mr. Mustacchi was at Navigant Capital Advisors, LLC, where he was Managing Director, Investment Banking. He was also Managing Director, Merchant Banking Group, at BNP Paribas, where he spent 11 years, and Vice President of The Bank of New York in its commercial finance group. Early in his career, Mr. Mustacchi spent six years as a Certified Public Accountant. He holds a B.S. in Accounting and Economics from New York University's College of Business and Public Administration and a M.B.A. in Finance and International Business from New York University's Graduate School of Business Administration.

Andrew Train, 38, has been a director since August 2017. Since May 2014, Mr. Train has been President of OBERLAND, a purpose driven branding agency based in New York City which he co-founded. Prior to founding OBERLAND, Mr. Train was the Advertising Business Director at J. Walter Thompson New York, a branding, marketing and advertising agency, from May 2009 until May 2014. Earlier in his career, he worked on well-known global brands such as HSBC, Verizon, UPS, Puma, and Lufthansa in North America and China while at J. Walter Thompson and other advertising agencies. Mr. Train has been recognized by several national and global organizations for cause marketing and driving social change through traditional, digital, social and mobile campaigns. Mr. Train holds a B.A. in Economics from the University of Richmond.

Stephen J. Zolkowicz, 47, has been a director since August 2014. Since 1999, he has served as an equity research analyst at Wynnefield Capital, Inc., an investment firm specializing in small, publicly-traded companies. Mr. Zolkowicz holds a B.A. from the University of Pennsylvania.

Corporate Governance

Audit Committee and Audit Committee Financial Expert

Our Board has established a separately-designated standing Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee currently consists of three members: Alan Mustacchi (Chairman), Evelyn D'An and Robin Marino. Each member of the Audit Committee is an "independent" director under applicable SEC and Nasdaq Stock Market rules. Our Board has determined that each of Mr. Mustacchi and Ms. D'An qualifies as an "audit committee financial expert" within the meaning of SEC rules.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who beneficially own more than 10% of a registered class of our equity securities, to file reports with the SEC relating to their ownership and changes in ownership of our common stock and other equity securities. Based solely on our review of our records, SEC filings and on written representations from our executive officers and directors, we believe that each person who, at any time during the fiscal year, was a director, officer or beneficial owner of more than 10% of our common stock, complied with all Section 16(a) requirements during the fiscal year, except for Jason Macari, who filed two late Form 4 filings reporting five purchase transactions.

Process for Stockholder Nominations

There have been no material changes to the procedures by which security holders may recommend nominees to our Board.

Item 11. Executive Compensation

Overview

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 recognized authority in the juvenile industry, providing parents and caregivers a full range of innovative, high-quality, and high-value products to care for babies and toddlers.

Our industry is highly competitive and has many participants, and our ability to compete effectively in our industry is dependent in part on our ability to attract, motivate and retain key management personnel and qualified employees. Historically, we have followed a pay-for-performance compensation philosophy, with the intent to, over time, bring salaries and total executive compensation in line with approximately the median (50th percentile) of the companies represented in our peer group. However, we have not been able to compensate our executives anywhere near this level in past years due to our Company's financial performance, stock price and the limited pool of shares available for issuance under our equity plan.

The below discussion outlines the Company's approach to executive compensation leading up to 2019. However, in 2019, given the uncertainty of the impact on the Company's results of trade tariffs on imported Chinese goods, including tariffs imposed in 2018, proposed new tariffs and increases in existing tariffs, the Compensation Committee, with the approval of the Board, determined not to adopt an annual bonus incentive program for fiscal 2019. The Company's actual fiscal 2019 sales ended relatively flat, declining by 0.3%. In late 2019, we experienced a change in senior management, with Mark Messner, our former Chief Executive Officer stepping down. In light of the Company's financial situation at the end of 2019, the Board appointed Stuart Noyes as the Company's Interim Chief Executive Officer pursuant to an engagement with Winter Harbor, LLC, a consulting firm specializing in turnaround and restructuring services.

