KID BRANDS, INC
Form 10-K
April 15, 2014
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2013**

**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 number 1-8681**

**KID BRANDS, INC.**

**(Exact name of registrant as specified in its charter)**

| **New Jersey**<br>**(State of or other jurisdiction of**<br><br>**Incorporation or organization)** | **22-1815337**<br>**(I.R.S. Employer**<br><br>**Identification Number)** |
| --- | --- |
| **One Meadowlands Plaza, 8th Floor,**<br>**East Rutherford, New Jersey**<br>**(Address of principal executive offices)** | **07073**<br>**(Zip Code)** |

**Registrant s Telephone Number, Including Area Code: (201) 405-2400**

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

| Title of each Class | Name of each exchange on which registered |
| --- | --- |
| **Common Stock, $0.10 stated value** | **New York Stock Exchange*** |

* Trading of the Company s Common Stock on the New York Stock Exchange was suspended prior to the opening of trading on March 31, 2014 pending delisting, however, the deregistration of such stock under Section 12(b) of the Act is not yet effective. The Company s Common Stock is currently quoted on the OTCQB Marketplace under the symbol KIDB .

**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 x

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

Indicate by checkmark 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 x No ¨

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

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

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

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller Reporting company) | Smaller reporting company x |

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

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price of such stock at the close of business on June 30, 2013 was approximately $23.0 million.

The number of shares outstanding of each of the Registrant s classes of common stock, as of April 7, 2014 was as follows:

| **Class** | **Number of Shares** |
|---|---|
| **Common Stock, $0.10 stated value** | **22,102,382** |

**Documents Incorporated by Reference**

Certain information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Company s 2014 Annual Meeting of Shareholders (the 2014 Proxy Statement ), which is intended to be filed not later than 120 days after the end of the fiscal period covered by this report.

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* Certain confidential portions of this exhibit have been omitted by means of redacting a portion of the text. This exhibit has been filed separately with the Secretary of the Securities and Exchange Commission without redactions pursuant to an Application for an Order Granting Confidential Treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

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PART I

As used in this Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 10-K ), the terms Company , we , us and our refer to Kid Brands, Inc. ( KID ) and its consolidated subsidiaries.

## ITEM 1. BUSINESS

### General

We are a leading designer, importer, marketer and distributor of branded infant and juvenile consumer products. Through our four wholly-owned operating subsidiaries Kids Line, LLC ( Kids Line ); LaJobi, Inc. ( LaJobi ); Sassy, Inc. ( Sassy ); and CoCaLo, Inc. ( CoCaLo ) we design, manufacture through third parties, and market branded infant and juvenile products in a number of complementary categories including, among others: infant bedding and related nursery accessories and décor, nursery appliances, bath/spa products and diaper bags (Kids Line® and CoCaLo®); nursery furniture and related products (LaJobi®); and developmental toys and feeding products, bath and baby care items with features that address the various stages of an infant s early years, including the Kokopax® line of baby gear (Sassy®). In addition to our branded products, we also market certain categories of products under various licenses, including Carter s®, Disney®, Graco® and Serta®.

Our products are sold primarily to large, national retail accounts and independent retailers (including toy, specialty, food, drug, apparel and other retailers). We maintain a direct sales force to serve our customers, who are primarily located in North America and Australia. We also maintain relationships with international distributors to service certain retail customers in several foreign countries, as well as with a number of independent representatives to service select domestic and foreign retail customers. We generated annual net sales of approximately $188.2 million in 2013. See Products below for a discussion of our current product categories.

We were founded in 1963 by the late Mr. Russell Berrie, and were incorporated in New Jersey as Russ Berrie and Company, Inc. in 1966. Our common stock was traded on the New York Stock Exchange from its initial public offering on March 29, 1984 (under the symbol RUS until September 22, 2009, when we changed our name to Kid Brands, Inc., and under the symbol KID thereafter) through the close of trading on March 30, 2014. Trading of our common stock on the New York Stock Exchange was suspended prior to the opening of trading on March 31, 2014 pending delisting. Our common stock is currently quoted on the OTCQB Marketplace under the symbol KIDB .

See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the principal elements of our current global operating strategy and recent developments regarding our business.

We currently maintain our principal executive offices at One Meadowlands Plaza, 8th Floor, East Rutherford, New Jersey 07073. During the third quarter of 2014, however, we intend to move our principal executive offices to 301 Route 17 North, Suite #600, Rutherford, New Jersey 07070, and will occupy temporary space at this location commencing May 2014 until construction on Suite #600 is complete. Our active wholly-owned subsidiaries are located in the United States, Australia, the People s Republic of China (the PRC ), Hong Kong and Thailand, and we currently use distribution centers located in California, New Jersey and Michigan. But see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of our distribution facility consolidation plan, which includes the closure (upon expiration of the applicable lease agreements) of the foregoing distribution centers, and Item 2, Properties . Our telephone number is 201-405-2400.

### Products

Our infant and juvenile product line currently consists of approximately 5,900 products that principally focus newborn to three year old children. We also sell certain products for children aged three through seven, including toddler bedding and beds. Kids Line® products, which are marketed primarily under the Kids Line®, Carter ®s and Disney® brands, and CoCaLo® products, which are marketed primarily under the CoCaLo Baby®, CoCaLo Couture®, and CoCaLo Naturals™ brands, each consist primarily of infant bedding and related nursery accessories and décor such as blankets, rugs, mobiles, nightlights, hampers, lamps and wall art, as well as nursery appliances, diaper bags and spa/bath products. LaJobi® products, which are marketed primarily under the BabiItalia®, Europa Baby®, Bonavita®, Graco® and Serta® brands, consist primarily of cribs, mattresses and other nursery furniture. Sassy® products, which are marketed primarily under the Sassy®, Carter ®s, Disney®, Garanimals® and Kokopax® brands, consist primarily of developmental toys and feeding products, bath and baby care items and baby gear with features that address the various stages of an infant s early years.

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Most of our infant and juvenile products have wholesale selling prices between $0.50 and $149, with the exception of LaJobi furniture products, which have wholesale selling prices of $10 to $432. Product sales are highly diverse and no single item represented more than 1% of our consolidated net sales in 2013. The Company currently categorizes its sales in five product categories: Hard Good Basics, Soft Good Basics, Toys and Entertainment, Accessories and Décor, and Other. Hard Good Basics includes cribs and other nursery furniture, feeding products, baby gear and organizers. Soft Good Basics includes bedding, blankets and mattresses. Toys and Entertainment includes developmental toys, bath toys and mobiles. Accessories and Décor includes hampers, lamps, rugs and décor. Other includes all other products that do not fit in the above four categories. The following table sets forth the Company s consolidated net sales by product category, as a percentage of total consolidated net sales, for the years ended December 31, 2013, 2012, and 2011:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Hard Good Basics | 34.0% | 37.3% | 35.5% |
| Soft Good Basics | 33.6% | 35.2% | 38.3% |
| Toys and Entertainment | 24.9% | 17.9% | 14.2% |
| Accessories and Décor | 6.7% | 8.4% | 10.1% |
| Other | 0.8% | 1.2% | 1.9% |
| Total | 100.0% | 100.0% | 100.0% |

**Design and Production**

We maintain a continuing program of new product development. We design most of our own products, although certain products are designed by independent designers or are licensed from other third parties. Items are added to the product line only if we believe that they can be sourced and marketed on a basis that meets our profitability standards.

Generally, a new design is brought to market within six to twelve months after a decision is made to produce the product. Sales of our products are, in large part, dependent on our ability to anticipate, identify and react quickly to changing consumer preferences and to effectively utilize our sales and distribution systems to bring new products to market.

We occasionally engage in market research and test marketing to evaluate consumer reactions to our products. Research into consumer buying trends often suggests new products. We assemble information from retail stores, our sales force, focus groups, industry experts, vendors and our product development personnel. We continually analyze our products to determine whether they should be adapted into new or different products using elements of the initial design or whether they should be removed from the product line.

All of our products are produced by independent manufacturers, generally in Eastern Asia, under the quality review of approximately 33 individuals in the PRC, Thailand, and Vietnam who monitor the production process with responsibility for the quality, safety and prompt delivery of our products, as well as certain compliance and product development issues. We have established subsidiaries in the PRC, and Thailand to oversee our quality assurance activities in Asia, and have retained the full-time services of such individuals, either directly through such subsidiaries, or through third party outsource agencies. Our products are designed, manufactured, packaged and labeled to conform to all applicable safety requirements under U.S. federal and other applicable laws and regulations, various industry-developed voluntary standards and product-specific standards.

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During 2013, we imported from numerous manufacturers in Eastern Asia, with facilities primarily in the PRC and other Eastern Asia countries. During 2013, approximately 73% of our dollar volume of purchases for our operations was attributable to manufacturing in the PRC. Members of our Eastern Asia and U.S. product development staff make frequent visits to such manufacturers. The PRC and the other Eastern Asia countries currently enjoy permanent normal trade relations ( PNTR ) status under U.S. tariff laws, which generally provides a most favored nation rate of U.S. import duties. The loss of such PNTR status would result in a substantial increase in the import duty for products manufactured for us in Eastern Asia and imported into the United States and would result in an increase in our sourcing costs. In addition, certain categories of wooden bedroom furniture previously imported from the PRC by our LaJobi subsidiary were also subject to anti-dumping duties. For a discussion of charges taken for anticipated anti-dumping duties (and related interest) and other actions resulting from LaJobi s prior import practices, see Item 3, Legal Proceedings , Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , and Notes 5 and 18 of the Notes to Consolidated Financial Statements. Also see Risk Factors-*We rely on foreign suppliers, primarily in the PRC, to manufacture our products, which subjects us to numerous international business risks that could increase our costs or disrupt the supply of our products* .

In 2013, the supplier accounting for the greatest dollar volume of the purchases for our operations accounted for approximately 12% of such purchases, and the five largest suppliers accounted for approximately 41% in the aggregate. We believe, however, that there are alternate manufacturers for our products and sources of raw materials. But see Item 1A, Risk Factors *We rely on foreign suppliers, primarily in the PRC, to manufacture our products, which subjects us to numerous international business risks that could increase our costs or disrupt the supply of our products* , as well as Note 17 of Notes to Consolidated Financial Statements for a discussion of risks attendant to our foreign operations.

**Marketing and Sales**

Our products are marketed through our own direct sales force of full-time employees, as well as through independent representatives and distributors to retail customers in the United States and certain foreign countries including, but not limited to, mass merchandisers, baby superstores, specialty stores, department stores and boutiques. During 2013, we maintained a direct sales force and distribution network for our operations in the United States and Australia. Our sales attributable to foreign-based operations were $4.8 million, $9.2 million, and $9.6 million for the years ended December 31, 2013, 2012, and 2011, respectively. Our consolidated foreign sales from operations, including export sales from the United States, aggregated $17.6 million, $25.0 million, and $18.9 million for the years ended December 31, 2013, 2012, and 2011, respectively. See Note 17 of Notes to Consolidated Financial Statements for information with respect to, among other things, revenues from external customers and total assets for each of the years ending December 2013, 2012, and 2011, respectively, as well as specified geographic information.

During 2013, we sold our products to approximately 1,100 customers worldwide. Toys R Us, Inc. and Babies R Us, Inc., in the aggregate, accounted for approximately 34.8%; Wal-Mart Stores, Inc. ( Walmart ) accounted for approximately 19.4%; and Target Corporation ( Target ) accounted for approximately 7.2% of our consolidated gross sales during 2013. The loss of any of these customers, the loss of certain other large customers, or a significant reduction in the volume of business conducted with any such customers, could have a material adverse effect on us. See Item 1A, Risk Factors *Our business is dependent on several large customers* and Note 6 of Notes to Consolidated Financial Statements.

We reinforce the marketing efforts of our sales force through an active promotional program, including showrooms at our principal facilities, participation in trade shows, and trade and consumer advertising, as well as a growing set of internet-based promotional activities. We also seek to further capture synergies between our businesses by cross-marketing products and building upon the strong customer relationships developed by each of our subsidiaries,

as well as by consolidating certain operational activities.

Customer service is an essential component of our marketing strategy. We maintain customer service departments that respond to customer inquiries, investigate and resolve issues and generally assist customers and/or consumers.

Our general terms of sale are competitive with others in our industry. Sales are typically made utilizing standard credit terms of 30 to 60 days. However, commencing in late 2011, we occasionally elected to participate in an auction program initiated by one of our largest customers, which permitted us to offer an additional discount on all or a portion of the outstanding accounts receivable from such customer in return for prompt, accelerated payment of all or the relevant portion of such receivable. The amount of the additional discount was subject to acceptance, was determined in part by the aging of the receivable and was within the range of customary discounts for early payment. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources . We do not ordinarily sell our products on consignment, and we ordinarily accept returns only for defective merchandise. Notwithstanding the foregoing, in certain instances, where retailers are unable to resell the quantity of products that they have purchased from us, we may, in accordance with industry practice, assist retailers in selling such excess inventory by offering credits and other price concessions or, on occasion, accept returns. We record a reduction of sales for estimated future defective product deductions based on historical experience.

### Distribution

Prior to the Consolidation Plan described below, many of our customers, particularly mass merchandisers, picked up their goods at our regional distribution centers, which were located in Cranbury, New Jersey; Southgate, California (closed in the first quarter of 2014); and Kentwood, Michigan. In addition, LaJobi already utilizes the services of NFI, an independent third party logistics provider in California (described below) for a portion of its distribution requirements, and our subsidiary in Australia utilizes the services of independent third party logistics providers. During the fourth quarter of 2013, the Company evaluated the long-term location of its distribution facilities to assess their effectiveness in servicing the Company s customers, and determined to implement a consolidation plan (the Consolidation Plan ), consisting of the transition to a single third-party logistics ( 3PL ) company, the related closure (upon expiration of the applicable lease agreements) of its subsidiaries distribution centers in Cranbury, New Jersey; Southgate, California (closed); and Kentwood, Michigan, and the termination of certain existing 3PL agreements. The Consolidation Plan is expected to be completed during the third quarter of 2014. As part of the Consolidation Plan, on November 13, 2013, KID entered into an Operating Services Agreement (the 3PL Agreement ) with National Distribution Centers, L.P., the warehousing and distribution division of NFI ( NFI ) for comprehensive 3PL services for the Company s warehousing and distribution operations. Pursuant to the 3PL Agreement, NFI will provide storage, handling, inventory management, transportation management, shipping, receiving, repackaging, order processing and related support services to the Company and its subsidiaries at NFI s distribution center in Chino, California. The initial term of the 3PL Agreement will continue through March 1, 2019, subject to customary early termination provisions, and the right by either party to terminate in the event that specified pricing assumptions materially change, and the parties are unable to agree upon an appropriate fee adjustment. The term of the 3PL Agreement will automatically renew for successive 12-month periods (up to an additional 5 years), unless either party provides written notice to the other party of its desire to terminate the 3PL Agreement at least 120 days prior to the end of the then current term. We will also continue to use common carriers to arrange shipments to customers who request such arrangements, including smaller retailers and specialty stores.

### Seasonality

We typically do not experience significant seasonal variations in demand for our products, although we typically do experience slightly higher sales during the second half of the fiscal year. In 2013, approximately 57% of our sales were made during the second half of the fiscal year. Sales to our retail customers may be higher in periods when retailers take initial shipments of new products, as these orders typically incorporate enough products 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.

### Competition

The infant and juvenile products industry is highly competitive and is characterized by the frequent introduction of new products and includes numerous domestic and foreign competitors, many of which are substantially larger and have financial and other resources greater than ours. We compete principally on the basis of proprietary product design, brand name recognition, product quality, innovation, and relationships with major retailers, customer service and price/value relationship. We compete with a number of different competitors, depending on the product category, and compete against no single company across all of our product categories. Our competition includes large infant and juvenile product companies and specialty infant and juvenile product manufacturers.

In addition, certain of our potential customers, in particular mass merchandisers, have the financial and other resources necessary to buy products similar to those that we sell directly from manufacturers in Eastern Asia and

elsewhere, thereby potentially reducing the size of our potential market. See Item 1A, Risk Factors *Competition in our markets could reduce our net sales and profitability.*

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**Copyrights, Trademarks, Patents and Licenses**

We rely on a combination of trademarks, copyrights, patents, licenses and trade secrets to protect our intellectual property. We believe our intellectual property has significant value though we do not consider our business to be materially dependent on such intellectual property due to the availability of substitutes and our ability to create new designs, and the variety of products that we sell. Intellectual property protections are limited or even unavailable in some foreign countries and preventing unauthorized use of our intellectual property can be difficult even in countries with substantial legal protection. In addition, the portion of our business that relies on the use of intellectual property is subject to the risk of challenges by third parties claiming infringement of their proprietary rights. See Item 1, Risk Factors - *Trademark infringement or other intellectual property claims relating to our products could increase our costs.*

We enter into license agreements relating to trademarks, copyrights, patents, designs and products which enable us to market items compatible with our product line. We believe that our license agreements are important assets for our business. We currently maintain license agreements with, among others, The William Carter Company (Carter ®s); Disney® Enterprises, Inc.; Graco® Children s Products, Inc.; Serta®, Inc.; and Garanimals®. Our license agreements are typically for terms of one to five years with extensions possible if agreed to by both parties. Royalties are paid on licensed products and, in many cases, advance royalties and minimum guarantees are required by these license agreements. Although we do not believe our business is dependent on any single license, the LaJobi Graco® license (which expires on March 31, 2015, subject to renewals and certain early termination rights commencing April 1, 2014) and the Kids Line Carter ®s license (which expires on December 31, 2014) are each material to and accounted for a material portion of the net revenues of LaJobi and Kids Line, respectively, as well as a significant percentage of the net revenues of the Company, in each case for each of the last three years. In addition, the LaJobi Serta® license (which expires on December 31, 2018, subject to renewals) is material to and accounted for a significant percentage of the net revenues of LaJobi; the Kids Line Disney® license (which expires on December 31, 2014, subject to renewals) is material to and accounted for a significant percentage of the net revenues of Kids Line; and the Sassy Carters® license (which expires on December 31, 2014) and the Sassy Garanimals® license (which expires on December 31, 2014) is material to and accounted for a significant percentage of the net revenues of Sassy, in each case, for the last three years ended December 31, 2013. While historically we have been able to renew the license agreements that we wish to continue on terms acceptable to us, there can be no assurance that this will be the case. The loss of any of the foregoing and/or other significant license agreements could have a material adverse effect on our results of operations, at least until such time, if ever, that appropriate replacements can be secured and related products marketed on commercially acceptable terms. See Item 1A, Risk Factors *Competition for licenses could increase our licensing costs or limit our ability to market products* and *The loss of any significant license could adversely affect our business*.

In connection with the sale of KID s former gift business to The Russ Companies, Inc. ( TRC ), RB Trademark Holdco LLC ( Seller ), a wholly-owned subsidiary of KID, executed a license agreement with TRC permitting TRC to use specified intellectual property, consisting generally of the Russ and Applause trademarks and trade names (the Retained IP ). On April 21, 2011, TRC and TRC s domestic subsidiaries (collectively, the Debtors ), filed a voluntary petition under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of New Jersey (the Bankruptcy Court ). On June 16, 2011, the Bankruptcy Court entered an order which, among other things, approved a settlement with the secured creditors of the Debtors, including KID (the Settlement ). Among other things, the Settlement allowed us to retain ownership of the Retained IP. See Note 4 of the Notes to Consolidated Financial Statements for more information regarding the Settlement. On June 30, 2013, the Seller entered into an acquisition agreement (the Agreement ) with Larsen and Bowman Holdings Ltd., a Limited Corporation organized under the laws of British Columbia ( Buyer ), for the sale by Seller to Buyer of the Retained IP. The purchase price for the Retained IP (which had no value on the Company s books) was $1.25 million, payable by Buyer to Seller by promissory note (the Note ). A $100,000 installment on the Note was paid on July 2, 2013, a payment of $655,000 was

paid on July 31, 2013, and the remaining $500,000 is payable in specified installments over a four year period. The obligations of the Buyer under the Note are secured by the Retained IP pursuant to the terms of a Security Agreement dated June 30, 2013. The Company recorded a gain on the sale of $1.2 million during the second quarter of 2013 for this transaction.

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### Employees

As of December 31, 2013, we employed approximately 300 persons, including approximately 33 individuals in the PRC, Thailand, and Vietnam, some of whom are employed through third-party outsource agencies. See, Business Design and Production , Risk Factors *We rely on foreign suppliers, primarily in the PRC, to manufacture our products, which subjects us to numerous international business risks that could increase our costs or disrupt the supply of our products* . We consider our employee relations to be good. Most of our employees are not covered by a collective bargaining agreement, although approximately 24 Sassy employees, representing approximately 8% of our total employees, were represented by a collective bargaining agreement as of December 31, 2013.

### Government Regulation

Certain of our products are subject to the provisions of, among other laws, the Federal Hazardous Substances Act, the Federal Consumer Product Safety Act and the Federal Consumer Product Safety Improvement Act. Those laws empower the Consumer Product Safety Commission (the CPSC ) to protect consumers from certain hazardous articles by regulating their use or excluding them from the market and requiring the recall of products that are found to be potentially hazardous. The CPSC s determination is subject to judicial review. Similar laws exist in some states and cities in the United States and in certain foreign jurisdictions in which our products are sold. We maintain a quality control program in order to comply with such laws, and we believe we are in substantial compliance with all the foregoing laws. Notwithstanding the foregoing, no assurance can be made that all products are or will be free from hazards or defects, or that rapidly changing safety standards will not render unsaleable products that complied with previously applicable safety standards. See Item 1A, Risk Factors *Product liability, product recalls and other claims relating to the use of our products could increase our costs* and Item 3, Legal Proceedings Consumer Product Safety Commission Staff Investigation , for a discussion of an investigation by the staff of the CPSC into whether LaJobi timely complied with certain reporting requirements (prior to 2010), and the Company s response thereto.

### Corporate Governance and Available Information

We make available a wide variety of information free of charge on our website at *www.kidbrands.com*. Our reports that are filed or furnished with the United States Securities and Exchange Commission (the SEC ), including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to such reports, are available on our website as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. Our website also contains news releases, financial information, company profiles and certain corporate governance information, including current versions of our Whistleblower Policy , Corporate Governance Guidelines , Code of Business Conduct and Ethics , Code of Ethics for Principal Executive Officer and Senior Financial Officers , Criteria and Procedures with respect to Selection and Evaluation of Directors and Communications with the Board of Directors , and the charters of the Audit Committee, the Compensation Committee and the Nominating/Governance Committee of the Board of Directors. To access our SEC reports or amendments, log onto our website and then click onto Investor Relations on the main menu and then onto the SEC Filings link near the bottom of the page. Mailed copies of such information can be obtained free of charge by writing to us at Kid Brands, Inc., One Meadowlands Plaza, 8th Floor, East Rutherford, New Jersey 07073, Attention: Corporate Secretary. The contents of our websites are not incorporated into this filing.

### ITEM 1A. RISK FACTORS

The risks and uncertainties described below constitute the material risks pertaining to our business. If any of the events or circumstances described in the following risk factors actually occurs, our business, prospects, financial condition, results of operations or cash flows could be materially and adversely affected. In such cases, the trading

price of our common stock could decline, and you could lose part or all of your investment.

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***There is substantial doubt as to our ability to continue as a going concern, and our independent registered public accounting firm s report includes an explanatory paragraph to that effect.***

Based on our current operational expectations, the limited availability anticipated under our credit agreement (notwithstanding the April 2014 amendment thereto described in Note 8), and the uncertainty as to the amount and timing of the payments that we will be required to make to U.S. Customs and/or other governmental authorities in respect of pending Customs duty matters, to satisfy any obligations resulting from the arbitration with Mr. Bivona, and/or to the CPSC in respect of its pending investigation, in each case when such matters are finalized, all as discussed in this Risk Factors section, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 21 to the Notes to Consolidated Financial Statements herein, there is substantial doubt as to our ability to continue as a going concern, and our independent registered public accounting firm has included in their audit opinion for the year ended December 31, 2013 an explanatory paragraph to that effect. However, our financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business (all outstanding debt under our credit agreement is currently classified as short-term debt). Management s analysis of these matters is described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Capital Resources, Liquidity Assessment and Ability to Continue as a Going Concern . LaJobi s issues with U.S. Customs, the USAO and the SEC, as well as the arbitration with Mr. Bivona and the pending investigation of the CPSC have continued over a period of several years. The Company believes that the lack of finality, and consequent uncertainty stemming from these issues, has (and continues to) hinder the Company in its efforts to raise additional capital. Disclosures questioning a company s ability to continue as a going concern are generally viewed unfavorably by analysts and investors. If we become unable to continue as a going concern, we will likely have to liquidate our assets. The covenants under our credit agreement may limit our ability to dispose of material assets or operations, and even if permitted, the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. In addition, such measures may not be available or successful. As a result, you may lose your investment. The reaction of investors to the inclusion of a going concern uncertainty explanatory paragraph by our auditors and our potential inability to continue as a going concern may materially adversely affect our share price and our ability to raise new capital, enter into strategic alliances, and/or maintain compliance with the financial or other covenants under our credit agreement.

***There can be no assurance that we will have sufficient liquidity to satisfy our cash obligations when required.***

Our principal sources of liquidity are cash flows from operations, cash and cash equivalents, and availability under our credit agreement. At December 31, 2013 our revolving loan availability was $4.9 million, and such availability is currently expected to remain very tight for the remainder of 2014. Without a sufficient increase in availability under our credit agreement (notwithstanding the April 2014 amendment thereto described in Note 8) or an increase in liquidity resulting from operations or as a result of an action or transaction arising out of our review of strategic and financing alternatives described below, there can be no assurance that we will be able to satisfy our ordinary course cash requirements for the one-year period subsequent to the issuance of our audited financial statements for 2013, or any payments that we will be required to make to U.S. Customs and/or other governmental authorities in respect of pending Customs duty matters, to satisfy any obligations resulting from the arbitration with Mr. Bivona, and/or to the CPSC in respect of its pending investigation, in each case when such matters are finalized, creating uncertainty about our ability to continue as a going concern. LaJobi s issues with U.S. Customs, the USAO and the SEC, as well as the arbitration with Mr. Bivona and the pending investigation of the CPSC have continued over a period of several years. The Company believes that the lack of finality, and consequent uncertainty stemming from these issues, has (and continues to) hinder the Company in its efforts to raise additional capital. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Capital Resources, Liquidity Assessment and Ability to Continue as a Going Concern for a discussion of the impact of potential payment

obligations on our compliance with our credit agreement, liquidity, results of operations and financial condition. More generally, if actual events, circumstances, outcomes and amounts differ from judgments, assumptions and estimates made or used in determining the amount of certain assets (including the amount of recoverability of property, plant and equipment, intangible assets, valuation allowances for receivables, inventories and deferred income tax assets), liabilities (including accruals for income taxes and liabilities) and/or other items reflected in our consolidated financial statements, our results of operations and financial condition could be materially and adversely affected.

***Our going concern uncertainty may have an adverse effect on our customer, licensor and supplier relationships.***

Our relationships with our customers, licensors and suppliers are predicated on the belief that we will continue to operate as a going concern. Certain of our customers may cease purchasing products from us, or take other actions detrimental to the Company, if there is uncertainty regarding our ability to continue as a going concern. This would have an adverse effect on our ability to grow or maintain our revenues. Certain licensors may seek to terminate the licenses granted to us and prospective licensors may be unwilling to enter into new licenses with us. Current and future suppliers may be less likely to grant us credit, resulting in a negative impact on our working capital and cash flows. While management is exploring alternatives and implementing initiatives intended to enable it to continue to operate as a going concern (described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Capital Resources, Liquidity Assessment and Ability to Continue as a Going Concern ), in the event such adverse consequences should occur, we cannot provide assurance that we will successfully execute any of these initiatives, and there may be a material adverse effect on our business, financial condition and results of operations.

***Our decision to explore strategic alternatives may not result in an action or transaction or may cause us to recognize a loss, and we cannot predict whether our plans to generate liquidity will be successful.***

As we have previously disclosed, our Board has authorized us to identify and evaluate a broad range of strategic and financing alternatives aimed at enhancing shareholder value, including addressing underperforming product lines, exploring strategic alliances, the sale or merger of the Company or one or more of its subsidiaries, restructuring the Company s current debt, recapitalizing, or other possible transactions, alone or in combination. During the course of the review process, we will continue our efforts to execute key strategic and operational initiatives previously identified as critical to improving the Company s overall business and liquidity. The achievement of these objectives and outcome of these initiatives are subject to risks and uncertainties with respect to market conditions and other factors that may cause our actual results, performance or achievements to be materially different from our plans. In addition, there can be no assurance that transactions to monetize assets or other actions to generate liquidity will become available on terms that are acceptable to us, on intended timetables or at all. LaJobi s issues with U.S. Customs, the USAO and the SEC, as well as the arbitration with Mr. Bivona and the pending investigation of the CPSC have continued over a period of several years. The Company believes that the lack of finality, and consequent uncertainty stemming from these issues, has (and continues to) hinder the Company in its efforts to raise additional capital. As a result, we cannot provide assurance that the process will result in an action or transaction or, if it does, that it would occur within any specified period of time or under what terms. Further, our evaluation of potential actions and transactions may cause us to incur substantial costs and divert a significant amount of resources and attention that would otherwise be directed toward our operations and implementation of our business strategy, all of which could materially adversely affect our results of operations and financial condition.

***Our net sales and profitability depend on our ability to continue to conceive, design and market products that appeal to consumers.***

The introduction of new products is critical in our industry and to our growth strategy. A significant percentage of our product line is replaced each year with new products. Our business depends on our ability to continue to conceive, design and market new products and upon continuing market acceptance of our product offerings. Rapidly changing consumer preferences and trends make it difficult to predict how long consumer demand for our existing products will continue or which new products will be successful. Our current products may not continue to be popular or new products that we introduce may not achieve adequate consumer acceptance for us to recover development, manufacturing, marketing and other costs. A decline in consumer demand for our products, our failure to develop new products on a timely basis in anticipation of changing consumer preferences or the failure of our new products to

achieve and sustain consumer acceptance could reduce our net sales and profitability. In addition, changes in customer preferences leave us vulnerable to an increased risk of inventory obsolescence. Thus, our ability to manage our inventories properly is an important factor in our operations. Inventory shortages can adversely affect the timing of shipments to customers and diminish sales and brand loyalty. Conversely, excess inventories can result in lower gross margins due to the excessive discounts and markdowns that might be necessary to reduce inventory levels. Our inability to effectively manage our inventory could have a material adverse effect on our business, financial condition and results of operations.

***Our business is dependent on several large customers.***

The continued success of our infant and juvenile businesses depends on our ability to continue to sell our products to several large mass market retailers. In particular, Toys R Us, Inc. and Babies R Us, Inc. (considered together), Wal-Mart and Target accounted for approximately 34.8%, 19.4% and 7.2%, respectively, of our consolidated gross sales for the 2013 calendar year. While the consolidation of our customer base may provide certain benefits to us, such as potentially more efficient product distribution and other decreased costs of sales and distribution, we typically do not have long-term contracts with our customers and our agreements with these customers do not require them to purchase any specific number or amount of our products. As a result, agreements with respect to pricing, returns, cooperative advertising or special promotions or allowances, among other things, are subject to periodic negotiation with each customer. No assurance can be given that these or other customers will continue to do business with us or that they will maintain their historical levels of business, and the loss of one or more of the foregoing customers or one or more of our other large customers, or a decrease in historical levels of business of any such customers, could have a material adverse affect on our results of operations. See Note 6 of the Notes to Consolidated Financial Statements for a description of the Company s customers who account for a significant percentage of the Company s gross sales (and changes in the volume of business conducted with such customers) over the last three years. In addition, our success depends upon the continuing willingness of large retailers to purchase and provide shelf space for our products. Our access to shelf space at retailers for our products may be reduced by store closings, consolidation among these retailers, competition from other products or stricter requirements for infant and juvenile products by retailers that we may not be able to meet. An adverse change in our relationship with, or the financial viability of, one or more of our large customers could reduce our net sales and profitability.

***We are currently party to litigation and other matters that have been and continue to be costly to defend and distracting to management, and if decided against us, are likely to have a material adverse effect on our business.***

In connection with certain U.S. Customs matters described elsewhere in this Annual Report on Form 10-K, we are subject to a Focused Assessment by U.S. Customs, and are party to certain related investigations by the United States Attorney s Office for the District of New Jersey (the USAO ) and the SEC. Although we have made submissions to U.S. Customs with respect to anticipated anti-dumping and other customs duties, including proposed settlement amounts and payment terms, U.S. Customs has not yet responded to such submissions. We are currently seeking to negotiate a global resolution of these issues with the USAO and U.S. Customs, but there can be no assurance that these efforts will be successful, that our determination of the amount of such duties owed, or our proposals with respect to settlement amounts and/or the timing of payments will be accepted, nor can there be any assurance that we will not be subject to additional fines, penalties or other measures from U.S. Customs, the USAO and/or the SEC. We are currently unable to predict the duration or resources required in connection with any such global resolution. An unfavorable disposition of such matters is likely to result in a default under our credit agreement, have a material adverse effect on our financial condition, result in the need for additional debt or equity financing, and/or cause us to become bankrupt or insolvent (see below). In addition, there can be no assurance that we will not be subject to adverse publicity, as well as other sanctions or other contingent liabilities or adverse customer, licensor or market reactions in connection with the resolution of these matters, which could have a material adverse effect on our business and financial condition.

In addition, and related to such U.S. Customs (and USAO) matters, we are party to an arbitration proceeding with Lawrence Bivona, with respect to which the arbitration panel released an Interim Award on March 6, 2014. Based on its finding that Mr. Bivona breached his fiduciary duty and his employment agreement on and after August 24, 2010, the arbitration panel awarded damages to us, including damages for the additional duties assessed for transactions on and after that date, and in addition, awarded us $2.85 million for reasonable legal expenses and other costs (collectively, the KB Award Amounts ).The arbitration panel found in favor of Mr. Bivona with respect to: (i) his right

to receive a portion of specified earnout consideration, in an amount to be determined at a later date, but for which we have accrued an aggregate of $11.7 million ($10.6 million with respect to such earnout and the remainder for a related finder s fee); (ii) his claim for reasonable attorney s fees and expenses for our failure to pay such earnout(in an amount to be determined at a subsequent proceeding); and (iii) his claim that we breached his employment agreement by terminating him improperly for cause (awarding him $655,000), but stated that any recovery on these claims must be offset by the KB Award Amounts. Because the amount of anti-dumping duties and/or penalties owed by us has not been finally determined, the arbitration panel determined that it would not be possible to ascertain the amount of the earnout due to Mr. Bivona, or the precise amount of damages due to us.

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With respect to the investigation by the staff of the CPSC into whether LaJobi timely complied (prior to 2010) with certain reporting requirements described elsewhere in this Annual Report on Form 10-K (with respect to which we have accrued approximately $1.0 million), there can be no assurance that we will not be subject to adverse publicity, fines or penalties (in excess of amounts accrued with respect to the CPSC investigation), as well as other sanctions or other contingent liabilities or adverse customer, licensor or market reactions in connection with their resolution, which could harm our business and financial condition, and in addition, we are currently unable to predict the duration or resources required in connection therewith.

There can be no assurance that we will be in compliance with the financial covenants or will be able to borrow under our credit agreement at the time U.S. Customs, the USAO and/or the SEC make their final determinations; the Interim Award is finalized, and/or the CPSC makes its final determination, or whether any payments required pursuant to any of the foregoing will result in a default or inability to borrow under such credit agreement, and accordingly, there can be no assurance that we will have sufficient liquidity to satisfy any such payment obligations when required. In the event of a default under our credit agreement, the lenders may, among other things, accelerate the loans, declare the commitments thereunder to be terminated, refuse to permit further draw-downs, seize collateral, or take other actions of secured creditors. If the lenders accelerate the loans or terminate the commitments, or in the event that we do not have sufficient liquidity to make any such payments when required, we may be forced to dispose of material assets or operations or seek to obtain equity capital, and/or need to restructure or refinance our indebtedness. Such alternative measures may not be available or successful. Also, the covenants under our credit agreement may limit our ability to dispose of material assets or operations or to restructure or refinance our indebtedness. Even if we are able to restructure or refinance our indebtedness, the economic terms may not be favorable to us. In addition, an unfavorable disposition in the matters described above, or an event of default under our credit agreement could result in a default under certain license agreements that we maintain. Any of the foregoing is likely to have a material adverse effect on our financial condition and results of operations and cause us to become bankrupt or insolvent. LaJobi s issues with U.S. Customs, the USAO and the SEC, as well as the arbitration with Mr. Bivona and the pending investigation of the CPSC have continued over a period of several years. The Company believes that the lack of finality, and consequent uncertainty stemming from these issues, has (and continues to) hinder the Company in its efforts to raise additional capital. See Item 3, Legal Proceedings and Note 18 of Notes to Consolidated Financial Statements for a detailed description of these matters, and other pending litigation, Note 8 of the Notes to Consolidated Financial Statements for a description of our current credit facility, including a discussion of conditions precedent to the payment of any Customs duties or LaJobi earnout payments, and the financial covenants applicable to the Company, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a discussion of the potential impact of payment obligations with respect to the matters described in this risk factor on our compliance with our credit agreement and our liquidity, results of operations and financial condition. Also see ***Inability to maintain compliance with the bank covenants*** and ***There can be no assurance that we will have sufficient liquidity to satisfy our cash obligations when required*** .

The Company is also party to other litigations, including a wages and hours putative class action. Additional litigation may be initiated against us based on the alleged items at issue in such complaints. We cannot predict the final outcome of such lawsuits or the likelihood that further proceedings will be instituted against us. Accordingly, the cost of defending against such lawsuits, other lawsuits pending against the Company, or any future lawsuits or proceedings may be high and, in any event, these legal proceedings may result in the diversion of our management s time and attention away from our business. In the event that there is an adverse ruling in any legal proceeding, we may be required to make payments to third parties that could have a material adverse effect on our reputation, financial condition and results of operations, all as described above.

***Inability to maintain compliance with the bank covenants.***

The Company was not in compliance with the financial covenant pertaining to Availability under its credit agreement for the month ended February 28, 2014, the financial covenants pertaining to Availability and gross sales for the month ended March 31, 2014, or the covenant requiring the delivery of annual financial statements within 90 days of the end of 2013, accompanied by a report and opinion of its auditors without a going concern or other qualification or exception. In addition, trading of the Company s common stock on the New York Stock Exchange was suspended as of March 31, 2014. The Company also anticipated that it may not be in compliance with both financial covenants for the month ended April 30, 2014. All of the foregoing, in addition to the Going Concern Events (as defined below), constituted (or may constitute) defaults or events of default under the Credit Agreement (collectively, the Existing Events of Default ). The Company also anticipated that it would determine and disclose in its financial statements for 2013 that there is substantial doubt about its ability to continue as a going concern, and that a related explanatory paragraph would be included in the report and opinion of the Company s auditors for such year, and that it would consider the existence of material weaknesses or significant deficiencies in its internal control over financial reporting for the year ended December 31, 2013 (the Going Concern Events ). The Going Concern Events may also violate specified provisions of the Credit Agreement, and result in a failure of the conditions to lending thereunder.

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As a result, the Company, the Agent and the Required Lenders under the Credit Agreement executed a waiver and amendment thereto ( Amendment No. 4 ) as of April 8, 2014. Amendment No. 4 waived the Existing Events of Default, and any event of default or failure of any condition to lending arising from the violation of specified provisions of the credit agreement resulting from the Going Concern Events or the failure of the Borrowers to make a payment under a material license and receipt of a related notice of breach (which breach has since been cured). In addition, among other things, compliance with each of the Availability and gross sales financial covenants was suspended until the month ending August 31, 2014, the availability block was reduced by $0.5 million (i.e., $3.5 million, instead of $4.0 million, will be subtracted from amounts otherwise available for borrowing to compute availability) for a period of four months, and the permitted transit period for in-transit inventory was increased (thereby increasing the amount of eligible inventory used to calculate availability) for a period of four months. In consideration of the foregoing, among other things, the Company is subject to a new monthly Collateral Coverage Ratio (the value, as defined in Amendment No. 4, of eligible inventory, intellectual property and trade receivables to total outstandings under the credit agreement) of 1.0:1.0, interest rate margins applicable to both revolver tranches under the credit agreement were increased by 2.0% per annum, and the Agent was granted specified Kid Brands board of directors observation and participation rights (in a non-voting capacity). If the Company is unable to remain in compliance with its credit agreement, as so amended, its lenders would be entitled to, among other things, accelerate the loans under the credit agreement, declare the commitments thereunder to be terminated and/or refuse to permit further draw-downs on the revolver, seize collateral or take other actions of secured creditors. If the loans are accelerated or commitments terminated, we are likely to face substantial liquidity problems and be forced to dispose of material assets or operations, seek to obtain equity capital, or restructure or refinance our indebtedness. Such alternative measures may not be available or successful (see ***Our decision to explore strategic alternatives may not result in an action or transaction or may cause us to recognize a loss, and we cannot predict whether our plans to generate liquidity will be successful*** *)*. Also, our bank covenants may limit our ability to dispose of material assets or operations or to restructure or refinance our indebtedness. Even if we are able to restructure or refinance our indebtedness, the economic terms may not be favorable to us. In addition, an event of default under our credit agreement could result in a cross-default under certain license agreements that we maintain. Any of the foregoing is likely to have a material adverse effect on the Company s financial condition and results of operations, and cause us to become bankrupt or insolvent. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the sections captioned Liquidity and Capital Resources and Summary of Credit Agreement , as well as Note 8 of Notes to Consolidated Financial Statements.

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

Our current credit agreement includes provisions that place limitations on a number of our activities, including our ability to: incur additional debt; create liens on our assets or make guarantees; make certain investments or loans; pay dividends; repurchase our common stock; dispose of or sell assets; or enter into acquisitions, mergers or similar transactions. These covenants could restrict our ability to pursue opportunities to expand our business operations. In addition, substantially all cash, other than cash set aside for the benefit of employees (and certain other exceptions), is swept and applied to repayment of amounts outstanding under our credit agreement.

***Material Weaknesses in the Company s Internal Controls***

The Company s CEO and CFO have concluded that the Company s disclosure controls and procedures were not effective as a result of material weaknesses identified in the Company s internal control over financial reporting as of December 31, 2013. See Part II, Item 9A Controls and Procedures for a description of the material weaknesses and the remediation plan with respect thereto. The Company is taking steps to address the identified material weaknesses; however, there is no guarantee that these remediation steps will be sufficient to remediate the identified material

weaknesses and control deficiencies or to prevent additional material weaknesses or control deficiencies. In addition, the costs of remediating such deficiencies in the Company s internal controls may adversely affect the Company s financial condition and results of operations. If the Company is unable to substantially improve the Company s internal controls with respect to the identified material weaknesses, the Company s ability to report its financial results and related disclosures on a timely and accurate basis will be adversely affected. If the Company s financial statements and related disclosures are not accurate, investors may not have a complete understanding of the Company s operations. If the Company s financial statements are not timely and accurate, the Company could be subject to sanctions or investigation by regulatory authorities including the SEC. If any of these events occur, it could have a material adverse effect on the Company s business, financial condition or results of operations, and could affect the Company s ability to continue as a going concern.

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***Regulatory compliance, as well as product liability, product recalls and other claims relating to the use of our products could increase our costs.***

We face product liability risks relating to the use of our products. We also must comply with a variety of product safety and product testing regulations. In particular, our products are subject to, among other statutes and regulations, the Consumer Product Safety Act, the Federal Hazardous Substances Act, or the FHSA, and the Consumer Product Safety Improvement Act, or the CPSIA, which empowers the Consumer Product Safety Commission, or the CPSC, to take action against hazards presented by consumer products, including adjudication and promulgation of regulations and uniform safety standards. With expanded authority under the CPSIA, the CPSC has adopted and continues to adopt new regulations for safety and products testing that apply to substantially all of our products. These new regulations have increased and are expected to further significantly increase the regulatory requirements governing the manufacture and sale of infant and juvenile products and 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, Australia and Europe, as well as certain other countries. While we take the steps we believe are necessary to comply with these laws and regulations, there can be no assurance that we will be in compliance in the future, or that rapidly changing safety standards will not render unsaleable products that complied with previously-applicable safety standards. 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, we may incur significant costs in complying with recall requirements, and our financial results could be materially adversely affected. Furthermore, concerns about potential liability or potential future changes in product safety regulations may lead us to recall voluntarily or otherwise discontinue selling selected products which could materially and adversely affect our results of operations.

Recalls, post-manufacture repairs of our products, or product liability claims could also harm our reputation, increase our costs or reduce our net sales. Governments and regulatory agencies in the markets where we manufacture and sell products may enact additional regulations relating to product safety and consumer protection in the future or take other actions that may adversely impact infant and juvenile products, including the categories of products that we produce and sell. In addition, one or more of our customers might require changes or impose their own standards for our products, such as the non-use of certain materials, or choose not to sell certain of our products. Complying with existing or any such additional regulations or requirements could impose increased costs on our business. Similarly, increased penalties for non-compliance could subject us to greater expense in the event any of our products were found to not comply with such regulations. Furthermore, substantially all of our licenses give the licensor the right to terminate the license agreement if any products marketed under the license are subject to a product liability claim, recall or similar violations of product safety regulations or if we breach covenants relating to the safety of the products or their compliance with product safety regulations. A termination of a license could adversely affect our net sales. Even if a product liability claim is without merit, the claim could harm our reputation and divert management s attention and resources from our business.

In addition, by letter dated July 26, 2012, the staff (the CPSC Staff ) of the CPSC informed us that it has investigated whether LaJobi timely complied with certain reporting requirements with respect to various models of drop-side and wooden-slat cribs distributed by LaJobi during the period commencing in 1999 through 2010, which cribs were recalled voluntarily by LaJobi during 2009 and 2010. The letter states that, unless LaJobi is able to resolve the matter with the CPSC Staff, the CPSC Staff intends to recommend to the CPSC that it seek the imposition of a substantial civil penalty for the alleged violations. The Company is currently working with the CPSC Staff regarding a possible resolution to the issue, and has accrued approximately $1.0 million with respect to such issues. It is possible, however, that no settlement will be achieved, or that any settlement or other disposition of the matter will involve substantially higher amounts than the amount currently accrued with respect to this matter or be on terms less favorable to the

Company. The Company intends to continue to work closely with the CPSC Staff in an effort to resolve this issue. Given the current status of this matter, however, it is not yet possible to determine what, if any, actions will be formally taken by the CPSC, or the amount of any civil penalty that may be assessed. Based on currently available information, the Company cannot estimate the amount of the loss (or range of loss) in connection with this matter. In addition, as this matter is ongoing, the Company is currently unable to predict its duration, resources required or outcome, or the impact it may have on the Company s financial condition, results of operations and/or cash flows. An adverse decision in this matter that requires any significant payment by us is likely to result in a default under our credit agreement and have a material adverse effect on our financial condition and results of operations. See Item 3, Legal Proceedings Consumer Product Safety Commission Staff Investigation.

***We are no longer listed on the New York Stock Exchange; our common stock is traded in the Over-The-Counter (OTC) market.***

The suspension of the trading of our common stock on the New York Stock Exchange (the NYSE ) and the movement of trading of our common stock to OTC markets could materially and adversely affect our business and the price of our common stock. Securities traded in the OTC market generally have significantly less liquidity than securities traded on a national securities exchange, through factors such as a reduction in the number of investors that will consider investing in the securities, the number of market makers in the securities, reduction in securities analyst and news media coverage and lower market prices than might otherwise be obtained. Any of these occurrences could negatively affect the market price of our common stock or cause the market price to become more volatile. Our delisting from the NYSE could also negatively impact, among other things, our relationships with shareholders, businesses and lenders, our access to debt and equity financing, and our ability to attract and retain personnel by means of equity compensation. In addition, we may experience other adverse effects, including, without limitation, the loss of confidence in us by current and prospective suppliers, customers, employees and others with whom we have or may seek to initiate business relationships. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

***Our common stock may become more thinly traded following its delisting from the NYSE.***

Our common stock may become more thinly traded following its delisting from the NYSE. The trading volume may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in unlisted stocks, and certain major brokerage firms restrict their brokers from recommending unlisted stocks because they are considered speculative and volatile. The OTC market is less regulated than the major exchanges. As a result, the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or non-existent. There may be periods of several days or more when trading activity in our shares is low and a shareholder may be unable to sell his shares at an acceptable price, or at all. We cannot give shareholders any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained. As a result, the quoted price for our common stock may not necessarily be a reliable indicator of its fair market value. Further, we are not able to compel continued quotations on the OTC market. If we cease to be quoted, holders would find it more difficult to dispose of our common stock or to obtain accurate quotations as to the market value of our common stock and as a result, the market value would likely decline.

***Increased use of and competition for licenses could increase our licensing costs or limit our ability to market products.***

We market a significant portion of our products through licenses with other parties, and we have increased our use of licenses in recent periods. Sales of licensed products represented 57% and 54% of our sales in 2013 and 2012, respectively. These licenses are generally limited in scope and duration and generally authorize the sale of specific licensed products on an exclusive or nonexclusive basis. Our license agreements often require us to make minimum guaranteed royalty payments that may exceed the amount we are able to generate from actual sales of the licensed products. In addition, our royalty expenses increase as we expand our offerings of licensed products. If we are unable to pass such increases along to our customers or otherwise reduce our cost of goods, our gross profit margins would decrease, which would cause our profitability to decline. Any termination of or failure to renew our significant licenses, or inability to develop and enter into new licenses, could limit our ability to market our licensed products or develop new products, and could materially reduce our net sales and profitability. Competition for licenses could require us to pay licensors higher royalties and higher minimum guaranteed payments in order to obtain or retain attractive licenses, which could increase our expenses. In addition, licenses granted to other parties, whether or not

exclusive, could limit our ability to market products, including products we currently market, which could cause our net sales and profitability to decline.

***Gross margin could be adversely affected by several factors.***

Gross margin was adversely affected in 2013 and may be adversely affected in the future by increases in vendor costs (including as a result of increases in the cost of raw materials, labor or other costs or fluctuations in foreign currency exchange rates), excess inventory, obsolescence charges, changes in shipment volume or in-bound freight rates, price competition and changes in channels of distribution or in the mix of products sold (our increased use of licenses increases royalty expense, and consequently, cost of goods sold). For example, increased costs in the PRC, primarily for labor, raw materials, and the impact of certain tax laws, as well as the appreciation of the Chinese Yuan against the U.S. dollar, have at times (and may again in future periods), negatively impacted our gross margins. In addition, pressure from major retailers, primarily as a result of continued challenging economic conditions, to offer additional mark-downs and other credits or price concessions to clear existing inventory and secure new product placements, or to accept additional returns, have and may continue to negatively impact our margins. Economic conditions, such as rising fuel prices and currency exchange fluctuations, may also adversely impact our margins.

Our Kids Line and CoCaLo businesses use significant quantities of cotton, either in the form of cotton fabric or cotton-polyester fabric. Cotton is subject to ongoing price fluctuations because it is an agricultural product impacted by changing weather patterns, disease and other factors, such as supply and demand considerations, both domestically and internationally. In addition, increased oil prices affect key components of the raw material prices in many of our products. Significant increases in the prices of cotton or oil have and could adversely affect our gross margins and our operations.

In addition, charges pertaining to anti-dumping duties that we anticipate will be owed by our LaJobi subsidiary to U.S. Customs, and charges pertaining to customs duties we anticipate will be owed by our Kids Line and CoCaLo subsidiaries to U.S. Customs have affected gross margins and results of operations for specified periods. Any amounts owned in excess of the accruals recorded will adversely affect our gross margin and net income for the period(s) in which such amounts are recorded and could have a material adverse affect on our results of operations. See Note 18 of Notes to Consolidated Financial Statements for a discussion of the LaJobi anti-dumping duty matters and the Kids Line/CoCaLo customs duty matters, including the possibility of the imposition of additional fines, penalties or other measures from U.S. Customs or other governmental authorities, and settlement submission made to U.S. Customs in connection therewith.

***We may not achieve all of the expected benefits from our cost saving initiatives.***

We have implemented a number of cost saving initiatives, including: (i) the Consolidation Plan described in Liquidity and Capital Resources below, including the transition to a single third-party logistics company, the related closure (upon expiration of the applicable lease agreements) of our distribution centers in Cranbury, New Jersey, Southgate, California (closed), and Kentwood, Michigan, and the termination of certain existing third party logistics agreements; (ii) the consolidation of our executive offices with those of our LaJobi subsidiary in a new space in Rutherford, New Jersey; (iii) the implementation of a consolidated information technology system; (iv) the consolidation of our company-wide websites; (v) continued reductions in discretionary spending and employee headcount reductions; and (vi) and consolidation of certain back-office finance functions. In addition, we will continue to evaluate additional measures to improve the efficiency and performance of our operations. We have made certain assumptions in estimating the anticipated impact of these cost saving initiatives. These assumptions may turn out to be incorrect due to a variety of factors. In addition, our ability to realize the expected benefits from these initiatives is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Some of our cost saving measures may not have the impact on our profitability that we currently project, we may not be able to sustain the savings, and/or we cannot assure that additional costs will not offset any reductions achieved. If we are unsuccessful in implementing these initiatives or if we do not achieve our expected results, our results of operations and cash flows could be adversely affected.

***Our quarterly operating results may fluctuate significantly.***

Our quarterly net revenue and operating results have fluctuated significantly in the past and are likely to continue to vary from quarter to quarter. Variability in the nature of our operating results may be attributed to the factors identified throughout this Risk Factors section, many of which may be outside our control, including:

- Fluctuations in demand for our products and services;
- Reduced visibility into our customers spending plans and associated revenue;

- The level of price and competition in our product markets;
- Our pricing practices, including our use of available information to maximize pricing potential;
- The impact of the uncertain economic environment on our customers, consumers, and suppliers;
- The overall movement toward industry consolidations among our customers and competitors;
- Announcements and introductions of new products by our competitors;
- Deferrals of customer orders in anticipation of new products or product enhancements (introduced by us or our competitors);
- Striking an appropriate balance between short-term execution and long-term innovation;
- Our ability to develop, introduce, and market new products and enhancements and market acceptance of such new products and enhancements; and
- Our levels of operating expenses.

A high percentage of our operating expenses are relatively fixed and are based on our forecast of future net revenue. If we were to experience an unexpected reduction in net revenue in a quarter, we would likely be unable to adjust our short-term expenditures significantly. If this were to occur, our operating results for that fiscal quarter would be adversely affected.

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***The trading price of our common stock has been volatile and investors in our common stock may experience substantial losses.***

The trading price of our common stock has been volatile and may continue to be volatile in the future. The trading price of our common stock could decline or fluctuate in response to a variety of factors, including:

- the delisting of our common stock from the NYSE (as described above)
- fluctuation in our quarterly operating results (see ***Our quarterly operating results may fluctuate significantly***);
- changes in financial estimates of our net sales and operating results;
- the timing of announcements by us concerning financial performance, significant product developments, acquisitions, or other matters;
- the timing of announcements by our competitors concerning significant product developments, acquisitions, financial performance or other matters;
- other economic or external factors;
- our failure to meet the performance estimates of securities analysts or investors;
- buy/sell recommendations by securities analysts;
- substantial sales of our common stock or the registration of substantial shares for sale; or
- general stock market conditions.

You may be unable to sell your stock at or above your purchase price.

***Increases in interest rates may increase our interest expense and adversely affect our profitability and cash flows.***

Loans under our credit agreement currently bear interest at a specified 30-day LIBOR rate (subject to a minimum LIBOR floor of 0.50%), plus a margin of 6.0% per annum with respect to the Tranche A Revolver and a margin of 13.25% per annum with respect to the Tranche A-1 Revolver (each as defined in Note 8 to the Notes to Consolidated Financial Statements), reflecting a 2% per annum increase on each such tranche as of April 1, 2014. At December 31, 2013, the applicable interest rates were 4.5% for loans under the Tranche A Revolver and 11.75% for loans under the

Tranche A-1 Revolver. This increase in the interest rates under our credit agreement will increase our interest expense, and harm our profitability and cash flow.

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

We operate in highly competitive markets. Certain of our competitors have greater brand recognition and greater financial, technical, marketing and other resources than we have. In addition, we may face competition from new participants in our markets because the infant and juvenile product industry has limited barriers to entry.

Many of our principal customers are large mass merchandisers. The rapid growth of these large mass merchandisers, together with changes in consumer shopping patterns, have contributed to the formation of dominant multi-category retailers that have strong negotiating power with suppliers. Current trends among retailers include fostering high levels of competition among suppliers, demanding innovative new products and requiring suppliers to maintain or reduce product prices and deliver products with shorter lead times. Other trends are for retailers to import products directly from factory sources and to source and sell products under their own private label brands that compete with our products.

The combination of these market influences has created an intensely competitive environment in which our principal customers continuously evaluate which product suppliers to use, resulting in downward pricing pressures and the need for consumer-meaningful brands, the ongoing introduction and commercialization of innovative new products, continuing improvements in customer service, and the maintenance of strong relationships with large, high-volume purchasers. We also face the risk of changes in the strategy or structure of our major retailer customers, such as overall store and inventory reductions and retailer consolidation. The resulting risks include possible loss of sales, reduced profitability and limited ability to recover cost increases through price increases.

We also experience price competition for our products, competition for shelf space at retailers and competition for licenses, all of which may increase in the future. If we cannot compete successfully in the future, our net sales and profitability will likely decline.

***To compete successfully, we must develop and maintain consumer-meaningful brands.***

Our ability to compete successfully also depends increasingly on our ability to develop and maintain consumer-meaningful brands so that our retailer customers will need our products to meet consumer demand. The development and maintenance of such brands requires significant investment in brand building and marketing initiatives, although any such investment may not deliver the anticipated results. In addition, the development of consumer-meaningful brands may require a greater reliance on the manufacture of licensed products, which in turn increases our costs. See ***Increased use of and competition for licenses could increase our licensing costs or limit our ability to market products*** below.

***If we lose key personnel we may not be able to achieve our objectives.***

We are dependent on the continued efforts of various members of senior management, as well as senior executives of several of our subsidiaries. If for any reason, these or other key members of management do not continue to be active in management, our business, financial condition or results of operations could be adversely affected. Moreover, the loss of key executives may jeopardize relationships with existing customers, which could cause a decline in the sales of the Company s products and negatively impact our financial condition and results of operations. We cannot assure you that we will be able to continue to attract and retain senior executives or other personnel necessary for the continued success of our business.

***If additional intangible assets become impaired we may be required to record a significant charge to earnings.***

We test goodwill and our other intangible assets for impairment on an annual basis or on an interim basis if an event occurs that might reduce the fair value of the asset below its carrying value. We conduct testing for impairment during the fourth quarter of each fiscal year. As part of our 2013 annual intangible asset impairment testing, we tested the non-amortizing intangible trade names recorded on our balance sheet as of December 31, 2013. In this analysis, the Company used a five-year projection period, which has been its prior practice, and projected the long-term growth rate of each of its four business units, as well as the assumed royalty rate that could be obtained by each such business unit by licensing out each intangible trade name. For the year-end 2013 testing, the Company kept its long-term growth rate at 2.5% for all of its business units, and used assumed royalty rates of 3.0%, 4.5%, 2.0% and 5.0% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. For 2012, the Company used assumed royalty rates of 3.0%, 3.5%, 2.0% and 5.5% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. The assumed royalty rate increased with respect to Sassy from the 2012 rate of 3.5%, as a result of projected increased profitability at this business unit. The assumed royalty rate decreased with respect to CoCaLo from the 2012 rate of 5.5%, as a result of decreased profitability at this business unit in 2013. The Company also slightly increased the discount rate to help mitigate risks inherent in any projections. As the carrying value of the Kids Line, LaJobi, and CoCaLo trade names exceeded their respective fair values due to revised future cash flow projections resulting from meaningfully lower sales in 2013, the Company recorded an impairment with respect thereto of $2.0 million, $1.8 million, and $1.3 million, respectively, for the three months ended December 31, 2013. The Company also recorded an impairment of approximately $4.0 million to the LaJobi trade name in the third quarter of 2013, for an aggregate impairment of $5.8 million to the LaJobi trade name for the year ended December 31, 2013. As the fair value of the Sassy trade name exceeded its carrying value, no impairments to this intangible asset were recorded for the year ended December 31, 2013. No impairments were recorded with respect to intangible assets with definite lives in the fourth quarter of 2013. However, the fair value of the Kokopax trade name and customer relationships were determined to be lower than their respective carrying values

due to revised undiscounted future cash flow projections resulting from lower than anticipated sales. This resulted in an approximate $0.2 million impairment (representing a full impairment of such intangibles), which was recorded in cost of sales in the third quarter of 2013.

See Note 5 of the Notes to Consolidated Financial Statements. We will continue to evaluate the recoverability of the carrying amount of our intangible assets on an ongoing basis, and we may incur additional impairment charges, which could be substantial and could adversely affect our financial results. Impairment assessments inherently involve judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods or other factors that may result in changes in our estimates of future cash flows. Factors that might reduce the fair value of an intangible asset below its carrying value include reduced future cash flow estimates and slower growth rates in our industry.

***We may not be able to collect outstanding accounts receivable from our major retail customers.***

Certain of our retail customers purchase large quantities of our products on credit, which may cause a concentration of accounts receivable among some of our largest customers. Our profitability may be harmed if one or more of our largest customers were unable or unwilling to pay these accounts receivable when due or demand credits or other concessions for products they are unable to sell or for other reasons.

***We rely on foreign suppliers, primarily in the PRC, to manufacture our products, which subjects us to numerous international business risks that could increase our costs or disrupt the supply of our products.***

All of our products are manufactured by unaffiliated companies, most of which are in Eastern Asia, principally in the PRC. Approximately 73% of our dollar volume of purchases for our operations in 2013 were attributable to manufacturers in the PRC. The supplier accounting for the greatest dollar volume of purchases for our operations accounted for approximately 12% and the five largest suppliers accounted for approximately 41% in the aggregate during 2013. While we believe that there are many other manufacturing sources available for our product lines, difficulties encountered by one or several of our larger suppliers such as a fire, accident, natural disaster or an outbreak of illness (e.g., H1N1, SARS, avian or other flu) at one or more of their facilities, could halt or disrupt production at the affected facilities, delay the completion of orders, cause the cancellation of orders, delay the introduction of new products or cause us to miss a selling season applicable to some of our products. In addition, our international operations subject us to certain other risks (some of which are discussed elsewhere in this risk factors section and below), including:

- economic and political instability;
- restrictive actions by foreign governments;
- changing international political relations;
- labor availability and cost;
- changes in laws, including tax or labor laws, or changes in regulations, treaties and policies;

changes in shipping costs and availability of sufficient cargo capacity;

changes in the availability and cost of raw materials;

greater difficulty enforcing intellectual property rights and weaker laws protecting intellectual property rights;

changes in import duties or import or export restrictions (including changes that could be imposed retroactively);

delays in shipping of product and unloading of product through ports, as well as timely rail/truck delivery to our warehouses and/or a customer s warehouse;

complications in complying with the laws and policies of the United States affecting the importation of goods, including duties, quotas and taxes (See *Gross margin could be adversely affected by several factors* above);

complications in complying with trade and foreign tax laws, and other laws of applicable foreign jurisdictions;

the effects of terrorist activity, armed conflict and epidemics.

Any of these risks could disrupt the supply of our products or increase our expenses. The costs of compliance with trade and foreign tax laws may increase our expenses and actual or alleged violations of such laws could result in enforcement actions or financial penalties that could result in substantial costs. In addition, the introduction or expansion of certain social programs in the PRC or otherwise will likely increase the cost of doing business for certain of our manufacturers, which would likely increase our manufacturing costs.

With most of our manufacturers located in Eastern Asia, we must commit to production in advance of customer orders. If we fail to forecast customer or consumer demand accurately, we may encounter difficulties in filling customer orders on a timely basis or in liquidating excess inventories. This may signal a trend of higher ocean freight transportation prices in coming periods. Any of these results could have a material adverse effect on our business, financial condition and results of operations.

Historically, labor in the PRC has been readily available at relatively low cost as compared to labor costs in North America. The PRC has experienced rapid social, political and economic change in recent years. There is no assurance labor will continue to be available in the PRC at costs consistent with historical levels or that changes in labor or other laws will not be enacted which would have a material adverse effect on product costs in the PRC. If our suppliers suffer labor shortages, this may result in future supply delays and disruptions and drive a substantial increase in labor costs.

***The state of the economy may impact our business.***

Our business and results of operations are affected by international, national and regional economic conditions. The United States and many other international economies experienced a major recession in recent periods, with continuing effects for our industry. The end-users of our products are individual consumers. A hesitant recovery in the U.S economy, high unemployment, volatile capital markets, depressed housing prices and tight consumer lending practices have resulted in considerable negative pressure on consumer spending and consumer confidence, which we believe has resulted in reduced demand for our products. In the event that current economic conditions worsen, current and potential consumers of our products may be inclined to delay their purchases, and further tightening of credit markets may restrict our customers (both direct and indirect) ability and willingness to make purchases. In addition, continuing adverse global economic conditions in our markets could result in increased price competition for our products, increased risk of excess and obsolete inventories, increased risk in the collectability of accounts receivable from our direct customers, increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable, delays in signing or failing to sign direct customer contracts or signing customer agreements at reduced purchase levels, and limitations in the capital resources available to us and others with whom we conduct business. Any of the foregoing effects could have a material adverse effect on our business, results of operations, and financial condition and could adversely affect our stock price.

***Further potential disruptions in the credit markets may adversely affect the availability and cost of short-term funds for liquidity requirements and our ability to meet long-term commitments, which could adversely affect our results of operations, cash flows and financial condition.***

We rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs. Disruptions in the capital and credit markets, as were experienced during 2008 and much of 2009, could adversely affect our ability to draw on our bank revolving credit facility. Our access to funds under our credit facility is dependent on the ability of our senior lenders to meet their funding commitments. They may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from us and other borrowers within a short period of time.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include deferring capital expenditures, and reducing or eliminating discretionary uses of cash.

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***Our operations outside the United States may be adversely affected by the operation of laws in those jurisdictions.***

Our operations in non-U.S. jurisdictions are in many cases subject to the laws of the jurisdictions in which they operate rather than United States law. Laws in some jurisdictions differ in significant respects from those in the United States, and these differences can affect our ability to react to changes in our business and our rights or ability to enforce rights or conduct our business may be different than would be expected under United States law. Moreover, enforcement of laws in some overseas jurisdictions can be inconsistent and unpredictable, which can affect both our ability to enforce our rights and to undertake activities that we believe are beneficial to our business. As a result, our ability to generate revenue and our expenses in non-United States jurisdictions may differ from what would be expected if United States law governed these operations.

***We may have difficulty establishing adequate management, legal and financial controls in the PRC and other Asian countries.***

The PRC and certain other Asian jurisdictions have historically had fewer or less developed management and financial reporting concepts and practices, as well as modern banking, computer, and other control systems. We may experience difficulty in hiring and/or retaining a sufficient number of qualified individuals in such jurisdictions. As a result, we may experience difficulty in establishing management, legal, and financial controls, collecting financial data and preparing financial statements, books of account, and corporate records and instituting business practices that meet business standards such as those in the United States.

***We may be unable to recover all or any portion of amounts owed to us by TRC as a result of the filing by TRC and its domestic subsidiaries of a voluntary petition for bankruptcy protection under the United States Bankruptcy Code (the Code ) and the execution of a Settlement Agreement in connection therewith.***

On April 21, 2011, TRC, the acquirer of our former gift business, and TRC s domestic subsidiaries, filed a voluntary petition under Chapter 7 of the Code in the United States Bankruptcy Court for the District of New Jersey. As a subordinated lien holder with respect to a note payable to KID from TRC in the original principal amount of $19.0 million, KID may be able to recover a portion of amounts owed thereunder from TRC s estate to the extent assets remain available for such payment under the Code after payment in full of TRC s senior lender. We may experience significant delays in obtaining any recovery of amounts owed to us as a secured creditor of TRC, however, and will likely obtain only limited recovery, if any recovery at all. See Note 4 of the Notes to Consolidated Financial Statements for a description of the Settlement Agreement entered into by KID and the TRC debtors.

***Currency exchange rate fluctuations could increase our expenses.***

Our net sales are primarily denominated in U.S. dollars, except for a small amount of net sales denominated in Australian dollars and Euros. Our purchases of finished goods from Eastern Asian manufacturers are denominated in U.S. dollars. Expenses for these manufacturers are denominated in Chinese Yuan or other Eastern Asian currencies. As a result, any material increase in the value of the Yuan (or such other currencies) relative to the U.S. or Australian dollars would increase the prices at which we purchase finished goods and therefore could adversely affect our profitability. We are also subject to exchange rate risk relating to transfers of funds denominated in Australian dollars or Euros from our foreign subsidiaries to the United States.

***Trademark infringement or other intellectual property claims relating to our products could increase our costs.***

We have from time to time received claims of alleged infringement of intellectual property relating to certain of our products, and we may face similar claims in the future. The defense of intellectual property litigation can be both

costly and disruptive of the time and resources of our management, even if the claim is without merit. We also may be required to pay substantial damages or settlement costs to resolve intellectual property litigation. In addition, these claims could materially harm our brand name, reputation and operations.

***If our products are copied or knocked-off, our sales of these products may be materially reduced and our profitability may be negatively affected.***

Occasionally in the infant and juvenile industry, successful products are knocked-off or copied by competitors. While we strive to protect our intellectual property, we cannot guarantee that knock-offs will not occur or that they will not have a significant effect on our business. The costs incurred in protecting our intellectual property rights could be significant, and there is no assurance that we will be able to successfully protect our rights (see preceding risk factor).

***New regulations related to conflict minerals may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our relationships with customers.***

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the SEC adopted new requirements for companies that manufacture or contract to manufacture products that contain certain minerals and metals, known as conflict minerals. Some of these conflict minerals are commonly used in many products. These requirements generally require companies to investigate, disclose and report annually whether or not such metals, if used in the manufacture of the Company s products, originated from the Democratic Republic of Congo or adjoining countries. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of certain of our products. In addition, we may incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to ascertain the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. We may also face difficulties in satisfying customers who may require that our products be certified as conflict mineral free, which could harm our relationships with these customers and lead to a loss of revenue. These new requirements could limit the pool of suppliers that can provide conflict-free minerals, and we may be unable to obtain conflict-free minerals at competitive prices, which could increase our costs and adversely affect our manufacturing operations and our profitability.

***Disruptions in our current information technology systems or difficulties in implementing our new information technology system could harm our business.***

System failure or malfunctioning in our information technology systems may result in disruption of operations and the inability to process transactions and could adversely affect our financial results. In addition, in 2013, we completed the implementation of a consolidated information technology system for the Company, which we believe provides greater efficiencies and greater reporting capabilities than those provided by the previous separate systems in place across our individual infant and juvenile companies. Our business may be subject to transitional difficulties with respect to this new system. These difficulties may include disruption of our operations, loss of data, and the diversion of our management and key employees attention away from other business matters. The difficulties associated with any such implementation, and our failure to realize the anticipated benefits from the implementation, could harm our business, results of operations and cash flows.

***Use of social media may adversely impact our reputation or subject us to fines or other penalties.***

There has been a substantial increase in the use of social media platforms, including blogs, social media websites, and other forms of internet-based communications, which allow individuals access to a broad audience of consumers and other interested persons. Negative commentary regarding us or the products we sell may be posted on social media platforms and similar devices at any time and may be adverse to our reputation or business. Customers value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction.

We also use social media platforms as marketing tools. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our business, financial condition, and results of operations, or subject us to fines or other penalties.

***Our hosted software and web-based services and web site may be subject to intentional disruption.***

Our hosted software and web-based services and web site may be subject to intentional disruption. Although we believe we have sufficient controls in place to prevent intentional disruptions, such as software viruses specifically designed to impede the performance of our software and web-based services, we may be affected by such efforts in the future. Further, despite the implementation of security measures, this infrastructure or other systems that we interface with, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, programming errors, attacks by third parties or similar disruptive problems, resulting in the potential misappropriation of our proprietary information or interruptions of our services. Any compromise of our security, whether as a result of our own systems or systems that they interface with, could substantially disrupt our operations, harm our reputation and reduce demand for our services.

***Unauthorized disclosure of confidential information provided to us by our customers or third parties, whether through breach of our secure network by an unauthorized party, employee theft or misuse, or otherwise, could harm our business.***

The difficulty of securely transmitting confidential information has been a significant issue when engaging in sensitive communications over the Internet. Our business relies on using the Internet to transmit confidential information. We believe that any well-publicized compromise of Internet security may deter companies from using the Internet for these purposes. Our services present the potential for embezzlement, identity theft, or other similar illegal behavior by our employees or subcontractors with respect to third parties. If there was a disclosure of confidential information, or if a third party were to gain unauthorized access to the confidential information we possess, our operations could be seriously disrupted, our reputation could be harmed and we could be subject to claims pursuant to our agreements with our customers or other liabilities. In addition, if this were to occur, we could be perceived to have facilitated or participated in illegal misappropriation of funds, documents, or data and therefore be subject to civil or criminal liability or regulatory action. A claim that is brought against us that is uninsured or under-insured could harm our business, financial conditions and results of operations. Even unsuccessful claims could result in substantial costs and diversion of management resources.

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***Changes in our effective tax rate or changes in tax laws and regulations may have an adverse effect on our results of operations.***

Our future effective tax rate and the amount of our provision for income taxes may be adversely affected by a number of factors, including:

- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes;
- changes in available tax credits;
- changes in share-based compensation expense;
- changes in the valuation of our deferred tax assets and liabilities;
- changes in accounting standards or tax laws and regulations, or interpretations thereof;
- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from uncertain positions and tax audits with various tax authorities; and
- penalties and/or interest expense that we may be required to recognize on liabilities associated with uncertain tax positions.

We are subject to taxation in various jurisdictions around the world. In preparing our financial statements, we calculate our effective income tax rate based on current tax laws and regulations and the estimated taxable income within each of these jurisdictions. Our effective income tax rate, however, may be higher due to numerous factors, including those enumerated above. A significantly higher effective income tax rate could have an adverse effect on our business, results of operations and liquidity.

Officials in some of the jurisdictions in which we do business, including the United States, have proposed, or announced that they are reviewing tax increases and other revenue raising laws and regulations. Any resulting changes in tax laws or regulations could impose new restrictions, costs or prohibitions on our current practices and reduce our net income and adversely affect our cash flows.

***Increased costs associated with corporate governance compliance may affect our results of operations and financial condition, and may make it more difficult to attract and retain officers and directors.***

The Sarbanes Oxley Act of 2002 has required changes in some of our corporate governance and securities disclosure and compliance practices, and requires ongoing review of our internal control procedures. These developments have increased our legal compliance and financial reporting costs, and to the extent that we identify areas of our disclosures controls and procedures and/or internal controls requiring improvement (such as the material weaknesses in internal controls identified as of December 31, 2013 and discussed in Item 9A, Controls and Procedures Management s Report on Internal Control Over Financial Reporting included herein), we may have to incur additional costs and diversion of management s time and attention. Any such action could adversely affect our results of operations and financial condition.

***A limited number of our shareholders can exert significant influence over us.***

As reported in a Schedule 13D filed with SEC, various investment funds and accounts managed by Prentice Capital Management, LP ( Prentice ) beneficially own approximately 19.9% of the outstanding shares of our common stock. Prentice currently has the right to nominate two members of our Board of Directors. Michael Zimmerman, who may deemed to be the beneficial owner of shares beneficially owned by Prentice, also owns, directly or indirectly, an additional 0.3% of the outstanding shares of our common stock. This share ownership permits Prentice (and Mr. Zimmerman) and other large shareholders to exert significant influence over the outcome of shareholder votes, including votes concerning the election of directors, by-law amendments, possible mergers, corporate control contests and other significant corporate transactions.

***We do not anticipate paying regular dividends on our common stock in the foreseeable future, so any short-term return on your investment will depend on the market price of our common stock.***

The covenants in our credit agreement prohibit us from paying cash dividends to our shareholders. No assurance, therefore, may be given that there will be any future dividends declared.

***Various restrictions in our charter documents, policies, New Jersey law and our credit agreement could prevent or delay a change in control of us which is not supported by our board of directors.***

We are subject to a number of provisions in our charter documents, policies, New Jersey law and our credit agreement that may discourage, delay or prevent a merger, acquisition or change of control that a shareholder may consider favorable. These anti-takeover provisions include:

- advance notice procedures for nominations of candidates for election as directors, set forth in the Kid Brands, Inc. Criteria and Procedures with Respect to Selection and Evaluation of Directors and Communications with the Board of Directors (available on the Company s website located at www.kidbrands.com under the heading Investor Relations ) and for shareholder proposals to be considered at shareholders meetings (set forth in the Company s Proxy Statement for its most recent Annual Meeting of Shareholders);

- a provision in our bylaws that specifies that special meetings of the shareholders may be called by resolution of the Board or by the chairman of the Board or the president and shall be called by the president or secretary upon the written request (stating the purpose or purposes of the meeting) of a majority of the Board or of the holders of 51% of the outstanding shares entitled to vote;

- the absence of cumulative voting in the election of directors;

- covenants in our credit agreement restricting mergers, asset sales and similar transactions and a provision in our credit agreement that triggers an event of default upon certain acquisitions by a person or group of persons with beneficial ownership of a majority of our outstanding common stock; and

the New Jersey Shareholders Protection Act.

The New Jersey Shareholders Protection Act, N.J.S.A. 14A:10A-1 et seq. ( NJSPA ), as it pertains to us, prohibits us, subject to limited exceptions, from entering into a business combination with any beneficial owner of 10% or more of our voting stock for a period of five years after such shareholder acquires 10% or more of our voting stock (an interested shareholder ), unless the transaction is approved by our board of directors before such interested shareholder acquires 10% or more of our voting stock. After the expiration of the five-year period, we may only enter into a business combination with an interested shareholder if one of the following conditions is satisfied:

(1) the business combination is approved by our board of directors before the interested shareholder s stock acquisition date,

(2) the business combination is approved by the holders of two-thirds of our voting stock excluding shares of our voting stock owned by such interested shareholder, or

(3) the interested shareholder pays at least a specified minimum formula price set forth in the NJSPA to ensure that the other shareholders receive at least the highest price per share paid by such interested shareholder and, subject to certain exceptions, the interested shareholder does not acquire additional shares after becoming an interested shareholder.

A business combination includes the following transactions between a corporation or a subsidiary and an interested shareholder (or affiliates of such shareholder): (1) the merger or consolidation of the corporation with the interested shareholder or any corporation that after the merger or consolidation would be an affiliate or associate of the interested shareholder; (2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with the interested shareholder, which has an aggregate market value equal to 10% or more of the aggregate market value of all of the assets or of the outstanding stock, or 10% or more of the income of the corporation or its subsidiaries; (3) the issuance or transfer to the interested shareholder of any stock of the corporation having an aggregate market value equal to or greater than 5% of the corporation s outstanding stock; (4) the adoption of a plan or proposal for the liquidation or dissolution of the corporation proposed by the interested shareholder; (5) any reclassification of securities proposed by the interested shareholder that has the effect, directly or indirectly, of increasing any class or series of stock that is owned by the interested shareholder; and (6) the receipt by the interested shareholder of any loans or other financial assistance from the corporation.

***Product returns by consumers to our larger customers in excess of anticipated amounts could have a material adverse effect on our financial condition and/or results of operations.***

To cover our exposure to product returns for defective products, we establish reserves based on historical experience. However, we cannot be assured that our reserves will be sufficient to cover future product returns. Consumer returns to our large customers for defective products in excess of our reserves could have a material adverse effect on our financial condition and/or results of operations.

***If we fail to successfully adapt our websites to customer requirements or emerging industry standards, our financial results may be materially and adversely affected.***

To remain competitive, we will have to continue to enhance and improve the responsiveness, functionality and features of our website. We are currently implementing a new consolidated Company-wide website. The development of website technology entails significant technical and business risks. There can be no assurance that we will be able to adapt our new website to customer requirements or emerging industry standards. If we are unable to adapt in a cost-effective and timely manner in response to changing market conditions or customer requirements, whether for technical, legal, financial or other reasons, our financial condition and results of operations could be materially and adversely affected.

***The occurrence of unusually adverse weather conditions (whether or not caused by climate change or natural disasters), could adversely affect our operations and financial performance.***

Adverse weather conditions or natural disasters may impact our operations and financial performance. To the extent these events result in the closure of one or more of our facilities or our corporate headquarters, or impact one or more of our key suppliers or service providers, our operations and financial performance could be materially adversely affected through an inability to make deliveries to our customers and through lost sales. In addition, these events could result in disruption to our information systems. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage.

***Terrorist attacks and threats may disrupt our operations and negatively impact our revenues, costs and stock price.***

The terrorist attacks of September 11, 2001 in the U.S., the U.S. response to those attacks and the resulting decline in consumer confidence had a substantial adverse effect on the U.S. economy. Any similar future events may disrupt our operations directly or indirectly by affecting the operations of our customers. In addition, these events have had and may continue to have an adverse impact on the U.S. economy in general and on consumer confidence and spending in

particular, which could harm our revenues. Any new terrorist events or threats could have a negative effect on the U.S. and world financial markets generally, which could reduce the price of our common stock and may limit the capital resources available to us and others with whom we conduct business. If any of these events occur, they could have a significant adverse effect on our results of operations and could result in increased volatility in the market price of our common stock.

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**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our leased corporate headquarters are currently located in East Rutherford, New Jersey. During the third quarter of 2014, however, we intend to move our principal executive offices into space leased in Rutherford, New Jersey. We will occupy temporary space in the same building commencing in May of 2014 until construction of the new space is complete. We currently lease additional office and distribution facilities in: (i) Cranbury, New Jersey and (ii) Kentwood, Michigan. During the fourth quarter of 2013, however, the Company evaluated the long-term location of its distribution facilities to assess their effectiveness in servicing the Company s customers, and determined to implement the Consolidation Plan, consisting of the transition to a single third-party logistics ( 3PL ) company, the related closure (upon expiration of the applicable lease agreements) of its subsidiaries distribution centers in Cranbury, New Jersey; Southgate, California (closed in the first quarter of 2014); and Kentwood, Michigan, and the termination of certain existing 3PL agreements. The Consolidation Plan is expected to be completed during the third quarter of 2014. As part of the Consolidation Plan, on November 13, 2013, KID entered into an Operating Services Agreement (the 3PL Agreement ) with National Distribution Centers, L.P., the warehousing and distribution division of NFI ( NFI ) for comprehensive 3PL services for the Company s warehousing and distribution operations out of at NFI s distribution center in Chino, California. We also lease office space in: (i) Los Angeles, California; (ii) Attleboro, Massachusetts; (iii) Bentonville, Arkansas; and (iv) Sydney, Australia. In addition, we lease small office facilities in several locations in the PRC and Thailand.

We owned an office and distribution facility used by Sassy located at 2305 Breton Industrial Park Drive, S.E., Kentwood, Michigan until its sale in November of 2013. See Note 7 of Notes to Consolidated Financial Statements.