Our Board has appointed a Compensation Committee consisting of independent directors as required by applicable SEC and Nasdaq Stock Market rules. The Compensation Committee is authorized to determine and approve, or make recommendations to our Board with respect to, the compensation of our chief executive officer, chief financial officer and our other executive officers, and to grant or recommend the grant of stock-based compensation to our executive officers and employees. The Compensation Committee also reviews our compensation policies and practices for all employees.

Historically, our philosophy is to compensate our executives at levels that enable us to attract, motivate and retain highly qualified executives. In the past, the components of executive compensation have been base salary, annual incentive bonuses and equity award grants. The Compensation Committee aims to provide salaries that are competitive with those paid by comparable companies for similar work, based on each executive's experience and performance. In prior years, our compensation program has included an annual bonus program designed to reward individuals for performance based primarily on the Company's achievement of financial goals as well as the individual's achievement of personal and strategic goals that contribute to building stockholder value. In addition, annual grants of stock-based awards are intended to provide additional incentive to executives to work to enhance long-term total return to stockholders and to align the interests of our executives with those of our stockholders. Total compensation levels reflect the executive's position, responsibilities, tenure, individual experience and achievement of goals. Compensation levels may vary from year to year and among our various executive officers with fixed and variable pay components. The Compensation Committee and the Board may also, from time to time, desire to recognize individual contributions to the Company and to encourage continued outstanding performance by granting discretionary bonuses, in the form of cash or equity awards.

We provide only certain executive fringe benefits. Generally our executives receive health and welfare benefits, such as group medical, dental, life and long-term disability coverage, under plans generally available to all other employees. We believe that our executives should be able to provide for their retirement needs from the total annual compensation they earn based on our performance. Accordingly, other than an employer matching contribution under our 401(k) plan, which is the same that we provide all of our employees, we do not offer our executives any nonqualified pension plans, supplemental executive retirement plans, deferred compensation plans or other forms of compensation for retirement. We may provide for fringe benefits, such as auto allowances, commuting benefits, housing or relocation benefits in individually negotiated executive employment agreements.

Role of the Compensation Committee and Management

The Compensation Committee currently determines or recommends to the Board the compensation of our chief executive officer, chief financial officer and our other executive officers. Annually, our Compensation Committee, together with our Board, evaluates the performance of and determines the compensation of our chief executive officer in light of the goals and objectives of our compensation program for that year. Our Compensation Committee annually assesses the performance of our other executive officers and considers recommendations from our chief executive officer when determining the compensation of our other executive officers. As discussed below, the Compensation Committee may also consider input from other independent directors, our compensation consultant and benchmarking studies and surveys, but retains absolute discretion as to whether to adopt any recommendations as it deems appropriate.

At the request of our Compensation Committee, our chief executive officer, chief financial officer and other executive officers may attend our Compensation Committee meetings, including meetings at which our compensation consultant is present. This enables our Compensation Committee to review with senior management the strategic and individual goals. Our Compensation Committee ultimately makes all determinations regarding financial and individual goals and targets. Our chief executive officer does not attend any portion of meetings at which his compensation is discussed.

The Compensation Committee also, in consultation with its independent compensation consultant, considers changes to our compensation programs as appropriate in response to input from stockholders through our annual Say on Pay vote and evolving factors such as the business environment and competition for talent. As part of its 2019 compensation setting process, the Compensation Committee reviewed the results of the Say on Pay vote regarding executive compensation paid in 2018, in which approximately 99% of the votes cast were voted in favor of our executive compensation program.