We believe that our facilities are maintained in good operating condition and are, in the aggregate, adequate for our purposes. At December 31, 2013, we were obligated under operating lease agreements (principally for buildings and other leased facilities) for remaining lease terms ranging from three months to twelve years. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the section entitled Contractual Obligations . Also see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the section entitled Off-Balance Sheet Arrangements for a description of our contingent liability with respect to a sublease entered into by Kids Line, LLC in Los Angeles, California, and a related letter of credit.

**ITEM 3. LEGAL PROCEEDINGS**

LaJobi Matters

As has been previously disclosed, the Company s LaJobi subsidiary was selected by U.S. Customs and Border Protection ( U.S. Customs ) for a Focused Assessment of its import practices and procedures, which commenced in January 2011. In preparing for this Focused Assessment, the Company found certain potential issues with respect to LaJobi s import practices and submitted a preliminary voluntary prior disclosure to U.S. Customs due to issues regarding customs duty paid on products imported into the U.S. Upon becoming aware of these issues, our Board initiated an investigation, which found instances at LaJobi in which incorrect anti-dumping duties were applied on certain wooden furniture imported from vendors in the PRC, resulting in a violation of anti-dumping laws. In connection therewith, in 2011, certain LaJobi employees, including Lawrence Bivona, LaJobi s then-President, were terminated from employment.

In the fourth quarter of 2012, the Company completed LaJobi s voluntary prior disclosure to U.S. Customs, including the Company s final determination of amounts it believes are owed for all relevant periods. The Company estimates that LaJobi will owe an aggregate of approximately $7.0 million relating to anti-dumping duties (plus approximately $1.1 million in aggregate related interest) to U.S. Customs for the period commencing April 2, 2008 (the date of purchase of the LaJobi assets by the Company) through December 31, 2013, and the Company is fully accrued for all such amounts. The completed voluntary prior disclosure submitted to U.S. Customs in the fourth quarter of 2012 included proposed settlement amounts and proposed payment terms with respect to the anti-dumping duties owed by LaJobi (the Settlement Submission ), as well as a payment of $0.3 million, to be credited against the amount that U.S. Customs determines is to be paid in satisfaction of LaJobi s customs duty matters. Of the total amount accrued as of December 31, 2013, $0.2 million was recorded during the twelve months ended December 31, 2013 for anticipated interest expense. In connection with the previously-disclosed restatement of certain prior period financial statements (the Restatement ), these amounts are recorded in the periods to which they relate.

As U.S. Customs has not yet responded to the Settlement Submission, it is possible that the actual amount of duties owed for the periods covered thereby will be higher than the amounts accrued by the Company and in any event, additional interest will continue to accrue until full payment is made. In addition, U.S. Customs may assess a penalty of up to 100% of the duty owed, and the Company may be subject to additional fines, penalties or other measures from U.S. Customs or other governmental authorities. In a related matter, on August 19, 2011, the United States Attorney s Office for the District of New Jersey ( USAO ) contacted Company counsel requesting information relating to LaJobi previously provided by the Company to U.S. Customs and the SEC (as described below), as well as additional documents and information. Since that time, the Company has been cooperating, and intends to continue to cooperate, with the USAO on a voluntary basis. The Company is currently seeking to negotiate a global resolution of these issues with the USAO and U.S. Customs, however, there can be no assurance that these discussions will be successful. The Company is currently unable to predict the duration, the resources required or outcome of the Focused Assessment or the USAO investigation or these related global discussions, the nature of any sanction that may be imposed or the impact such investigations or resolution may have. In addition, there can be no assurance that we will not be subject to adverse publicity, or adverse customer, licensor or market reactions in connection with the resolution of these matters, which could have a material adverse effect on our business and financial condition. An unfavorable outcome in these matters may result in a default under certain license agreements that we maintain, and is likely to result in a default under our credit agreement and have a material adverse effect on our financial condition and results of operations. With respect to the actual amount of duties determined to be owed by LaJobi, and any such additional fines, penalties or other measures, the Company cannot currently estimate the amount of the loss (or range of loss), if any.

Promptly upon becoming aware of the issues relating to LaJobi s customs practices and related misconduct, as described above, the Company voluntarily disclosed the findings of its internal investigation, as well as certain previously-disclosed Asia staffing matters, to the SEC on an informal basis. On June 20, 2011, the Company received a letter from the SEC indicating that the Staff was conducting an informal investigation and requesting that the Company provide certain documents on a voluntary basis. Subsequent thereto, the Company voluntarily disclosed to the SEC the existence of the Customs Review (described below) and related investigation. The Company believes that it has fully cooperated, and will continue to fully cooperate, with the SEC. The Company is currently unable to predict the duration, resources required or outcome of the investigation, possible sanctions, or the impact such investigation may have on the Company s financial condition or results of operations.

Prior to the Restatement, the Company had recorded the applicable anti-dumping duties anticipated to be owed by LaJobi (and related interest) in the quarter and year ended December 31, 2010, the period of discovery (the Original Accrual ) and had recorded additional interest expense in subsequent quarterly periods. As a result of the Original Accrual and other factors, the Company concluded that no earnout consideration ( LaJobi Earnout Consideration ), and no related finder s fee under the Asset Purchase Agreement relating to the Company s 2008 purchase of the LaJobi assets (the LaJobi Asset Purchase Agreement ) was payable. Accordingly, prior to the Restatement, the Company had not recorded any amounts related to the LaJobi Earnout Consideration in the Company s financial statements. The Company had previously disclosed a potential earnout payment of approximately $12.0 to $15.0 million in the aggregate relating to its acquisitions of LaJobi and CoCaLo, substantially all of which was estimated to relate to LaJobi.

Because the Restatement resulted in the technical satisfaction of the formulaic provisions for the payment of a portion of the LaJobi Earnout Consideration under the LaJobi Asset Purchase Agreement, applicable accounting standards required that the Company record a liability in the amount of the formulaic calculation, without taking into consideration the Company s affirmative defenses, counterclaims and third party claims in the arbitration. Accordingly, in connection with the Restatement, the Company recorded a liability in the approximate amount of $11.7 million for the year ended December 31, 2010 ($10.6 million relating to the LaJobi Earnout Consideration and

$1.1 million in respect of a related finder s fee), with an offset in equal amount to goodwill, all of which goodwill was impaired as of December 31, 2011.

As has been previously disclosed, the Company received letters on July 25, 2011 from counsel to Lawrence Bivona demanding payment of the LaJobi Earnout Consideration to Mr. Bivona in the amount of $15.0 million, alleging that Mr. Bivona s termination by LaJobi for cause violated his employment agreement and demanding payment to Mr. Bivona of amounts purportedly due under his employment agreement. In December 2011, Mr. Bivona initiated an arbitration proceeding relating to these issues, as well as a claim for defamation, seeking damages in excess of $25.0 million. On February 22, 2012, the Company and LaJobi filed an answer to the complaint initiated by Mr. Bivona, in which they denied any liability, asserted defenses and counterclaims against Mr. Bivona, and asserted a third-party complaint against Mr. Bivona s brother, Joseph Bivona, and the LaJobi seller. Post-hearing briefs were submitted and closing statements were made during the quarter ended June 30, 2013.

On March 6, 2014, an Interim Award was released by the arbitration panel (the Panel ) in the arbitration proceeding initiated by Mr. Bivona. The Interim Award notes that both parties are to some extent prevailing parties , and states that until the Panel can make a final determination with respect to the amount of all damages and setoffs, no damages awarded will be payable by either party. The Panel stated that because U.S. Customs has not yet finally determined the amount of anti-dumping duties and/or penalties owed by KID or LaJobi, it is not possible to ascertain the precise amount of damages awarded to either side (as described below). The Panel retained jurisdiction to receive further evidence and award damages when U.S. Customs concludes its review and determines the duties and/or penalties owed. KID and LaJobi intend to submit further evidence in support of their damage award. The Interim Award had no effect on the Company s results of operations for the fourth quarter of 2013 or the first quarter of 2014.

The Panel, based on its finding that Mr. Bivona breached his fiduciary duty and breached his employment agreement on and after August 24, 2010, awarded damages to KID and LaJobi, including damages for the additional duties assessed for transactions on and after that date, and in addition, awarded KID and LaJobi $2.85 million for reasonable legal expenses and other costs (collectively, the KB Award Amounts ). In reaching its determination, the Panel noted that as of August 24, 2010, Mr. Bivona consciously ignored information that demanded further investigation, which would have led to discovery and cessation of the improper practice , in breach of his fiduciary duty and his employment agreement. The Panel found in favor of Mr. Bivona with respect to: (i) his right to receive a portion of the LaJobi Earnout Consideration; (ii) his claim for indemnification with respect to reasonable attorney s fees and expenses (in an amount to be determined at a subsequent proceeding) for KID s failure to pay such LaJobi Earnout Consideration; and (iii) his claim that KID and LaJobi breached his employment agreement by improperly terminating him for cause (and awarded him $655,000), but stated that any recovery on these claims must be offset by the KB Award Amounts. The Panel denied Mr. Bivona s claims for breach of fiduciary duty and punitive damages, and awarded him $1.00 on his defamation claim. The Panel denied KID s and LaJobi s counterclaims for breach of the LaJobi Asset Purchase Agreement (although a representation was determined to be breached, no damages were found) and fraudulent inducement. Except as described above, the parties will bear their own legal fees and costs.

The Panel determined that because U.S. Customs has not yet finally determined the amount of anti-dumping duties and/or penalties owed by KID or LaJobi, it would not be possible to ascertain the amount of the LaJobi Earnout Consideration due to Mr. Bivona, or the precise amount of damages to KID and LaJobi resulting from Mr. Bivona s breach of his fiduciary duty and employment agreement.

Any significant payment required by us to Mr. Bivona is likely to result in a default under the Credit Agreement and have a material adverse effect on our financial condition and results of operations.

See Note 8 for a description of the Company s senior secured financing facility, including a discussion of restrictions on the Company s ability to pay Customs duties and any LaJobi earnout payment requirements, and the financial and other covenants applicable to the Company. Also see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Liquidity and Capital Resources , and Item 1A Risk Factors,

including Inability to maintain compliance with the bank covenants , We are party to litigation and other matters that have been and continue to be costly to defend and distracting to management, and if decided against us, are likely to have a material adverse effect on our business , and There can be no assurance that we will have sufficient liquidity to satisfy our cash obligations when required. .

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Consumer Product Safety Commission Staff Investigation

By letter dated July 26, 2012, the staff (the CPSC Staff ) of the U.S. Consumer Product Safety Commission ( CPSC ) informed the Company that it has investigated whether LaJobi timely complied with certain reporting requirements of the Consumer Product Safety Act (the CPSA ) with respect to various models of drop-side and wooden-slat cribs distributed by LaJobi and its predecessor company during the period commencing in 1999 through 2010, which cribs were recalled voluntarily by LaJobi during 2009 and 2010. The letter states that, unless LaJobi is able to resolve the matter with the CPSC Staff, the CPSC Staff intends to recommend to the CPSC that it seek the imposition of a substantial civil penalty for the alleged violations.

The Company disagrees with the position of the CPSC Staff, and believes that such position is unwarranted under the circumstances. As permitted by the notice, the Company provided the CPSC Staff with additional supplemental information in support of the Company s position, including relevant factors in the Company s favor that are required to be considered by the CPSC prior to the imposition of any civil penalty. The Company is currently working with the CPSC Staff regarding a possible resolution to the issue, and during the year ended December 31, 2013, the Company accrued $1.0 million with respect thereto. While settlement discussions are ongoing, it is possible that no settlement will be achieved, or that any settlement or other disposition of the matter will involve substantially higher amounts than the amount accrued or will be on terms that are less favorable to the Company.

Given the current status of this matter, however, it is not yet possible to determine what, if any, actions will be formally taken by the CPSC, or the amount of any civil penalty that may be assessed. Based on currently available information, the Company cannot estimate the amount of the loss (or range of loss) in connection with this matter. In addition, as this matter is ongoing, the Company is currently unable to predict its duration, resources required or outcome, or the impact it may have on the Company s financial condition, results of operations and/or cash flows. An adverse decision in this matter that requires any significant payment by us could result in a default under the Credit Agreement and have a material adverse effect on our financial condition and results of operations.

Customs Compliance Investigation (Non-LaJobi)

As has been previously disclosed, following the discovery of the matters described above with respect to LaJobi, our Board authorized a review of customs compliance practices at the Company s non-LaJobi operating subsidiaries (the Customs Review ). In connection with this review, instances were identified in which these subsidiaries filed incorrect entries and invoices with U.S. Customs as a result of, in the case of Kids Line, incorrect descriptions, classifications and valuations of certain products imported by Kids Line and, in the case of CoCaLo, incorrect classifications and valuations of certain products imported by CoCaLo. Promptly after becoming aware of these issues, the Company submitted voluntary prior disclosures to U.S. Customs identifying such issues and duties anticipated to be owed. The Board also authorized an investigation into these non-LaJobi customs matters, and did not discover evidence that would lead it to conclude that there was intentional misconduct on the part of Company personnel.

As of December 31, 2013, the Company estimates that it will incur aggregate costs of approximately $2.0 million relating to such customs duties (plus approximately $0.3 million in aggregate related interest), for the years ended 2006 through 2013, and the Company is fully accrued for all such amounts. Of the total amount accrued as of December 31, 2013, $0.1 million was recorded during the twelve months ended December 31, 2013 for anticipated interest expense. As a result of the Restatement, these amounts are recorded in the periods to which they relate. (The Company had initially recorded the applicable anticipated customs duty payment requirements (and related interest) in the three and nine months ended June 30, 2011 (the period of discovery), and recorded additional interest expense in the subsequent quarterly periods.)

In the fourth quarter of 2012 (upon completion of the Customs Review), the Company completed and submitted to U.S. Customs voluntary prior disclosures, which included the Company s final determination of customs duty amounts it believes are owed by Kids Line and CoCaLo. The Kids Line submission included proposed payment terms for customs duties believed to be owed by Kids Line. As part of these settlement submissions in 2012, the Company included the following initial payments to U.S. Customs, to be credited against the amounts that U.S. Customs determines is to be paid in satisfaction of the Company s customs duties matters: $0.2 million with respect to Kids Line customs duties and $0.3 million with respect to CoCaLo customs duties. With respect to CoCaLo, the Company s payment represented the Company s determination of all amounts it believes are owed by CoCaLo for the relevant periods, including interest.

As U.S. Customs has not yet responded to these settlement submissions, it is possible that the actual amount of duties owed for the relevant periods will be higher than the amounts accrued by the Company and in any event, additional interest will continue to accrue until full payment is made. In addition, U.S. Customs may assess a penalty of up to 100% of the duty owed, and the Company may be subject to additional fines, penalties or other measures from U.S. Customs or other governmental authorities. With respect to the actual amount determined by U.S. Customs to be owed, and any such additional fines, penalties or other measures, the Company cannot currently estimate the amount of the loss (or range of loss), if any. The Company remains committed to working closely with U.S. Customs to address issues relating to incorrect duties.

Putative Class Action and Derivative Litigations

Putative Class Action. On March 22, 2011, a complaint was filed in the United States District Court, District of New Jersey, encaptioned Shah Rahman v. Kid Brands, et al. (the Putative Class Action ). The Putative Class Action was brought by one plaintiff on behalf of a putative class of all those who purchased or otherwise acquired KID s common stock between specified dates. In addition to KID, various executives, and members and former members of KID s Board, were named as defendants.

The Putative Class Action alleged one claim for relief pursuant to Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and Rule 10b-5 promulgated thereunder, and a second claim pursuant to the Exchange Act, claiming generally that the Company and/or the other defendants issued materially false and misleading statements during the relevant time period regarding compliance with customs laws, the Company s financial reports and internal controls. The Putative Class Action did not state the size of the putative class. The Putative Class Action sought compensatory damages but did not quantify the amount of damages sought. The Putative Class Action also sought unspecified extraordinary and injunctive relief, the costs and disbursements of the lawsuit, including attorneys and experts fees and costs, and such equitable relief as the court deemed just and proper. By order dated July 26, 2011, Shah Rahman was appointed lead plaintiff pursuant to Section 21D (a) (3) (B) of the Exchange Act.

On September 26, 2011, the lead plaintiff filed an amended complaint, which was dismissed without prejudice on March 7, 2012. On May 7, 2012, the lead plaintiff filed a second amended complaint that named the Company, Bruce G. Crain (the Company s former chief executive officer), Guy A. Paglinco (the Company s former chief financial officer), and Raphael Benaroya (the Company s then-Executive Chairman) as defendants. The second amended complaint repeated the same claims for relief and many of the allegations of the previous complaints in the action, but contained new allegations that, among other things, the Company and/or the other defendants issued materially false and misleading statements during the relevant time period regarding custom law violations and safety violations regarding certain of its products. The relief demanded and the class period were each the same as in the first amended complaint.

All of the defendants in the Putative Class Action filed motions to dismiss the second amended complaint on June 29, 2012. On October 17, 2012, the United States District Court for the District of New Jersey granted the defendants motion to dismiss such complaint with prejudice. On November 14, 2012, plaintiff filed a Notice of Appeal to the U.S. Court of Appeals for the Third Circuit from the judgment of the U.S. District Court. Briefing of the appeal was fully submitted to the Court of Appeals on May 29, 2013. On October 8, 2013, the appeal was submitted to the Court of Appeals for decision. On November 15, 2013, the Court of Appeals issued a decision and order affirming the District Court s dismissal of the case with prejudice and all deadlines to seek further review have expired without action by the plaintiff.

No amounts were accrued in connection with the Putative Class Action, although legal costs were expensed as incurred. As the Company has satisfied the deductible under its applicable insurance policy, the Company has been receiving reimbursement of substantially all of the legal costs incurred, which receivables are netted against the expense.

Putative Shareholder Derivative Action. On May 20, 2011, a putative stockholder derivative complaint was filed by the City of Roseville Employees Retirement System ( Roseville ) in the United States District Court of the District of New Jersey (the Putative Derivative Action ), against Bruce Crain (the Company s former chief executive officer), Guy Paglinco (the Company s former chief financial officer), Marc Goldfarb (the Company s former general counsel), each then-member of the Company s Board, and John Schaefer, a former member of the Company s Board (collectively, the Defendants ). In addition, the Company was named as a nominal defendant.

The Putative Derivative Action alleged, among other things, that the Defendants breached their fiduciary duties to the Company by allegedly failing to oversee and disclose alleged misconduct at KID s LaJobi subsidiary relating to LaJobi s compliance with certain U.S. customs laws. In addition to asserting the breach of fiduciary duty claim, the complaint also asserted claims of gross mismanagement, abuse of control and commission of corporate waste and unjust enrichment. The Putative Derivative Action sought monetary damages against the individual Defendants in an unspecified amount together with interest, in addition to exemplary damages, the costs and disbursements of the lawsuit, including attorneys and experts fees and costs, and such equitable relief as the court deems just and proper. On July 25, 2011, the individual Defendants and nominal defendant KID moved to dismiss the complaint pursuant to Federal Rules of Civil Procedure 12(b) (6) and 23.1. On October 24, 2011, the Court granted Defendants motion to dismiss without prejudice with leave for plaintiff to amend the complaint.

On November 23, 2011, Roseville sent a letter to KID demanding to inspect certain books and records of the Company pursuant to New Jersey state law. On April 28, 2012, Roseville filed a motion to compel inspection of documents beyond those previously provided by the Company. On November 8, 2012, the Court issued an Order granting Roseville s request in part and denying the request in part. The Order provided that any non-privileged documents that were responsive to the narrow scope of the inspection permitted by the Order be produced by the Company on December 3, 2012. The Company produced such documentation on December 3, 2012; however, Roseville asserted certain purported objections to the December 3, 2012 inspection, which the Company disputed. Some of the objections were overruled by the Court on February 5, 2013. In an order dated May 9, 2013, the Court granted limited additional inspection of certain records which inspection was provided on May 21, 2013. Thereafter, Roseville informed the Court that it had no further objections to the inspection provided by the Company.

On June 28, 2013, Roseville filed an amended complaint that re-alleged the claims asserted in the initial complaint and with the same requests for relief. On July 26, 2013, the Company filed a motion to dismiss the amended complaint and on September 26, 2013, the Court issued an order dismissing the amended complaint with prejudice. On October 28, 2013, Roseville filed a notice of appeal from the dismissal of the amended complaint with the United States Court of Appeals for the Third Circuit. On November 14, 2013, all parties in the case filed a stipulation in the Court of Appeals providing for the dismissal of the appeal and that all parties would bear their own costs, expenses and attorney fees in the trial and appellate courts. On November 15, 2013, the Court of Appeals issued an order dismissing the appeal as provided in the stipulation.

While the Company incurred costs in connection with the defense of this lawsuit, the lawsuit did not seek monetary damages against the Company, and no amounts were accrued in connection therewith. As the Company has satisfied the deductible under its applicable insurance policy, the Company has been receiving reimbursement of substantially all of the legal costs being incurred, which receivables are netted against the expense.

Wages and Hours Putative Class Action

On November 3, 2011, a complaint was filed in the Superior Court of the State of California for the County of Los Angeles, encaptioned Guadalupe Navarro v. Kids Line, LLC (the Wages and Hours Action ). One plaintiff brought the Wages and Hours Action on behalf of a putative class for damages and equitable relief for: (i) failure to pay minimum, contractual and/or overtime wages (including for former employees with respect to their final wages), and failure to provide adequate meal breaks, in each case based on defendant s time tracking system and automatic deduction and related policies; (ii) statutory penalties for failure to provide accurate wage statements; (iii) waiting time penalties in the form of continuation wages for failure to timely pay terminated employees; and (iv) penalties under the Private Attorneys General Act (PAGA). The plaintiff sought wages for all hours worked, overtime wages for all overtime worked, statutory penalties under Labor Code Section 226(e), and Labor Code Section 203, restitution for unfair competition under Business and Professions Code Section 17203 of all monies owed, compensation for missed meal breaks, and injunctive relief. The complaint also sought unspecified liquidated and other damages, statutory penalties, reasonable attorney s fees, costs of suit, interest, and such other relief as the court deems just and proper. Although the total amount claimed was not set forth in the complaint, the complaint asserted that the plaintiff and the class members were not seeking more than $4.9 million in damages at that time (with a statement that plaintiff would amend his complaint in the event that the plaintiff and class members claims exceed $4.9 million).

On January 30, 2013, the Court denied plaintiff s motion for class certification with respect to two of the proposed classes and continued for further briefing the motion for class certification with respect to the remaining proposed classes. During the quarter ended June 30, 2013, the Company reached an agreement in principle with counsel for the plaintiff on behalf of the purported classes to settle the litigation for $350,000, and during the quarter ended June 30, 2013 the Company accrued such amount. The Court has preliminarily approved the settlement, with the final approval hearing set for September 3, 2014. As the settlement has not yet been finally approved by the Court; there can be no assurance that the disposition of the litigation will not be in excess of amounts accrued or on terms less favorable to the Company than the agreed settlement.

Other

In addition to the proceedings described above, in the ordinary course of its business, the Company is from time to time party to various copyright, patent and trademark infringement, unfair competition, breach of contract, customs, employment and other legal actions incidental to the Company s business, as plaintiff or defendant. In the opinion of management, the amount of ultimate liability with respect to any such actions that are currently pending will not, individually or in the aggregate, materially adversely affect the Company s consolidated results of operations, financial condition or cash flows.

Also see Note 18 of the Notes to Consolidated Financial Statements for a discussion of the Company s litigation, commitments and contingencies.

## ITEM 4. MINE SAFETY DISCLOSURE

**Not applicable.**

## EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information with respect to our executive officers as of April 7, 2014. All officers are appointed by the Board of Directors and may be removed with or without cause by the Board. Currently, all of our operations are conducted through our subsidiaries. As a result, we have determined that it is appropriate to include the

leaders of each of our principal business units as executive officers, even where such leaders are employed by our subsidiaries. As a result, Bradley Sell, President of Kids Line, LLC and CoCaLo, Inc.; Keith Kotel, President of LaJobi, Inc.; and Dean Robinson, President of Sassy, Inc.; are each deemed to be executive officers.

| NAME | AGE | POSITION WITH THE COMPANY |
|---|---|---|
| Raphael Benaroya | 66 | Chairman of the Board of Directors, President and Chief Executive Officer |
| Kerry Carr | 51 | Executive Vice President, Chief Operating Officer and Chief Financial Officer |
| Jodie Simon Friedman | 50 | Vice President, General Counsel and Corporate Secretary |
| Keith Kotel | 45 | President of LaJobi, Inc. |
| Dean Robinson | 46 | President of Sassy, Inc. |
| Bradley Sell | 53 | President of Kids Line, LLC and CoCaLo, Inc. |

Raphael Benaroya was appointed President and Chief Executive Officer on March 14, 2013. Prior thereto, as of September 12, 2011, Mr. Benaroya served as interim Executive Chairman, acting as the chief executive of the Company. He currently also serves as the Chairman of the Board and is a member of the Board s Executive Committee, and has been a member of the Board since 1993. Since 2008, Mr. Benaroya has been Managing Director of Biltmore Capital, a privately-held financial company which invests in secured debt. Prior thereto, Mr. Benaroya was Chairman of the Board, President and Chief Executive Officer of United Retail Group, Inc., a Nasdaq-listed company, which operated a chain of retail specialty stores, from 1989 until its sale in October 2007, and continued as President and Chief Executive Officer thereafter until March 2008. Mr. Benaroya currently serves on the board of directors of Aveta Health Care, a privately-held healthcare management company. From April through October 2009, Mr. Benaroya had been retained to perform an expanded role as Chairman of the Board. From April 2008 until March 2010, Mr. Benaroya had been an advisor for D. E. Shaw & Co., L.P., an affiliate and investment advisor of D. E. Shaw Laminar Portfolios, L.L.C. ( Laminar ), a private investment fund and former 20% stockholder of the Company, relating to certain of Laminar s portfolio companies.

Kerry Carr was appointed Executive Vice President and Chief Operating Officer of the Company effective as of September 12, 2012, and Chief Financial Officer of the Company as of July 5, 2013. Ms. Carr served as a consultant to the Company from June 21, 2012 through the date of her appointment as COO. Her service as a consultant included, among other things, consulting on the development of operational metrics for all business units; review and restructuring of the Company s logistical configuration; development of a unified budget methodology; and assessing the Company s internal audit function and controls. Prior thereto, Ms. Carr served in various roles for almost a decade at Avon Products, Inc., a New York Stock Exchange listed global beauty products company, most recently as Group Vice President Long Range Business Review Initiative (November 2011-April 2012), where she performed a comprehensive operating and financial assessment of Avon s global business, and prior thereto as Group Vice President Global Supply Chain Finance (February 2008-November 2011); Vice President Finance Transformation (July 2006-March 2008); Vice President (August 2005-July 2006), with responsibility for identifying and overseeing execution of Avon s multi-year restructuring initiatives; and Vice President Internal Audit (June 2003-August 2005). Preceding her tenure at Avon, she was Vice President Internal Audit and Security at AT&T (September 2001-June 2003), and served in various capacities at the Walt Disney Company (1996-2001), including her latest position there as Senior Vice President and CFO ABC Broadcasting.

Jodie Simon Friedman joined the Company in June 2013 and was appointed Vice President, General Counsel and Secretary of the Company effective August 14, 2013. From 2001 until June 2013, Ms. Simon Friedman served as Vice President, Deputy General Counsel and Assistant Secretary at International Flavors & Fragrances Inc., a NYSE-listed global creator of flavors and fragrances used in a wide variety of consumer products. From 1993 through 2000, she served in roles of increasing responsibility at Warner-Lambert Company, a pharmaceutical company acquired by Pfizer, Inc. in 2000, including as Assistant General Counsel of Pharmaceuticals for Europe and Latin America and started her legal career as an associate at Coudert Brothers in 1989. Ms. Simon Friedman earned her juris doctorate from the Columbia University School of Law and her bachelor s degree from Brown University.

Keith Kotel was appointed President of LaJobi as of December 5, 2013. Since July of 2013, Mr. Kotel served as LaJobi s Vice President-Product Management and Merchandising. For over eight years prior thereto, he served as Vice President of Product Development Sourcing and Merchandising for Jo-Ann Stores, Inc., a specialty retailer of crafts and fabrics based in Hudson, Ohio. Mr. Kotel has also served, among other positions, as Divisional Merchandise Manager (from February 2004 to October 2004) of Weathervane, a junior apparel and lifestyle store; Sr. Merchandise Manager (from January 2000 to February 2004) at Land s End, a global apparel and lifestyle company; and Merchandiser (from October 1998 to January 2000) at Abercrombie and Fitch, an NYSE-listed global specialty retailer of high-quality, casual apparel for men, women and kids.

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Dean F. Robinson joined the Company as President of Sassy, Inc., in June 2011. From January 2010 until June 2011, Mr. Robinson was Business Leader at Summer Infant, Inc., a Nasdaq-listed developer and distributor of juvenile health, safety and wellness products, where he led the efforts for toy and licensed product lines. Prior thereto, from October 2008 to January 2010, he was the founder and owner of CreativeBonz, Inc., a global consulting business specializing in creating children s consumer products and marketing opportunities. From 2007 to October 2009, he was a Vice President of Product Development and a Consultant for Oregon Scientific, Inc., a manufacturer of, among other things, electronic learning games, children s cameras and video equipment, and other baby care items. Prior thereto, he held Vice President positions in product development at Aqua Leisure, Inc. (a producer of swim gear and aquatic leisure products) and LittleKids, Inc. (a maker of, among other things, bubble toys and solutions and craft kids).

Bradley Sell was appointed President of Kids Line and CoCaLo effective January 29, 2014. Since February of 2013, Mr. Sell had served as Chief Operating Officer and Chief Financial Officer of Kids Line and CoCaLo. For over thirteen years prior thereto, he served in various positions at Quiksilver, Inc., a globally diversified NYSE-listed company that designs, produces and distributes branded apparel, winter sports equipment, footwear, accessories and related products, including President of Retail (from January 2010 to December 2011), and most recently, Senior Vice President of Financial Operations (from January 2012 to January 2013).

## PART II

## ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On April 7, 2014, our Common Stock was held by approximately 400 shareholders of record. Our Common Stock was traded on the New York Stock Exchange under the symbol KID from September 22, 2009 through the close of trading on March 30, 2014, and prior thereto under the symbol RUS since its initial public offering on March 29, 1984. As of March 31, 2014, our common stock is quoted on the OTCQB Marketplace under the symbol: KIDB . The following table sets forth the high and low sale prices of our Common Stock, as set forth on the New York Stock Exchange Composite Tape, for the calendar periods indicated:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | HIGH | LOW | HIGH | LOW |
| First Quarter | $ 1.53 | $ 0.95 | $ 3.75 | $ 2.52 |
| Second Quarter | 1.69 | 1.03 | 2.60 | 1.86 |
| Third Quarter | 1.76 | 0.99 | 2.04 | 0.95 |
| Fourth Quarter | 1.85 | 1.45 | 1.93 | 1.45 |

The Company has not paid a dividend since April 2005 and currently does not anticipate paying any dividends. In accordance with the terms of our current credit agreement, we are prohibited from paying cash dividends to our shareholders. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources under the caption Summary of Credit Agreement and Note 8 of the Notes to Consolidated Financial Statements, for a description of our current credit agreement, including dividend restrictions.

See Item 12 of this Annual Report on Form 10-K for Equity Compensation Plan Information.

This Annual Report on Form 10-K does not include a performance graph. Pursuant to Instruction 6 to Item 201(e) of Regulation S-K, this information is not required to be provided by smaller reporting companies as that term is defined by the Securities and Exchange Commission.

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## ITEM 6. SELECTED FINANCIAL DATA

The following table presents our selected financial data. The table should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , and Item 8, Financial Statements and Supplementary Data , of this Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 10-K ).

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013(1) | 2012 | 2011(1) | 2010 | 2009 |
| | (Dollars in Thousands, Except Per Share Data) | | | | |
| **Statement of Operations Data:** | | | | | |
| Net Sales | $ 188,155 | $ 229,486 | $ 252,610 | $ 275,777 | $ 243,936 |
| Cost of Sales | 151,597 | 171,697 | 211,323 | 192,515 | 167,370 |
| (Loss) Income from operations | (24,669) | 877 | (34,975) | 25,085 | 8,637 |
| (Loss) Income before (Benefit) Provision for Income Taxes | (28,902) | (5,286) | (40,136) | 21,026 | 2,016 |
| Income Tax (Benefit) Provision | (72) | 48,814 | (1,490) | (15,155) | (8,202) |
| Net (Loss) Income | (28,830) | (54,100) | (38,646) | 36,181 | 10,218 |
| Basic (Loss) Earnings Per Share | (1.31) | (2.48) | (1.78) | 1.68 | 0.48 |
| Diluted (Loss) Income Per Share | (1.31) | (2.48) | (1.78) | 1.66 | 0.47 |
| Dividends Per Share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Balance Sheet Data:** | | | | | |
| Working Capital | ($28,018) | $ (13,885) | $ 43,633 | $ 29,740 | $ 25,839 |
| Property, Plant and Equipment, net | 3,557 | 5,481 | 5,008 | 5,030 | 4,251 |
| Total Assets | 120,256 | 140,894 | 192,846 | 255,295 | 209,013 |
| Debt | 53,077 | 57,527 | 49,490 | 73,121 | 83,125 |
| Shareholders Equity | 9,240 | 36,862 | 89,814 | 126,292 | 87,895 |

(1) The years ended December 31, 2013 and 2011 included non-cash impairments of intangibles of $9.2 million and $40.7 million, respectively

## ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial and business analysis below provides information that we believe is relevant to an assessment and understanding of our consolidated financial condition, changes in financial condition and results of operations. This financial and business analysis should be read in conjunction with Item 6, Selected Financial Data, and our consolidated financial statements and accompanying Notes to Consolidated Financial Statements set forth in Item 8 below.

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## Overview

We are a leading designer, importer, marketer and distributor of branded infant and juvenile consumer products. We generated annual net sales of approximately $188.2 million in 2013. We operate in one segment: the infant and juvenile business.

Our infant and juvenile business which is currently conducted through the following operating subsidiaries: Kids Line, LaJobi, Sassy, and CoCaLo designs, manufactures through third parties, and markets branded infant and juvenile products in a number of complementary categories including, among others, infant bedding and related nursery accessories and décor, nursery appliances, diaper bags and bath/spa products (Kids Line® and CoCaLo®); nursery furniture and related products (LaJobi®); and developmental toys and feeding products, bath and baby care items with features that address the various stages of an infant s early years including the Kokopa® line of baby gear (Sassy®). In addition to our branded products, we also market certain categories of products under various licenses, including Carter ®, Disney®, Graco® and Serta®. Our products are sold primarily to large, national retail accounts and independent retailers (including toy, specialty, food, drug, apparel and other retailers). We maintain a direct sales force to serve our customers, which are primarily located in North America and Australia. We also maintain relationships with international distributors to service certain retail customers in several foreign countries, as well as with several independent representatives to service select domestic and foreign retail customers. International sales, defined as sales outside of the United States, including export sales, constituted 9.4%, 10.9%, and 7.5% of our net sales for the years ended December 31, 2013, 2012 and 2011, respectively.

Our senior corporate management, together with senior management of our subsidiaries, coordinates the operations of all of our businesses and seeks to identify cross-marketing, procurement and other complementary business opportunities, while maintaining the separate brand identities of each subsidiary.

Aside from funds provided by our senior credit facility, revenues from the sale of products have historically been the major source of cash for the Company, and cost of goods sold and payroll expenses have been the largest uses of cash. As a result, operating cash flows primarily depend on the amount of revenue generated and the timing of collections, as well as the quality of our customer accounts receivable. The timing and level of the payments to suppliers and other vendors also significantly affect operating cash flows.

We do not ordinarily sell our products on consignment, although we may do so in limited circumstances, and we ordinarily accept returns only for defective merchandise, although we may in certain cases accept returns as an accommodation to retailers. In the normal course of business, we grant certain accommodations and allowances to certain customers in order to assist these customers with inventory clearance or promotions, and in certain cases we may accept returns. Such amounts, together with discounts, are deducted from gross sales in determining net sales.

Our products are manufactured by third parties, principally located in the PRC and other Eastern Asian countries. Our purchases of finished products from these manufacturers are primarily denominated in U.S. dollars. Expenses incurred by these third party manufacturers are primarily denominated in Chinese Yuan. As a result, any material increase in the value of the Yuan relative to the U.S. dollar, as has occurred in past periods, or higher rates of inflation in the country of origin, would increase our expenses, and therefore, adversely affect our profitability. Conversely, a small portion of our revenues is generated by our subsidiary in Australia, and is denominated primarily in Australian dollars. Any material increase in the value of the U.S. dollar relative to the value of the Australian dollar would result in a decrease in the amount of these revenues upon their translation into U.S. dollars for reporting purposes. See Item 1A, Risk Factors - *Currency exchange rate fluctuations could increase our expenses* .

Our gross profit may not be comparable to those of other entities, since some entities include the costs of warehousing, outbound handling costs and outbound shipping costs in their costs of sales. We account for the above expenses as operating expenses and classify them under selling, general and administrative expenses. For the years ended December 31, 2013, 2012 and 2011, the costs of warehousing, outbound handling costs and outbound shipping costs were $14.1 million, $14.0 million, and $15.2 million, respectively. In addition, the majority of outbound shipping costs are paid by our customers, as many of our customers pick up their goods at our distribution centers.

If our suppliers experience increased raw materials, labor or other costs, and pass along such cost increases to us through higher prices for finished goods, our cost of sales would increase. Many of our suppliers are currently experiencing significant cost pressures related to labor rates, raw material costs and currency inflation, which has and, we believe, will continue to put pressure on our gross margins, at least for the foreseeable future. To the extent we are unable to pass such price increases along to our customers or otherwise reduce our cost of goods, our gross profit margins would decrease. Our gross profit margins have also been impacted in recent periods by: (i) an increasing shift in product mix toward lower margin products, including increased sales of licensed products, which typically generate lower margins as a result of required royalty payments (which are recorded in cost of goods sold); (ii) increased pressure from major retailers, largely as a result of prevailing economic conditions, to offer additional mark downs and other pricing accommodations to clear existing inventory and secure new product placements; and (iii) other increased costs of goods. We believe that our future gross margins will continue to be under pressure as a result of the items listed above. In addition, charges pertaining to anti-dumping duties that we anticipate will be owed by our LaJobi subsidiary to U.S. Customs, and charges pertaining to customs duties we anticipate will be owed by our Kids Line and CoCaLo subsidiaries to U.S. Customs have adversely affected gross margins and results of operations for specified periods (See Note18 of the Notes to Consolidated Financial Statements). As the customs matters have not been concluded, however, it is possible that the actual amount of duty owed for the relevant periods will be higher than currently accrued amounts, and in any event, additional interest will continue to accrue until payment is made. In addition, we may be assessed by U.S. Customs a penalty of up to 100% of any customs duty owed, as well as possibly being subject to fines, penalties or other measures from U.S. Customs or other governmental authorities. Any amounts owed in excess of accrued amounts will adversely affect our gross margin and results of operations for the period(s) in which such amounts are recorded and could have a material adverse effect on our results of operations. See Note 18 of the Notes to Consolidated Financial Statements for a discussion of the LaJobi anti-dumping duty matters and the Kids Line/CoCaLo customs duty matters.

We continue to seek to mitigate margin pressure through the development of new products that can command higher pricing; the identification of alternative, lower-cost sources of supply, re-engineering of certain existing products to reduce manufacturing costs; where possible, price increases; and more aggressive inventory management. Particularly in the mass market, however, our ability to increase prices or resist requests for mark-downs and/or other allowances is limited by market and competitive factors, and, while we have implemented selective price increases and will likely continue to seek to do so, we have not been able to increase prices commensurate with our cost increases and have generally focused on maintaining (or increasing) shelf space at retailers and, as a result, our market share.

**Recent Developments**

Ability to Continue as a Going Concern

Based on our current operational expectations, the limited availability anticipated under our credit agreement (notwithstanding the April 2014 amendment thereto described below), and the uncertainty as to the amount and timing of the payments that we will be required to make to U.S. Customs and/or other governmental authorities in respect of pending Customs duty matters, to satisfy any obligations resulting from the arbitration with Mr. Bivona, and/or to the CPSC in respect of its pending investigation, in each case when such matters are finalized, there is substantial doubt as to our ability to continue as a going concern, and our independent registered public accounting firm has included in their audit opinion for the year ended December 31, 2013 an explanatory paragraph to that effect. See Capital Resources, Liquidity Assessment, and Our Ability to Continue as a Going Concern below.

Exploration of Strategic and Financing Alternatives

As we have disclosed previously, the Board of Directors has authorized the Company to identify and evaluate a broad range of strategic and financing alternatives aimed at enhancing shareholder value. These alternatives may include addressing under-performing product lines, exploring strategic alliances, the sale or merger of the Company or one or more of its subsidiaries, restructuring of the Company s current debt, recapitalizing, or other possible transactions. The Company may decide to complete any combination of these or other possible strategic and/or financing alternatives, and has engaged East Wind Advisors and Oppenheimer & Co. Inc. to assist the Board of Directors with respect to certain aspects of the process. During the course of the review process, the Company will continue its efforts to execute key strategic and operational initiatives previously identified as critical to improving the Company s overall business.

The Company has not made a decision to pursue any specific strategic or financing alternative at this time, and the strategic and financial review process may not result in the approval or consummation of any specific action or transaction. If an action or transaction is approved, there can be no assurance of the terms and there is no definitive timetable for the process. See Item 1A, Risk Factors ***Our decision to explore strategic alternatives may not result in an action or transaction or may cause us to recognize a loss, and we cannot predict whether our plans to generate liquidity will be successful.***

Interim Award in LaJobi Arbitration

On March 6, 2014, an Interim Award was released by the arbitration panel (the Panel ) in the arbitration proceeding initiated by Mr. Bivona in December of 2011. The Interim Award notes that both parties are to some extent prevailing parties , and states that until the Panel can make a final determination with respect to the amount of all damages and setoffs, no damages awarded will be payable by either party. The Panel stated that because U.S. Customs has not yet finally determined the amount of anti-dumping duties and/or penalties owed by KID or LaJobi, it is not possible to ascertain the precise amount of damages awarded to either side. The Panel retained jurisdiction to receive further evidence and award damages when a final determination of the amount of duties and/or penalties owed is made. KID and LaJobi intend to submit further evidence in support of their damage award. The Interim Award had no effect on the Company s results of operations for the fourth quarter of 2013 or the first quarter of 2014. Details of the Interim Award and damages awarded thereunder are described above in Item 3, Legal Proceedings . The impact of any payment obligations required by the Interim Award (once finalized) on the Company are discussed in Liquidity and Capital Resources below.

Credit Agreement Amendment

On December 21, 2012, KID and specified domestic subsidiaries (the Borrowers ) executed a Credit Agreement (the Credit Agreement ) with Salus Capital Partners, LLC, as Lender, Administrative Agent and Collateral Agent (the Agent ), and the other lenders from time to time party thereto. On April 8, 2014, the Borrowers, the Agent and the lenders executed a Waiver and Fourth Amendment to Credit Agreement ( Amendment No. 4 ) described below. For a detailed description of the Credit Agreement (including all amendments thereto), see Note 8 to the Notes to Consolidated Financial Statements.

The Company was not in compliance with the financial covenant pertaining to Availability under the Credit Agreement for the month ended February 28, 2014, the financial covenants pertaining to Availability and gross sales for the month ended March 31, 2014, or the covenant requiring the delivery of annual financial statements within 90 days of the end of 2013, accompanied by a report and opinion of its auditors without a going concern or other qualification or exception. In addition, trading of the Company s common stock on the New York Stock Exchange was suspended as of March 31, 2014. The Company also anticipated that it may not be in compliance with both financial covenants for the month ended April 30, 2014. All of the foregoing, in addition to the Going Concern Events (as defined below), constituted (or may constitute) events of default under the Credit Agreement (collectively, the Existing Events of Default ). The Company also anticipated that it would determine and disclose in its financial statements for 2013 that there is substantial doubt about its ability to continue as a going concern, and that a related explanatory paragraph would be included in the report and opinion of the Company s auditors for such year, and that it would consider the existence of material weaknesses or significant deficiencies in its internal control over financial reporting for the year ended December 31, 2013 (the Going Concern Events ). The Going Concern Events may also violate specified provisions of the Credit Agreement, and result in a failure of the conditions to lending thereunder.

Amendment No. 4 waived the Existing Events of Default, and any event of default or failure of any condition to lending arising from the violation of specified provisions of the Credit Agreement resulting from Going Concern

Events or the failure of the Borrowers to make a payment under a material license and receipt of a related notice of breach (which breach has since been cured). In addition, among other things, compliance with each of the Availability and gross sales financial covenants was suspended until the month ending August 31, 2014, the availability block was reduced by $0.5 million (i.e., $3.5 million, instead of $4.0 million, will be subtracted from amounts otherwise available for borrowing to compute availability) for a period of four months, and the permitted transit period for in-transit inventory was increased (thereby increasing the amount of eligible inventory used to calculate availability) for a period of four months. In consideration of the foregoing, among other things, the Company is subject to a new monthly Collateral Coverage Ratio (the value, as defined in Amendment No. 4, of eligible inventory, intellectual property and trade receivables to total outstandings under the Credit Agreement) of 1.0:1.0, interest rate margins applicable to both revolver tranches under the Credit Agreement were increased by 2.0% per annum, and the Agent was granted specified Kid Brands board of directors observation and participation rights (in a non-voting capacity). If the Company is unable to remain in compliance with the Credit Agreement (as so amended), the lenders would be entitled to, among other things, accelerate the loans under the Credit Agreement, declare the commitments thereunder to be terminated and/or refuse to permit further draw-downs on the revolver, seize collateral or take other actions of secured creditors. See Capital Resources, Liquidity Assessment, and Ability to Continue as a Going Concern below.

NYSE Delisting

We received notification on March 24, 2014 from NYSE Regulation, Inc. ( NYSE Regulation ) stating that because we were not in compliance with the continued listing standards set forth in Section 802.01B of the NYSE s Listed Company Manual (as our average global equity market capitalization fell below $15.0 million over a consecutive 30 trading-day period), NYSE Regulation intends to delist our common stock from the NYSE by filing a delisting application with the SEC. Trading of the Company s common stock was suspended prior to the opening of trading on March 31, 2014, and a Form 25 will be filed by the NYSE with the SEC. Our common stock is traded in the over-the-counter market.

Intangible Assets

Our non-amortizing intangible trade names were tested for impairment as part of our annual 2013 impairment testing of indefinite-lived intangible assets, which is performed in the fourth quarter of each year (unless specified triggering events warrant more frequent testing). The trade names tested were Kids Line®, Sassy®, LaJobi® and CoCaLo®. The review for impairment of indefinite-lived intangible assets, including trade names, is based on whether the fair value of such trade names exceeds their carrying value. We determined fair value by performing a projected discounted cash flow analysis based on the Relief-From-Royalty Method for all indefinite-lived trade names. For our year-end 2013 testing, the Company used a five-year projection period, which has been its prior practice, and projected the long-term growth rate of each of its four business units, as well as the assumed royalty rate that could be obtained by each such business unit by licensing out each intangible trade name. The Company kept its long-term growth rate at 2.5% for all of its business units, and used assumed royalty rates of 3.0%, 4.5%, 2.0% and 5.0% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. For 2012, the Company used assumed royalty rates of 3.0%, 3.5%, 2.0% and 5.5% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. The assumed royalty rate increased with respect to Sassy from the 2012 rate of 3.5%, as a result of projected increased profitability at this business unit. The assumed royalty rate decreased with respect to CoCaLo from the 2012 rate of 5.5%, as a result of decreased profitability at this business unit in 2013. The Company also slightly increased the discount rate to mitigate the risk inherent in any projections. As the carrying value of the Kids Line, LaJobi, and CoCaLo trade names exceeded their respective fair values due to revised future cash flow projections resulting from meaningfully lower sales for 2013, the Company recorded an impairment with respect thereto of $2.0 million, $1.8 million, and $1.3 million, respectively, for the three months ended December 31, 2013. The Company also recorded an impairment of approximately $4.0 million to the LaJobi trade name in the third quarter of 2013, for an aggregate impairment of $5.8 million to the LaJobi trade name for the year ended December 31, 2013. As the fair value of the Sassy trade name exceeded its carrying value, no impairments to this intangible asset were recorded for the year ended December 31, 2013. No impairments were recorded with respect to intangible assets with definite lives in the fourth quarter of 2013. However, in the third quarter of 2013, the fair value of the Kokopax trade name and customer relationships were determined to be lower than their respective carrying values due to revised undiscounted future cash flow projections resulting from lower than anticipated sales. This resulted in an approximate $0.2 million impairment (representing a full impairment of such intangibles), which was recorded in cost of sales in the third quarter of 2013.

See Note 5 to the Notes to Consolidated Financial Statements for details.

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Management Changes

On December 5, 2013, Richard F. Schaub, Jr., by mutual agreement with LaJobi resigned his position as LaJobi s President, and Keith Kotel assumed such position. In connection with his departure, LaJobi entered into a Consulting Agreement (the RS Agreement ) with Mr. Schaub. Pursuant to the terms of the RS Agreement, from December 5, 2013 until January 3, 2014, Mr. Schaub remained employed by LaJobi as a senior business advisor and from January 4, 2014 until May 5, 2014, Mr. Schaub will be a consultant to LaJobi. The terms of the RS Agreement are described in detail in the Current Report on Form 8-K filed by the Company on December 6, 2013.

Effective January 29, 2014, Renee Pepys Lowe resigned her position as President of Kids Line and CoCaLo, and Bradley Sell assumed such position. In connection with the departure of Ms. Pepys Lowe, on January 29, 2014, the Company entered into a Consulting Agreement, effective February 3, 2014, with RPL and Associates, LLC, a limited liability company of which Ms. Pepys Lowe is member and President ( RPL ), for a one-year term, pursuant to which RPL will provide consulting services to the Company as reasonably requested by the Company s CEO. The terms of this Consulting Agreement are described in detail in the Current Report on Form 8-K filed by the Company on January 29, 2014.

Consolidation Plan/3PL Agreement

During the third quarter of 2013, the Company determined to implement a transition to a single third-party logistics company, and the related closure (upon expiration of the applicable lease agreements) of its subsidiaries distribution centers in Cranbury, New Jersey; Southgate, California; and Kentwood, Michigan, and the termination of certain existing 3PL agreements (collectively, the Consolidation Plan ). In connection therewith, on November 13, 2013, KID entered into an Operating Services Agreement (the 3PL Agreement ) with National Distribution Centers, L.P., the warehousing and distribution division of NFI ( NFI ) for certain third party logistics (3PL) services for the Company s warehousing and distribution operations. Pursuant to this agreement, NFI will provide storage, handling, inventory management, transportation management, shipping, receiving, repackaging, order processing and related support services to the Company at NFI s distribution center in Chino, California. A description of the Consolidation Plan, the 3PL Agreement, and costs associated therewith is located in the Company s Quarterly Report on Form 10-Q for the period ended September 30, 2013.

U.S. Customs and U.S. Attorney s Office Investigation

On August 19, 2011, the United States Attorney s Office for the District of New Jersey ( USAO ) contacted Company counsel, requesting information relating to LaJobi previously provided by the Company to U.S. Customs and the SEC, as described above, as well as additional documents and information. Since that time, the Company has been cooperating with the USAO on a voluntary basis. In October 2013, discussions among the Company, its counsel and the USAO commenced, concerning the potential resolution of this matter with respect to the Company and its LaJobi subsidiary. The Company is currently seeking to negotiate a global resolution of these issues with the USAO and U.S. Customs, but there can be no assurance that these efforts will result in a negotiated resolution. The Company is currently unable to predict the duration, the resources required or outcome of the USAO investigation or these related global resolution discussions, the nature of any sanction that may be imposed or the impact such investigation or resolution may have. An unfavorable outcome may result in a default under certain license agreements that we maintain, and is likely to result in a default under our credit agreement and have a material adverse effect on our financial condition and results of operations.

KID/LaJobi Office Lease

On November 15, 2013, KID entered into an office lease agreement with Meadows Office, L.L.C., for the lease of office space in Rutherford, New Jersey for its executive offices and those of its LaJobi subsidiary. The Company intends to move into the new space during the third quarter of 2014. We will occupy temporary space in the same building commencing in May of 2014 until construction on the new space is complete.

Sassy Property Sale

On October 10, 2013, Sassy entered into a Buy and Sell Agreement with Ventra Grand Rapids 5, LLC, a Delaware corporation, for the sale by Sassy to Buyer of the premises owned by Sassy and located at 2305 Breton Industrial Park Drive SE, Kentwood, Michigan, including specified equipment and personal property, for a cash purchase price of $1.5 million. In connection with the sale, which was consummated on November 14, 2013 the Company recorded an impairment of $0.8 million for the third quarter of 2013 (the Sassy Building Impairment ).

Putative Class Action and Derivative Litigation

On November 15, 2013, the relevant Court of Appeals affirmed the District Court s dismissal of the Putative Class Action with prejudice, and issued an order dismissing the appeal of the dismissal of the amended complaint in the Putative Derivative Action pursuant to a stipulation previously filed by the parties on November 14, 2013.

**Inventory**

Inventory, which consists of finished goods, is carried on our balance sheet at the lower of cost or market. Cost is determined using the weighted average cost method and includes all costs necessary to bring inventory to its existing condition and location. Market represents the lower of replacement cost or estimated net realizable value of such inventory. Inventory reserves are recorded for damaged, obsolete, excess and slow-moving inventory if management determines that the ultimate expected proceeds from the disposal of such inventory will be less than its carrying cost as described above. Management uses estimates to determine the necessity of recording these reserves based on periodic reviews of each product category, based primarily on the following factors: length of time on hand, historical sales, sales projections (including expected sales prices), order bookings, anticipated demand, market trends, product obsolescence, the effect new products may have on the sale of existing products and other factors. Risks and exposures in making these estimates include changes in public and consumer preferences and demand for products, changes in customer buying patterns, competitor activities, our effectiveness in inventory management, as well as discontinuance of products or product lines. In addition, estimating sales prices, establishing markdown percentages and evaluating the condition of our inventories all require judgments and estimates, which may also impact the inventory valuation. However, we believe that, based on our prior experience of managing and evaluating the recoverability of our slow moving, excess, damaged and obsolete inventory in response to market conditions, including decreased sales in specific product lines, our established reserves are materially adequate. If actual market conditions and product sales were less favorable than we have projected, however, additional inventory reserves may be necessary in future periods.

**Company Operational Strategy**

The principal elements of our global operational strategy include:

focusing on design-led and branded product development at each of our subsidiaries to enable us to continue to introduce compelling new products;

pursuing organic growth opportunities to capture additional market share, including:

(i) expanding our product offerings into related categories;

(ii) increasing our existing product penetration (selling more products to existing customer locations);

(iii) increasing our existing store or online penetration (selling to more store locations within each large, national retail customer or their associated websites); and

(iv) expanding and diversifying our distribution channels, with particular emphasis on sales into international markets and non-traditional infant and juvenile retailers;

- growing through licensing, distribution or other strategic alliances, including pursuing acquisition opportunities in businesses complementary to ours;

- implementing strategies to further capture synergies among our businesses, through cross-marketing opportunities, consolidation of certain operational activities and other collaborative activities; and

- continuing effort to manage costs within and across each of our businesses.

**General Economic Conditions as They Impact Our Business**

Our business, financial condition and results of operations have and may continue to be affected by various economic factors. Periods of economic uncertainty can lead to reduced consumer and business spending, including by our customers, and the purchasers of their products, as well as reduced consumer confidence. In addition, there has been a continuing shift in the channels from which consumers purchase goods, including from brick-and-mortar stores to online venues, and our business will be affected by our ability to adapt to such changes in an efficient manner. Reduced access to credit has and may continue to adversely affect the ability of consumers to purchase our products from retailers, as well as the ability of our customers to pay us. If such conditions are experienced in future periods, our industry, business and results of operations may be negatively impacted. Continuing adverse global economic conditions in our markets may result in, among other things (i) reduced demand for our products; (ii) increased price competition for our products; and/or (iii) increased risk in the collectability of cash from our customers and/or (iv) increased pressure from major retailers to offer additional mark downs and other pricing accommodations. See Item 1A, Risk Factors *The state of the economy may impact our business* .

In addition, because we rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs, continued disruptions in the capital and credit markets could adversely affect our ability to draw on our revolving credit facility. Our access to funds under our credit facility is dependent on the ability of the seniors lenders that are parties to such facility to meet their funding commitments. They may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from us and other borrowers within a short period of time. Such disruptions could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. See Item 1A, Risk Factors *Further potential disruptions in the credit markets may adversely affect the availability and cost of short-term funds for liquidity requirements and our ability to meet long-term commitments, which could adversely affect our results of operations, cash flows, and financial condition* .

**Results of Operations**

**Year ended December 31, 2013 compared to year ended December 31, 2012**

Net sales for the year ended December 31, 2013 decreased 18% to $188.2 million, compared to $229.5 million for the year ended December 31, 2012. This decrease was primarily the result of sales declines of 31.9% at CoCaLo, 27.4% at Kids Line, and 24.5% at LaJobi, in each case due to lower sales volume at certain large customers. These declines were partially offset by an increase in sales of 18.7% at Sassy for the year ended December 31, 2013, as compared to the prior year, due to continued new product acceptance. The sales decreases at CoCaLo and Kids Line also reflect the discontinuance of underperforming products and licenses in 2013 (representing $7.5 million in net sales in 2012); higher closeout sales in the year ended December 31, 2012 ($4.7 million higher in 2012), as well as lower international sales from the Company s foreign subsidiaries in 2013 ($4.5 million), resulting in part from the closure of the Company s UK operations at the end of 2012.

Gross profit was $36.6 million, or 19.4% of net sales, for the year ended December 31, 2013, as compared to $57.8 million, or 25.2% of net sales, for the year ended December 31, 2012. In absolute terms, and as a percentage of net sales, gross profit decreased as a result of the impact of: (i) lower gross profit dollars ($13.3 million) as a result of lower sales; (ii) aggregate non-cash impairments to specified intangible assets ($9.2 million) (See Note 5 of the Notes to Consolidated Financial Statements); (iii) increased sales allowances ($1.4 million), and (iv) changes in product mix (including increased sales of licensed products in 2013 compared to 2012, resulting in increased royalties of $0.2 million); partially offset by (A) lower landed cost of products ($2.4 million) as a result of lower product costs, and (B) decreases in inventory reserves ($0.6 million) related to underperforming product lines.

Selling, general and administrative expense was $61.2 million, or 32.5% of net sales, for the year ended December 31, 2013, compared to $56.9 million, or 24.8% of net sales, for the year ended December 31, 2012. SG&A expense increased as a percentage of sales due to lower sales volume, and increased in absolute terms ($4.3 million) primarily as a result of: (i) increased legal fees and settlement proposal accruals (an aggregate of $2.7 million); (ii) expenses paid or accrued in connection with our Consolidation Plan ($1.1 million) (See Note 3); (iii) the Sassy Building Impairment ($0.8 million); (iv) increased recruiting fees ($0.7 million); (v) increased bonus accruals ($0.7 million); (vi) other professional fees ($0.5 million); (vii) increased stock-based compensation expense ($0.2 million) as a result of an inducement award granted in connection with the appointment of our President and Chief Executive Officer; (viii) increased professional fees related to banking ($0.1 million); and (ix) other increases of smaller magnitude (aggregating $0.3 million). These increases were partially offset by: (i) decreased personnel costs related to reductions in headcount ($1.3 million); (ii) lower shipping, storage and warehousing costs ($0.7 million); (iii) decreased sales commissions ($0.5 million); and (iv) decreased product development costs ($0.2 million).

Other expense was $4.2 million for the year ended December 31, 2013, as compared to $6.2 million for the year ended December 31, 2012. This decrease of approximately $2.0 million was primarily due to (i) the gain on the sale of specified intellectual property in the second quarter of 2013 ($1.2 million), and (ii) decreased write offs of deferred financing costs in 2013 ($0.4 million) compared to 2012 ($3.3 million), partially offset by an increase in interest expense ($2.1 million) due to higher borrowing costs during the year ended December 31, 2013 compared to the year ended December 31, 2012.

The income tax benefit for the year ended December 31, 2013 was $72,000 on loss before income tax benefit of $28.9 million. The difference between the effective tax rate of 0.3% for the year ended December 31, 2013 and the U.S. federal tax rate of 35% was primarily related to (i) a loss before income tax provision for which the Company did not record a benefit due to a year-to-date loss and valuation allowances on deferred tax assets ($10.1 million); (ii) foreign tax provisions and withholding taxes in a jurisdiction with year-to-date income and historical profitability ($74,000); (iii) increased foreign valuation allowances ($49,000); (iv) state tax provisions ($37,000); and (v) an increase in the liability for unrecognized tax benefits ($3,000) as a result of additional interest being accrued; offset by: (i) a decrease in a deferred tax liability related to an indefinite-lived intangible asset ($218,000), and (ii) the true-up of prior year federal and state tax estimates ($17,000).

The income tax provision for the year ended December 31, 2012 was $48.8 million on loss before income tax expense of $5.3 million. The difference between the effective tax rate for the year ended December 31, 2012 and the U.S. federal tax rate of 35% primarily relates to: (i) the increase in valuation allowance associated with the Company s deferred tax assets, foreign tax credit carry forwards, and capital loss carry forwards as a result of the Company s cumulative three year losses ($50.3 million); and (ii) the result of permanent differences ($0.4 million). See Note 10 of the Notes to Consolidated Financial Statements.

As a result of the foregoing, net loss for the year ended December 31, 2013 was $28.8 million, or ($1.31) per diluted share, compared to net loss of $54.1 million, or ($2.48) per diluted share, for the year ended December 31, 2012.

**Year ended December 31, 2012 compared to year ended December 31, 2011**

Net sales for the year ended December 31, 2012 decreased 9.2% to $229.5 million, compared to $252.6 million for the year ended December 31, 2011. This decrease was primarily the result of sales declines of 20.1% at Kids Line, 13.9% at CoCaLo and 6.8% at LaJobi, in each case due to lower sales volume at certain large customers. These declines were partially offset by an increase in sales of 10.1% at Sassy for the year ended December 31, 2012, as compared to the prior year period, primarily as a result of higher sales of Carters®-branded products.

Gross profit was $57.8 million, or 25.2% of net sales, for the year ended December 31, 2012, as compared to $41.3 million, or 16.3% of net sales, for the year ended December 31, 2011. In absolute terms, and as a percentage of net sales, gross profit increased as a result of the impact of: (i) a 2011 non-cash impairment of the Kids Line customer relationship intangible asset ($19.0 million) and a 2011 non-cash impairment of the LaJobi trade name intangible asset ($9.9 million) (See Note 5 of the Notes to Consolidated Financial Statements) that did not recur in 2012; (ii) lower amortization of intangible assets ($1.1 million) in 2012; and (iii) the impact of lower markdowns and allowances ($1.0 million) in 2012, offset by: (A) lower gross profit dollars ($6.8 million) as a result of lower sales; (B) higher landed cost of products ($6.5 million) as a result of higher product costs, changes in product mix (including increased sales of licensed products in 2012 compared to 2011, resulting in increased royalties of $0.4 million) and increased close-out sales primarily designed to reduce inventory; and (C)increases in inventory reserves ($0.8 million) related to underperforming product lines.

Selling, general and administrative expense was $56.9 million, or 24.8% of net sales, for the year ended December 31, 2012, compared to $66.5 million, or 26.3% of net sales, for the year ended December 31, 2011. The decrease in SG&A costs of $9.6 million was primarily a function of: (i) decreased professional fees incurred in connection with the Customs matters at its subsidiaries, as well as related litigation and other costs ( Customs Compliance Costs ) ($3.4 million); (ii) decreased commissions and freight out costs ($1.6 million); (iii) costs associated with an accrual for a contingent liability in connection with a lease assigned to the buyer of the Company s former gift business ( TRC ) recorded in the 2011 ($1.4 million), which did not recur in the year ended December 31, 2012 (the TRC Lease Accrual ); (iv) lower stock-based compensation expense ($1.1 million); (v) decreases in product development costs ($0.7 million); (vi) lower tradeshow costs ($0.6 million); and (vii) the impact of other expense reduction initiatives that resulted in an aggregate additional savings of $2.0 million in 2012. These decreases were offset by increases in other professional fees of $1.2 million primarily related to amendments to, and a refinancing of, our credit facility during 2012 and professional fees related to other Company initiatives.

During the fourth quarter of 2011, as a result of our annual goodwill impairment testing, we concluded that the goodwill we were required to record in 2010 (constituting all of the Company s goodwill) was fully impaired and we therefore recorded an aggregate non-cash impairment charge to goodwill of $11.7 million. See Note 5 of the Notes to Consolidated Financial Statements. No impairment charges to any of the Company s remaining intangible assets (either definite or indefinite-lived) were recorded in 2012.

A valuation reserve adjustment of $2.0 million was recorded in the year ended December 31, 2011 as a result of the TRC bankruptcy. See Results of Operations for the year ended December 31, 2011 compared to year ended December 31, 2010 below.

Other expense was $6.2 million for the year ended December 31, 2012, as compared to $5.2 million for the year ended December 31, 2011. This increase of approximately $1.0 million was primarily due to an increase in the amortization of financing costs, as well as write-offs of unamortized deferred financing costs relating to amendments to, and the refinancing of the Company s senior credit facility in 2012 (an aggregate of $3.3 million during 2012, as compared to $1.7 million during 2011), partially offset by lower borrowings and lower borrowing costs in 2012 compared to 2011 ($0.5 million).

The income tax provision for the year ended December 31, 2012 was $48.8 million on loss before income tax expense of $5.3 million. The difference between the effective tax rate for the year ended December 31, 2012 and the U.S. federal tax rate of 35% primarily relates to: (i) the increase in valuation allowance associated with the Company s deferred tax assets, foreign tax credit carry forwards, and capital loss carry forwards as a result of the Company s cumulative three year losses ($50.3 million); and (ii) the result of permanent differences ($0.4 million). See Note 10 of the Notes to Consolidated Financial Statements.

The income tax benefit for the year ended December 31, 2011 was $1.5 million on loss before income tax benefit of $40.1 million. The difference between the effective tax rate of 3.7% for the year ended December 31, 2011 and the U.S. federal tax rate of 35% primarily relates to: (i) an increase in the valuation allowance associated with both the Company s deferred tax assets for foreign tax credit carry forwards as a result of the Company s 2011 year net operating loss and scheduled expiration dates of the carry forwards ($12.0 million) and the capital loss carry forwards associated with the sale of the Company s former gift business in light of the TRC bankruptcy filing ($3.6 million); (ii) an increase in the Company s foreign tax credits (approximately $3.4 million) in the 2011 year which have been fully valued as a result of the 2011 year loss; and (iii) an increase in the liability for unrecognized tax benefits as a result of the then-ongoing Internal Revenue Service examination and additional interest ($0.2 million).

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As a result of the foregoing, net loss for the year ended December 31, 2012 was $54.1 million, or ($2.48) per diluted share, compared to net loss of $38.6 million, or ($1.78) per diluted share, for the year ended December 31, 2011.

**Liquidity and Capital Resources**

Liquidity Metrics

*Cash and Cash Equivalents/Working Capital*

As of December 31, 2013 and December 31, 2012, the Company had cash and cash equivalents of $0.2 million and $0.3 million, respectively. As of December 31, 2013 and December 31, 2012, working capital was ($28.0) million and ($13.9) million, respectively. The negative working capital in both years results, in part, from the classification of all outstanding debt under the Company s current credit agreement as short-term debt. The increase in negative working capital from 2012 to 2013 primarily reflects losses incurred during 2013. See Capital Resources, Liquidity Assessment, and Ability to Continue as a Going Concern below.

The following table shows certain key liquidity metrics for the years indicated (in thousands):

| | Year Ending December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Net cash provided by (used in): | | |
| Operating activities | $ 3,274 | $ (2,365) |
| Investing activities | (192) | (1,959) |
| Financing Activities | (3,579) | 2,294 |
| Effect of currency exchange rate changes on cash and cash equivalents | 353 | (108) |
| Net (decrease) in cash and cash equivalents | $ (144) | $ (2,138) |

*Net Cash Provided by (Used in) Operating Activities*

Net cash provided by operating activities was $3.3 million during the year ended December 31, 2013 compared to net cash used in operating activities of $2.4 million during the year ended December 31, 2012. Operating activities in 2013 reflected the net loss of $28.8 million in 2013, as compared to net loss of $54.1 million 2012. Cash provided by operations for the year ended December 31, 2013 was impacted by a net decrease in accounts receivable of $8.4 million, primarily resulting from lower sales, a decrease in prepaid expenses and other current assets of $1.0 million, and an increase from the prior year of $12.2 million in accounts payable and accrued expenses as a result of the timing of payments, partially offset by a net increase in inventory of $1.4 million. Operating activities in 2012 reflected the net loss of $54.1 million. Cash used in operations for the year ended December 31, 2012 primarily reflects: (i) non-cash charges of $49.4 million to deferred tax assets primarily due to the $50.3 million increase in the valuation allowance for deferred tax assets; and (ii) a decrease in inventory ($2.9 million) as the result of inventory management and actions taken the Company to liquidate certain slow moving inventory; partially offset by a decrease in: (i) accrued expenses ($4.3 million); (ii) accounts payable ($3.0 million) resulting primarily from decreased inventory purchases; and (iii) an increase in accounts receivable of $2.7 million.

*Net Cash Used in Investing Activities*

Net cash used in investing activities was $0.2 million for the year ended December 31, 2013, as compared to $2.0 million for the year ended December 31, 2012. Net cash used in investing activities in 2013 was related to capital expenditures primarily relating to normal operations and completion of a new consolidated information technology system, offset by $1.4 million in proceeds from the sale of the Sassy building. Net cash used in investing activities in 2012 was related to capital expenditures primarily relating to normal operations and a new consolidated information technology system.

*Net Cash (Used in) Provided by Financing Activities*

Net cash used in financing activities was $3.6 million for 2013 compared to net cash provided by financing activities of $2.3 million in 2012. The net cash used and provided by in both periods primarily reflects the net borrowings or repayment of debt, respectively, under the Company s Credit Agreement.

Capital Resources, Liquidity Assessment, and Ability to Continue as a Going Concern

Our principal sources of liquidity are cash flows from operations, cash and cash equivalents, and availability under our senior credit facility. Although a significant portion of the amounts currently outstanding under our Credit Agreement represents prior borrowings used to fund acquisitions, availability under our Credit Agreement is currently (and anticipated to continue to be) needed to fund ordinary course working capital requirements, as well as anticipated anti dumping duty and other Customs duty assessments, related interest and/or related penalties to governmental authorities, any payment requirements resulting from the arbitration with Mr. Bivona, any payment requirements to the CPSC, and any unanticipated expenses. At December 31, 2013 our revolving loan availability was $4.9 million, and such availability is currently expected to remain very tight for the remainder of 2014.

Based on our current operational expectations, the limited availability anticipated under the Credit Agreement (notwithstanding the April 2014 amendment thereto), and the uncertainty of the amount and timing of any required payments to U.S. Customs and/or other governmental authorities (including the USAO or the SEC) in respect of pending Customs duty matters, to satisfy any obligations resulting from the arbitration with Mr. Bivona, and/or to the CPSC in respect of its pending investigation, in each case when such matters are finalized, there can be no assurance that we will be in compliance with the financial covenants or will be able to borrow under our Credit Agreement at the time a final determination with respect to such matters is made, or whether any payment requirements pursuant to such matters will result in a default or inability to borrow under such Credit Agreement. In addition, there can be no assurance that we will have sufficient liquidity to satisfy these or our ordinary course working capital requirements. As a result of these uncertainties, there is substantial doubt about our ability to continue as a going concern, and our independent registered public accounting firm has issued a report including an explanatory paragraph to that effect. Our consolidated financial statements as of December 31, 2013, however, have been prepared under the assumption that we will continue as a going concern (all of our outstanding obligations under our credit agreement are currently classified as short-term debt), and do not include any adjustments that might result from the outcome of this uncertainty.

The Company was not in compliance with the financial covenant pertaining to Availability under the Credit Agreement for the month ended February 28, 2014, the financial covenants pertaining to Availability and gross sales for the month ended March 31, 2014, or the covenant requiring the delivery of annual financial statements within 90 days of the end of 2013, accompanied by a report and opinion of its auditors without a going concern or other qualification or exception. In addition, trading of the Company s common stock on the New York Stock Exchange was suspended as of March 31, 2014. The Company also anticipated that it may not be in compliance with both financial covenants for the month ended April 30, 2014. All of the foregoing, in addition to the Going Concern Events (as defined below), constituted (or may constitute) events of default under the Credit Agreement (collectively, the Existing Events of Default ). The Company also anticipated that it would determine and disclose in its financial statements for 2013 that there is substantial doubt about its ability to continue as a going concern, and that a related explanatory paragraph would be included in the report and opinion of the Company s auditors for such year, and that it would consider the existence of material weaknesses or significant deficiencies in its internal control over financial reporting for the year ended December 31, 2013 (the Going Concern Events ). The Going Concern Events may also violate specified provisions of the Credit Agreement, and result in a failure of the conditions to lending thereunder.

As a result of the foregoing, the Company, the Agent and the Required Lenders under the Credit Agreement executed a Waiver and Fourth Amendment to Credit Agreement ( Amendment No. 4 ) as of April 8, 2014. Amendment No. 4 waived the Existing Events of Default, and any event of default or failure of any condition to lending arising from the violation of specified provisions of the Credit Agreement resulting from the occurrence of the Going Concern Events or the failure of the Borrowers to make a payment under a material license and receipt of a related notice of breach (which breach has since been cured). In addition, among other things, compliance with each of the Availability and gross sales financial covenants were suspended until the month ending August 31, 2014, the availability block was reduced by $0.5 million (i.e., $3.5 million, instead of $4.0 million, will be subtracted from amounts otherwise available for borrowing to compute availability) for a period of four months, and the permitted transit period for in-transit inventory was increased (thereby increasing the amount of eligible inventory used to calculate availability) for a period of four months. In consideration of the foregoing, among other things, the Company is subject to a new monthly Collateral Coverage Ratio (the value, as defined in Amendment No. 4, of eligible inventory, intellectual property and trade receivables to total outstandings under the Credit Agreement) of 1.0:1.0, interest rate margins applicable to both revolver tranches under the Credit Agreement were increased by 2.0% per annum, and the Agent was granted specified KID board of directors observation and participation rights (in a non-voting capacity).

Notwithstanding the execution of Amendment No. 4, there can be no assurance that we will remain in compliance with such Credit Agreement. If the Company is unable to remain in compliance with its Credit Agreement, its lenders would be entitled to, among other things, accelerate the loans under the credit agreement, declare the commitments thereunder to be terminated and/or refuse to permit further draw-downs on the revolver, seize collateral or take other actions of secured creditors. If the loans are accelerated or commitments terminated, we are likely to face substantial liquidity problems, be forced to dispose of material assets or operations, seek to obtain equity capital, or restructure or refinance our indebtedness. Such alternative measures may not be available or successful. Also, the covenants under the Credit Agreement may limit our ability to dispose of material assets or operations or to restructure or refinance our indebtedness. Even if we are able to restructure or refinance our indebtedness, the economic terms may not be favorable to us. Any of the foregoing is likely to have a material adverse effect on the Company s financial condition and results of operations, and cause us to become bankrupt or insolvent.

In response to these uncertainties: (i) we have initiated a review of strategic and financing alternatives, including the retention of financial advisors to explore options and investment structures available to increase the Company s liquidity (described under Recent Developments above); (ii) we will continue to use all reasonable efforts to further increase Availability under the Credit Agreement by reducing levels of ineligible items; (iii) as part of our Settlement Submissions to U.S. Customs, we proposed settlement amounts and payment terms; (iv) we are seeking to negotiate a global settlement including payment terms with U.S. Customs and the USAO; (v) we have proposed settlement amounts and payments terms to the CPSC; and (vi) we intend to continue to reduce operating and administrative costs, continue to consolidate back office functions, and liquidate excess inventory, all of which we believe will help us to more effectively manage our liquidity in the near term. We cannot make assurances as to whether any of these actions can be effected on a timely basis, on satisfactory terms or maintained once initiated. Even if such actions are successfully implemented, our liquidity plan could result in limiting certain operational and strategic initiatives that were designed to grow our business over the long term. In addition, our Credit Agreement requires us to maintain a 1.0:1.0 Collateral Coverage Ratio, and as of August 31, 2014, minimum Availability and gross sales levels, as further described in Note 8 to the Notes to Consolidated Financial Statements, which we could have difficulty meeting to the extent that our plans are unsuccessfully implemented or for a number of additional reasons that are outside of our control, including but not limited to, the loss of key customers or suppliers. As described above, any covenant violation or other default under our credit agreement could cause us to be unable to continue as a going concern.

Management believes that the terms of Amendment No. 4 described above, and actions presently being taken to increase liquidity, may provide an opportunity for the Company to continue as a going concern. However, our liquidity is highly dependent on the amount and timing of any required payments (described above), our ability to remain in compliance with the Credit Agreement, and our ability to increase our availability thereunder or otherwise increase capital resources available to us. Without a sufficient increase in availability under our credit agreement (notwithstanding the April 2014 amendment thereto) or an increase in liquidity resulting from operations or as a result of an action or transaction arising out of our review of strategic and financing alternatives described herein, there can be no assurance that we will be able to satisfy our ordinary course cash requirements for the one-year period subsequent to the issuance of our audited financial statements for 2013, or any payments that we will be required to make to U.S. Customs, other governmental authorities, Mr. Bivona, and/or the CPSC, when such matters are finalized. LaJobi s issues with U.S. Customs, the USAO and the SEC, as well as the arbitration with Mr. Bivona and the pending investigation of the CPSC have continued over a period of several years. The Company believes that the lack of finality, and consequent uncertainty stemming from these issues, has (and continues to) hinder the Company in its efforts to raise additional capital.

See Note 18 to the Notes to Consolidated Financial Statements, for a discussion, among other things, of the Interim Award, and certain pending investigations and litigation, the outcome of which, if decided adversely to us (individually or in the aggregate) is likely to result in a default under the Credit Agreement, and materially and

adversely affect the Company s financial condition and liquidity. See Item 1A Risk Factors including *There can be no assurance that we will have sufficient liquidity to satisfy our cash obligations when required* , *Inability to maintain compliance with the bank covenants* , *We are currently party to litigation and other matters that have been and continue to be costly to defend and distracting to management, and if decided against us, are likely to have a material adverse effect on our business* and *There is a substantial doubt as to our ability to continue as a going concern, and our independent registered public accounting firm s report includes an explanatory paragraph to that effect* . See also Note 8 to Notes to Consolidated Financial Statements for conditions precedent contained in our Credit Agreement with respect to the payment of Customs duties or any earnout consideration, and *Summary of Credit Agreement* below for a description of the financial covenants applicable to the Company.

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Summary of Credit Agreement

On December 21, 2012, the Company, specified domestic subsidiaries consisting of Kids Line, LLC, Sassy, Inc., LaJobi, Inc., CoCaLo, Inc., I&J Holdco, Inc., and RB Trademark Holdco, LLC (such entities collectively with the Company, the Borrowers ), executed a Credit Agreement (the Credit Agreement ) with Salus Capital Partners, LLC, as Lender, Administrative Agent and Collateral Agent (the Agent ), and the other lenders from time to time party thereto (the Lenders ). The Credit Agreement was amended on April 16, 2013, May 16, 2013, August 13, 2013, November 14, 2013, December 16, 2013, and April 8, 2014. The current provisions of the Credit Agreement (as amended) are summarized below, and are described in more detail, along with a description of each of the foregoing amendments (including the reasons therefor), in Note 8 to the Notes to Consolidated Financial Statements, which description is incorporated by reference herein.

*General*

Subject to borrowing base limitations described in Note 8 of the Notes to Consolidated Financial Statements, the Borrowers may borrow, repay (without premium or penalty) and re-borrow advances under each of the Tranche A Revolver and the Tranche A-1 Revolver until December 21, 2016 (the Maturity Date ), at which time all outstanding obligations under the Credit Agreement are due and payable (subject to early termination provisions). Substantially all cash, other than cash set aside for the benefit of employees (and certain other exceptions), will be swept and applied to repayment of amounts outstanding under the Credit Agreement. Other than in connection with a permanent reduction of the Tranche A-1 Revolver, repayments shall be first applied to the Tranche A Revolver, and upon repayment of the Tranche A Revolver in full, to the Tranche A-1 Revolver. To the extent the Company has sufficient availability under the Credit Agreement therefor, Duty Amounts and LaJobi Earnout Consideration may be paid either: (i) in accordance with the business plan required to be provided to the Agent for the relevant year, or (ii) otherwise, so long as no default or event of default is continuing or would result therefrom, and availability, both before and after giving effect giving effect to such payment, is at least $10.0 million. The Credit Agreement contains customary representations and warranties, as well as various affirmative and negative covenants, described in Note 8 to the Notes to Consolidated Financial Statements. The Credit Agreement also contains customary conditions to lending, including that no default or event of default shall exist, or would result from any proposed extension of credit.

*Commitments and Amounts Borrowed*

As originally executed, the Credit Agreement provided for an aggregate maximum $80.0 million revolving credit facility, composed of: (i) a revolving $60.0 million tranche (the Tranche A Revolver ), with a $5.0 million sublimit for letters of credit; and (ii) a $20.0 million first-in last-out tranche (the Tranche A-1 Revolver ). Pursuant to a letter agreement executed in December of 2013, however: (i) maximum commitments under the Tranche A Revolver were reduced to $44.0 million, and (ii) maximum commitments under the Tranche A-1 Revolver were reduced to $16.0 million. The Agent and the Lenders waived the termination fee of approximately $300,000 that would otherwise have been applicable to such commitment reduction. Notwithstanding the foregoing, the Borrowers will be permitted (upon irrevocable notice to the Agent) to increase the maximum commitment under the Tranche A Revolver to $48.0 million, and maximum commitment under the Tranche A-1 Revolver to $17.0 million, *provided* that, among other things, applicable conditions to lending are satisfied, and prior to delivery of such notice, the Borrowers shall have delivered to the Agent an updated business plan demonstrating the need for such increase to the reasonable satisfaction of the Agent. In connection with the December 2013 amendment to the Credit Agreement, the Company recorded a non-cash charge for the unamortized portion of deferred financing costs in the fourth quarter of 2013 in the approximate amount of $440,000. In addition, the reduced commitment amounts (assuming no subsequent increase), are expected to result in an annual unused commitment fee savings of approximately $100,000.

At December 31, 2013, we had total borrowings of $53.1 million under the Credit Agreement ($37.4 million under the Tranche A Revolver and $15.7 million under the Tranche A-1 Revolver). At December 31, 2012, we had total borrowings of $57.5 million under the Credit Agreement ($38.8 million under the Tranche A Revolver and $18.7 million under the Tranche A-1 Revolver). At December 31, 2013 and 2012, revolving loan availability was $4.9 million and $11.4 million, respectively.