The Compensation Committee has authority to retain (at our Company's expense) outside counsel, compensation consultants and other advisors to assist as needed. The Compensation Committee considers input and recommendations from our outside compensation consultants in connection with its review of our Company's compensation programs and its annual review of the performance of the other executive officers. In 2019, the Compensation Committee engaged the services of an independent compensation consultant, Pearl Meyer. The Compensation Committee retains Pearl Meyer directly, although in carrying out assignments Pearl Meyer also interacts with management when necessary and appropriate to obtain compensation and performance data. As required under SEC rules, the Compensation Committee reviews the services of its compensation consultant to evaluate whether any conflicts of interest are raised, taking into consideration certain factors, including whether the consultant provides any other services to our Company, the amount of fees our Company pays to the consultant, whether there are any business or personal relationships with an executive officer of our Company or with any committee member, and whether the consultant owns any stock of our Company. On an annual basis, the Compensation Committee will continue to monitor the independence of its compensation consultants. The Compensation Committee determined, based on its evaluation, that the work of Pearl Meyer has not created any conflict of interest. In 2019, Pearl Meyer assisted the Compensation Committee with the following: (i) attended Compensation Committee meetings as requested; (ii) provided advice and analysis of the design of the Company's short-term and long-term incentive programs; and (iii) reviewed and provided comments on named executive officers' compensation and the disclosure regarding executive compensation in the proxy statement for the 2019 annual meeting of stockholders.

Compensation Benchmarking

In determining compensation levels, the Compensation Committee believes that it is important when making compensation-related decisions to be informed as to the practices of publicly-held companies of similar size, revenue and market focus. As a result, the Compensation Committee relies on its independent compensation consultant to help define the appropriate competitive market using a combination of peer group companies and industry-specific compensation surveys. The Company's peer group currently consists of the companies noted below.

Acme United Corporation
Black Diamond, Inc.
Crown Crafts, Inc.
CSS Industries Inc.
Delta Apparel, Inc.
Escalade Inc.

JAKKS Pacific, Inc.
Lifetime Brands, Inc.
Nautilus Inc.
Rocky Brands, Inc.
Turtle Beach Corporation
ZAGG Inc.

Named Executive Officer Compensation in 2019

Our named executive officers for 2019 were Stuart Noyes, Interim Chief Executive Officer, Paul Francese, Senior Vice President and Chief Financial Officer, and Mark Messner, former President and Chief Executive Officer. Mr. Noyes joined our Company in December 2019, replacing Mr. Messner.

Interim CEO

Winter Harbor Engagement. Mr. Noyes does not receive any compensation directly from the Company, but was engaged pursuant to the terms of an engagement letter between the Company and Winter Harbor, LLC dated December 9, 2019 (the "Letter Agreement"), to act as the Company's Interim CEO, effective December 16, 2019. Mr. Noyes reports to the Board, and, together with other Winter Harbor advisors, provides restructuring and advisory services to the Company. Compensation for the services provided under the Agreement for the first ten weeks of the engagement were determined based on agreed-upon hourly rates, subject to a cap of \$35,000 per week (other than holiday weeks, which were capped at \$15,000 each week) and thereafter upon actual hours worked or such other mutually agreed upon fee structure, plus any out-of-pocket expenses. In February 2020, the Compensation Committee approved, and the Company entered into, an amendment to the Letter Agreement that provides for compensation at a weekly rate of \$40,000, effective beginning the week of February 24, 2020 through the termination of the engagement letter. The Letter Agreement, as amended, also includes a bonus (within a range of \$50,000 to \$550,000) payable to Winter Harbor if the Company engages in a transaction that constitutes a "change in control" (as defined in the Company's existing Change in Control Plan) and the Company's stockholders receive a specified amount of per share consideration, the amount of such bonus to vary depending on such per share consideration. The Company has also agreed to indemnify Winter Harbor, Mr. Noyes and other Winter Harbor personnel in connection with the engagement, subject to customary terms and conditions. Either party may terminate the Letter Agreement upon 30 days' prior written notice.