*Interest*

Loans under the Credit Agreement currently bear interest at a specified 30-day LIBOR rate (subject to a minimum LIBOR floor of 0.50%), plus a margin of 6.0% per annum with respect to the Tranche A Revolver and a margin of 13.25% per annum with respect to the Tranche A-1 Revolver. Interest is payable monthly in arrears and on the maturity date of the facility. During the continuance of any event of default, existing interest rates may be increased by 3.50% per annum (such default rate was not applied with respect to any prior covenant defaults). The weighted average interest rates for the outstanding loans under the Credit Agreement as of December 31, 2013 and 2012 were 4.5% with respect to the Tranche A Revolver and 11.75% with respect to the Tranche A-1 Revolver (previously applicable interest rate margins were increased by 2% per annum on each of the Tranche A Revolver and the Tranche A-1 Revolver commencing April 1, 2014 pursuant to Amendment No. 4).

*Financial Covenants*

The Company is subject to the following financial covenants (the New Financial Covenants ):

(a) the Loan Parties may not permit the Collateral Coverage Ratio (defined as the appraised value of eligible inventory, the net orderly liquidation value of eligible intellectual property, and the face amount of eligible receivables, minus reserves and the availability block, to total amounts outstanding under the Credit Agreement) for the trailing 30 day average, to be less than 1.0:1.0. This covenant will be tested monthly, commencing April 30, 2014, and as of the last day of each month thereafter.

In addition, commencing with the month ending August 31, 2014:

(b) the Loan Parties may not permit the average daily Availability for any fiscal month, calculated under, or in accordance with, the Agent s loan accounting system, to be more than fifteen percent (15%) less than the Availability projected for the last day of such month in the Business Plan most recently delivered to the Agent; and

(c) the Loan Parties may not permit gross sales for the trailing 3-month period, calculated as of the last day of each month, to be more than fifteen percent (15%) less than the gross sales projected for such period (ended as of the end of such month) in the Business Plan most recently delivered to the Agent.

Prior to the execution of Amendment No. 4, the Company had been subject to the financial covenants set forth in clauses (b) and (c) above for each month commencing in November of 2013. Prior to the execution of the November 2013 amendment to the Credit Agreement, the Company had been subject to a monthly minimum Adjusted EBITDA covenant and a minimum quarterly consolidated Fixed Charge Coverage Ratio. See Note 8 of the Notes to Consolidated Financial Statements for a detailed description of: (i) how the Adjusted EBITDA covenant and Fixed Charge Coverage Ratio were defined and calculated; (ii) the requirements of such covenants prior to the execution of the November 2013 amendment to the Credit Agreement; and (iii) the covenant defaults and other circumstances that culminated in the execution of each such amendment, which description is incorporated herein by reference.

*Events of Default*

The Credit Agreement contains customary events of default (including any failure to remain in compliance with the New Financial Covenants). The consequences of events of default are described in Capital Resources and Liquidity Assessment above.

*Fees*

The Borrowers are required to pay a monthly commitment fee of 0.50% per annum on the aggregate unused portion of each of the Tranche A Revolver and the Tranche A-1 Revolver (payable monthly in arrears); customary letter of credit fronting fees (plus standard issuance and other processing fees) to the applicable issuer; a monthly monitoring fee to the Agent; an annual agency fee, and other customary fees and reimbursements of expenses. Financing costs, including fees and expenses paid upon execution of the Credit Agreement, were recorded in accordance with applicable financial accounting standards.

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*Security*

In order to secure the obligations of the Loan Parties under the Credit Agreement, each Borrower has pledged 100% of the equity interests of its domestic subsidiaries (other than inactive subsidiaries), including a pledge of the capital stock of each Borrower (other than the Company), as well as 65% of the equity interests of specified foreign subsidiaries, to the Agent, and has granted security interests to the Agent in substantially all of its personal property, all pursuant to a Security Agreement, dated as of December 21, 2012, by the Company and the other Borrowers and Loan Parties party thereto from time to time in favor of the Agent, as Collateral Agent. As additional security for Sassy, Inc. s obligations under the Credit Agreement, Sassy, Inc. had previously granted a mortgage for the benefit of the Agent and the Lenders on the real property located at 2305 Breton Industrial Park Drive, S.E., Kentwood, Michigan, however, this mortgage was released by the Agent upon the consummation of the sale of such property in November 2013.

Other Events and Circumstances Pertaining to Liquidity

*Review of Strategic and Financing Alternatives*

As we have previously disclosed, our Board has authorized us to identify and evaluate a broad range of strategic and financing alternatives aimed at enhancing shareholder value, including addressing under-performing product lines, exploring strategic alliances, the sale or merger of the Company or one or more of its subsidiaries, restructuring of the Company s current debt, recapitalizing, or other possible transactions, alone or in combination. During the course of the review process, we will continue our efforts to execute key strategic and operational initiatives previously identified as critical to improving the Company s overall business and liquidity. The achievement of these objectives and outcome of these initiatives are subject to risks and uncertainties with respect to market conditions and other factors that may cause our actual results, performance or achievements to be materially different from our plans. In addition, there can be no assurance that transactions to monetize assets or other actions to generate liquidity will become available on terms that are acceptable to us, on intended timetables or at all. As a result, we cannot provide assurance that the process will result in an action or transaction or, if it does, that it would occur within any specified period of time or under what terms. Further, our evaluation of potential actions and transactions may cause us to incur substantial costs and divert a significant amount of resources and attention that would otherwise be directed toward our operations and implementation of our business strategy, all of which could materially adversely affect our results of operations and financial condition.

*Consolidation Plan and 3PL Agreement*

As has been previously disclosed, the Company determined to implement a transition to a single third-party logistics company, and the related closure (upon expiration of the applicable lease agreements) of its subsidiaries distribution centers in Cranbury, New Jersey; Southgate, California (closed in the first quarter of 2014); and Kentwood, Michigan, and the termination of certain existing 3PL agreements (collectively, the Consolidation Plan ). Management authorized the Consolidation Plan (including the execution of the 3PL Agreement described below) as of November 13, 2013. The Consolidation Plan is expected to be completed during the third quarter of 2014.

On November 13, 2013, KID entered into an Operating Services Agreement (the 3PL Agreement ) with National Distribution Centers, L.P., the warehousing and distribution division of NFI ( NFI ) for certain third party logistics (3PL) services for the Company s warehousing and distribution operations. The Company anticipates that the annual fixed cost to the Company for 2014 under the 3PL Agreement will be approximately $5.4 million. Had the 3PL Agreement been in effect for the 2012 calendar year, based on the Company s business for that year, variable costs would have been approximately $4.7 million. In addition, the Company is obligated to pay $1.5 million to NFI in

start-up costs over a nine-month period beginning in the fourth quarter of 2013, which will be partially offset by reduced fixed costs over the initial term of the 3PL Agreement, including zero or reduced monthly storage fees during the four-month period beginning on the commencement date. If the Company terminates the 3PL Agreement prior to its expiration following a breach by NFI of its material obligations thereunder (after an applicable cure period), NFI will be obligated to reimburse the Company for a specified pro-rated portion of the start-up costs paid by the Company.

Of the $1.5 million to be paid to NFI in start-up costs under the 3PL Agreement, approximately $0.9 million was paid in installments over the course of the fourth quarter of 2013, and the remainder is anticipated to be paid during the first half of 2014. In addition to these start-up costs, the Company estimates that it will incur a total of approximately $1.7 million in cash expenditures in connection with the Consolidation Plan, consisting primarily of the following: one-time termination benefits of approximately $600,000; project management costs of approximately $600,000; moving costs of approximately $400,000; and retention bonuses of approximately $100,000. Approximately $1.1 million of the $1.7 million in cash expenditures described above were recognized as an expense in the fourth quarter of 2013. The Company anticipates that the remainder will be expensed during the first half of 2014. Approximately $600,000 of actual cash expenditures were paid during the fourth quarter of 2013, with the remainder anticipated to be paid during the first half of 2014.

*NJ Office Lease*

As has been previously disclosed, on November 15, 2013, the Company entered into an Office Lease Agreement (the Lease ) with Meadows Office, L.L.C., a Delaware limited liability company (the Landlord ), for the lease of office space in Rutherford, New Jersey for its executive offices and those of its LaJobi subsidiary. Base rent is payable monthly, and for the first year of the term will be approximately $0.62 million, with annual increases on each anniversary of the commencement date of 1.025 times the annual base rent previously in effect. Provided the Company is not in default, monthly base rent shall be either abated or reimbursed by the Landlord for the first 22 full calendar months of the Lease term. In addition to base rent, the Company will be responsible for its proportionate share of specified increases in taxes; specified utility charges; and the costs of permitted alterations (provided that approximately $1.0 million will be provided to the Company by the Landlord for initial agreed-upon alterations).

*Sale of Sassy Building*

Net proceeds from the sale of the Sassy premises (in the approximate amount of $1.3 million) were applied to reduce amounts outstanding under the Tranche A-1 Revolver.

*Other*

A discussion of, among other things: (i) the Interim Award with respect to the arbitration proceeding initiated by Mr. Bivona with respect to the LaJobi Earnout Consideration and matters pertaining to his employment agreement with the Company, and the required recordation of an approximate $11.7 million liability (with a corresponding offset to goodwill) as of December 31, 2010, and the impairment of all such goodwill as of December 31, 2011; (ii) a Focused Assessment of KID s LaJobi subsidiary, charges recorded in connection therewith (and a settlement submission made with respect thereto), a document and information request made by the USAO, and ongoing discussions with the USAO concerning the potential resolution of these matters with respect to the Company and its LaJobi subsidiary (with respect to which the Company is seeking to negotiate a global resolution with the USAO and U.S. Customs), and an informal SEC investigation with respect to such matters; (iii) the Customs Review (as defined and described in detail in Note 18 to the Notes to Consolidated Financial Statements) and related investigation, charges recorded in connection therewith, and settlement submissions made as a result thereof; (iv) the status of a complaint filed against Kids Line with respect to specified wages and hours allegations; and (v) a CPSC staff investigation into alleged LaJobi violations of certain reporting requirements; can be found in the section captioned Recent Developments above or Note 18 of the Notes to Consolidated Financial Statements.

In addition to the matters referred to above, we are from time to time party to various copyright, patent and trademark infringement, unfair competition, breach of contract, customs, employment and other legal actions incidental to the Company s business, as plaintiff or defendant. In the opinion of management, the amount of ultimate liability with respect to any such actions that are currently pending will not, individually or in the aggregate, materially adversely affect the Company s consolidated results of operations, financial condition or cash flows. In addition, KID may remain obligated with respect to certain contracts and other obligations of its former gift business that were not novated in connection with their transfer. To date, no payments have been made by KID in connection with such contracts (other than $1.4 million paid by the Company in 2012 in complete settlement of a previously disclosed contingent obligation to the landlord under a lease assumed by the buyer of the Company s former gift business), nor is KID aware of any remaining potential obligations, but there can be no assurance that payments will not be required of KID in the future with respect thereto.

See Note 6 of the Notes to Consolidated Financial Statements for a description of the Company s customers who account for a significant percentage of the Company s gross sales (and the volume of business conducted with such customers) during the years ended December 31, 2013, 2012 and 2011, respectively.

Commencing in late 2011, we occasionally elected to participate in an auction program initiated by one of our largest customers, which permitted us to offer an additional discount on all or a portion of the outstanding accounts receivable from such customer in return for prompt, accelerated payment of all or the relevant portion of such receivable. The amount of the additional discount was subject to acceptance, was determined in part by the aging of the receivable and was within the range of customary discounts for early payment. This program is still available to the Company.

We have entered into certain transactions with certain parties who are or were considered related parties, and these transactions are disclosed in Note 12 of Notes to Consolidated Financial Statements and Item 13, Certain Relationships and Related Transactions and Director Independence .

This Annual Report on Form 10-K does not include a contractual obligations table consistent with the provisions of Item 303(d) of Regulation S-K.

**Off-Balance Sheet Arrangements**

Effective as of September 30, 2010, our Kids Line subsidiary entered into a sublease (the Sublease ) with The Capital Group Companies, Inc., a Delaware corporation (the Sublessor ) with respect to 27,515 rentable square feet of office space located in Los Angeles, California. Under the terms of the Sublease, Kids Line will make monthly base rental payments of $52,737 to the Sublessor, which amount will increase by three percent (3%) annually during the term of the Sublease, and will also pay operating expenses in excess of those incurred in the applicable base year. The Sublease expires on February 28, 2018. In connection with the execution of the Sublease, on October 4, 2010, KID executed a guarantee for the benefit of Sublessor, guaranteeing payment of the aggregate rental payments under the Sublease if the sublessee defaults on its obligations thereunder. In addition, in the event that the underlying master lease (the Master Lease ) between the Sublessor and the landlord (the Landlord ) is terminated due to a default by the Sublessor, and Kids Line is not in default under the Sublease; the Landlord has agreed to enter into a direct lease with Kids Line on the terms of the Sublease; provided that Kids Line shall be obligated to pay the original (higher) rent applicable to the Master Lease (representing an aggregate differential of $4.1 million as of the effective date of the Sublease). In connection therewith, the Sublessor has issued an irrevocable standby letter of credit with Kids Line as the beneficiary, in the aggregate amount of $4.1 million, which amount will be reduced annually to correspond with payments made by the Sublessor under the Master Lease. The most recent letter of credit expired on May 31, 2013, but was automatically extended to May 31, 2014 (in the aggregate amount of $2.8 million), and will be extended automatically to May 31 in each succeeding year (subject to a final expiration on February 28, 2018) unless the

issuing bank (Bank of America, N.A.) provides written notice otherwise to Kids Line at least 60 days prior to the then current expiration date. Upon receipt of any such expiration notice, Kids Line shall have the right to draw under the letter of credit in an amount equal to its then current full amount.

The Company has obligations under certain letters of credit that contingently require us to make payments to guaranteed parties upon the occurrence of specified events. As of December 31, 2013, there were $0.4 million of letters of credit outstanding.

In addition, KID may remain obligated with respect to certain contracts and other obligations of its former gift business that were not novated in connection with their transfer. To date, no payments have been made by KID in connection with such contracts (other than $1.4 million paid by the Company in 2012 in complete settlement of a previously disclosed contingent obligation to the landlord under a lease assumed by the buyer of the Company s former gift business), nor is KID aware of any remaining potential obligations, but there can be no assurance that payments will not be required of KID in the future with respect thereto.

## Critical Accounting Policies

The SEC has issued disclosure advice regarding critical accounting policies , defined as accounting policies that management believes are both most important to the portrayal of our financial condition and results and require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Management is required to make certain estimates and assumptions during the preparation of our consolidated financial statements that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Estimates and assumptions are reviewed periodically, and revisions made as determined to be necessary by management. Except as discussed in Note 5 to the Notes to Consolidated Financial Statements, there have been no material changes to our significant accounting estimates, assumptions or the judgments affecting the application of such estimates and assumptions during 2013. The Company s significant accounting estimates described below have historically been and are expected to remain reasonably accurate, but actual results could differ materially from those estimates under different assumptions or conditions.

Note 2 of Notes to Consolidated Financial Statements includes a summary of the significant accounting policies used in the preparation of our consolidated financial statements. The following, however, is a discussion of those accounting policies which management considers being critical within the SEC definition discussed above.

*Accounts Receivable Allowances*

Accounts receivable are recorded at the invoiced amount. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. We maintain an allowance for doubtful accounts for estimated losses inherent in our accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivable aging, and existing industry and national economic data. We review our allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after commercially reasonable means of collection have been exhausted and the potential for recovery is considered unlikely. The Company also analyzes its allowance programs to assess the adequacy of allowance levels and adjusts such allowances as necessary. We do not have any off-balance sheet credit exposure related to our customers.

*Revenue Recognition*

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, which is generally on the date of shipment, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed and determinable. The Company records reductions to revenue for estimated returns and customer allowances, price concessions or other incentive programs that are estimated using historical experience and current economic trends. Material differences may result in the amount and timing of net sales for any period if management makes different judgments or uses different estimates.

*Inventory Valuation*

We value inventory at the lower of cost or its current estimated market value. We regularly review inventory quantities on hand, by item, and record inventory at the lower of cost or market based primarily on our historical experience and estimated forecast of product demand using historical and recent ordering data relative to the quantity on hand for each item.

*Goodwill and Indefinite-Lived Intangibles*

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired.

The Company tests goodwill for impairment on an annual basis as of its year end. Goodwill of a reporting unit will be tested for impairment between annual tests if events occur or circumstances change that would likely reduce the fair value of the reporting units below its carrying value. The Company uses a two-step process to test goodwill for impairment. First, the reporting unit s fair value is compared to its carrying value. If a reporting unit s carrying amount exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired, and the second step of the impairment test would be performed. The second step of the goodwill impairment test is used to measure the amount of the impairment loss. In the second step, the implied fair value of the reporting unit s goodwill is determined by allocating the reporting unit s fair value to all of its assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge would be recorded for the difference. In the fourth quarter of 2011, the Company recorded an impairment charge of approximately $11.7 million related to goodwill (see Note 5 of the Notes to Consolidated Financial Statements for detail with respect to such impairment charge). This impairment charge comprised all of the Company s goodwill.

Our trade names were tested for impairment as part of our annual 2013 impairment testing of other indefinite-lived intangible assets, which is performed in the fourth quarter of each year (unless specified triggering events warrant more frequent testing).

We tested the non-amortizing intangible trade names recorded on our balance sheet as of each of December 31, 2013 and 2012. The trade names tested were Kids Line®, Sassy®, LaJobi® and CoCaLo®. The review for impairment of indefinite-lived intangible assets, including trade names, is based on whether the fair value of such trade names exceeds their carrying value. We determined fair value by performing a projected discounted cash flow analysis based on the Relief-From-Royalty Method for all indefinite-lived trade names. In the Company s analysis for 2013 and 2012, it used a five-year projection period, which has been its prior practice, and projected the long-term growth rate of each of four business units, as well as the assumed royalty rate that could be obtained by each such business unit by licensing out each intangible trade name. For 2013 and 2012, the Company kept its long-term growth rate at 2.5% for all of its business units. For 2013, the Company used assumed royalty rates of 3.0%, 4.5%, 2.0% and 5.0% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. For 2012, the Company used assumed royalty rates of 3.0%, 3.5%, 2.0% and 5.5% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. The assumed royalty rate increased with respect to Sassy from the 2012 rate of 3.5%, as a result of projected increased profitability at this business unit. Assumed royalty rates increased with respect to Sassy and CoCaLo from the 2011 rates of 2.6% and 4%, respectively, as a result of increased profitability at these business units in 2012. The 2013 assumed royalty rate decreased with respect to CoCaLo from the 2012 rate of 5.5%, as a result of decreased profitability at this business unit in 2013. The Company slightly increased the discount rate to help mitigate risks inherent in any projections. As the carrying value of Kids Line, LaJobi and CoCaLo trade names exceeded their respective fair values due to revised future cash flow projections resulting from meaningfully lower sales in 2013, the Company recorded impairments with respect thereto of $2.0 million, $1.8 million and $1.3 million, respectively, for the three months ended December 31, 2013. As has been previously disclosed, the Company also recorded an impairment of approximately $4.0 million to the LaJobi trade name in the third quarter of 2013, for an aggregate impairment of $5.8 million to the LaJobi trade name for the year ended December 31, 2013. As the fair value of the Sassy trade name exceeded its carrying value, no impairments to this intangible asset was recorded for the year ended December 31, 2013. As the fair value of all trade names tested exceeded their carrying value, no impairments to intangible assets with indefinite lives were recorded for the year ended December 31, 2012. (See Note 5 for details with respect to 2011 impairment charges).

*Long-Lived Assets*

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset

may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is generally based on discounted cash flows.

Our intangible assets with definite lives (currently consisting of customer lists and royalty agreements) continue to be amortized over their estimated useful lives and are tested if events or changes in circumstances indicate that an asset may be impaired. In testing for impairment, we compare the carrying value of such assets to the estimated undiscounted future cash flows anticipated from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment charge is recognized in an amount equal to the difference between the asset s fair value and its carrying value. The fair value of the Kokopax trade name and customer relationships were determined to be lower than their respective carrying values due to revised undiscounted future cash flow projections resulting from lower than anticipated sales. This resulted in an approximate $0.2 million impairment (representing a full impairment of such intangibles) which was recorded in cost of sales in the third quarter of 2013. No other definite-lived intangible assets were impaired during the year ended December 31, 2013. While LaJobi, Kids Line and CoCaLo sales also decreased during 2013, the fair value of their royalty agreements, in the case of LaJobi, and their customer lists, in the case of Kids Line and CoCaLo, continued to exceed their carrying value as of December 31, 2013.

As many of the factors used in assessing fair value are outside the control of management, the assumptions and estimates used in such assessment may change in future periods, which could require that we record additional impairment charges to our assets. We will continue to monitor circumstances and events in future periods to determine whether additional asset impairment testing or recordation is warranted.

*Accrued Liabilities and Deferred Tax Valuation Allowances*

The preparation of the Company s Consolidated Financial Statements in conformity with generally accepted accounting principles in the United States requires management to make certain estimates and assumptions that affect the reported amounts of liabilities and disclosure of contingent liabilities at the date of the financial statements. Such liabilities include, but are not limited to, accruals for various legal matters, and tax exposures. The settlement of the actual liabilities could differ from the estimates included in the Company s consolidated financial statements.

A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the realizability of deferred tax assets, management evaluates all positive and negative evidence, including the Company s past operating results (the existence of cumulative losses), and near-term forecasts of future taxable income consistent with the plans and estimates management is using to manage its underlying businesses, the amount of taxes paid in available carry back years, and tax planning strategies. The Company s ability to realize its deferred tax assets depends upon the generation of sufficient future taxable income to allow for the utilization of its deductible temporary differences and loss and credit carry forwards. The Company has an aggregate valuation allowance of $85.5 million for its deferred tax assets as of December 31, 2013.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates all available positive and negative evidence, including the Company s past operating results, the existence of cumulative losses and near-term forecasts of future taxable income consistent with the plans and estimates management is using to manage its underlying businesses, the amount of taxes paid in available carry-back years, and tax planning strategies. This analysis is updated quarterly. The weight of negative factors and level of economic uncertainty in our current business supported the Company s conclusion to take valuation allowances with respect to its deferred tax assets. Management will continue to periodically evaluate the valuation allowance and, to the extent that conditions change, a portion of such valuation allowance could be reversed in future periods. See Note 10 of the Notes to the Consolidated Financial Statements for additional detail.

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Of the Company s aggregate valuation allowance of $85.5 million for its deferred tax assets, approximately $31.0 million consists of valuation allowances against its intangible assets, approximately $17.2 million consists of valuation allowances against foreign tax credit carry forwards, approximately $8.7 million consists of valuation allowances against capital loss carry forwards, approximately $16.7 million consists of valuation allowances against federal NOL carry forwards, approximately $3.0 million consists of valuation allowances against state NOL carry forwards, and approximately $8.9 million consists of valuation allowances against the remaining tax reserves and accruals. The Company has no significant deferred tax liabilities, and, as a result, there are no significant reversals accounted for in its analysis. In addition, the Company considered and concluded there were no tax planning strategies relevant in its analysis of deferred tax assets.

*Acquisitions*

At acquisition, we recognize assets acquired and liabilities assumed based on their fair values at the date of acquisition. Accounting for business combinations requires significant assumptions and estimates to measure fair value and may include the use of appraisals, market quotes for similar transactions, discounted cash flow techniques or other information we believe to be relevant. Any excess of the cost of a business acquisition over the fair values of the assets acquired and liabilities assumed is recorded as goodwill. Should the acquisition result in a bargain purchase, where the fair value of assets and liabilities exceed the amount of consideration transferred, the resulting gain will be recorded into earnings on the acquisition date. All acquisition-related costs, other than the costs to issue debt or equity securities, are accounted for as expense in the period in which they are incurred. All assets and liabilities arising from contractual contingencies are recognized as of the acquisition date if the acquisition date fair value of that asset or liability can be determined during the measurement period. Subsequent to the acquisition date, the Company measures contingent consideration arrangements at fair value for each period. Changes in fair value that are not measurement period adjustments are recognized in earnings.

**Recently Issued Accounting Standards**

See Note 2 of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting standards.

**Forward-Looking Statements**

This Annual Report on Form 10-K contains certain forward-looking statements. Additional written and oral forward-looking statements may be made by us from time to time in Securities and Exchange Commission (SEC) filings and otherwise. The Private Securities Litigation Reform Act of 1995 provides a safe-harbor for forward-looking statements. These forward-looking statements include statements that are predictive in nature and depend upon or refer to future events or conditions, and include, but are not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management and assumptions regarding our future performance, operating expenses, working capital needs, liquidity and capital requirements, business trends and competitiveness. Forward-looking statements include, but are not limited to, words such as believe , plan , anticipate , estimate , project , may , planned , potential , should , will , would , could , might , poss continue , expect , intend , seek or the negative of or other variations on these and other similar expressions. In additi any statements concerning future financial performance, ongoing business strategies or prospects, and possible future actions, are also forward-looking statements. We caution readers that results predicted by forward-looking statements, including, without limitation, those relating to our future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Material risks and uncertainties are set forth under Part I, Item 1A, Risk Factors. Forward-looking statements are also based on economic and market factors and the industry in which we do business, among other things. These statements are not guarantees of future performance.

Forward-looking statements speak only as of the date the statements are made. Except as required under the federal securities laws and rules and regulations of the SEC, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Market Risk

Market risk is the potential loss arising from changes in market rates and market prices. Our market risk exposure results primarily from fluctuations in foreign currency exchange rates and interest rates. Our views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based upon actual fluctuations in foreign currency exchange rates and interest rates and the timing of transactions.

### Interest Rate Changes

During 2013, loans under the Credit Agreement bore interest at a specified 30-day LIBOR rate (subject to a minimum LIBOR floor of 0.50%), plus a margin of 4.0% per annum with respect to the Tranche A Revolver and a margin of 11.25% per annum with respect to the Tranche A-1 Revolver. At December 31, 2013, a sensitivity analysis to measure potential changes in interest rates indicates that a one percentage point increase in interest rates would increase our interest expense by approximately $0.5 million annually. As of April 1, 2014, however, pursuant to Amendment No. 4, the margins on each of the Tranche A Revolver and the Tranche A-1 Revolver increased by 2% per annum. See Note 8 to the Notes to Consolidated Financial Statements for a discussion of the applicable interest rates under and other material provisions of the Credit Agreement, as currently amended.

### Foreign Currency Exchange Rate

At December 31, 2013 and 2012, a sensitivity analysis to changes in the value of the U.S. dollar on foreign currency denominated derivatives and monetary assets and liabilities indicates that if the U.S. dollar uniformly weakened by 10% against all currency exposures, our (loss) before income tax (benefit) provision would increase by approximately $21,000 and $55,000 for each such year, respectively.

We are exposed to market risk associated with foreign currency fluctuations. We do not currently utilize any derivative financial instruments to hedge foreign currency risks. The volatility of applicable currencies is monitored frequently. If appropriate, we may enter into hedging transactions in order to mitigate our risk from foreign currency fluctuations. Due to the substantial volatility of currency exchange rates, among other factors, we cannot predict the effect of exchange rate fluctuations upon future operating results. There can be no assurances that we will not experience currency losses in the future. Additional information required for this Item is included in Note 6 of the Notes to Consolidated Financial Statements. See also Item 1A, Risk Factors *Currency exchange rate fluctuations could increase our expenses.*

Our financial position is also impacted by currency exchange rate fluctuations on translation of our net investment in subsidiaries with non-US dollar functional currencies. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal year-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal year. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders equity. Our primary currency translation exposures during 2013 were related to our net investment in a subsidiary having a functional currency denominated in the Australian dollar.

We hold cash and cash equivalents at various regional and national banking institutions. Management monitors the institutions that hold our cash and cash equivalents. Management s emphasis is primarily on safety of principal. Management, in its discretion, has diversified our cash and cash equivalents among banking institutions to potentially

minimize exposure to any one of these entities. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets, or that third party institutions will retain acceptable credit ratings or investment practices.

Cash balances held at banking institutions with which we do business may exceed the Federal Deposit Insurance Corporation ( FDIC ) insurance limits. While management monitors the cash balances in these bank accounts, such cash balances could be impacted if the underlying banks fail or could be subject to other adverse conditions in the financial markets.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**


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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Kid Brands, Inc.:

We have audited the accompanying consolidated balance sheets of Kid Brands, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss), shareholders equity and cash flows for the three years ended December 31, 2013. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kid Brands, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the three years ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 21 to the consolidated financial statements, the Company may not have sufficient liquidity to support working capital requirements which raises substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 21. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP
Short Hills, New Jersey
April 15, 2014

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**KID BRANDS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2013 AND 2012**

**(Dollars in Thousands, Except Share and Per Share Data)**

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 174 | $ 318 |
| Restricted cash | 1,986 | 2,654 |
| Accounts receivable  trade, less allowances of $5,352 in 2013 and $5,807 in 2012 | 33,614 | 42,079 |
| Inventories, net | 41,185 | 39,953 |
| Prepaid expenses and other current assets | 4,352 | 2,866 |
| Income tax receivable | 5 | 803 |
| Deferred income taxes | | 53 |
| **Total current assets** | 81,316 | 88,726 |
| Property, plant and equipment, net | 3,557 | 5,481 |
| Intangible assets | 33,250 | 44,287 |
| Note receivables, net allowance of $14,955 in 2013 and 2012 | 453 | |
| Other assets | 1,680 | 2,400 |
| **Total assets** | $ 120,256 | $ 140,894 |
| **Liabilities and Shareholders Equity** | | |
| Current liabilities: | | |
| Short-term debt | $ 53,077 | $ 57,527 |
| Accounts payable | 25,671 | 16,156 |
| Accrued expenses | 29,875 | 28,521 |
| Deferred income taxes | 132 | 87 |
| Income taxes payable | 579 | 320 |
| **Total current liabilities** | 109,334 | 102,611 |
| Income taxes payable | 44 | 81 |
| Deferred income taxes | | 725 |
| Other long-term liabilities | 1,638 | 615 |
| **Total liabilities** | 111,016 | 104,032 |
| Commitments and contingencies | | |
| Shareholders equity: | | |
| Common stock: $0.10 stated value per share; authorized 50,000,000 shares; issued 26,727,780 shares at December 31, 2013 and 2012, respectively | 2,674 | 2,674 |
| Additional paid-in capital | 89,016 | 88,587 |

| | | |
|---|---|---|
| Retained earnings | 8,125 | 40,613 |
| Accumulated other comprehensive income | 165 | 459 |
| Treasury stock, at cost, 4,642,944 and 4,885,064 shares at December 31, 2013 and 2012, respectively | (90,740) | (95,471) |
| **Total shareholders equity** | 9,240 | 36,862 |
| **Total liabilities and shareholders equity** | $ 120,256 | $ 140,894 |

The accompanying notes are an integral part of the consolidated financial statements.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

**(Dollars in Thousands, Except Share and Per Share Data)**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net sales | $ 188,155 | $ 229,486 | $ 252,610 |
| Cost of sales | 151,597 | 171,697 | 211,323 |
| **Gross profit** | 36,558 | 57,789 | 41,287 |
| Selling, general and administrative expenses | 61,227 | 56,912 | 66,543 |
| Impairment of goodwill | | | 11,719 |
| TRC valuation reserve | | | (2,000) |
| Total operating expenses | 61,227 | 56,912 | 76,262 |
| **(Loss) income from operations** | (24,669) | 877 | (34,975) |
| Other (expense) income: | | | |
| Interest expense, including amortization and write-off of deferred financing costs | (5,585) | (6,352) | (5,054) |
| Interest and investment income | 7 | 12 | 16 |
| Gain on sale of intangibles | 1,196 | | |
| Other, net | 149 | 177 | (123) |
| | (4,233) | (6,163) | (5,161) |
| **(Loss) from operations before income tax (benefit) provision** | (28,902) | (5,286) | (40,136) |
| Income tax (benefit) provision | (72) | 48,814 | (1,490) |
| **Net (loss)** | $ (28,830) | $ (54,100) | $ (38,646) |
| **Basic (loss) per share:** | $ (1.31) | $ (2.48) | $ (1.78) |
| **Diluted (loss) per share:** | $ (1.31) | $ (2.48) | $ (1.78) |
| **Weighted Average Shares:** | | | |
| Basic | 21,940,000 | 21,829,000 | 21,671,000 |
| Diluted | 21,940,000 | 21,829,000 | 21,671,000 |

The accompanying notes are an integral part of the consolidated financial statements.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

**(Dollars In Thousands)**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net (loss) | $ (28,830) | $ (54,100) | $ (38,646) |
| Other comprehensive (loss) : | | | |
| Unrealized gain on derivative | | | 87 |
| Reclassification of cumulative translation adjustments upon liquidation of foreign entities* | (411) | | |
| Foreign currency translation adjustments | 117 | (91) | (40) |
| Comprehensive (loss) | $ (29,124) | $ (54,191) | $ (38,599) |

* Amount recorded in other income (expense) in the Consolidated Statements of Operations.

The accompanying notes are an integral part of the consolidated financial statements.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

**(Dollars in Thousands)**

| | Total | Common Stock Shares Issued | Common Stock Amount | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2010** | **$ 126,292** | **26,728** | **$ 2,674** | **$ 90,645** | **$ 133,359** | **$ 503** | **$ (100,889)** |
| Net (loss) | (38,646) | | | | (38,646) | | |
| Unrealized gain on derivatives | 87 | | | | | 87 | |
| Foreign currency translation adjustment | (40) | | | | | (40) | |
| Net tax shortfall on share-based compensation | (302) | | | (302) | | | |
| Share transactions under stock plans (191,358 shares), net of cash settlement of SAR exercise | 243 | | | (3,496) | | | 3,739 |
| Share-based compensation | 2,180 | | | 2,180 | | | |
| **Balance at December 31, 2011** | **89,814** | **26,728** | **2,674** | **89,027** | **94,713** | **550** | **(97,150)** |
| Net (loss) | (54,100) | | | | (54,100) | | |
| Foreign currency translation adjustment | (91) | | | | | (91) | |
| Share transactions under stock plans (85,961 shares), net of cash settlement of SAR exercise | 144 | | | (1,535) | | | 1,679 |
| Share-based compensation | 1,095 | | | 1,095 | | | |
| **Balance at December 31, 2012** | **36,862** | **26,728** | **2,674** | **88,587** | **40,613** | **459** | **(95,471)** |
| Net (loss) | (28,830) | | | | (28,830) | | |
| Foreign currency translation adjustment | 117 | | | | | 117 | |
| Reclassification of cumulative translation | (411) | | | | | (411) | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| adjustments upon liquidation of foreign entities | | | | | | | |
| Share transactions under stock plans (242,120 shares) | 250 | | | (823) | (3,658) | | 4,731 |
| Share-based compensation | 1,252 | | | 1,252 | | | |
| **Balance at December 31, 2013** | **$ 9,240** | **26,728** | **$ 2,674** | **$ 89,016** | **$ 8,125** | **$ 165** | **$ (90,740)** |

**The accompanying notes are an integral part of the consolidated financial statements.**

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**KID BRANDS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

**(Dollars in Thousands)**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net (loss) | $ (28,830) | $ (54,100) | $ (38,646) |
| Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 2,985 | 2,776 | 4,000 |
| Amortization and write-off of deferred financing costs | 970 | 3,019 | 1,718 |
| Provision for customer allowances | 22,882 | 25,717 | 33,272 |
| Impairment of goodwill and other intangible assets | 9,224 | | 40,665 |
| Impairment of building | 766 | | |
| Gain on sale of intangibles | (1,196) | | |
| Reduction in TRC valuation reserve | | | (2,000) |
| Provision for inventory reserve | 2,664 | 3,304 | 2,500 |
| Reclassification of cumulative translation adjustments upon liquidation of foreign entities | (411) | | |
| Deferred income taxes | (627) | 49,440 | (22) |
| Share-based compensation expense | 1,252 | 1,095 | 2,180 |
| Change in assets and liabilities, net of acquired assets and liabilities | | | |
| Accounts receivable | (14,511) | (28,444) | (17,329) |
| Income tax receivable | 798 | 1,346 | (1,842) |
| Inventories | (4,091) | (425) | 3,320 |
| Prepaid expenses and other current assets | (793) | 872 | 105 |
| Other assets | (218) | 738 | 426 |
| Accounts payable | 9,595 | (3,000) | (3,764) |
| Accrued expenses | 2,593 | (4,325) | 2,870 |
| Income taxes payable | 222 | (378) | 535 |
| Net cash provided by (used in) operating activities | 3,274 | (2,365) | 27,988 |
| **Cash flows from investing activities:** | | | |
| Capital expenditures | (1,591) | (1,605) | (1,223) |
| Sale of Sassy building | 1,399 | | |
| Purchase of Kokopax | | (354) | |
| Net cash used in investing activities | (192) | (1,959) | (1,223) |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of common stock | 250 | 144 | 243 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Excess tax benefit from stock-based compensation | | | | | | (302) |
| Net (repayment) borrowings on current revolving credit facility | | (4,450) | | 57,527 | | |
| Payments on term loan | | | | (23,000) | | |
| Payments of long-term debt | | | | | | (5,036) |
| Net (repayment) borrowings on prior revolving credit facility | | | | (26,490) | | (18,595) |
| Change in restricted cash | | 668 | | (2,654) | | |
| Payment of deferred financing costs | | (47) | | (3,233) | | (1,690) |
| Net cash (used in) provided by financing activities | | (3,579) | | 2,294 | | (25,380) |
| Effect of exchange rate changes on cash and cash equivalents | | 353 | | (108) | | (4) |
| Net (decrease) increase in cash and cash equivalents | | (144) | | (2,138) | | 1,381 |
| Cash and cash equivalents at beginning of year | | 318 | | 2,456 | | 1,075 |
| Cash and cash equivalents at end of year | $ | 174 | $ | 318 | $ | 2,456 |
| **Cash paid during the year for:** | | | | | | |
| Interest | $ | 4,056 | $ | 3,014 | $ | 2,595 |
| Income taxes (refunded) paid | $ | (689) | $ | (1,768) | $ | 124 |
| **Supplemental cash flow information:** | | | | | | |
| Kokopax Earnout Consideration | $ | | $ | 178 | $ | |

The accompanying notes are an integral part of the consolidated financial statements

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011**

**Note 1 Description of Business**

Kid Brands, Inc. ( KID ), together with its subsidiaries (collectively with KID, the Company ), is a leading designer, importer, marketer and distributor of infant and juvenile consumer products. The Company currently operates in one segment: the infant and juvenile business.

The Company s current operating subsidiaries consist of Kids Line, LLC ( Kids Line ), Sassy, Inc. ( Sassy ), LaJobi, Inc. ( LaJobi ) and CoCaLo, Inc. ( CoCaLo ), which are each direct or indirect wholly-owned subsidiaries of KID, and design, manufacture through third parties, and market products in a number of categories including, among others; infant bedding and related nursery accessories and décor, nursery appliances, and bath/spa products (Kids Line® and CoCaLo®); nursery furniture and related products (LaJobi®); and developmental toys and feeding products, bath and baby care items with features that address the various stages of an infant s early years, including the Kokopax® line of baby gear products(Sassy®). In addition to branded products, the Company also markets certain categories under various licenses, including Carters®, Disney®, Graco® and Serta®. The Company s products are sold primarily to retailers in North America, the United Kingdom and Australia, including large, national retail accounts and independent retailers (including toy, specialty, food, drug, apparel and other retailers).

**Note 2 Summary of Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company, after elimination of all inter-company accounts and transactions.

***Business Combinations***

The Company accounts for business combinations consummated after 2009 by applying the acquisition method of accounting. At acquisition, we recognize assets acquired and liabilities assumed based on their fair values at the date of acquisition. Accounting for business combinations requires significant assumptions and estimates to measure fair value and may include the use of appraisals, market quotes for similar transactions, discounted cash flow techniques or other information we believe to be relevant. Any excess of the cost of a business acquisition over the fair values of the assets acquired and liabilities assumed is recorded as goodwill. Should the acquisition result in a bargain purchase, where the fair value of assets and liabilities exceed the amount of consideration transferred, the resulting gain will be recorded into earnings on the acquisition date. All acquisition-related costs, other than the costs to issue debt or equity securities, are accounted for as expense in the period in which they are incurred. All assets and liabilities arising from contractual contingencies are recognized as of the acquisition date if the acquisition date fair value of that asset or liability can be determined during the measurement period. Subsequent to the acquisition date, the Company measures contingent consideration arrangements at fair value for each period. Changes in fair value that are not measurement period adjustments are recognized in earnings.

If initial accounting for the business combination has not been completed by the end of the reporting period in which the business combination occurs, provisional amounts will be reported for which the accounting is incomplete, with

retrospective adjustment made to such provisional amounts during the measurement period to present new information about facts and circumstances that existed as of the acquisition date. Once the measurement period ends, and in no case beyond one year from the acquisition date, subsequent revisions of the accounting for the business combination will only be accounted for as correction of an error.

For all acquisitions consummated prior to 2009, the Company allocated at the time of acquisition, the cost of a business acquisition to the specific tangible and intangible assets acquired and liabilities assumed based upon their relative fair values. Significant judgments and estimates were often made to determine these allocated values, and may have included the use of appraisals, market quotes for similar transactions, discounted cash flow techniques or other information the Company believed to be relevant. The finalization of the purchase price allocation typically took a number of months to complete, and if final values were materially different from initially recorded amounts, adjustments were recorded. Any excess of the cost of a business acquisition over the fair values of the net assets and liabilities acquired was recorded as goodwill which is not amortized to expense. Any excess of the fair value of the net tangible and identifiable intangible assets acquired over the purchase price (negative goodwill) was allocated on a pro-rata basis to long-lived assets, including identified intangible assets.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

***Revenue Recognition***

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, which is generally on the date of shipment, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed and determinable. The Company records reductions to revenue for estimated returns and customer allowances, price concessions or other incentive programs that are estimated using historical experience and current economic trends. Material differences may result in the amount and timing of net sales for any period if management makes different judgments or uses different estimates.

***Cost of Sales***

The most significant components of cost of sales are cost of the product, including inbound freight charges, duty, packaging and display costs, labor, depreciation, any inventory adjustments, purchasing and receiving costs, product development costs and quality control costs.

The Company s gross profit may not be comparable to those of other entities, since some entities include the costs of warehousing, outbound handling costs and outbound shipping costs in their costs of sales. The Company accounts for the above expenses as operating expenses and classifies them under selling, general and administrative expenses. For the years ended December 31, 2013, 2012, and 2011, the costs of warehousing, outbound handling costs and outbound shipping costs were $14.9 million, $13.9 million, and $15.0 million, respectively. In addition, the majority of outbound shipping costs are paid by the Company s customers, as many of the Company s customers pick up their goods at the Company s distribution centers.

***Advertising Costs***

Production costs for advertising are charged to operations in the period the related advertising campaign begins. All other advertising costs are charged to operations during the period in which they are incurred. Advertising costs for the years ended December 31, 2013, 2012, and 2011, amounted to $0.2 million, $0.5 million, and $0.8 million respectively.

***Cash and Cash Equivalents***

Cash equivalents consist of investments in interest bearing accounts and highly liquid securities having a maturity of three months or less, at the date of purchase, and their costs approximate fair value.

***Restricted Cash***

Restricted cash consists of lock box accounts that are automatically swept as funds become available to pay down balances outstanding under our current revolving credit facilities. See Note 8.

***Accounts Receivable***

Accounts receivable are recorded at the invoiced amount. Commencing in late 2011, the Company occasionally elected to participate in an auction program initiated by one of its largest customers, which permitted the Company to offer an additional discount on all or a portion of the outstanding accounts receivable from such customer in return for prompt, accelerated payment of all or the relevant portion of such receivable. The amount of the additional discount was subject to acceptance, was determined in part by the aging of the receivable and was within the range of customary discounts for early payment. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivable aging, and existing industry and national economic data. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after commercially reasonable means of collection have been exhausted and the potential for recovery is considered unlikely. The Company also analyzes its allowances policies to assess the adequacy of allowance levels and adjusts such allowances as necessary. The Company does not have any off-balance sheet credit exposure related to its customers.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

***Inventories***

Inventories, which consist of finished goods, are carried on the Company s balance sheet at the lower of cost or market. Cost is determined using the weighted average cost method and includes all costs necessary to bring inventory to its existing condition and location. Market represents the lower of replacement cost or estimated net realizable value of such inventory. Inventory reserves are recorded for damaged, obsolete, excess and slow-moving inventory if management determines that the ultimate expected proceeds from the disposal of such inventory will be less than its carrying cost as described above. Management uses estimates to determine the necessity of recording these reserves based on periodic reviews of each product category based primarily on the following factors: length of time on hand, historical sales, sales projections (including expected sales prices), order bookings, anticipated demand, market trends, product obsolescence, the effect new products may have on the sale of existing products and other factors. Risks and exposures in making these estimates include changes in public and consumer preferences and demand for products, changes in customer buying patterns, competitor activities, the Company s effectiveness in inventory management, as well as discontinuance of products or product lines. In addition, estimating sales prices, establishing mark down percentages and evaluating the condition of the Company s inventories all require judgments and estimates, which may also impact the inventory valuation. However, the Company believes that, based on prior experience of managing and evaluating the recoverability of slow moving, excess, damaged and obsolete inventory in response to market conditions, including decreased sales in specific product lines, the Company s established reserves are materially adequate. If actual market conditions and product sales prove to be less favorable than projected, however, additional inventory reserves may be necessary in future periods. At December 31, 2013 and 2012, the balance of the inventory reserve was approximately $1,965,000 and $1,279,000, respectively.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost or fair market value at date of acquisition and are depreciated using the straight-line method over their estimated useful lives, which primarily range from three to twenty-five years. Leasehold improvements are amortized using the straight-line method over the term of the respective lease or asset life, whichever is shorter. Major improvements are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred. Internal use software development costs that are capitalized are included in plant, property and equipment in the consolidated balance sheet. These assets are depreciated over the estimated useful life of the asset using the straight-line method. Equipment under capital leases is amortized over the lives of the respective leases or the estimated useful lives of the assets, whichever is shorter. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. Gain or loss on retirement or disposal of individual assets is recorded as income or expense in the period incurred and the related cost and accumulated depreciation are removed from the respective accounts.

***Impairment of Long-Lived Assets***

Long-lived assets, such as property, plant, and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset

may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount for which the carrying amount of the asset exceeds its fair value as determined by an estimate of discounted future cash flows. See Note 5 with respect to a discussion of the annual impairment testing of all the Company s intangible assets in 2013, including those with definite lives.

***Goodwill and Indefinite-Lived Intangible Assets***

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The Company tests goodwill (if any) for impairment on an annual basis as of its year end. Any goodwill of a reporting unit will be tested for impairment between annual tests if events occur or circumstances change that would likely reduce the fair value of the reporting units below its carrying value. The Company uses a two-step process to test goodwill for impairment. First, the reporting unit s fair value is compared to its carrying value. If a reporting unit s carrying amount exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired, and the second step of the impairment test would be performed. The second step of the goodwill impairment test is used to measure the amount of the impairment loss. In the second step, the implied fair value of the reporting unit s goodwill is determined by allocating the reporting unit s fair value to all of its assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge would be recorded for the difference. In the fourth quarter of 2011, the Company recorded an impairment charge of $11.7 million related to goodwill (see Note 5 below for detail with respect to such impairment charge). This impairment charge comprised all of the Company s goodwill.

Intangible assets with indefinite lives other than goodwill are tested annually for impairment and the appropriateness of the indefinite life classification, or more often if changes in circumstances indicate that the carrying amount may not be recoverable or the asset life may be finite. The Company s intangible assets with indefinite lives consist of trademarks and trade names for each of Kids Line, Sassy, LaJobi and CoCaLo. In testing for impairment, if the carrying amount of such intangible assets exceeds the fair value of such assets, an impairment loss is recorded in the amount of the excess. The Company determines fair value by performing a projected discounted cash flow analysis based on the Relief-From Royalty Method. In the Company s analysis for 2013 and 2012, it used a five-year projection period, which has been its prior practice, and projected a long-term growth rate for each business unit, as well as the assumed royalty rate that could be obtained by each such business unit from licensing out each intangible trade name. For 2013 and 2012, the Company kept its long-term growth rate at 2.5% for all of its business units. For 2013, the Company used assumed royalty rates of 3.0%, 4.5%, 2.0% and 5.0% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. For 2012, the Company used assumed royalty rates of 3.0%, 3.5%, 2.0% and 5.5% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. The assumed royalty rate increased with respect to Sassy from the 2012 rate of 3.5%, as a result of projected increased profitability at this business unit. The assumed royalty rate decreased with respect to CoCaLo from the 2012 rate of 5.5%, as a result of decreased profitability at this business unit in 2013. The Company also slightly increased the discount rate to help mitigate risks inherent in any projections. As the carrying value of the Kids Line, LaJobi and CoCaLo trade names exceeded their respective fair values due to revised future cash flow projections resulting from meaningfully lower sales in 2013, the Company recorded impairments with respect thereto of $2.0 million, $1.8 million, and $1.3 million, respectively, for the three months ended December 31, 2013. As has been previously disclosed, the Company also recorded an impairment of approximately $4.0 million to the LaJobi trade name in the third quarter of 2013, for an aggregate impairment of $5.8 million to the LaJobi trade name for the year ended December 31, 2013. As the fair value of the Sassy trade name exceeded its carrying value, no impairment with respect thereto was recorded for the year ended December 31, 2013. As the fair value of all such trade names tested exceeded their carrying value, no impairments to intangible assets with indefinite lives were recorded for the year ended December 31, 2012.

***Foreign Currency Translation***

Financial statements of international subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the weighted average exchange rate for each period for revenues, expenses, gains and losses. Translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in the consolidated balance sheet and foreign currency transaction gains and losses are recorded in other income (expense) in the consolidated statements of operations.

***Derivative Instruments***

The Company from time to time used derivative financial instruments, primarily swaps, to hedge interest rate exposures. The Company accounted for its derivative instruments as either assets or liabilities and measured them at fair value. Derivatives that are not designated as hedges were adjusted to fair value through earnings.

***Accounting for Income Taxes***

The Company accounts for income taxes under the asset and liability method. Such approach results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax bases of assets and liabilities and for operating losses and tax credit carry forwards. Deferred tax assets and liabilities are determined using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. Valuation allowances are established where expected future taxable income, the reversal of deferred tax liabilities and development of tax strategies does not support the realization of the deferred tax asset.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The Company and its subsidiaries file separate foreign, state and local income tax returns and, accordingly, provide for such income taxes on a separate company basis.

The Company establishes accruals for tax contingencies when, notwithstanding the reasonable belief that its tax return positions are fully supported, the Company believes that certain filing positions are likely to be challenged and, moreover, that such filing positions may not be fully sustained. Accordingly, a tax benefit from an uncertain tax position will only be recognized if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The Company continually evaluates its uncertain tax positions and will adjust such amounts in light of changing facts and circumstances including, but not limited to, emerging case law, tax legislation, rulings by relevant tax authorities, and the progress of ongoing tax audits. Settlement of a given tax contingency could impact the income tax provision in the period of resolution. The Company s accruals for gross uncertain tax positions are presented in the consolidated balance sheet within income taxes payable for current items and income taxes payable, non-current for items not expected to be settled within 12 months of the balance sheet date.

***Accrued Liabilities and Deferred Tax Valuation Allowances***

The preparation of the Company s Consolidated Financial Statements in conformity with generally accepted accounting principles in the United States requires management to make certain estimates and assumptions that affect the reported amounts of liabilities and disclosure of contingent liabilities at the date of the financial statements. Such liabilities include, but are not limited to, accruals for various legal matters, and tax exposures. The settlement of the actual liabilities could differ from the estimates included in the Company s consolidated financial statements.

A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the realizability of deferred tax assets, management evaluates all positive and negative evidence, including the Company s past operating results (the existence of cumulative losses), and near-term forecasts of future taxable income consistent with the plans and estimates management is using to manage its underlying businesses, the amount of taxes paid in available carry back years, and tax planning strategies. The Company s ability to realize its deferred tax assets depends upon the generation of sufficient future taxable income to allow for the utilization of its deductible temporary differences and loss and credit carry forwards.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates all available positive and negative evidence, including the Company s past operating results, the existence of cumulative losses and near-term forecasts of future taxable income consistent with the plans and estimates management is using to manage its underlying businesses, the amount of taxes paid in available carry-back years, and tax planning strategies. This analysis is updated quarterly. The weight of negative factors and level of economic uncertainty in our current business supported the Company s conclusion to take valuation allowances with respect to its deferred tax assets. Management will continue to periodically evaluate the valuation allowances and, to the extent that conditions change, a portion of such valuation allowance could be reversed in future

periods. See Note 10 of the Notes to the Consolidated Financial Statements for additional detail.

As of December 31, 2013, the Company has a valuation allowance of $85.5 million for its deferred tax assets, of which approximately $31.0 million consists of valuation allowances against its intangible assets, approximately $17.2 million consists of valuation allowances against foreign tax credit carry forwards, approximately $8.7 million consists of valuation allowances against capital loss carry forwards, approximately $16.7 million consists of valuation allowances against federal NOL carry forwards, approximately $3.0 million consists of valuation allowances against state NOL carry forwards, and approximately $8.9 million consists of valuation allowances against the remaining tax reserves and accruals. The Company has no significant deferred tax liabilities, and, as a result, there are no significant reversals accounted for in its analysis. In addition, the Company considered and concluded there was no tax planning strategies relevant in its analysis of deferred tax assets.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

***Fair Value of Financial Instruments***

The Company has estimated that the carrying amount of cash and cash equivalents, accounts receivable, inventory, prepaid and other current assets, accounts payable and accrued expenses reflected in the consolidated financial statements equals or approximates their fair values because of the short-term maturity of those instruments. The carrying value of the Company s short-term debt approximates fair value as the debt bears interest at a variable market rate.

***Earnings (Loss) Per Share***

Earnings (loss) per share ( EPS ) under the two-class method is computed by dividing earnings (loss) allocated to common stockholders by the weighted-average number of common shares outstanding for the period. In determining EPS, earnings (loss) are allocated to both common shares and participating securities based on the respective number of weighted-average shares outstanding for the period. Participating securities include unvested restricted stock awards where, like the Company s restricted stock awards, such awards carry a right to receive non-forfeitable dividends, if declared. As a result of the foregoing, and in accordance with the applicable accounting standard, vested and unvested shares of restricted stock (to the extent outstanding) are also included in the calculation of basic earnings per share. With respect to RSUs, as the right to receive dividends or dividend equivalents is contingent upon vesting, in accordance with the applicable accounting standard, the Company does not include unvested RSUs in the calculation of basic earnings per share. To the extent such RSUs are settled in stock, upon settlement, such stock is included in the calculation of basic earnings per share. With respect to SARs and stock options, as the right to receive dividends or dividend equivalents is contingent upon vesting and exercise (with respect to SARs, to the extent they are settled in stock), in accordance with the applicable accounting standard, the Company does not include unexercised SARs or stock options in the calculation of basic earnings per share. To the extent such SARs and stock options have vested and are exercised (with respect to SARs, to the extent they are settled in stock), the stock received upon such exercise is included in the calculation of basic earnings per share.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the recoverability of property, plant and equipment and other intangible assets; valuation allowances for receivables, inventories and deferred income tax assets; and accruals for income taxes, customs duty and litigation. Actual results could differ from these estimates.

***Share-Based Compensation***

The Company recognizes in the financial statements all costs resulting from share-based payment transactions at their fair values.

The relevant FASB standard requires the cash flows related to tax benefits resulting from tax deductions in excess of compensation costs recognized for those equity compensation grants (excess tax benefits) to be classified as financing cash flows. There was no excess tax benefit or tax deficiency recognized from share-based compensation for the years ended December 31, 2013 and 2012. There was a tax deficiency of $0.3 million recognized from share-based compensation costs for the year ended December 31, 2011.

***Accumulated Other Comprehensive (Loss)***

Comprehensive (loss) consists of net (loss) and other gains and losses that are not included in net (loss) income, but are recorded directly in the consolidated statements of shareholders equity, such as the unrealized gains and losses on the translation of the assets and liabilities of the Company s foreign operations and gains or losses on any derivatives.

***Subsequent Events***

The Company has evaluated subsequent events prior to filing.

***Recently Issued Accounting Standards***

The Company has implemented all new accounting pronouncements that are in effect and that may materially impact its financial statements, and does not believe that there are any other new accounting pronouncements or changes in accounting pronouncements issued during the year ended December 31, 2013, that might have a material impact on the Company s financial position, results of operations or cash flows.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

## Note 3 Consolidation Plan and 3PL Agreement

The Company evaluated the long-term location of its distribution facilities to assess their effectiveness in servicing the Company s customers, and determined to implement a consolidation plan (the Consolidation Plan ), consisting of the transition to a single third-party logistics ( 3PL ) company, the related closure (upon expiration of the applicable lease agreements) of its subsidiaries distribution centers in Cranbury, New Jersey; Southgate, California (closed in the first quarter of 2014); and Kentwood, Michigan, and the termination of certain existing 3PL agreements. Management authorized the Consolidation Plan as of November 13, 2013. The Consolidation Plan is expected to be completed during the third quarter of 2014.

As part of the Consolidation Plan, on November 13, 2013, KID entered into an Operating Services Agreement (the 3PL Agreement ) with National Distribution Centers, L.P., the warehousing and distribution division of NFI ( NFI ) for comprehensive 3PL services for the Company s warehousing and distribution operations, based out of NFI s distribution center in Chino, California. The initial term of the 3PL Agreement will continue through March 1, 2019, subject to customary early termination provisions, and the right by either party to terminate in the event that specified pricing assumptions materially change, and the parties are unable to agree upon an appropriate fee adjustment. The term of the 3PL Agreement will automatically renew for successive 12-month periods (up to an additional 5 years), unless either party provides written notice to the other party of its desire to terminate the 3PL Agreement at least 120 days prior to the end of the then current term.

The Company is obligated to pay $1.5 million to NFI in start-up costs over a nine-month period beginning in the fourth quarter of 2013, which will be partially offset by reduced fixed costs over the initial term of the 3PL Agreement, including zero or reduced monthly storage fees during the four-month period beginning on the commencement date. If the Company terminates the 3PL Agreement prior to its expiration following a breach by NFI of its material obligations thereunder (after an applicable cure period), NFI will be obligated to reimburse the Company for a specified pro-rated portion of the start-up costs paid by the Company.

Of the $1.5 million to be paid to NFI in start-up costs as described above, approximately $0.9 million was paid in installments over the course of the fourth quarter of 2013, and the remainder is anticipated to be paid during the first half of 2014. The Company recorded these payments as a prepaid expense and will amortize the payment over the term of the agreement. In addition to these start-up costs, the Company estimates that it will incur a total of approximately $1.7 million in cash expenditures in connection with the Consolidation Plan, consisting primarily of the following: one-time termination benefits of approximately $600,000; project management costs of approximately $600,000; moving costs of approximately $400,000; and retention bonuses of approximately $100,000. Approximately $1.1 million of the $1.7 million in anticipated cash expenditures described above was recognized as an expense in the fourth quarter of 2013 (as set forth in the table below), with the remainder expected to be expensed during the first half of 2014. In addition to the $0.9 million in start-up costs paid to NFI as described above, approximately $0.5 million of actual cash expenditures were paid during the fourth quarter of 2013, with the remainder currently anticipated to be paid during the first half of 2014.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

Q4 2013 Aggregate NFI Payment for Start-up Costs (in thousands)

| | |
|---|---|
| Total obligation to NFI | $ 1,500 |
| Payments | (900) |
| Amount obligated to pay in first half of 2014 | $ 600 |

Q4 2013 Aggregate Other Consolidation Plan Expense (in thousands)

| | Termination Benefits | Other | Total |
|---|---|---|---|
| Provision | $ 687 | $ 451 | $ 1,138 |
| Payment | | $ (451) | $ (451) |
| Accrued at December 31, 2013 | $ 687 | | $ 687 |

**Note 4 Sale of Gift Business and TRC Bankruptcy Settlement**

On December 23, 2008, KID completed the sale of its former gift business (the Gift Sale ) to The Russ Companies, Inc. ( TRC ). The aggregate purchase price payable by TRC for such gift business was (i) 199 shares of the Common Stock, par value $0.001 per share, of TRC, representing a 19.9% interest in TRC after consummation of the transaction that was accounted for at cost; and (ii) a subordinated, secured promissory note issued by TRC to KID in the original principal amount of $19.0 million (the Seller Note ). In the second quarter of 2009, the Company fully impaired or reserved against all such consideration. In addition, in connection with the Gift Sale, a limited liability company wholly-owned by KID (the Licensor ) executed a license agreement with TRC permitting TRC to use specified intellectual property, consisting generally of the Russ and Applause trademarks and trade names (the Retained IP ).

As has been previously disclosed, on April 21, 2011, TRC and TRC s domestic subsidiaries (collectively, the Debtors ), filed a voluntary petition under Chapter 7 of the United States Bankruptcy Code (the Code ) in the United States Bankruptcy Court for the District of New Jersey (the Bankruptcy Court ). On June 16, 2011, the Bankruptcy Court entered an order which, among other things, approved a settlement with the secured creditors of the Debtors, including KID (the Settlement ).

The Settlement, among other things: (i) includes a release of KID by and on behalf of the Debtors estates (without the requirement of any cash payment) from all claims, including fraudulent conveyance and preference claims under the Code, and claims pertaining to KID s sale of the gift business to TRC; (ii) confirms that the Seller Note and KID s security interests therein are valid, and are junior only to TRC s senior lender; (iii) allows KID to retain ownership of the Retained IP, provided, that the trustee in the bankruptcy may include such intellectual property as part of a global sale of TRC s business, if any, as long as KID receives at least $6.0 million therefor; (iv) includes a set-off against the Seller Note of all amounts owed by KID and its subsidiaries to TRC and its subsidiaries, for which KID had accrued

an aggregate of approximately $2.0 million, without the requirement of any cash payment; (v) establishes distribution priorities for any proceeds obtained from the sale of TRC s assets under which KID is generally entitled to receive, to the extent proceeds are available therefor after the payment of amounts owed to TRC s senior lender and approximately $1.4 million in specified expenses have been funded, approximately $1.0 million, and to the extent further proceeds are available subsequent to the payment of approximately $1.0 million to the Debtors estates for additional specified expenses, 60% of any remaining proceeds (40% of any such remaining proceeds will go to the Debtors estates for the benefit of general unsecured creditors, and KID may participate therein as an unsecured creditor to the extent of 50% of any deficiency claims, including for unpaid royalties). As it is not possible to determine the amount, if any, that the trustee in the bankruptcy will obtain through the sale of TRC s assets, KID may obtain only limited recovery on its remaining claims, or may obtain no recovery at all. The Debtors estates rights with respect to the Retained IP terminated in December 2011.

As a result of such set-off described above, the Company reduced the valuation reserve previously recorded against the Seller Note receivable by $2.0 million (representing liabilities to TRC extinguished by the settlement agreement) during the year ended December 31, 2011.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

On June 30, 2013, the Seller entered into an acquisition agreement (the Agreement ) with Larsen and Bowman Holdings Ltd., a Limited Corporation organized under the laws of British Columbia ( Buyer ), for the sale by Seller to Buyer of the Retained IP. The purchase price for the Retained IP (which had no value on the Company s books) was $1.25 million, payable by Buyer to Seller by promissory note (the Note ). A $100,000 installment on the Note was paid on July 2, 2013, a payment of $655,000 was paid on July 31, 2013, and the remaining $500,000 is payable in specified installments over a four year period. The obligations of the Buyer under the Note are secured by the Retained IP pursuant to the terms of a Security Agreement dated June 30, 2013. The Company recorded a gain on the sale of $1.2 million during the second quarter of 2013 for this transaction.

**Note 5 Goodwill and Intangible Assets**

**Goodwill**

As previously disclosed, the restatement of certain prior financial statements resulted in the technical satisfaction of the formulaic provisions for the payment of a portion of the LaJobi earnout under the agreement governing the purchase of the LaJobi assets. As a result, applicable accounting standards required the Company to record a liability for such portion in the approximate amount of $11.7 million for the year ended December 31, 2010 ($10.6 million in respect of the LaJobi earnout and $1.1 million in respect of the related finder s fee), which also required an offset in equal amount to goodwill, all of which goodwill was impaired as of December 31, 2011 (as described below).

With respect to such goodwill, the Company performed its annual goodwill assessment as of December 31, 2011. The goodwill impairment test is accomplished using a two-step process. The first step compares the fair value of a reporting unit that has goodwill to its carrying value. The fair value of a reporting unit using discounted cash flow analysis is estimated. If the fair value of the reporting unit is determined to be less than its carrying value, a second step is performed to compute the amount of goodwill impairment, if any. Step two allocates the fair value of the reporting unit to the reporting unit s net assets other than goodwill. The excess of the fair value of the reporting unit (using fair-value based tests) over the amounts assigned to its net assets other than goodwill is considered the implied fair value of the reporting unit s goodwill. The implied fair value of the reporting unit s goodwill is then compared to the carrying value of its goodwill. Any shortfall represents the amount of goodwill impairment.

As of December 31, 2011, after completing the first step of the impairment test, there was indication of impairment because our carrying value exceeded our market capitalization (as a result of the substantial decline of the Company s stock price during 2011).

Management s determination of the fair value of the goodwill for the second step in the analysis used a variety of testing methods that are judgmental in nature and involve the use of significant estimates and assumptions, including: (i) the Company s operating forecasts; (ii) revenue growth rates; (iii) risk-commensurate discount rates and costs of capital; and (iv) price or market multiples. The Company s estimates of revenues and costs are based on historical data, various internal estimates and a variety of external sources, and are developed by the Company s routine long-range planning process.

During the year ended December 31, 2011 the Company s stock price declined substantially. Such decline in the Company s stock price in 2011 indicated the potential for impairment of the Company s goodwill. In addition, during the year ended December 31, 2011, net sales and gross margins for LaJobi declined substantially from the previous year and the margins for Kids Line and CoCaLo declined from the previous year. These adverse conditions led the Company to revise its estimates with respect to net sales and gross margins, which in turn negatively impacted its cash flow forecasts for LaJobi, Kids Line and CoCaLo. These revised cash flows forecasts resulted in the conclusion in the second step of the analysis that the Company s goodwill was fully impaired (it was determined to have no implied value), and as a result, the Company recorded a goodwill impairment charge in the amount of $11.7 million for the year ended December 31, 2011, representing the shortfall between the fair value of its operations for which goodwill had been allocated and its carrying value.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

Changes in the carrying amount of goodwill during the year ended December 31, 2011 were as follows:

| | (in thousands) |
|---|---|
| Goodwill at December 31, 2010 | $ 11,719 |
| Impairment | (11,719) |
| Goodwill at December 31, 2011 | 0 |

**Intangible Assets**

As of December 31, 2013, and 2012, the components of intangible assets consisted of the following (in thousands):

| | Weighted Average Amortization Period | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Sassy trade name | Indefinite life | $ 5,400 | $ 5,400 |
| Kokopax trade name * | 6 years | | 403 |
| Kokopax customer relationships * | 5 years | | 49 |
| Kids Line customer relationships | 20 years | 6,165 | 6,583 |
| Kids Line trade name | Indefinite life | 3,320 | 5,300 |
| LaJobi trade name | Indefinite life | 2,950 | 8,700 |
| LaJobi customer relationships | 20 years | 9,049 | 9,684 |
| LaJobi royalty agreements | 5 years | | 403 |
| CoCaLo trade name | Indefinite life | 4,530 | 5,800 |
| CoCaLo customer relationships | 20 years | 1,805 | 1,934 |
| CoCaLo foreign trade name | Indefinite life | 31 | 31 |
| Total intangible assets | | $ 33,250 | $ 44,287 |

* In late September of 2012, Sassy acquired substantially all of the operating assets of Kokopax, LLC, a developer and marketer of framed infant back carriers and related accessories, including sun hats and totes. Under the purchase method of accounting, the total purchase price for Kokopax has been assigned to the net tangible and intangible assets acquired based on their estimated fair values. Approximately $364,000 was assigned to certain intangible assets upon acquisition based on final valuations performed by the Company. See below for a discussion of the total impairment of the Kokopax trade name and customer relationships for the year ended

December 31, 2013, and Note 18 for information on potential earnout consideration in connection with the purchase of the Kokopax assets.

On June 30, 2013, RB Trademark Holdco LLC ( Seller ), a wholly-owned subsidiary of the Company, entered into an acquisition agreement (the Agreement ) with Larsen and Bowman Holdings Ltd., a Limited Corporation organized under the laws of British Columbia ( Buyer ), for the sale by Seller to Buyer of specified intellectual property, consisting generally of the Russ and Applause trademarks and trade names, and associated goodwill (collectively, the IP ). The purchase price for the IP (which has no value on the Company s books) was $1.25 million, payable by Buyer to Seller by promissory note (the Note ). A $100,000 installment on the Note was paid on July 2, 2013, a payment of $655,000 was paid on July 31, 2013, and the remaining $500,000 is payable in specified installments over a four year period. The obligations of the Buyer under the Note are secured by the IP pursuant to the terms of a Security Agreement dated June 30, 2013. The Company recorded a gain on the sale of $1.2 million during the second quarter of 2013 for this transaction.

Aggregate amortization expense, was $1.6 million, $1.6 million, and $2.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

Estimated annual amortization expense is as follows (in thousands) for each of the fiscal years ending December 31:

| | |
|---|---|
| 2014 | $ 1,182 |
| 2015 | 1,182 |
| 2016 | 1,182 |
| 2017 | 1,182 |
| 2018 | 1,182 |

In accordance with Accounting Standard Codification (ASC) Topic 350, indefinite-lived intangible assets are no longer amortized but are reviewed for impairment at least annually, and more frequently if a triggering event occurs indicating that an impairment may exist. The Company s annual impairment testing is performed in the fourth quarter of each year (unless specified triggering events warrant more frequent testing). The Company s other intangible assets with definite lives are amortized over their estimated useful lives and are tested if events or changes in circumstances indicate that an asset may be impaired. In accordance with applicable accounting standards, there were no triggering events warranting interim testing of any intangible assets during the quarter ended March 31, 2013, and no impairments of intangible assets (either definite-lived or indefinite-lived) were recorded during such period. Although the Company determined that indicators of impairment of its indefinite-lived intangible assets (consisting of trade names) existed during the second quarter of 2013 (as a result of softness in the business during such period) and conducted testing of all of the Company s trade names as of June 30, 2013 in connection therewith, such interim testing demonstrated that no trade names were impaired as of June 30, 2013. No indicators of impairment existed with respect to intangible assets with definite lives during the second quarter of 2013.

Due to softness in much of its business during the third quarter of 2013, the Company again determined that indicators of impairment of certain of its indefinite-lived intangible assets existed, and as a result conducted testing of all of the Company s trade names except the Sassy trade name (which had no indicators of impairment), as of September 30, 2013. Testing of trade names is based on whether the fair value of such trade names exceeds their carrying value. The Company determines fair value by performing a projected discounted cash flow analysis based on the Relief-From-Royalty Method. In the Company s September 30, 2013 analysis, it used a five-year projection period, which has been its prior practice. For the interim testing the Company concluded that it was appropriate to retain the assumed royalty rates used for its 2012 annual testing and revised growth rates. The fair value of the LaJobi trade name was determined to be lower than its carrying value due to revised future cash flow projections resulting from meaningfully lower sales to certain of its major customers. This resulted in an approximate $4.0 million impairment, which was recorded in cost of sales in the third quarter of 2013. No other indefinite-lived intangible assets were impaired during the third quarter of 2013. While Kids Line and CoCaLo sales also decreased during the third quarter of 2013, the fair value of their trade names continued to exceed their carrying value as of September 30, 2013.

In addition, during the third quarter of 2013, the Company determined that indicators of impairment certain of its definite-lived intangible assets existed, and as a result, conducted testing of the Company s royalty agreements, customer lists and the Kokopax trade name and customer relationships. As a result of such testing, the fair value of the

Kokopax trade name and customer relationships were determined to be lower than their respective carrying values due to revised undiscounted future cash flow projections resulting from lower than anticipated sales. This resulted in an approximate $0.2 million impairment (representing a full impairment of such intangibles), which was recorded in cost of sales in the third quarter of 2013. No other definite-lived intangible assets were impaired during the third quarter of 2013. While LaJobi, Kids Line and CoCaLo sales also decreased during the third quarter of 2013, the fair value of their royalty agreements, in the case of LaJobi, and their customer lists, in the case of Kids Line and CoCaLo, continued to exceed their carrying value as of September 30, 2013.

As part of our 2013 annual intangible asset impairment testing, we tested the non-amortizing intangible trade names recorded on our balance sheet as of December 31, 2013. In this analysis, the Company used a five-year projection period, which has been its prior practice, and projected the long-term growth rate of each of its four business units, as well as the assumed royalty rate that could be obtained by each such business unit by licensing out each intangible trade name. For the year-end 2013 testing, the Company kept its long-term growth rate at 2.5% for all of its business units, and used assumed royalty rates of 3.0%, 4.5%, 2.0% and 5.0% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. For 2012, the Company used assumed royalty rates of 3.0%, 3.5%, 2.0% and 5.5% for Kids Line, Sassy, LaJobi and CoCaLo, respectively. The assumed royalty rate increased with respect to Sassy from the 2012 rate of 3.5%, as a result of projected increased profitability at this business unit. The assumed royalty rate decreased with respect to CoCaLo from the 2012 rate of 5.5%, as a result of decreased profitability at this business unit in 2013. The Company also slightly increased the discount rate to help mitigate risks in any projections. As the carrying value of the Kids Line, LaJobi, and CoCaLo trade name exceeded their respective fair values due to revised future cash flow projections resulting from meaningfully lower sales for the year. The Company recorded an impairment with respect thereto of $2.0 million, $1.8 million, and $1.3 million, respectively, for the three months ended December 31, 2013. As described above, the Company also recorded an impairment of approximately $4.0 million to the LaJobi trade name in the third quarter of 2013, for an aggregate impairment of $5.8 million to the LaJobi trade name for the year ended December 31, 2013. As the fair value of the Sassy trade name exceeded its carrying value, no impairments to this intangible asset were recorded for the year ended December 31, 2013. No impairments were recorded with respect to intangible assets with definite lives in the fourth quarter of 2013.

**KID BRANDS, INC. AND SUBSIDIARIES**

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With respect to 2012, there were no triggering events warranting interim testing of intangible assets in the first or second quarter of 2012, and no impairments of intangible assets (either definite-lived or indefinite-lived) were recorded during either such period. Due to softness in the business during the third quarter of 2012, however, the Company determined that indicators of impairment of its indefinite-lived intangible assets (consisting of trade names) existed, and conducted testing of the Company s trade names as of September 30, 2012 in connection therewith. Such interim testing demonstrated that no trade names were impaired as of September 30, 2012. All indefinite-lived intangible assets were tested for impairment in the fourth quarter of 2012, and no impairments were recorded in connection therewith. The company s other intangible assets with definite lives (consisting of customer lists, the Kokopax trade name and LaJobi royalty agreements) are amortized over their estimated useful lives and are tested annually and on an interim basis if events or changes in circumstances indicate that an asset may be impaired. In testing for impairment, the Company compares the carrying value of such assets to the estimated undiscounted future cash flows anticipated from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment charge is recognized in an amount equal to the difference between the asset s fair value and its carrying value. No impairment charges with respect to intangible assets with definite lives were recorded during 2012.

As many of the factors used in assessing fair value are outside the control of management, the assumptions and estimates used in such assessment may change in future periods, which could require that we record additional impairment charges to our assets. The Company will continue to monitor circumstances and events in future periods to determine whether additional asset impairment testing or recordation is warranted.

**Note 6 Financial Instruments**

The fair value of assets and liabilities is determined by reference to the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The relevant FASB standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and related disclosures.

Financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. The Company currently has no Level 1 assets or liabilities that are measured at a fair value on a recurring basis.

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs). The Company has no Level 2 assets or liabilities that are measured at fair value on a recurring basis.

Level 3 Unobservable inputs that reflect the Company s assessment about the assumptions that market participants would use in pricing the asset or liability. The Company currently has no Level 3 assets or liabilities that are measured at a fair value on a recurring basis.

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company s market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. In accordance with the applicable standard, the Company is not permitted to adjust quoted market prices in an active market.

**KID BRANDS, INC. AND SUBSIDIARIES**

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**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

Cash and cash equivalents, trade accounts receivable, inventory, income tax receivable, trade accounts payable and accrued expenses are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

The Company has a note receivable (in connection with the sales of specified trademarks and trade names described in Note 5 above) with a face value of $500,000 which is reflected on the consolidated balance sheet in other long term assets at its present value of $453,000.

The carrying value of the Company s borrowings under both the Tranche A Revolver and the Tranche A-1 Revolver (defined and described in Note 8) approximates fair value because interest rates applicable thereto are variable, based on prevailing market rates.

There were no material changes to the Company s valuation techniques during the year ended December 31, 2013 compared to those used in prior periods.

*Derivative Instruments*

Until August 8, 2011, the Company was required by prior senior lenders to maintain in effect interest rate swap agreements that protected against potential fluctuations in interest rates with respect to a minimum of 50% of the outstanding amount of a prior term loan (such swap agreement was not terminated when it was no longer required by the Company s then-senior lenders, but expired by its terms on December 21, 2011). The Company s objective was to offset the variability of cash flows in the interest payments on a portion of the total outstanding variable rate debt. Until August 8, 2011, the Company applied hedge accounting treatment to such interest rate swap agreement based upon the criteria established by accounting guidance for derivative instruments and hedging activities, including designation of its derivatives as fair value hedges or cash flow hedges and assessment of hedge effectiveness. Following such date, as the requirement to maintain hedge agreements was no longer in effect, the Company discontinued hedge accounting for the interest rate swap agreement and from such date until its expiration accounted for such agreement as a non-qualifying derivative instrument. The Company records its derivatives in its consolidated balance sheets at fair value. The Company does not use derivative instruments for trading purposes.

*Cash Flow Hedges*

As described above, to comply with a requirement in a prior credit agreement to offset variability in cash flows related to the interest rate payments on a prior term loan, the Company used an interest rate swap designated as a cash flow hedge. The interest rate swap converted the variable rate on a portion of such term loan to a specified fixed interest rate by requiring payment of a fixed rate of interest in exchange for the receipt of a variable rate of interest at the LIBOR U.S. dollar three month index rate. The duration of the contract was twelve months, and the contract expired in December 2011.

The Company measured hedge ineffectiveness by comparing the cumulative change in cash flows of the hedge contract with the cumulative change in cash flows of the hedged transaction. The Company recognized any ineffective portion of the hedge in its Consolidated Statement of Operations as a component of interest expense. The impact of hedge ineffectiveness on earnings was $54,000 during the year ended December 31, 2011, primarily as a result of repayment in full of a prior term loan. During the year ended December 31, 2011, the Company did not discontinue any cash flow hedges.

Cash flow hedge accounting is discontinued when: (i) the hedging relationship is no longer highly effective; (ii) the forecasted transaction is no longer probable of occurring on the originally forecasted date or within an additional two months thereafter, (iii) the hedge relationship is no longer eligible for designation as a hedged transaction; or (iv) the derivative hedging instrument is sold, terminated, or exercised. Although the interest rate swap agreement was not terminated upon execution of the 2011 Credit Agreement (and remained in effect until its expiration on December 21, 2011), the Company had determined that the hedging relationship would no longer be highly effective and discontinued hedge accounting thereon as of August 8, 2011. Subsequent to such date, all changes in fair value of the interest rate swap agreement were recorded directly in earnings.

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**KID BRANDS, INC. AND SUBSIDIARIES**

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Accumulated other comprehensive income reflects the difference between the overall change in fair value of the interest rate swap since inception of the hedge and the amount of ineffectiveness reclassified into earnings. During the year ended December 31, 2011, an expense of $54,000 for the Company s interest rate swap agreement (prior to its expiration) was reclassified from Accumulated Other Comprehensive Income to earnings as a component of interest expense.

***Concentrations of Credit Risk***

Customers who account for a significant percentage of the Company s gross sales are shown in the table below:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Toys R Us, Inc. and Babies R Us, Inc. | 34.8% | 31.3% | 39.8% |
| Walmart | 19.4% | 17.8% | 12.7% |
| Target | 7.2% | 9.6% | 8.8% |

The loss of any of these customers or any other significant customers, or a significant reduction in the volume of business conducted with such customers, could have a material adverse impact on the Company. The Company does not normally require collateral or other security to support credit sales.

As part of its ongoing risk assessment procedures, the Company monitors concentrations of credit risk associated with financial institutions with which it conducts business. The Company avoids concentration with any single financial institution. The Company also monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business.

**Note 7 Property, Plant and Equipment**

Property, plant and equipment consist of the following (in thousands):

| | December 31, | |
|---|---|---|
| | **2013** | **2012** |
| Land | $ | $ 690 |
| Buildings | | 2,160 |
| Machinery and equipment | 9,534 | 7,783 |
| Furniture and fixtures | 1,100 | 1,846 |
| Leasehold improvements | 819 | 1,121 |

| | | |
|---|---|---|
| | 11,453 | 13,600 |
| Less: Accumulated depreciation and amortization | (7,896) | (8,119) |
| | $ 3,557 | $ 5,481 |

Depreciation expense was approximately $1.3 million, $1.1 million, and $1.2 million for the years ended December 31, 2013, 2012, and 2011, respectively.

*Sassy Building Sale*

As has been previously disclosed, on October 10, 2013 (the Effective Date ), Sassy entered into a Buy and Sell Agreement (the Sassy Agreement ) with Ventra Grand Rapids 5, LLC, a Delaware corporation ( Buyer ), for the sale by Sassy to Buyer of the real property owned by Sassy and located at 2305 Breton Industrial Park Drive SE, Kentwood, Michigan, together with the buildings, fixtures and improvements thereon, as well as specified equipment and personal property (collectively, the Premises ), for a cash purchase price of $1.5 million. A portion of the Premises (constituting warehouse space) was made available to the Buyer commencing October 14, 2013 pursuant to a short-term license until the closing was consummated. In connection with such closing, which was consummated on November 14, 2013, the Buyer and the Sassy (as tenant) entered into a lease with respect to a portion of the Premises (at an approximate total cost of $300,000, exclusive of any renewal periods). The lease consists of an office lease for a two-year term, with three one-year options to extend, provided that the Buyer may cancel the office lease after its first anniversary on 180 days prior notice, and a lease of warehouse space through May 31, 2014. The Company recorded a non-cash impairment of $0.8 million for the year ended December 31, 2013 related to this real property in selling general and administrative expense.

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**KID BRANDS, INC. AND SUBSIDIARIES**

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## Note 8 Debt

As is described in detail below under the caption Amendment No. 4 , as a result of non-compliance by the Company with its financial covenants for specified periods, as well as other actual and potential events of default under the Credit Agreement, the Borrowers, Agent and Required Lenders thereunder executed a Waiver and Fourth Amendment to Credit Agreement ( Amendment No. 4 ) dated as of April 8, 2014.