Prior to entering into the Letter Agreement, in November 2019 in connection with the Company's amendment to its credit facilities, the Company engaged Winter Harbor to provide financial advisory services (the "Advisor Agreement") and paid a retainer of \$25,000. Compensation under the Advisor Agreement is determined based on agreed-upon hourly rates for actual hours worked, plus any out-of-pocket expenses and a 1% administrative fee on the total amount of each invoice to cover administrative costs. As of December 28, 2019, the Company had paid or accrued approximately \$35,774 related to services provided under the Advisory Agreement, including expenses and administrative fees. Fees for services under the Advisor Agreement engagement are separate from, and in addition to, fees paid under the Letter Agreement. Fees paid to Winter Harbor under the Letter Agreement are included in the Summary Compensation Table set forth in the Executive Compensation section below.

Other Named Executive Officers

Base Salaries. There were no base salary increases for Messrs. Messner or Francese in 2019.

Annual Incentive Bonus. As discussed above, no annual incentive bonus program was approved for fiscal 2019.

Long-Term Equity Incentive Awards. For 2019, our annual equity-based incentive compensation awards for executive officers and senior management employees were in the form of restricted stock awards and stock options in amounts generally below the market 25th percentile for similar companies due to our stock price and share pool size. Messrs. Messner and Francese each received an annual equity award comparable to prior years. The vesting schedule for these awards is 25% per year, with vesting beginning on the first anniversary of the grant date. In connection with his separation from the Company as described below, a portion of Mr. Messner's 2019 annual equity award was accelerated.

SUMMARY COMPENSATION TABLE

The following table sets forth, for fiscal years 2018 and 2019, information regarding compensation of our named executive officers:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	All Other Compensation (\$)	Total (\$)
Stuart Noyes Interim Chief Executive Officer	2019	—	—	—	—	76,194(2)	76,194
Paul Francese Senior Vice President and Chief Financial Officer	2019	330,000	—	6,900	7,800	11,175(3)	355,875
	2018	17,769	—	18,800	15,900	3,899	56,368
Mark Messner (4) Former President and Chief Executive Officer	2019	403,846	—	13,800	15,600	293,086(4)	726,332
	2018	420,000	—	16,400	18,000	96,667	551,667

- (1) The amounts for 2019 reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 7 to our audited consolidated financial statements for the fiscal year ended December 28, 2019, included in our Original Filing.
- (2) Represents fees paid to Winter Harbor, LLC pursuant to the Letter Agreement described above under "Winter Harbor Engagement" during the year ending December 28, 2019. Consists of (i) \$30,620 hourly fees paid for services of Mr. Noyes, (ii) \$18,331 hour fees paid for services of other Winter Harbor employees, (iii) a \$25,000 retainer paid upon entering into the Letter Agreement and (iv) \$2,243 of expenses.
- (3) Includes (i) \$175 of relocation expenses and (ii) \$11,000 of employer contributions to our Company's 401(k) plan.
- (4) Mr. Messner stepped down as the Company's CEO effective December 13, 2019. The amount in the All Other Compensation column for 2019 includes (i) \$30,505 of living expenses, (ii) \$44,191 of travel expenses to and from Mr. Messner's residence to our Company's executive offices, (iii) an auto allowance of \$8,250, (iv) \$11,000 of employer contributions to our Company's 401(k) plan, (v) \$22,353 of accrued paid time-off that was paid to Mr. Messner upon his separation from the Company, (vi) \$15,158 of value for equity awards accelerated upon his separation from the Company, (vii) \$150,000 cash severance payment, (viii) \$6,175 lease liability assumed under Mr. Messner's separation agreement and (ix) \$5,454 post-termination payment for COBRA.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table provides information about outstanding equity awards held by the named executive officers at the end of 2019. Mr. Noyes has received no equity awards from the Company. Share amounts in the table below have been adjusted to reflect the 9-for-1 reverse stock split that occurred in March 2020.

Name	Award Grant Date (1)	Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price Per Share (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Paul Francese	11/27/2018	833	2,500	8.46	11/27/2028		
	11/27/2018	—	—	—	—	1,667	\$ 3,450
	05/10/2019	—	2,223	6.21	05/10/2029		
	05/10/2019	—	—	—	—	1,111	\$ 2,300
Mark Messner (2)	07/13/2016	9,723	—	15.30	06/30/2020		
	02/22/2017	4,862	—	17.73	06/30/2020		
	03/19/2018	3,429	—	10.71	06/30/2020		
	05/02/2018	1,667	—	7.38	06/30/2020		
	05/10/2019	556	—	6.21	06/30/2020		

- (1) Unless otherwise noted, (i) option grants vest as follows: 25% of the total number of shares subject to the options vest and become exercisable on each of the first, second, third and fourth anniversaries of the date of grant and (ii) restricted stock grants have a vesting schedule as follows: 25% of the total number of shares underlying the award vest on each of the first, second, third and fourth anniversaries of the date of grant.
- (2) Mr. Messner stepped down as the Company's CEO effective December 13, 2019. Under his separation agreement with the Company, (i) the vesting of a portion of outstanding, unvested option awards was accelerated and the period in which to exercise vested options was extended to June 30, 2020, and unvested option awards were terminated, and (ii) the vesting of a portion of outstanding, unvested stock awards was accelerated and remaining unvested stock awards were terminated.

Employment Arrangements with Current Named Executive Officers

Stuart Noyes. Our Interim CEO, Mr. Noyes, does not receive any compensation directly from the Company. See "Winter Harbor Engagement" and the Summary Compensation Table above regarding compensation paid to Winter Harbor, LLC for Mr. Noyes' services.

Paul Francese. Pursuant to the terms of his offer letter with the Company, Mr. Francese receives an initial annual base salary of \$330,000, and is eligible to participate in the Company's short-term incentive bonus program beginning in fiscal year 2019, with a target equal to 40% of his base salary. He is also eligible to participate in our long-term incentive plan and any other bonus plans, as determined by the Compensation Committee, and is eligible to receive all medical, dental and other benefits to the same extent as provided to other senior management employees. Further, the Company agreed to reimburse Mr. Francese for certain living expenses incurred during his first month of employment in an amount not to exceed \$8,000. If Mr. Francese's employment is terminated by us without cause, or Mr. Francese terminates his employment for good reason, then he is entitled to receive a cash severance payment equal to six months of his then current base salary, payable in accordance with the Company's customary payroll practices and subject to the Company's receipt of a general release and termination agreement from Mr. Francese. Mr. Francese is a participant in the Company's Change in Control Plan, described below, pursuant to which he is entitled to compensation in the event he is terminated for certain reasons following a change in control of the Company.

Separation Agreement and General Release with Former Chief Executive Officer

In November 2019, the Company, Summer Infant (USA), Inc. and Mr. Messner entered into a Separation Agreement and General Release (the “Separation Agreement”) regarding the terms of his departure from the Company. Pursuant to the Separation Agreement, in consideration for a general release and covenants from Mr. Messner, Mr. Messner received (i) cash severance totaling \$150,000.00, (ii) accelerated vesting of a total of 31,250 shares (3,473 shares on a post-split adjusted basis) under outstanding restricted share awards, (iii) accelerated vesting of a total of 31,250 stock options (3,473 options on a post-split adjusted basis) under outstanding stock option awards, (iv) an extension of the option exercise period for all vested and unexercised stock option awards until June 30, 2020, and (v) reimbursement for COBRA coverage expense up to November 30, 2020. In addition, the Company assumed remaining obligations under Mr. Messner’s apartment lease in Rhode Island and will provide, at its expense, outplacement services to Mr. Messner for a period of up to 12 months following his separation.

Change in Control Plan

In February 2018, the Board approved a Change in Control Plan. Under the “double trigger” provisions of the Change in Control Plan, a participant will be entitled to certain payments if (1) there is a change in control and (2) within the 12-month period following the change in control, the participant’s employment is terminated without cause by the Company or for good reason by the participant. If these events occur, a participant will be entitled to receive payments based on their tier under the Plan for a period of time following the termination. Our Interim CEO, Mr. Noyes, does not participate in the Change in Control Plan. Our CFO, Mr. Francese, is a Tier 2 participant in the Change in Control Plan, and would receive the following benefits:

- a cash payment equal to his annual base salary times the applicable tier multiplier (1.0x for our CFO), payable over a period of time following termination (12 months for our CFO);
- a cash payment equal to the pro-rated portion of the participant’s annual cash bonus actually achieved for the fiscal year in which the termination occurs, payable when such payment would otherwise be paid after the end of the relevant performance period; and
- a cash payment equal to one times the monthly premiums for the participant’s group medical, dental and vision coverage for a period of time (12 months for our CFO), payable monthly provided that such payments will end if the participant becomes eligible to participate in similar plans with a subsequent employer.