*Current Credit Agreement*

On December 21, 2012, the Company, specified domestic subsidiaries consisting of Kids Line, LLC, Sassy, Inc., LaJobi, Inc., CoCaLo, Inc., I&J Holdco, Inc., and RB Trademark Holdco, LLC (such entities collectively with the Company, the Borrowers ), executed a Credit Agreement (the Credit Agreement ) with Salus Capital Partners, LLC, as Lender, Administrative Agent and Collateral Agent (the Agent ), and the other lenders from time to time party thereto (the Lenders ). The obligations of the Borrowers under the Credit Agreement are joint and several. All of the Company s indebtedness for borrowed money under the Credit Agreement is classified as short term debt. The Credit Agreement was amended on each of April 16, 2013, May 16, 2013, August 13, 2013, November 14, 2013, December 16, 2013, and April 8, 2014. The current provisions of the Credit Agreement (as amended) are provided immediately below. Each amendment to the Credit Agreement (including the reasons therefor) is described in detail in the following section captioned *Prior Financial Covenants and Amendments to Credit Agreement* .

The Credit Agreement currently provides for an aggregate maximum $60.0 million revolving credit facility, composed of: (i) a revolving $44.0 million tranche (the Tranche A Revolver ), with a $5.0 million sublimit for letters of credit; and (ii) a $16.0 million first-in last-out tranche (the Tranche A-1 Revolver ). Notwithstanding the foregoing, the Borrowers will be permitted (upon irrevocable notice to the Agent) to increase the maximum commitment under the Tranche A Revolver to $48.0 million, and maximum commitment under the Tranche A-1 Revolver to $17.0 million, provided that, among other things, applicable conditions to lending are satisfied, and prior to delivery of such notice, the Borrowers shall have delivered to the Agent an updated business plan demonstrating the need for such increase to the reasonable satisfaction of the Agent. The Borrowers may not request extensions of credit under the Tranche A Revolver unless they have borrowed the full amount available under the Tranche A-1 Revolver. Borrowers must cash collateralize all outstanding letters of credit.

At December 31, 2013, an aggregate of $53.1 million was borrowed under the Credit Agreement ($37.4 million under the Tranche A Revolver and $15.7 million under the Tranche A-1 Revolver). At December 31, 2012, an aggregate of $57.5 million was borrowed under the Credit Agreement ($38.8 million under the Tranche A Revolver and $18.7 million under the Tranche A-1 Revolver). At December 31, 2013 and 2012, revolving loan availability was $4.9 million and $11.4 million, respectively.

Loans under the Credit Agreement currently bear interest at a specified 30-day LIBOR rate (subject to a minimum LIBOR floor of 0.50%), plus a margin of 6.0% per annum with respect to the Tranche A Revolver and a margin of 13.25% per annum with respect to the Tranche A-1 Revolver. Interest is payable monthly in arrears and on the

maturity date of the facility. During the continuance of any event of default, existing interest rates may be increased by 3.50% per annum (however, such default rate has not applied with respect to any covenant default). The weighted average interest rates for the outstanding loans under the Credit Agreement as of each of December 31, 2013 and 2012 were 4.5% with respect to the Tranche A Revolver and 11.75% with respect to the Tranche A-1 Revolver (interest rate margins on each of the Tranche A Revolver and the Tranche A-1 Revolver were increased by 2% per annum as of April 1, 2014 pursuant to Amendment No. 4).

Subject to the borrowing base described below, the Borrowers may borrow, repay (without premium or penalty) and re-borrow advances under each of the Tranche A Revolver and the Tranche A-1 Revolver until December 21, 2016 (the Maturity Date ), at which time all outstanding obligations under the Credit Agreement are due and payable (subject to early termination provisions). Other than in connection with a permanent reduction of the Tranche A-1 Revolver as described below, repayments shall be first applied to the Tranche A Revolver, and upon repayment of the Tranche A Revolver in full, to the Tranche A-1 Revolver.

**KID BRANDS, INC. AND SUBSIDIARIES**

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The Borrowers may in their discretion terminate or permanently reduce the commitments under the Tranche A Revolver or the Tranche A-1 Revolver, *provided* that the Borrowers may not reduce the commitments under the Tranche A-1 Revolver to less than $15.0 million while commitments under the Tranche A Revolver remain outstanding, and if the commitments under the Tranche A Revolver are terminated or reduced to zero, the commitments under the Tranche A-1 Revolver will be automatically terminated. In the event of such permanent reduction (or in the event of any termination of the commitments prior to the Maturity Date), the Borrowers shall pay to the Agent for the benefit of the Lenders or as otherwise determined by the Agent, specified termination fees (ranging from 1.5% to 0.50% of the amount of the commitments so reduced or outstanding at the time of termination), depending on how long after December 21, 2012 such reduction or termination occurs, *provided* that the Borrowers may permanently reduce the commitments under the Tranche A-1 Revolver from time to time to no less than $15.0 million without the incurrence of any premium, penalty or fee, so long as no event of default has occurred and is continuing.

The Tranche A Revolver is subject to borrowing base limitations based on 95% of the face amount of specified eligible accounts receivable, net of reserves established in the reasonable discretion of the Agent, including dilution reserves; *plus* the lesser of: (x) 68% of eligible inventory stated at the lower of cost or market value (in accordance with the Borrowers accounting practices), net of reserves established in the reasonable discretion of the Agent; and (y) 100% of the appraised orderly liquidation value, net of costs and expenses, of eligible inventory stated at the lower of cost or market value, net of inventory reserves; *minus* an availability block of $3.5 million (increasing to $4.0 million, its original amount, four months after the effective date of Amendment No. 4), or if an event of default exists, such other amount established by the Agent; *minus* customary availability reserves (without duplication).

The Tranche A-1 Revolver is subject to borrowing base limitations based on the lesser of: (i) 50% of the fair market value (as determined by an independent appraiser engaged by the Agent from time to time) of specified registered eligible intellectual property, net of reserves established in the reasonable discretion of the Agent, and (ii) the aggregate commitments for the Tranche A-1 Revolver at such time; provided that availability under the Tranche A-1 Revolver is capped at 40% of the combined borrowing bases of the Tranche A Revolver and Tranche A-1 Revolver.

The Company is currently subject to the following financial covenants (the New Financial Covenants ):

(a) the Loan Parties may not permit the Collateral Coverage Ratio (defined as the appraised value of eligible inventory, the net orderly liquidation value of eligible intellectual property, and the face amount of eligible receivables, minus reserves and the availability block, to total amounts outstanding under the Credit Agreement) for the trailing 30 day average, to be less than 1.0:1.0. This covenant shall be tested monthly, commencing April 30, 2014, and as of the last day of each month thereafter.

In addition, commencing with the month ending August 31, 2014:

(b) the Loan Parties may not permit the average daily Availability for any fiscal month, calculated under, or in accordance with, the Agent s loan accounting system, to be more than fifteen percent (15%) less than the Availability

projected for the last day of such month in the Business Plan most recently delivered to the Agent; and

(c) the Loan Parties may not permit gross sales for the trailing 3-month period, calculated as of the last day of each month, to be more than fifteen percent (15%) less than the gross sales projected for such period (ended as of the end of such month) in the Business Plan most recently delivered to the Agent.

Prior to the execution of the Amendment No. 4, the Company had been subject to the financial covenants set forth in clauses (b) and (c) above for each month commencing in November of 2013.

Loans under the Credit Agreement are required to be prepaid upon the occurrence, and with the net proceeds, of certain transactions, including the incurrence of specified indebtedness, most asset sales and debt or equity issuances, as well as extraordinary receipts, including tax refunds, litigation proceeds, certain insurance proceeds and indemnity payments. Loans under the Credit Agreement are also required to be prepaid with cash collateral required to be held by letter of credit issuers pursuant to the Credit Agreement on account of expired or reduced letters of credit.

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**KID BRANDS, INC. AND SUBSIDIARIES**

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The Credit Agreement contains customary representations and warranties, as well as various affirmative and negative covenants in addition to the New Financial Covenants, including, without limitation, financial reporting requirements, notice requirements with respect to specified events, required compliance certificates, and certificates from the Company s independent auditors. In addition, among other restrictions, the Loan Parties (the Borrowers and guarantors, if any) and their subsidiaries (other than specified inactive subsidiaries) are prohibited from: consummating a merger or other fundamental change; paying cash dividends or distributions; purchasing or redeeming stock (including under the Company s stock purchase plan); incurring additional debt or allowing liens to exist on their assets; making acquisitions; disposing of assets; issuing equity and consummating other transactions outside of the ordinary course of business; making specified payments and investments; engaging in transactions with affiliates; amending material contracts to the extent such amendment would result in a default or event of default or would be materially adverse to the Lenders; paying Duty Amounts (defined under *Definitions Applicable to the Prior Financial Covenants* below); or paying any earnout consideration with respect to the Company s 2008 purchase of the LaJobi assets ( LaJobi Earnout Consideration ), subject to limited specified exceptions, the more significant of which are described below.

To the extent the Company has sufficient availability under the Credit Agreement therefor, Duty Amounts and LaJobi Earnout Consideration may be paid either: (i) in accordance with the business plan required to be provided to the Agent for the relevant year, or (ii) otherwise, so long as no default or event of default is continuing or would result therefrom, and availability, both before and after giving effect to such payment, is at least $10.0 million.

The Company will be permitted to issue and sell equity interests (other than equity interests that mature or are mandatorily redeemable or redeemable at the option of the holder, in whole or in part, on or prior to the date that is ninety-one days after the Maturity Date), so long as the net proceeds therefrom are applied to repayment of outstanding obligations under the Credit Agreement, or pursuant to other specified exceptions as set forth in the Credit Agreement.

The Credit Agreement also requires that the Borrowers provide the Agent with, among other things, an annual business plan containing specified monthly information and projections, monthly compliance certificates, and frequent and detailed financial, business and collateral reports. In addition, the Borrowers are required to provide, on the 7$^{th}$ business day of each month, a certified gross sales report indicating gross sales figures for the immediately preceding completed fiscal month.

Substantially all cash, other than cash set aside for the benefit of employees (and certain other exceptions), will be swept and applied to repayment of amounts outstanding under the Credit Agreement.

The Credit Agreement contains customary events of default (including any failure to remain in compliance with the New Financial Covenants). If an event of default occurs and is continuing (in addition to default interest as described above and other remedies available to the Lenders), the Agent may, in its discretion, declare the commitments under the Credit Agreement to be terminated, declare outstanding obligations thereunder to be due and payable, demand cash collateralization of letters of credit, and/or capitalize any accrued and unpaid interest by adding such amount to

the outstanding principal balance (provided that upon events of bankruptcy, the commitments will be immediately due and payable, and the Borrowers will be required to cash collateralize letters of credit, without any action of the Agent or any Lender). In addition, an event of default under the Credit Agreement could result in a cross-default under certain license agreements that the Company maintains.

The Credit Agreement also contains customary conditions to lending, including that no default or event of default shall exist, or would result from any proposed extension of credit.

In December 2012, the Company paid fees to the Agent in the aggregate amount of approximately $1.1 million in connection with the execution of the Credit Agreement. The Borrowers are also required to pay a monthly commitment fee of 0.50% per annum on the aggregate unused portion of each of the Tranche A Revolver and the Tranche A-1 Revolver (payable monthly in arrears); customary letter of credit fronting fees (plus standard issuance and other processing fees) to the applicable issuer; a monthly monitoring fee to the Agent; an annual agency fee, and other customary fees and reimbursements of expenses. Financing costs, including fees and expenses paid upon execution of the Credit Agreement, were recorded in accordance with applicable financial accounting standards.

**KID BRANDS, INC. AND SUBSIDIARIES**

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In order to secure the obligations of the Loan Parties under the Credit Agreement, each Borrower has pledged 100% of the equity interests of its domestic subsidiaries (other than inactive subsidiaries), including a pledge of the capital stock of each Borrower (other than the Company), as well as 65% of the equity interests of specified foreign subsidiaries, to the Agent, and has granted security interests to the Agent in substantially all of its personal property, all pursuant to a Security Agreement, dated as of December 21, 2012, by the Company and the other Borrowers and Loan Parties party thereto from time to time in favor of the Agent, as Collateral Agent. As additional security for Sassy, Inc. s obligations under the Credit Agreement, Sassy, Inc. had previously granted a mortgage for the benefit of the Agent and the Lenders on the real property located at 2305 Breton Industrial Park Drive, S.E., Kentwood, Michigan, however, this mortgage was released by the Agent upon the consummation of the sale of such property in November of 2013.

*Prior Financial Covenants and Amendments to Credit Agreement (applicable definitions are set forth in Definitions Applicable to the Prior Financial Covenants below)*

Amendment No. 1

Under the original terms of the Credit Agreement, the Company was subject to a monthly minimum Adjusted EBITDA covenant, based on a trailing twelve-month period ending on the applicable testing date, and a minimum quarterly consolidated Fixed Charge Coverage Ratio of 1.1:1.0 (the Prior Financial Covenants ). The minimum monthly consolidated Adjusted EBITDA amounts required are described in detail in Note 4 of the Notes to Unaudited Consolidated Financial Statements of the Company s Quarterly Report Form 10-Q for the quarter ended March 31, 2013. On April 16, 2013 the Borrowers and the Agent executed a First Amendment to Credit Agreement ( Amendment No. 1 ), to amend the definition of Adjusted EBITDA for purposes of determining compliance with the Prior Financial Covenants to include an additional add-back to net income for the amount of any additional expense or accrual in excess of the Company s existing product return reserves in connection with the a deduction from outstanding amounts payable made by a large customer, up to a maximum aggregate amount of $600,000 (an Excess Accrual ). In April 2013, the Borrowers paid a fee of $50,000 in connection with the execution of Amendment No. 1. As a result of the use of an Excess Accrual of $261,000 (recorded in the third quarter of 2013 in final settlement of this matter), the Borrowers accrued an additional $50,000 fee payable to the Lenders.

Amendment No. 2 and Letter Agreement

As of March 31, 2013, although the Company was in compliance with the Prior Financial Covenants, it believed that it would be unlikely to remain in compliance with the Adjusted EBITDA covenant for the month ended April 30, 2013 and, potentially, certain future monthly testing periods. Accordingly, the Borrowers and the Agent executed a Second Amendment to Credit Agreement ( Amendment No. 2 ) on May 16, 2013, effective as of April 1, 2013. Pursuant to Amendment No. 2, among other things: (i) the Adjusted EBITDA covenant would be tested on a quarterly basis, unless and until specified trigger events described below occur; (ii) the minimum Adjusted EBITDA required was lowered for all remaining testing periods other than the trailing twelve-month period ending December 31, 2013; and (iii) the definition of Adjusted EBITDA was amended to increase the amount of certain permissible add-backs to

net income in the calculation thereof. The minimum quarterly consolidated Adjusted EBITDA amounts required prior to the occurrence of the Trigger Event described below were as follows: $8.2 million for the trailing twelve-month period ending June 30, 2013; $10.9 million for the trailing twelve-month period ending September 30, 2013; and $14.338 million for the trailing twelve-month period ending December 31, 2013. The Borrowers paid a fee of $50,000 in connection with the execution of Amendment No. 2, and agreed to a four month increase in the Agent s monthly monitoring fee (for an aggregate additional payment of $30,000).

Pursuant to Amendment No. 2, monthly testing of the Adjusted EBITDA covenant would resume if the Loan Parties failed to maintain: (x) average daily availability for a trailing two month period of $9.0 million, measured on each of July 1, 2013 and August 1, 2013, and $11.0 million, measured on the first day of each month commencing September 1, 2013; or (y) a ratio of operating expenses to gross profit, tested as of the last day of each month, commencing June 30, 2013, for the year-to-date period, of not more than 105% (either of such events, a Trigger Event ). The Trigger Event pertaining to availability occurred as of July 1, 2013, requiring a reversion to monthly testing. Subsequent to the occurrence of the Trigger Event as of July 1, 2013, the minimum consolidated Adjusted EBITDA amounts for the trailing twelve-month period ending as of the end of each remaining month in 2013 were as follows: July 31, 2013: $9.0 million; August 31, 2013: $9.7 million; September 30, 2013: $10.9 million; October 31, 2013: $12.8 million; November 30, 2013: $14.3 million; and December 31, 2013: $14.338 million.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

As previously disclosed, the Company believed that it would be unlikely to remain in compliance with the Adjusted EBITDA covenant for the month ended July 31, 2013, and may not remain in compliance with such covenant for certain other monthly testing periods in 2013. As a result, the Borrowers and the Agent executed a letter agreement on August 13, 2013 (the Letter Agreement ), to, among other things, eliminate the requirement for the Company to comply with the monthly Adjusted EBITDA covenant for the testing periods ending on each of July 31, 2013 and August 31, 2013. In connection with the execution of the Letter Agreement, the Company paid a fee of $25,000 to the Agent, and agreed, commencing October 1, 2013, to a $5,000 monthly increase in the monitoring fee payable to the Agent.

Covenant Defaults and Amendment No. 3

As of September 30, 2013, the Company was not in compliance with the monthly consolidated Adjusted EBITDA covenant for the trailing twelve month period ended September 30, 2013, or the consolidated Fixed Charge Coverage Ratio covenant for the quarter ended September 30, 2013, and anticipated that it would not be in compliance with the Adjusted EBITDA covenant for the trailing twelve month period ended October 31, 2013 (the Covenant Defaults ). As a result, the Credit Agreement was amended on November 14, 2013, via a Third Amendment to Credit Agreement and Limited Waiver ( Amendment No. 3 ), among other things: (i) to waive the Covenant Defaults (and any default or event of default resulting therefrom); (ii) commencing with the month ending November 30, 2013, to eliminate the Adjusted EBITDA covenant and the Fixed Charge Coverage Ratio covenant, and replace them with the New Financial Covenants; (iii) to require delivery of a monthly gross sales report; and (iv) to accelerate the delivery date of the 2014 business plan (which with the consent of the Agent, was delivered on December 20, 2013).

Commitment Reduction

As originally executed, the Credit Agreement provided for an aggregate maximum $80.0 million revolving credit facility, composed of: (i) a $60.0 Tranche A Revolver, with a $5.0 million sublimit for letters of credit; and (ii) a $20.0 Tranche A-1 Revolver. As the Borrowers, the Agent and the Lenders agreed that it was in the interests of the parties to reduce the Aggregate Commitments under the Credit Agreement, effective as of December 16, 2013, they executed an Agreement Regarding Commitments ( Commitment Reduction ), pursuant to which: (i) maximum commitments under the Tranche A Revolver were reduced to $44.0 million, and (ii) maximum commitments under the Tranche A-1 Revolver were reduced to $16.0 million. The Agent and the Lenders waived the termination fee of approximately $300,000 that would otherwise have been applicable to such commitment reduction. Notwithstanding the foregoing, the Borrowers will be permitted (upon irrevocable notice to the Agent) to increase the maximum commitment under the Tranche A Revolver to $48.0 million, and maximum commitment under the Tranche A-1 Revolver to $17.0 million on the conditions described above. In connection with Commitment Reduction, the Company recorded a non-cash charge for the unamortized portion of deferred financing costs in the fourth quarter of 2013 in the approximate amount of $440,000 which was recorded in interest expense.

Amendment No. 4

The Company was not in compliance with the financial covenant pertaining to Availability under the Credit Agreement for the month ended February 28, 2014, the financial covenants pertaining to Availability and gross sales for the month ended March 31, 2014, or the covenant requiring the delivery of annual financial statements within 90 days of the end of 2013, accompanied by a report and opinion of its auditors without a going concern or other qualification or exception. In addition, trading of the Company s common stock on the New York Stock Exchange was suspended as of March 31, 2014. The Company also anticipated that it may not be in compliance with both financial covenants for the month ended April 30, 2014. All of the foregoing, in addition to the Going Concern Events (as defined below), constituted (or may constitute) events of default under the Credit Agreement (collectively, the Existing Events of Default ). The Company also anticipated that it would determine and disclose in its financial statements for 2013 that there is substantial doubt about its ability to continue as a going concern, and that a related explanatory paragraph would be included in the report and opinion of the Company s auditors for such year, and that it would consider the existence of material weaknesses or significant deficiencies in its internal control over financial reporting for the year ended December 31, 2013 (the Going Concern Events ). The Going Concern Events may also violate specified provisions of the Credit Agreement, and result in a failure of the conditions to lending thereunder.

In connection with the foregoing, the Borrowers, the Agent and the Required Lenders entered into Amendment No. 4, which waived the Existing Events of Default, and any event of default or failure of any condition to lending arising from the violation of specified provisions of the Credit Agreement resulting from the Going Concern Events or the failure of the Borrowers to make a payment under a material license and receipt of a related notice of breach (which breach has since been cured). In addition, among other things, compliance with each of the Availability and gross sales financial covenants was suspended until the month ending August 31, 2014, the availability block was reduced by $0.5 million (i.e., $3.5 million, instead of $4.0 million, will be subtracted from amounts otherwise available for borrowing to compute availability) for a period of four months, and the permitted transit period for in-transit inventory was increased (thereby increasing the amount of eligible inventory used to calculate availability) for a period of four months. In consideration of the foregoing, among other things, the Company is subject to a new monthly Collateral Coverage Ratio (the value, as defined in Amendment No. 4, of eligible inventory, intellectual property and trade receivables to total outstandings under the Credit Agreement) of 1.0:1.0, interest rate margins applicable to each of the Tranche A Revolver and the Tranche A-1 Revolver were increased by 2.0% per annum, and the Agent was granted specified KID board of directors observation and participation rights (in a non-voting capacity).

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

*Definitions Applicable to Prior Financial Covenants*

For purposes of the definition of Adjusted EBITDA under the Prior Financial Covenants: (i) Duty Amounts referred to all customs duties, interest, penalties and any other amounts payable or owed to U.S. Customs and Border Protection ( U.S. Customs ) by LaJobi, Kids Line, CoCaLo or Sassy, to the extent that such amounts relate to specified duty underpayments by such subsidiaries to U.S. Customs and LaJobi s business and staffing practices in Asia prior to March 30, 2011 (the Duty Events ); and (ii) Consolidated Net Income meant, as of any date of determination, the Company s consolidated net income for the most recently completed trailing twelve-month period in accordance with GAAP, subject to specified exclusions including, among other things, extraordinary gains and losses for such period, and the income (or loss) of the Company s subsidiaries under specified circumstances (e.g., the income (or loss) of a subsidiary in which another person has a joint interest, except to the extent of actual distributions received, the income (or loss) of a subsidiary accrued prior to the date it became a subsidiary, and the income of any subsidiary to the extent distributions made by such subsidiary were not then-permitted).

Adjusted EBITDA was defined as an amount equal to the Company s Consolidated Net Income for the most recently completed trailing twelve-month period (from the date of determination), *plus*: (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) specified consolidated interest charges; (ii) the provision for income taxes; (iii) depreciation and amortization expense; (iv) other non-recurring non-cash expenses reducing such Consolidated Net Income for such period (such expenses will be deducted from Adjusted EBITDA during the period when paid in cash); (v) (a) all Duty Amounts accrued or expensed, (b) the amount of any LaJobi Earnout Consideration, and (c) fees and expenses incurred by the Borrowers in connection with any investigations of the Duty Amounts and Duty Events, in an aggregate amount under clauses (a), (b) and (c) not to exceed the sum, for all periods, of (x) $14,855,000 less (y) the amount of LaJobi Earnout Consideration, if any, paid by LaJobi other than in accordance with the terms of the Credit Agreement and/or to the extent not deducted in determining Consolidated Net Income; (vi) professional fees and expenses incurred after July 1, 2012 in an aggregate amount not to exceed $2.75 million (this limit was $2.0 million prior to the execution of Amendment No. 2) through December 31, 2013 plus, in each case, all reasonable and necessary fees and expenses of Alix Partners in an aggregate amount not to exceed $0.75 million; (vii) restructuring and severance costs in an amount not to exceed $2.0 million, and such additional amounts as are approved by the Agent in its discretion (this limit was $1.0 million prior to the execution of Amendment No. 2); (viii) expenses arising as a result of the recall of specified products, in an aggregate amount not to exceed $0.6 million; (ix) actual costs incurred as a result of the wind-down of the Borrowers operations in the United Kingdom, in an aggregate amount not to exceed $0.1 million; (x) if expensed, reasonable costs, expenses and fees incurred in connection with the Credit Agreement in an aggregate amount not to exceed $0.5 million; (xi) to the extent included in the Company s business plan or otherwise acceptable to the Agent, non-cash stock-based compensation expenses; and (xii) for purposes of calculating the financial covenants set forth in Section 7.15, if required to be expensed or accrued during any period commencing with the month ended December 31, 2012 through and including April 30, 2014 (in addition to related reserves recorded as of the date of execution of Amendment No. 1), the net amount of the deductions from invoices to a large customer of the Company as reported to the Agent by KID prior to the date of execution of Amendment No. 1 in an aggregate amount not to exceed $600,000, minus (b) the following to the extent included in calculating such Consolidated Net Income: (i) income tax credits and (ii) all non-cash items increasing

Consolidated Net Income (in each case by the Company and its subsidiaries for such period).

Consolidated Fixed Charge Coverage Ratio meant, at any date of determination, the ratio of: (a) (i) Adjusted EBITDA for the most recently completed trailing twelve-month period, *minus* (ii) unfinanced capital expenditures made during such period, *minus* (iii) the aggregate amount of income taxes paid in cash during such period (but not less than zero); to (b) the sum of: (i) specified debt service charges, *plus* (ii) the aggregate amount of all restricted payments (defined generally to mean dividends or distributions with respect to equity interests, or deposits, sinking funds or payments for the purchase, redemption, retirement or termination of any such equity interests) paid in cash by the Company and its subsidiaries, in each case determined on a consolidated basis in accordance with GAAP.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

**Note 9 Accrued Expenses**

Accrued expenses consist of the following (in thousands):

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Payroll and incentive compensation | $ 2,161 | $ 1,218 |
| Customs duty | 9,886 | 9,591 |
| Royalties | 1,908 | 2,897 |
| LaJobi Earnout Consideration | 11,719 | 11,719 |
| CPSC Settlement Accrual | 1,000 | |
| Other (a) | 3,201 | 3,096 |
| Total | $ 29,875 | $ 28,521 |

(a) No individual item exceeds five percent of current liabilities

**Note 10 Income Taxes**

The Company and its domestic subsidiaries file a consolidated Federal income tax return.

The U.S. and foreign components of (loss) income from operations before income tax provision (benefit) are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| United States | $ (32,402) | $ (4,734) | $ (40,337) |
| Foreign | 3,500 | (552) | 201 |
| | $ (28,902) | $ (5,286) | $ (40,136) |

Income tax provision (benefit) consists of the following (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| **Current** | | | |
| Federal | $ 20 | $ (666) | $ (1,426) |
| Foreign | 340 | 127 | 198 |
| State | 15 | (243) | 35 |
| Total Current | $ 375 | $ (782) | $ (1,193) |
| **Deferred** | | | |
| Federal | (251) | 41,531 | (390) |
| Foreign | (234) | 80 | 21 |
| State | 38 | 7,985 | 72 |
| Total Deferred | (447) | 49,596 | (297) |
| Total | $ (72) | $ 48,814 | $ (1,490) |

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The valuation allowance for deferred tax assets as of December 31, 2013 and December 31, 2012 was $85.5 million and $73.8 million, respectively. The Company has recorded valuation allowances on substantially all of its deferred tax assets, and the increase in the valuation allowance during the year ended December 31, 2013 of $11.7 million is due to the changes in the underlying deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and other factors. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates all available positive and negative evidence, including the Company s past operating results, the existence of cumulative losses and near-term forecasts of future taxable income that is consistent with the plans and estimates management is using to manage its underlying businesses, the amount of taxes paid in available carry-back years, and tax planning strategies. This analysis is updated quarterly. Based on this analysis, the Company increased its valuation allowance in the amount of $50.3 million during the year ended December 31, 2012, as a result of the Company s reduced estimates of current and future taxable income during the carry forward period, and the fact that it is in a three-year cumulative loss position. Management will continue to periodically evaluate the valuation allowance and, to the extent that conditions change, a portion of such valuation allowance could be reversed in future periods. The valuation allowance increased by approximately $15.5 million in 2011 primarily related to a change in the valuation allowance against deferred tax assets for foreign tax credit carry-forwards of $12.0 million as a result of the Company s then-current year net operating loss and scheduled expiration dates of the carry-forwards as well as a change in the valuation allowance against deferred tax assets for capital loss carry-forwards associated with the sale of the Company s former gift business in light of the TRC bankruptcy in the amount of $3.6 million.

A reconciliation of the provision (benefit) for income taxes on operations with amounts computed at the statutory Federal rate (35%) is shown below (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Income tax (benefit) provision at U.S. Federal statutory rate | $ (10,115) | $ (1,850) | $ (14,048) |
| State income tax, net of Federal tax benefit | 34 | 5,032 | 70 |
| Foreign rate differences | (1,123) | 401 | 147 |
| Change in federal valuation allowance affecting income tax expense | 10,677 | 45,023 | 15,350 |
| Change in unrecognized tax benefits | 3 | (334) | 187 |
| Foreign tax credits/dividends | 188 | 3 | (3,413) |
| Other, net | 264 | 539 | 217 |
| | $ (72) | $ 48,814 | $ (1,490) |

State income tax, net of Federal tax benefit, and Foreign rate differences for 2013 reflected above includes an increase of approximately $1.0 million and a decrease of approximately $0.8 million, respectively to the valuation allowance on the Company s deferred tax assets. State income tax, net of Federal tax benefit, and Foreign rate differences for 2012 reflected above includes increases of approximately $5.1 million and $0.2 million, respectively to the valuation allowance on the Company s deferred tax assets.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The components of the deferred tax asset and the valuation allowance, resulting from temporary differences between accounting for financial and tax reporting purposes, are as follows (in thousands):

| | December 31, | |
|---|---|---|
| | **2013** | **2012** |
| **Assets (Liabilities)** | | |
| **Deferred tax assets:** | | |
| Inventories | $ 1,425 | $ 972 |
| Accruals / reserves | 5,663 | 4,464 |
| Capital loss carry forward | 8,748 | 8,723 |
| Foreign tax credit carry forward | 17,202 | 17,192 |
| Federal net operating loss carry forwards | 16,688 | 4,810 |
| State net operating loss carry forwards | 3,045 | 1,731 |
| Foreign net operating loss carry forwards | 25 | 835 |
| Intangible assets | 31,103 | 34,097 |
| Depreciation | 60 | 46 |
| Other | 1,864 | 1,628 |
| Gross deferred tax asset | 85,823 | 74,498 |
| Less: valuation allowance | (85,462) | (73,824) |
| Net deferred tax asset | 361 | 674 |
| Deferred tax liabilities: | | |
| Unrepatriated earnings of foreign subsidiaries | | (320) |
| Depreciation | (183) | (146) |
| Intangible assets | (81) | (272) |
| Cumulative translation adjustment | (228) | (695) |
| Gross deferred tax liability | (492) | (1,433) |
| Total net deferred tax (liability) asset | $ (131) | $ (759) |

Provisions are made for estimated United States and foreign income taxes, less available tax credits and deductions, which may be incurred on the remittance of foreign subsidiaries undistributed earnings. At December 31, 2013 and 2012, the Company has recorded a deferred tax liability of $0.0 million and $0.3 million, respectively, related to the repatriation of its foreign subsidiaries undistributed earnings that are not treated as permanently reinvested. The Company has sufficient foreign tax credit carry forwards to offset this deferred tax liability.

The Company has federal net operating loss carry forwards of $47.7 million which expire in 2032-2033, state net operating loss carry forwards of $229.0 million which expire in 2018-2033, and foreign net operating loss carry forwards of $0.1 million which are indefinite in nature. The Company has foreign tax credits carry forwards of $17.2 million which expire in 2015-2022 and capital loss carry forwards of $22.8 million which expire in 2016-2018.

To evaluate a tax position, the Company must first determine whether it is more likely than not that the tax position will be sustained upon examination by the relevant tax authorities based on its technical merits. If a tax position meets such recognition threshold, it is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority to determine the amount of benefit to recognize in the financial statements. The liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date.

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**KID BRANDS, INC. AND SUBSIDIARIES**

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**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Balance at January 1 | $ 395 | $ 729 |
| Increases related to prior year tax positions | 19 | 38 |
| Decreases related to prior year tax positions | | (15) |
| Reductions due to lapsed statute of limitations | (16) | (357) |
| Balance at December 31 | $ 398 | $ 395 |

The above table includes interest and penalties of $93,000 as of December 31, 2013 and interest and penalties of $78,000 as of December 31, 2012. The Company has elected to record interest and penalties as an income tax expense, in accordance with applicable accounting standards. Included in the liability for unrecorded tax benefits as of December 31, 2013 is $398,000 of unrecognized tax benefits that, if recognized, would impact the effective tax rate. Based upon the expiration of statutes of limitations and/or the conclusion of tax examinations in several jurisdictions, the Company believes it is reasonably possible that the total amount of previously unrecognized tax benefits discussed above may decrease by up to $355,000 within twelve months of December 31, 2013, and such amount is reflected on the Company s consolidated balance sheet as current income taxes payable.

The Company files federal and state income tax returns, as applicable, in the United States, Australia, the European Union, and the United Kingdom. The Company is currently under examination in several tax jurisdictions and remains subject to examination until the statute of limitations expires for the applicable tax jurisdiction. For U.S. federal income tax purposes, all years prior to 2010 are closed. The Company was recently under examination by the Internal Revenue Service for the 2011 tax year. The examination commenced in the second quarter of 2013 and concluded in January 2014 with no assessment. In states and foreign jurisdictions, the years subsequent to 2009 remain open and are currently under examination or are subject to examination by the taxing authorities.

**Note 11 Weighted Average Common Shares**

Earnings (loss) per share ( EPS ) under the two-class method is computed by dividing earnings (loss) allocated to common stockholders by the weighted-average number of common shares outstanding for the period. In determining EPS, earnings (loss) are allocated to both common shares and participating securities based on the respective number of weighted-average shares outstanding for the period. Participating securities include unvested restricted stock awards where, like the Company s restricted stock awards, such awards carry a right to receive non-forfeitable dividends, if declared. As a result of the foregoing, and in accordance with the applicable accounting standard, vested and unvested shares of restricted stock (to the extent outstanding) are also included in the calculation of basic earnings per share. With respect to RSUs, as the right to receive dividends or dividend equivalents is contingent upon vesting, in accordance with the applicable accounting standard, the Company does not include unvested RSUs in the

calculation of basic earnings per share. To the extent such RSUs are settled in stock, upon settlement, such stock is included in the calculation of basic earnings per share. With respect to SARs and stock options, as the right to receive dividends or dividend equivalents is contingent upon vesting and exercise (with respect to SARs, to the extent they are settled in stock), in accordance with the applicable accounting standard, the Company does not include unexercised SARs or stock options in the calculation of basic earnings per share. To the extent such SARs and stock options have vested and are exercised (with respect to SARs, to the extent they are settled in stock), the stock received upon such exercise is included in the calculation of basic earnings per share.

The weighted average common shares outstanding included in the computation of basic and diluted net earnings (loss) per share are set forth below (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Weighted average common shares outstanding Basic | 21,940 | 21,829 | 21,671 |
| Dilutive effect of common shares issuable upon exercise/settlement of stock options, RSUs and SARs | | | |
| Weighted average common shares outstanding assuming dilution | 21,940 | 21,829 | 21,671 |

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**KID BRANDS, INC. AND SUBSIDIARIES**

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The computation of net loss per diluted common share for the years ended December 31, 2013, 2012, and 2011, excluded 1,071,498, 427,883, and 662,804 stock options (consisting of all outstanding options), respectively, because their inclusion would be anti-dilutive as a result of the net loss in 2013, 2012, and in 2011.

The computation of net loss per diluted common share for the years ended December 31, 2013, 2012, and 2011, excluded 1,719,812, 1,172,556, and 1,052,905 stock appreciation rights ( SARs ) (consisting of all outstanding SARs), respectively, because their inclusion would be anti-dilutive as a result of the net loss in 2013, 2012, and 2011.

## Note 12 Related Party Transactions

Effective September 12, 2012 through January 29, 2014, Renee Pepys Lowe was President of Kids Line and CoCaLo. During 2013 and 2012, CoCaLo contracted for warehousing and distribution services from a company that is managed by the spouse of Ms. Lowe. For the years ended December 31, 2013 and 2012, CoCaLo paid approximately $1.3 million and $2.9 million, respectively, to such company for these services.

From September 12, 2011 through March 13, 2013, Mr. Benaroya served as interim Executive Chairman and acting Chief Executive Officer of the Company pursuant to an agreement between the Company and RB, Inc., a Delaware corporation wholly-owned by Mr. Benaroya (the Interim Agreement ), which provided for the full-time services of Mr. Benaroya for a fee of $100,000 per calendar month during its term. Notwithstanding the stated contractual amount, commencing as of September 2012, RB, Inc. advised the Company to reduce the fee to $75,000 per calendar month. Mr. Benaroya was not paid directors fees during the term of his engagement as interim Executive Chairman, nor did he participate in any bonus program, employee benefit plan or other compensation arrangement with the Company. The Interim Agreement was terminated on March 13, 2013, in connection with the appointment of Mr. Benaroya as President and Chief Executive Officer of the Company. The Company paid $225,000, $1,050,000 and $431,500 to RB, Inc. for the services of Mr. Benaroya pursuant to the Interim Agreement for each of the years ended December 31, 2013, 2012 and 2011, respectively.

## Note 13 Leases

At December 31, 2013, the Company and its subsidiaries were obligated under operating lease agreements (principally for buildings and other leased facilities) for remaining lease terms ranging from one year to five years.

Rent expense for the years ended December 31, 2013, 2012, and 2011 amounted to approximately $3.3 million, $3.5 million, and $3.5 million, respectively.

The approximate aggregate minimum future rental payments as of December 31, 2013 under operating leases are as follows (in thousands):

| | |
|---|---|
| 2014 | $ 1,640 |
| 2015 | 1,330 |
| 2016 | 1,501 |
| 2017 | 1,431 |
| 2018 | 821 |
| Thereafter | 5,068 |
| Total | $ 11,791 |

**Note 14 Share Repurchase Program**

On November 8, 2011, the Board approved a share repurchase program. Under the share repurchase program, the Company is authorized to purchase up to $10.0 million of its outstanding shares of common stock (and in connection therewith, the Board terminated the repurchase program authorized in March of 1990 (the 1990 Program ). The purchases may be made from time to time on the open market or in negotiated transactions. The timing and extent to which the Company repurchases its shares will depend on market conditions and other corporate considerations as may be considered in the Company s sole discretion, however, the Credit Agreement currently prohibits the Company from making purchases under this share repurchase program. The share repurchase program may be suspended or discontinued at any time without prior notice.

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During the twelve-month periods ended December 31, 2013, 2012, and 2011, KID did not repurchase any shares pursuant to the current share repurchase program, the 1990 Program or otherwise. The 1990 Program authorized KID to repurchase an aggregate of 7,000,000 shares of its common stock, and in connection therewith, a total of 5,643,284 shares had been repurchased in prior years. During the years ended December 31, 2013, 2012, and 2011, KID issued from treasury stock 242,120, 85,961, and 191,329 shares, respectively, that had been previously purchased under the 1990 Program.

**Note 15  Shareholders  Equity**

**Equity Plans**

As of December 31, 2013, the Company maintained (i) its 2013 Equity Incentive Plan (the  2013 EI Plan ), which is a successor to the Company s 2008 Equity Incentive Plan (the  2008 EI Plan ), (ii) its 2008 EI Plan, which is a successor to the Company s 2004 Stock Option, Restricted and Non-Restricted Stock Plan (the  2004 Option Plan , and together with each of the 2008 EI Plan and the 2013 EI Plan, the  Plans ) and (iii) its 2009 Employee Stock Purchase Plan (the  2009 ESPP ). The 2013 EI Plan was approved by the Company s shareholders on July 18, 2013. The 2008 EI Plan and the 2009 ESPP were each approved by the Company s shareholders on July 10, 2008, however, the 2009 ESPP was suspended for the 2012 and 2013 plan years. In addition, the Company may (and has) issued equity awards outside of the Plans. The exercise or measurement price for equity awards issued under the Plans or otherwise is generally equal to the closing price of KID s common stock on the New York Stock Exchange, or if not so listed, on the principal over-the-counter market system ( OTC System ) on which the common stock is traded on the date of grant. Generally, equity awards under the Plans (or otherwise) vest over a period ranging from zero to five years from the date of grant as provided in the relevant award agreement. Options and stock appreciation rights generally expire ten years from the date of grant. Shares in respect of equity awards are issued from authorized shares reserved for such issuance or treasury shares.

The 2013 EI Plan provides for awards in any one or a combination of: (a) Stock Options, (b) Stock Appreciation Rights ( SARs ), (c) Restricted Stock, (d) Stock Units, (e) Non-restricted Stock, and/or (f) Dividend Equivalent Rights. Any award under the 2013 EI Plan may, as determined by the committee administering the 2013 EI Plan (the  Plan Committee ) in its sole discretion, constitute a  Performance-Based Award  (an award that qualifies for the performance-based compensation exemption of Section 162(m) of the Internal Revenue Code of 1986, as amended). All awards granted under the 2013 EI Plan are evidenced by a written agreement between the Company and each participant (which need not be identical with respect to each grant or participant) that provides the terms and conditions, not inconsistent with the requirements of the 2013 EI Plan, associated with such awards, as determined by the Plan Committee in its sole discretion. At inception, a total of 2,500,000 shares of Common Stock were reserved for issuance under the 2013 EI Plan. In the event all or a portion of an award is forfeited, terminated or cancelled, expired, is settled for cash, or otherwise does not result in the issuance of all or a portion of the shares of Common Stock subject to the award in connection with the exercise or settlement of such award ( Unissued Shares ), such Unissued Shares will in each case again be available for awards under the 2013 EI Plan pursuant to a formula set forth therein. At December 31, 2013, 2,192,750 shares were available for issuance under the 2013 EI Plan.