In addition, any unvested equity awards held by our CFO that were granted prior to the change in control will accelerate and vest in full as of the participant’s termination date, and any unvested performance-based equity awards will be deemed vested and earned assuming achievement at the target performance level. As a condition to receiving payments under the Plan, participants must execute a severance agreement and release, which includes non-competition and similar covenants that remain in effect for 12 months for our CFO.

Retirement Plans

We have a Section 401(k) plan and provide an employer matching contribution, which is the same that we provide all of our employees. We do not offer our executives any nonqualified pension plans, supplemental executive retirement plans, deferred compensation plans or other forms of compensation for retirement.

Director Compensation

For fiscal 2019, the following director compensation program was in place for our non-employee directors:

- for the first two quarters of 2019, an annual retainer fee of \$90,000 for the Chairperson and \$45,000 for other non-employee directors, which was reduced to \$70,000 and \$35,000, respectively, beginning in the third quarter of 2019;
- for any meetings beyond four regularly scheduled board meetings per year, a fee of \$1,000 for each board meeting attended in person;

- the chairpersons of the Audit, Compensation, Nominating/Governance and Marketing Committees received an additional annual fee of \$15,000, \$10,000, \$8,000 and \$8,000, respectively;
- each director serving as a member of the Audit, Compensation and Nominating/Governance Committees (other than the chairperson of each such committee) received an annual fee of \$5,000; and
- on the date of our annual meeting of stockholders, each director other than our Chairperson received an annual equity award, in the form of 7,500 shares (834 shares on a post-split adjusted basis) and the Chairperson received an annual equity award, in the form of shares of our common stock, of 15,000 shares (1,667 shares on a post-split adjusted basis).

We also generally reimburse non-employee directors for travel expenses incurred in connection with their duties as directors. In addition, our Board of Directors may from time to time also provide for cash compensation, as recommended by the Compensation Committee, payable to members of special or ad hoc committees of the Board of Directors.

Other than as disclosed in this proxy statement, we do not pay any directors who are also executive officers any additional compensation for service as directors.

Director Compensation in 2019

The following table shows non-employee director compensation in 2019. Mark Messner, our former Chief Executive Officer, served on the Board during 2019 and did not receive any additional compensation for his service as a director. For information on compensation received by Mr. Messner for his services as former Chief Executive Officer, please see “Executive Compensation - Summary Compensation Table” above.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)(1)</u>	<u>Stock Awards (\$)(2)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Evelyn D’An	55,000	5,175	—	60,175
Marty Fogelman	45,000	5,175	—	50,175
Robin Marino	90,000	10,350	—	100,350
Alan Mustacchi	60,000	5,175	—	65,175
Andrew Train	48,000	5,175	—	53,175
Stephen J. Zerkowicz	53,000	5,175	—	58,175

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- (1) Represents fees earned or paid in cash in 2019, including annual retainer fees and committee fees.
 - (2) The amounts reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 7 to our audited consolidated financial statements for the fiscal year ended December 28, 2019, included in our Original Filing. As of December 28, 2019, Mr. Train had 278 unvested restricted shares (on a post-split basis).

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

Equity Compensation Plan Information

The following table summarizes information, as of December 28, 2019, regarding our equity compensation plans (on a post-split adjusted basis).

<u>Plan Category</u>	<u>Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)</u>	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans [excluding securities reflected in column (a)] (c)</u>
Equity compensation plans approved by stockholders	105,604(1)	\$ 13.46	71,468
Equity compensation plans not approved by stockholders	18,196(2)	18.59	—
Total	<u>123,800</u>	<u>\$ 14.21</u>	<u>71,468</u>

- (1) Includes 21,716 shares issuable upon vesting of outstanding restricted stock awards granted to employees which have not yet vested. Such shares are not included in the calculation of the weighted average exercise price reflected in column (b).
- (2) Represents awards granted as inducement grants to newly-hired employees that were not subject to shareholder approval pursuant to applicable Nasdaq Stock Market Rules. Includes 694 shares issuable upon vesting of outstanding restricted stock awards granted to employees which have not yet vested. Such shares are not included in the calculation of the weighted average exercise price reflected in column (b).

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the beneficial ownership of our common stock as of March 31, 2020 by:

- each person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock;
- each of our directors and named executive officers; and
- all of our current executive officers and directors as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Common Stock (3)
5% Stockholders		
Wynnefield Capital Management LLC and related parties (4)	758,788	36.0%
Jason Macari (5)	385,432	18.3%
Directors and Named Executive Officers		
Evelyn D'An	3,546	*
Marty Fogelman (6)	14,590	*
Paul Francese (7)	4,448	*
Robin Marino	23,744	1.1%
Mark Messner (8)	38,642	1.8%
Alan Mustacchi	10,228	*
Stuart Noyes	—	—
Andrew Train	3,964	*
Stephen J. Zerkowicz	8,123	*
All current directors and executive officers as a group (8 persons) (7)	68,643	3.3%

* Less than 1%

(1) Unless otherwise noted, the business address of each named person is 1275 Park East Drive, Woonsocket, Rhode Island 02895.

(2) Unless otherwise noted, each person named in the table has sole voting and investment power with regard to all shares beneficially owned, subject to applicable community property laws.

(3) The percentages shown are calculated based on 2,111,427 shares of common stock issued and outstanding on March 31, 2020. In calculating the percentage of ownership, all shares of common stock that the identified person or group had the right to acquire within 60 days of March 31, 2020 are deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by that person or group, but are not deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by any other person or group.

(4) The information is as reported on Amendment No. 11 to Schedule 13D filed with the SEC on March 12, 2019. The address for Wynnefield Capital Management, LLC and related entities is 450 Seventh Avenue, Suite 509, New York, NY 10123. Of the shares indicated, 228,644 shares are beneficially owned by Wynnefield Partners Small Cap Value, L.P. ("Partners"), 346,343 shares are beneficially owned by Wynnefield Partners Small Cap Value, L.P. I ("Partners I"), 159,527 shares are beneficially owned by Wynnefield Small Cap Value Offshore Fund, Ltd. ("Fund"), and 24,274 shares are beneficially owned by Wynnefield Capital, Inc. Profit Sharing & Money Purchase Plan ("Plan").

Wynnefield Capital Management, LLC ("WCM") is the sole general partner of Partners and Partners I and, accordingly, may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 under the Exchange Act) of the shares that Partners and Partners I beneficially own. WCM, as the sole

general partner of Partners and Partners I, has the sole power to direct the voting and disposition of the shares that Partners and Partners I beneficially own. Nelson Obus and Joshua Landes are the co-managing members of WCM and, accordingly, each of Messrs. Obus and Landes may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 under the Exchange Act) of the shares that WCM may be deemed to beneficially own. Each of Messrs. Obus and Landes, as co-managing members of WCM, share the power to direct the voting and disposition of the shares that WCM may be deemed to beneficially own.

Wynnefield Capital, Inc. (“WCI”) is the sole investment manager of the Fund and, accordingly, may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 under the Exchange Act) of the shares that the Fund beneficially owns. WCI, as the sole investment manager of the Fund, has the sole power to direct the voting and disposition of the shares that the Fund beneficially owns. Messrs. Obus and Landes are executive officers of WCI and, accordingly, each may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 under the Exchange Act) of the shares that WCI may be deemed to beneficially own. Messrs. Obus and Landes, as executive officers of WCI, share the power to direct the voting and disposition of the shares that WCI may be deemed to beneficially own.

The Plan is an employee profit sharing plan. Messrs. Obus and Landes are the co-trustees of the Plan and accordingly, Messrs. Obus and Landes may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 under the Exchange Act) of the shares that the Plan may be deemed to beneficially own. Each of Messrs. Obus and Landes, as the trustees of the Plan, shares with the other the power to direct the voting and disposition of the shares beneficially owned by the Plan.

The information set forth in this footnote with respect to WCM, WCI and Messrs. Obus and Landes, shall not be considered an admission that any of such persons, for the purpose of Section 16(b) of the Exchange Act, are the beneficial owners of any shares in which such persons do not have a pecuniary interest. Each of WCM, WCI and Messrs. Obus and Landes disclaims any beneficial ownership of these shares.

- (5) The information is as reported on Amendment No. 2 to Schedule 13D filed with the SEC on September 12, 2016 and a Form 4 filed on November 20, 2019. The address of Mr. Macari is 3100 Diamond Hill Road, Cumberland, Rhode Island 02864.
- (6) Includes 6,255 shares held by Mr. Fogelman’s spouse.
- (7) Includes (i) 834 shares that may be acquired upon exercise of outstanding vested options, (ii) 556 shares that may be acquired upon exercise of stock options that vest within 60 days of March 31, 2020, and (iii) 278 shares that vest pursuant to outstanding stock awards that vest within 60 days of March 31, 2020.
- (8) Includes 20,237 shares that may be acquired upon exercise of outstanding vested options. Mr. Messner stepped down as the Company’s CEO effective December 13, 2019.

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

Independence of Directors

In determining the independence of directors, our Board analyzes each director’s relationship with our Company and our subsidiaries to determine whether our directors are independent under the applicable rules of the Nasdaq Stock Market and the SEC. Our Board has determined that each of our current directors is “independent” within the meaning of the independence rules of the Nasdaq Stock Market and the SEC.

Certain Relationships and Related Transactions

In March 2009, our wholly owned subsidiary, Summer Infant (USA), Inc. (“Summer USA”), entered into a definitive agreement with Faith Realty II, LLC, a company whose members are Jason P. Macari, our former Chief Executive Officer and a former director. Under this agreement, Faith Realty purchased our corporate headquarters located at 1275 Park East Drive, Woonsocket, Rhode Island for \$4,052,500 and subsequently leased the headquarters back to Summer USA for an annual rent of \$390,000 for an initial seven-year term. The lease was last amended in January 2018 and extended the term of the lease until March 31, 2021 with annual rent of \$468,000.

For a description of the Company’s agreement with Winter Harbor, of which Mr. Noyes is managing partner, see “Executive Compensation - Winter Harbor Engagement” above.

Item 14. Principal Accountant Fees and Services

Our Audit and Finance Committee appointed RSM US, LLP (“RSM”), an independent registered public accounting firm, to audit the consolidated financial statements of our company for the fiscal year ending January 2, 2021.

Fees

The following table shows the aggregate fees paid or accrued for audit and other services provided for fiscal years 2019 and 2018:

	2019	2018
Audit Fees	\$ 338,246	\$ 339,120
Audit-Related Fees	—	12,000
Tax Fees	—	—
All Other Fees	—	—
Total Fees	\$ 338,246	\$ 351,120

Audit Fees in 2018 and 2019 were for professional services rendered for the audit of our annual consolidated financial statements and related procedures and review of consolidated financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided by RSM in connection with statutory and regulatory filings or engagements. *Audit-Related Fees* in 2018 were for services rendered with respect to the Company’s adoption of and transition to the new lease accounting standard (ASC 842, Leases).

Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit and Finance Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit and Finance Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with the pre-approval, and the fees for the services performed to date. The Audit and Finance Committee may also pre-approve particular services on a case-by-case basis.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(3). Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002