The 2008 EI Plan, which became effective July 10, 2008 (at which time no further awards could be made under the 2004 Option Plan), provided for the same types of awards as are issuable under the 2013 EI Plan. All awards granted under the 2008 EI Plan were evidenced by a written agreement between the Company and each participant (which did not need to be identical with respect to each grant or participant) that provided the terms and conditions, not inconsistent with the requirements of the 2008 EI Plan, associated with such awards, as determined by the Plan Committee in its sole discretion. A total of 1,500,000 shares of Common Stock were reserved for issuance under the 2008 EI Plan. Any Unissued Shares were in each case again available for awards under the 2008 EI Plan pursuant to a formula set forth therein. The preceding sentence also applied to any awards outstanding on July 10, 2008, under the 2004 Option Plan, up to a maximum of an additional 1,750,000 shares of Common Stock. No further awards could be made under the 2008 EI Plan as of July 10, 2013 as the 2008 EI Plan expired on that date.

As of December 31, 2013, an aggregate of 200,000 stock options and 597,015 SARs are outstanding that were granted as inducement awards outside any of the Plans. Of these non-Plan grants, the 200,000 stock options vested in full upon issuance, and if unexercised (unless terminated earlier) generally expire on March 15, 2023. 373,134 of the SARs vest ratably over a five year period (commencing on the first anniversary of the date of grant), and if unexercised (unless terminated earlier), expire on September 14, 2022. 179,105 of the SARs were forfeited on January 29, 2014, and the remaining 44,776 of the SARs will expire on April 29, 2014.

KID BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)

The 2009 ESPP became effective on January 1, 2009. A total of 200,000 shares of Common Stock were reserved for issuance under the 2009 ESPP. As noted above, the 2009 ESPP was suspended for the 2012 and 2013 plan years (and expired as of December 31, 2013), and any remaining shares available for issuance thereunder were deregistered in the second quarter of 2013.

**Impact on Net (Loss)/Income**

The components of share-based compensation expense for each of 2013, 2012, and 2011 follow (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Stock option expense | $ 415 | $ 301 | $ 823 |
| Restricted stock expense | | 36 | 355 |
| Restricted stock unit expense | 166 | 215 | 193 |
| SAR expense | 671 | 543 | 627 |
| ESPP expense | | | 182 |
| Total share-based payment expense | $ 1,252 | $ 1,095 | $ 2,180 |

The Company records share-based compensation expense in the statements of operations within the same categories that payroll expense is recorded in selling, general and administrative expense. No share-based compensation expense was capitalized in inventory or any other assets during the years ended December 31, 2013, 2012, and 2011. The relevant Financial Accounting Standards Board ( FASB ) standard requires the cash flows related to tax benefits resulting from tax deductions in excess of compensation costs recognized for those equity compensation grants (excess tax benefits) to be classified as financing cash flows.

The fair value of stock options and stock appreciation rights (SARs) granted under the Plans or otherwise is estimated on the date of grant using a Black-Scholes-Merton options pricing model using assumptions with respect to dividend yield, risk-free interest rate, volatility and expected term. Expected volatilities are calculated based on the historical volatility of KID s Common Stock. The expected term of options or SARs granted is derived from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that awards granted are expected to be outstanding. Management monitors stock option exercises and employee termination patterns to estimate forfeitures rates within the valuation model. Separate groups of employees, directors and officers that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free interest rate is based on the Treasury note interest rate in effect on the date of grant for the expected term of the award.

*Stock Options*

Stock options are rights to purchase KID s Common Stock in the future at a predetermined per share exercise price (which is the closing price for such stock on the New York Stock Exchange, or if not so listed, on the principal OTC System on which the common stock is traded on the date of grant). Stock options may be either: Incentive Stock Options (stock options which comply with Section 422 of the Code), or Non-Qualified Stock Options (stock options which are not Incentive Stock Options). Stock options are accounted for at fair value at the date of grant in the consolidated statement of operations, are amortized on a straight line basis over the vesting term, and are equity-classified in the consolidated balance sheets. No options will be exercisable later than ten (10) years after the date of grant. The options issued under the 2008 and 2013 EI Plans vest ratably over a period ranging from zero to five years and, unless terminated earlier, expire on the tenth anniversary of the date of grant.

There were 1,150,000 and 0 options granted during the years ended December 31, 2013 and 2012, respectively. Of the 1,150,000 options granted during the year ended December 31, 2013, 600,000 thereof represented cash SARs granted to the Company s President and CEO on March 15, 2013, which were converted into stock options, on a one-for-one basis, on July 18, 2013 upon the approval of such conversion at KID s 2013 Annual Meeting of Shareholders (with no change to the grant date, exercise price, vesting schedule, or other terms thereof). As a result, the 600,000 cash SARs were terminated, and the stock options which replaced them (the Replacement Options ) are equity classified in the consolidated balance sheets as of July 18, 2013. Prior to such conversion, the 600,000 cash SARs were classified as a short-term liability on the consolidated balance sheets, and the fair value of this award was recalculated each quarter based upon its fair value at each balance sheet date. Separately, pursuant to the terms of a consulting agreement with Marc Goldfarb, our former Senior Vice President and General Counsel, notwithstanding the terms of such awards, any outstanding vested options held by him at the time of his resignation from the Company (effective August 14, 2013) will continue to be exercisable until 90 days following expiration of the term of such consulting agreement. All options granted to Mr. Goldfarb had fully vested prior to the time of such resignation. No incremental compensation cost resulted from the modification of Mr. Goldfarb s options. There were no options exercised in the years ended December 31, 2013 and 2012, respectively.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The assumptions used to estimate the fair value of the stock options granted during the year ended December 31, 2013 were as follows (no stock options were granted during the years ended December 31, 2012 and 2011):

| | Year Ended December 31, 2013 | |
|---|---|---|
| Dividend yield | | % |
| Risk-free interest rate | | 0.78% |
| Volatility | | 73.6% |
| Expected term (years) | | 3.9 |
| Weighted average fair value of stock options granted | $ | 0.84 |

The foregoing table, as well as the remainder of the tables and discussion in this Stock Options section, includes the 600,000 Replacement Options described above.

As of December 31, 2013, the total remaining unrecognized compensation cost related to unvested stock options, net of forfeitures, was approximately $0.6 million, and is expected to be recognized over a weighted-average period of 2.9 years.

Activity regarding outstanding options for 2013, 2012, and 2011 is as follows:

| | All Stock Options Outstanding | | |
|---|---|---|---|
| | Shares | | Weighted Average Exercise Price |
| Options Outstanding as of December 31, 2010 | 704,175 | $ | 13.53 |
| Options Granted | | | |
| Options Forfeited/Cancelled[2] | (257,200) | | 15.23 |
| | | | |
| Options Outstanding as of December 31, 2011 | 446,975 | | 12.55 |
| Options Granted | | | |
| Options Forfeited/Cancelled[2] | (31,400) | | 14.40 |
| | | | |
| Options Outstanding as of December 31, 2012 | 415,575 | | 12.41 |
| Options Granted [1] | 1,150,000 | | 1.52 |
| Options Forfeited/Cancelled [1,2] | (43,200) | | 15.91 |

| | | | |
|---|---|---|---|
| Options Outstanding as of December 31, 2013 | 1,522,375 | $ | 4.08 |
| Option price range at December 31, 2013 | $ 1.51-34.05 | | |

[1] Modifications of option grants are included on a net basis in the table
[2] See disclosure below regarding forfeitures

The aggregate intrinsic value of the unvested and vested outstanding stock options was $0 at each of December 31, 2013, 2012, and 2011. The aggregate intrinsic value is the total pre-tax value of in-the-money options, which is the difference between the fair value at the measurement date and the exercise price of each option. There were no stock options exercised during, and 436,250, 59,920, and 154,200 stock options vested, for the years ended December 31, 2013, 2012, and 2011, respectively. The weighted average fair value of stock options vested for the years ended December 31, 2013, 2012, and 2011, was $439,969, $306,384, and $868,226, respectively.

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**KID BRANDS, INC. AND SUBSIDIARIES**

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**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The following table summarizes information about fixed-price stock options outstanding at December 31, 2013:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Exercise Prices** | **Number Outstanding at 12/31/13** | **Weighted Average Remaining Contractual Life** | **Weighted Average Exercise Price** | **Number Exercisable at 12/31/13** | **Weighted Average Exercise Price** |
| $ 34.05 | 975 | Less than .25 Year | $ 34.05 | 975 | $ 34.05 |
| 13.05 | 10,000 | 1.25 Years | 13.05 | 10,000 | 13.05 |
| 13.06 | 15,000 | 1.25 Years | 13.06 | 15,000 | 13.06 |
| 11.52 | 20,000 | 2.00 Years | 11.52 | 20,000 | 11.52 |
| 15.05 | 60,000 | 2.75 Years | 15.05 | 60,000 | 15.05 |
| 14.90 | 10,000 | 3.5 Years | 14.90 | 10,000 | 14.90 |
| 16.77 | 106,400 | 4 Years | 16.77 | 106,400 | 16.77 |
| 7.28 | 75,000 | 4.5 Years | 7.28 | 75,000 | 7.28 |
| 6.63 | 75,000 | 5.75 Years | 6.63 | 60,000 | 6.63 |
| 1.57 | 150,000 | 9.5 Years | 1.57 | | 1.57 |
| 1.51 | 1,000,000 | 9.25 Years | 1.51 | 406,250 | 1.51 |
| | 1,522,375 | | $ 4.08 | 763,625 | $ 6.53 |

The weighted average remaining life of the outstanding options as of December 31, 2013, 2012, and 2011, is 7.9 years, 4.8 years, and 5.8 years, respectively.

A summary of the Company s unvested stock options at December 31, 2013, and changes during 2013 is as follows:

| **Unvested stock options** | **Options** | **Weighted Average Grant Date Fair Value** |
|---|---|---|
| Unvested at December 31, 2012 | 45,000 | $ 3.90 |
| Granted | 1,150,000 | $ 0.84 |
| Vested | (436,250) | $ 1.01 |
| Forfeited/cancelled* | | $ |
| Unvested options at December 31, 2013 | 758,750 | $ 0.93 |

* See disclosure below regarding forfeitures.

*Restricted Stock*

Restricted Stock is Common Stock that is subject to restrictions, including risks of forfeiture, determined by the Plan Committee in its sole discretion, for so long as such Common Stock remains subject to any such restrictions. A holder of restricted stock has all rights of a shareholder with respect to such stock, including the right to vote and to receive dividends thereon, except as otherwise provided in the award agreement relating to such award. Restricted Stock Awards are equity classified within the consolidated balance sheets. The fair value of each restricted stock grant is estimated on the date of grant using the closing price of KID s Common Stock on the New York Stock Exchange, or if not so listed, on the principal OTC System on which the common stock is traded on the date of grant.

During the years ended December 31, 2013, 2012, and 2011, there were no shares of restricted stock issued under the Plans or otherwise. Restricted stock grants, when made, typically have vesting periods of five years, with fair values (per share) at date of grant. Compensation expense is determined for the issuance of restricted stock by amortizing over the requisite service period, or the vesting period, the aggregate fair value of the restricted stock awarded based on the closing price of KID s Common Stock on the date of grant.

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**KID BRANDS, INC. AND SUBSIDIARIES**

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**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

A summary of the Company s unvested restricted stock for the years 2013, 2012, and 2011 is as follows:

| **Unvested Restricted Stock** | **Restricted Stock** | **Weighted Average Grant Date Fair Value** | |
|---|---|---|---|
| Unvested restricted stock at December 31, 2010 | 29,270 | $ | 15.91 |
| Granted | | | |
| Vested | (23,970) | $ | 16.09 |
| Forfeited/cancelled* | (2,580) | $ | 13.65 |
| Unvested restricted stock at December 31, 2011 | 2,720 | $ | 16.43 |
| Granted | | | |
| Vested | (2,380) | $ | 16.38 |
| Forfeited/cancelled* | (340) | $ | 16.77 |
| Unvested restricted stock at December 31, 2012 | | $ | |
| Granted | | $ | |
| Vested | | $ | |
| Forfeited/cancelled* | | $ | |
| Unvested restricted stock at December 31, 2013 | | $ | |

* See disclosure below regarding forfeitures.

As of December 31, 2013, there was no unrecognized compensation cost related to issuances of restricted stock.

*Restricted Stock Units*

A Restricted Stock Unit ( RSU ) is a notional account representing a grantee s conditional right to receive at a future date one (1) share of Common Stock or its equivalent in value. Shares of Common Stock issued in settlement of an RSU may be issued with or without other consideration as determined by the Plan Committee in its sole discretion. RSUs may be settled in the sole discretion of the Plan Committee (i) by the distribution of shares of Common Stock equal to the grantee s RSUs, (ii) by a lump sum payment of an amount in cash equal to the fair value of the shares of Common Stock which would otherwise be distributed to the grantee, or (iii) by a combination of cash and Common Stock. The RSUs granted under the 2008 and 2013 EI Plans vest (and will be settled) ratably over a 5-year period and are equity classified in the consolidated balance sheets.

The fair value of each RSU grant is estimated on the grant date. The fair value of RSUs is set using the closing price of KID s Common Stock on the New York Stock Exchange, or if not so listed, on the principal OTC System on which the common stock is traded on the date of grant. Compensation expense for RSUs is recognized ratably over the vesting period, based upon the market price of the shares underlying the awards on the date of grant.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The following table summarizes information about RSU activity:

| Unvested RSUs | Restricted Stock Units | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Unvested at December 31, 2010 | 174,730 | $ 5.22 |
| Granted | 54,000 | $ 5.80 |
| Vested | (37,010) | $ 5.24 |
| Forfeited/cancelled* | (43,160) | $ 5.04 |
| Unvested at December 31, 2011 | 148,560 | $ 5.47 |
| Granted | 127,250 | $ 2.70 |
| Vested | (33,590) | $ 5.22 |
| Forfeited/cancelled* | (48,970) | $ 4.41 |
| Unvested at December 31, 2012 | 193,250 | $ 3.96 |
| Granted | 25,000 | $ 1.54 |
| Vested | (42,120) | $ 4.07 |
| Forfeited/cancelled* | (46,430) | $ 3.63 |
| Unvested at December 31, 2013 | 129,700 | $ 3.58 |

* See disclosure below regarding forfeitures.

As of December 31, 2013, there was approximately $0.3 million of unrecognized compensation cost related to unvested RSUs. That cost is expected to be recognized over a weighted-average period of 2.7 years.

*Stock Appreciation Rights*

A Stock Appreciation Right (a SAR ) is a right to receive a payment in cash, Common Stock, or a combination thereof as determined by the Plan Committee (other than with respect to 600,000 cash SARs granted to our current President and CEO discussed below) in an amount or value equal to the excess of (i) the fair value, or other specified valuation (which may not exceed fair value), of a specified number of shares of Common Stock on the date the right is exercised, over (ii) the fair value or other specified amount (which may not be less than fair value) of such shares of Common Stock on the date the right is granted; *provided*, however, that if a SAR is granted in tandem with or in

substitution for a stock option, the designated fair value for purposes of the foregoing clause (ii) will be the fair value on the date such stock option was granted. No SARs will be exercisable later than ten (10) years after the date of grant. The SARs issued under the 2008 and 2013 EI Plans vest ratably over a period ranging from zero to five years, and unless terminated earlier, expire on the tenth anniversary of the date of grant. SARs are granted at an exercise price equal to the closing price of the Company s Common Stock on the New York Stock Exchange, or if not so listed, on the principal OTC System on which the common stock is traded on the date of grant.

SARs are accounted for at fair value at the date of grant in the consolidated income statement, are amortized on a straight line basis over the vesting term, and are equity-classified in the consolidated balance sheets, with the exception of 600,000 cash SARs granted to the Company s President and CEO (until their conversion to the Replacement Options as described above). There were 1,220,000, 975,015, and 182,500 SARs granted during the years ended December 31, 2013, 2012 and 2011, respectively. Of the 1,220,000 SARs granted during the year ended December 31, 2013, 600,000 thereof represented SARs granted to the Company s President and CEO on March 15, 2013, which at the time of grant could be exercised solely for cash (the Cash SARs ). The Cash SARs were converted into the Replacement Options, on a one-for-one basis, on July 18, 2013 upon the approval of such conversion at KID s 2013 Annual Meeting of Shareholders (with no change to the grant date, exercise price, vesting schedule, or other terms thereof). As a result, the 600,000 Cash SARs were terminated, and the Replacement Options are equity classified in the consolidated balance sheets as of July 18, 2013. Prior to such conversion, the 600,000 Cash SARs were classified as a short-term liability on the consolidated balance sheets, and the fair value of this award was recalculated each quarter based upon its fair value at each balance sheet date. No incremental compensation cost resulted from the modification. In addition, pursuant to the terms of a consulting agreement with Marc Goldfarb, notwithstanding the terms of such awards, any outstanding vested SARs held by him at the time of his resignation will continue to be exercisable until 90 days following expiration of the term of such consulting agreement (unvested SARs were forfeited at the time of such resignation). Incremental compensation cost for the year ended December 31, 2013 of $11,000 resulted from the modification of Mr. Goldfarb s SARs. There were no SARs exercised in 2013 or 2012. There were 176,043 SARs exercised in 2011, of which 1,100 were settled in cash.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The assumptions used to estimate the fair value of the SARs granted during the years ended December 31, 2013, 2012, and 2011 were as follows (excludes the 600,000 Cash SARs granted on March 15, 2013 which were converted to the Replacement Options on July 18, 2013):

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Dividend yield | % | % | % |
| Risk-free interest rate | 1.37% | 0.78% | 1.39% |
| Volatility | 91.0% | 86.9% | 89.5% |
| Expected term (years) | 5.0 | 5.0 | 4.5 |
| Weighted-average fair value of SARs granted | $ 1.08 | $ 1.26 | $ 3.98 |

The amount of SARs granted and cancelled in the following table excludes 600,000 Cash SARs granted on March 15, 2013 which were converted into the Replacement Options, on a one-for-one basis, on July 18, 2013. Activity regarding outstanding SARs for 2013, 2012, and 2011 is as follows:

| | All Stock Appreciation Rights Outstanding | |
|---|---|---|
| | **Shares** | **Weighted Average Exercise Price** |
| SARs Outstanding as of December 31, 2010 | 1,111,513 | $ 4.17 |
| SARs Granted | 182,500 | $ 6.08 |
| SARs Exercised | (176,043) | $ 1.44 |
| SARs Forfeited/Cancelled[2] | (330,280) | $ 3.19 |
| SARs Outstanding as of December 31, 2011 | 787,690 | $ 5.63 |
| SARs Granted | 975,015 | $ 1.87 |
| SARs Exercised | | $ |
| SARs Forfeited/Cancelled[2] | (241,320) | $ 4.67 |
| SARs Outstanding as of December 31, 2012 | 1,521,385 | $ 3.38 |
| SARs Granted [1] | 620,000 | $ 1.54 |
| SARs Exercised | | $ |
| SARs Forfeited/Cancelled [1,2] | (313,370) | $ 3.84 |

| | | | | |
|---|---|---|---|---|
| SARs Outstanding as of December 31, 2013 | | 1,828,015 | $ | 2.67 |
| SARs price range at December 31, 2013 | $ | 1.34-8.50 | | |

[1] Modifications of grants are included on a net basis in the table
[2] See disclosure below regarding forfeitures

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**KID BRANDS, INC. AND SUBSIDIARIES**

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**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

The following table summarizes information about SARs outstanding at December 31, 2013:

| | SARs Outstanding | | | SARs Exercisable | |
|---|---|---|---|---|---|
| Exercise Prices | Number Outstanding at 12/31/13 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at 12/31/13 | Weighted Average Exercise Price |
| $ 6.43 | 48,000 | 4.75 Years | $ 6.43 | 48,000 | $ 6.43 |
| 1.53 | 40,000 | 5.25 Years | 1.53 | 40,000 | 1.53 |
| 5.34 | 10,000 | 5.50 Years | 5.34 | 8,000 | 5.34 |
| 4.79 | 30,000 | 6.25 Years | 4.79 | 18,000 | 4.79 |
| 5.03 | 90,250 | 6.25 Years | 5.03 | 62,550 | 5.03 |
| 8.17 | 75,000 | 6.50 Years | 8.17 | 45,000 | 8.17 |
| 7.35 | 15,000 | 6.50 Years | 7.35 | 9,000 | 7.35 |
| 8.50 | 50,000 | 7.00 Years | 8.50 | | |
| 4.65 | 20,000 | 7.50 Years | 4.65 | 8,000 | 4.65 |
| 5.17 | 71,250 | 7.50 Years | 5.17 | 28,500 | 5.17 |
| 3.65 | 12,000 | 7.50 Years | 3.65 | 4,800 | 3.65 |
| 3.02 | 157,500 | 8.25 Years | 3.02 | 35,700 | 3.02 |
| 1.41 | 57,000 | 8.50 Years | 1.41 | 11,400 | 1.41 |
| 1.34 | 597,015 | 8.75 Years | 1.34 | 119,402 | 1.34 |
| 1.51 | 50,000 | 9.25 Years | 1.51 | | 1.51 |
| 1.53 | 355,000 | 9.50 Years | 1.53 | | 1.53 |
| 1.57 | 150,000 | 9.50 Years | 1.57 | | 1.57 |
| | 1,828,015 | | $ 2.67 | 438,352 | $ 3.95 |

The weighted average remaining life of the outstanding SARs as of December 31, 2013, 2012 and 2011 is 8.1, 8.6, and 8.2 years, respectively.

A summary of the Company s unvested SARs at December 31, 2013, and changes during 2013 is as follows:

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Unvested, December 31, 2012 | 1,265,645 | $ 1.94 |
| Granted | 620,000 | $ 1.08 |

| | | | |
|---|---|---|---|
| Vested | (275,402) | $ | 2.01 |
| Forfeited* | (220,580) | $ | 2.01 |
| Unvested, December 31, 2013 | 1,389,663 | $ | 1.53 |

* See disclosure below regarding forfeitures.

As of December 31, 2013, there was approximately $1.6 million of unrecognized compensation cost related to non-vested SARs. That cost is expected to be recognized over a weighted average period of 3.4 years.

The aggregate intrinsic value of the non-vested and vested outstanding SARs at December 31, 2013, 2012, and 2011, was $0, $136,348, and $81,500, respectively. The aggregate intrinsic value is the total pre-tax value of in-the-money SARs, which is the difference between the fair value at the measurement date and the exercise price of each SAR. The weighted average fair value of SARs vested for the years ended December 31, 2013, 2012, and 2011, was $553,000, $413,000, and $634,000, respectively.

KID BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)

**Option/SAR Forfeitures**

All of the forfeited options/SARs described in the charts set forth above resulted from the termination of the employment of the respective grantees and the resulting forfeiture of non-vested and/or vested but unexercised options/SARs. Pursuant to the Company s Plans, upon the termination of employment of a grantee, such grantee s outstanding unexercised options/SARs are typically cancelled and deemed terminated as of the date of termination; provided, that if the termination is not for cause, all vested options/SARs generally remain outstanding for a period ranging from 30 to 90 days, and then expire to the extent not exercised. Notwithstanding the foregoing: (i) 44,700 vested options and 66,250 vested SARs will remain exercisable until 90 days following the expiration of the term of the consulting agreement of Marc S. Goldfarb, the Company s former General Counsel; and (ii) with respect to the termination of the employment of Bruce G. Crain, the Company s former CEO, as of September 12, 2011, an aggregate of 80,000 unvested options that would otherwise have been forfeited in connection with such termination were automatically vested in accordance with the terms of his employment agreement (and remained exercisable until December 11, 2011, and then terminated). The acceleration of Mr. Crain s vesting resulted in acceleration of compensation expense.

**Restricted Stock/RSU Forfeitures**

All of the forfeited Restricted Stock and RSUs described in the charts set forth above resulted from the termination of the employment of the respective grantees and the resulting forfeiture of unvested RSUs. Pursuant to the award agreements governing the Company s Restricted Stock and RSUs, upon a grantee s termination of employment, such grantee s outstanding unvested RSUs are typically forfeited, except in the event of disability or death, in which case all restrictions lapse. Notwithstanding the foregoing, with respect to Mr. Crain s termination of employment as of September 12, 2011, an aggregate of 21,250 unvested shares of restricted stock that would otherwise have been forfeited in connection with such termination were automatically vested in accordance with the terms of his employment agreement with the Company. The acceleration of Mr. Crain s vesting resulted in acceleration of compensation expense.

**2009 Employee Stock Purchase Plan**

Under the 2009 ESPP (until its suspension for the 2012 and 2013 plan years), eligible employees were provided the opportunity to purchase KID s common stock at a discount. Pursuant to the 2009 ESPP, options were granted to participants as of the first trading day of each plan year, which is the calendar year, and were exercised as of the last trading day of each plan year, to purchase from KID the number of shares of common stock that could have been purchased at the relevant purchase price with the aggregate amount contributed by each participant. In each plan year (through 2011), an eligible employee could elect to participate in the 2009 ESPP by filing a payroll deduction authorization form for up to 10% (in whole percentages) of his or her compensation. No employee had the right to purchase KID s common stock under the 2009 ESPP that had a fair value in excess of $25,000 in any plan year or the right to purchase more than 25,000 shares in any plan year. The purchase price was the lesser of 85% of the closing market price of KID s common stock on either the first trading day or the last trading day of the plan year. If an

employee did not elect to exercise his or her option, the total amount credited to his or her account during that plan year was returned to such employee without interest, and his or her option expired. At December 31, 2012 and 2011, 6,663 shares remained available for future issuance under the 2009 ESPP. The Company has suspended the 2009 ESPP for fiscal years 2012 and 2013 (which expired by its terms on December 31, 2013), and deregistered such remaining shares in the second quarter of 2013.

The following table summarizes the exercise prices of options exercised under the 2009 ESPP for the 2011 plan year, and the aggregate number of shares purchased thereunder, is as follows:

| | Employee Stock Purchase Plan 2011 |
|---|---|
| Exercise Price | $ 2.69 |
| Shares Purchased | 54,284 |

The fair value of each option granted under the 2009 ESPP for the 2011 plan year was estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following assumptions:

| | Year Ended December 31, 2011 |
|---|---|
| Dividend yield | 0.0% |
| Risk-free interest rate | 0.29% |
| Volatility | 73.5% |
| Expected term (years) | 1.0 |

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Expected volatilities are calculated based on the historical volatility of KID s Common Stock. The risk-free interest rate is based on the U.S. Treasury yield with a term that is consistent with the expected life of the options. The expected life of options under each of the 2009 ESPP is one year, or the equivalent of the annual plan year.

**Note 16 401(k) Plan**

KID and its U.S. subsidiaries maintain 401(k) Plans to which employees may, up to certain prescribed limits, contribute a portion of their compensation, and a portion of these contributions is matched by the relevant employer (other than CoCaLo). The provision for contributions charged to operations for the years ended December 31, 2013, 2012, and 2011, was approximately $0.2 million, $0.3 million and $0.3 million, respectively.

**Note 17 Concentrations of Risk and Geographic Information**

The following table represents net sales and assets of the Company by geographic area (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Net domestic sales | $ 183,390 | $ 220,245 | $ 243,003 |
| Net foreign sales (Australia and United Kingdom)** | 4,765 | 9,241 | 9,607 |
| Total net sales | $ 188,155 | $ 229,486 | $ 252,610 |
| Domestic assets | $ 118,108 | $ 137,645 | $ 186,424 |
| Foreign assets (Australia, United Kingdom and Asia) | 2,148 | 3,249 | 6,422 |
| Total assets | $ 120,256 | $ 140,894 | $ 192,846 |

** Excludes export sales from the United States

Closure of U.K. Operations. In light of the unprofitability of Kids Line s U.K. operations, the Company completed the wind-down of such operations in 2012.

The Company s consolidated foreign sales from operations, including export sales from the United States, aggregated $17.6 million, $25.0 million, and $18.9 million for the years ended December 31, 2013, 2012, and 2011, respectively.

A measure of profit or loss and long lived assets for each of the last three fiscal years can be found in the Consolidated Statements of Operations and the Consolidated Balance Sheets, respectively.

The Company currently categorizes its sales in five product categories: Hard Good Basics, Soft Good Basics, Toys and Entertainment, Accessories and Décor, and Other. Hard Good Basics includes cribs and other nursery furniture, feeding products, baby gear and organizers. Soft Good Basics includes bedding, blankets and mattresses. Toys and Entertainment includes developmental toys, bath toys and mobiles. Accessories and Décor includes hampers, lamps, rugs and décor. Other includes all other products that do not fit in the above four categories. The Company s consolidated net sales by product category, as a percentage of total consolidated net sales, for the years ended December 31, 2013, 2012, and 2011 were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Hard Good Basics | 34.0% | 37.3% | 35.5% |
| Soft Good Basics | 33.6% | 35.2% | 38.3% |
| Toys and Entertainment | 24.9% | 17.9% | 14.2% |
| Accessories and Décor | 6.7% | 8.4% | 10.1% |
| Other | 0.8% | 1.2% | 1.9% |
| Total | 100.0% | 100.0% | 100.0% |

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During each of 2013, 2012, and 2011, approximately 73%, 74% and 74%, respectively, of the Company s dollar volume of purchases was attributable to manufacturing in the People s Republic of China ( PRC ). The PRC currently enjoys permanent normal trade relations ( PNTR ) status under U.S. tariff laws, which generally provides a most favored nation rate of U.S. import duties. The loss of such PNTR status would result in a substantial increase in the import duty for products manufactured for the Company in the PRC and imported into the United States and would result in increased costs for the Company. In addition, certain categories of wooden bedroom furniture previously imported from the PRC by the Company s LaJobi subsidiary were also subject to anti-dumping duties. See Note 18.

In 2013, 2012, and 2011, the suppliers accounting for the greatest dollar volume of the Company s purchases accounted for approximately 12%, 19%, and 24%, respectively, of such purchases and the five largest suppliers accounted for approximately 41%, 44%, and 48%, respectively, in the aggregate.

See Note 6 above for information regarding dependence on certain large customers.

**Note 18 Litigation, Commitments and Contingencies**

(a) LaJobi Matters

As has been previously disclosed, the Company s LaJobi subsidiary was selected by U.S. Customs and Border Protection ( U.S. Customs ) for a Focused Assessment of its import practices and procedures, which commenced in January 2011. In preparing for this Focused Assessment, the Company found certain potential issues with respect to LaJobi s import practices and submitted a preliminary voluntary prior disclosure to U.S. Customs due to issues regarding customs duty paid on products imported into the U.S. Upon becoming aware of these issues, our Board initiated an investigation, which found instances at LaJobi in which incorrect anti-dumping duties were applied on certain wooden furniture imported from vendors in the PRC, resulting in a violation of anti-dumping laws. In connection therewith, in 2011, certain LaJobi employees, including Lawrence Bivona, LaJobi s then-President, were terminated from employment.

In the fourth quarter of 2012, the Company completed LaJobi s voluntary prior disclosure to U.S. Customs, including the Company s final determination of amounts it believes are owed for all relevant periods. The Company estimates that LaJobi will owe an aggregate of approximately $7.0 million relating to anti-dumping duties (plus approximately $1.1 million in aggregate related interest) to U.S. Customs for the period commencing April 2, 2008 (the date of purchase of the LaJobi assets by the Company) through December 31, 2013, and the Company is fully accrued for all such amounts. The completed voluntary prior disclosure submitted to U.S. Customs in the fourth quarter of 2012 included proposed settlement amounts and proposed payment terms with respect to the anti-dumping duties owed by LaJobi (the Settlement Submission ), as well as a payment of $0.3 million, to be credited against the amount that U.S. Customs determines is to be paid in satisfaction of LaJobi s customs duty matters. Of the total amount accrued as of December 31, 2013, $0.2 million was recorded during the twelve months ended December 31, 2013 for anticipated interest expense. In connection with the previously-disclosed restatement of certain prior period financial statements (the Restatement ), these amounts are recorded in the periods to which they relate.

As U.S. Customs has not yet responded to the Settlement Submission, it is possible that the actual amount of duties owed for the periods covered thereby will be higher than the amounts accrued by the Company and in any event, additional interest will continue to accrue until full payment is made. In addition, U.S. Customs may assess a penalty of up to 100% of the duty owed, and the Company may be subject to additional fines, penalties or other measures from U.S. Customs or other governmental authorities. In a related matter, on August 19, 2011, the United States Attorney s Office for the District of New Jersey ( USAO ) contacted Company counsel requesting information relating to LaJobi previously provided by the Company to U.S. Customs and the SEC (described below), as well as additional documents and information. Since that time, the Company has been cooperating, and intends to continue to cooperate, with the USAO on a voluntary basis. The Company is currently seeking to negotiate a global resolution of these issues with the USAO and U.S. Customs, however, there can be no assurance that these discussions will be successful. The Company is currently unable to predict the duration, the resources required or outcome of the Focused Assessment or the USAO investigation or these related global discussions, the nature of any sanction that may be imposed or the impact such investigations or resolution may have. In addition, there can be no assurance that we will not be subject to adverse publicity, or adverse customer, licensor or market reactions in connection with the resolution of these matters, which could have a material adverse effect on our business and financial condition. An unfavorable outcome in these matters may result in a default under certain license agreements that we maintain, and is likely to result in a default under our Credit Agreement and have a material adverse effect on our financial condition and results of operations. With respect to the actual amount of duties determined to be owed by LaJobi, and any such additional fines, penalties or other measures, the Company cannot currently estimate the amount of the loss (or range of loss), if any.

**KID BRANDS, INC. AND SUBSIDIARIES**

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Promptly upon becoming aware of the issues relating to LaJobi s customs practices and related misconduct, as described above, the Company voluntarily disclosed the findings of its internal investigation, as well as certain previously-disclosed Asia staffing matters, to the SEC on an informal basis. On June 20, 2011, the Company received a letter from the SEC indicating that the Staff was conducting an informal investigation and requesting that the Company provide certain documents on a voluntary basis. Subsequent thereto, the Company voluntarily disclosed to the SEC the existence of the Customs Review (described below) and related investigation. The Company believes that it has fully cooperated, and will continue to fully cooperate, with the SEC. The Company is currently unable to predict the duration, resources required or outcome of the investigation, possible sanctions or the impact such investigation may have on the Company s financial condition or results of operations.

Prior to the Restatement, the Company had recorded the applicable anti-dumping duties anticipated to be owed by LaJobi (and related interest) in the quarter and year ended December 31, 2010, the period of discovery (the Original Accrual ) and had recorded additional interest expense in subsequent quarterly periods. As a result of the Original Accrual and other factors, the Company concluded that no earnout consideration ( LaJobi Earnout Consideration ) (and no related finder s fee) under the Asset Purchase Agreement relating to the Company s 2008 purchase of the LaJobi assets (the LaJobi Asset Purchase Agreement ) was payable. Accordingly, prior to the Restatement, the Company had not recorded any amounts related to the LaJobi Earnout Consideration in the Company s financial statements. The Company had previously disclosed a potential earnout payment of approximately $12.0 to $15.0 million in the aggregate relating to its acquisitions of LaJobi and CoCaLo, substantially all of which was estimated to relate to LaJobi.

Because the Restatement resulted in the technical satisfaction of the formulaic provisions for the payment of a portion of the LaJobi Earnout Consideration under the LaJobi Asset Purchase Agreement, applicable accounting standards required that the Company record a liability in the amount of the formulaic calculation, without taking into consideration the Company s affirmative defenses, counterclaims and third party claims in the arbitration. Accordingly, in connection with the Restatement, the Company recorded a liability in the approximate amount of $11.7 million for the year ended December 31, 2010 ($10.6 million relating to the LaJobi Earnout Consideration and $1.1 million in respect of a related finder s fee), with an offset in equal amount to goodwill, all of which goodwill was impaired as of December 31, 2011.

As has been previously disclosed, the Company received letters on July 25, 2011 from counsel to Lawrence Bivona demanding payment of the LaJobi Earnout Consideration to Mr. Bivona in the amount of $15.0 million, alleging that Mr. Bivona s termination by LaJobi for cause violated his employment agreement and demanding payment to Mr. Bivona of amounts purportedly due under his employment agreement. In December 2011, Mr. Bivona initiated an arbitration proceeding relating to these issues, as well as a claim for defamation, seeking damages in excess of $25.0 million. On February 22, 2012, the Company and LaJobi filed an answer to the complaint initiated by Mr. Bivona, in which they denied any liability, asserted defenses and counterclaims against Mr. Bivona, and asserted a third-party complaint against Mr. Bivona s brother, Joseph Bivona, and the LaJobi seller. Post-hearing briefs were submitted and closing statements were made during the quarter ended June 30, 2013.

On March 6, 2014, an Interim Award was released by the arbitration panel (the Panel ) in the arbitration proceeding initiated by Mr. Bivona. The Interim Award notes that both parties are to some extent prevailing parties , and states that until the Panel can make a final determination with respect to the amount of all damages and setoffs, no damages awarded will be payable by either party. The Panel stated that because U.S. Customs has not yet finally determined the amount of anti-dumping duties and/or penalties owed by KID or LaJobi, it is not possible to ascertain the precise amount of damages awarded to either side (as described below). The Panel retained jurisdiction to receive further evidence and award damages when U.S. Customs concludes its review and determines the duties and/or penalties owed. KID and LaJobi intend to submit further evidence in support of their damage award. The Interim Award had no effect on the Company s results of operations for the fourth quarter of 2013 or the first quarter of 2014.

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The Panel, based on its finding that Mr. Bivona breached his fiduciary duty and breached his employment agreement on and after August 24, 2010, awarded damages to KID and LaJobi, including damages for the additional duties assessed for transactions on and after that date, and in addition, awarded KID and LaJobi $2.85 million for reasonable legal expenses and other costs (collectively, the KB Award Amounts ). In reaching its determination, the Panel noted that as of August 24, 2010, Mr. Bivona consciously ignored information that demanded further investigation, which would have led to discovery and cessation of the improper practice , in breach of his fiduciary duty and his employment agreement. The Panel found in favor of Mr. Bivona with respect to: (i) his right to receive a portion of the LaJobi Earnout Consideration; (ii) his claim for indemnification with respect to reasonable attorney s fees and expenses (in an amount to be determined at a subsequent proceeding) for KID s failure to pay such LaJobi Earnout Consideration; and (iii) his claim that KID and LaJobi breached his employment agreement by improperly terminating him for cause (and awarded him $655,000), but stated that any recovery on these claims must be offset by the KB Award Amounts. The Panel denied Mr. Bivona s claims for breach of fiduciary duty and punitive damages, and awarded him $1.00 on his defamation claim. The Panel denied KID s and LaJobi s counterclaims for breach of the LaJobi Asset Purchase Agreement (although a representation was determined to be breached, no damages were found) and fraudulent inducement. Except as described above, the parties will bear their own legal fees and costs.

The Panel determined that because U.S. Customs has not yet finally determined the amount of anti-dumping duties and/or penalties, it would not be possible to ascertain the amount of the LaJobi Earnout Consideration due to Mr. Bivona, or the precise amount of damages to KID and LaJobi resulting from Mr. Bivona s breach of his fiduciary duty and employment agreement.

Any significant payment required by us to Mr. Bivona or U.S. Customs is likely to result in a default under the Credit Agreement and have a material adverse effect on our financial condition and results of operations.

See Note 8 for a description of the Company s Credit Agreement, including a discussion of restrictions on the Company s ability to pay Customs duties and any LaJobi earnout payment requirements, and the financial and other covenants applicable to the Company. Also see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Liquidity and Capital Resources , and Item 1A Risk Factors, including Inability to maintain compliance with the bank covenants , We are party to litigation and other matters that have and continue to be costly to defend and distracting to management, and if decided against us, are likely to have a material adverse effect on our business , and There can be no assurance that we will have sufficient liquidity to satisfy our cash obligations when required .

(b) Consumer Product Safety Commission Staff Investigation

By letter dated July 26, 2012, the staff (the CPSC Staff ) of the U.S. Consumer Product Safety Commission ( CPSC ) informed the Company that it has investigated whether LaJobi timely complied with certain reporting requirements of the Consumer Product Safety Act (the CPSA ) with respect to various models of drop-side and wooden-slat cribs distributed by LaJobi and its predecessor company during the period commencing in 1999 through 2010, which cribs were recalled voluntarily by LaJobi during 2009 and 2010. The letter states that, unless LaJobi is able to resolve the

matter with the CPSC Staff, the CPSC Staff intends to recommend to the CPSC that it seek the imposition of a substantial civil penalty for the alleged violations.

The Company disagrees with the position of the CPSC Staff, and believes that such position is unwarranted under the circumstances. As permitted by the notice, the Company provided the CPSC Staff with additional supplemental information in support of the Company s position, including relevant factors in the Company s favor that are required to be considered by the CPSC prior to the imposition of any civil penalty. The Company is currently working with the CPSC Staff regarding a possible resolution to the issue, and during the year ended December 31, 2013, the Company accrued $1.0 million with respect thereto. While settlement discussions are ongoing, it is possible that no settlement will be achieved, or that any settlement or other disposition of the matter will involve substantially higher amounts than the amount accrued or will be on terms that are less favorable to the Company.

Given the current status of this matter, however, it is not yet possible to determine what, if any, actions will be formally taken by the CPSC, or the amount of any civil penalty that may be assessed. Based on currently available information, the Company cannot estimate the amount of the loss (or range of loss) in connection with this matter. In addition, as this matter is ongoing, the Company is currently unable to predict its duration, resources required or outcome, or the impact it may have on the Company s financial condition, results of operations and/or cash flows. An adverse decision in this matter that requires any significant payment by us could result in a default under the Credit Agreement and have a material adverse effect on our financial condition and results of operations.

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(c) Customs Compliance Investigation (Non-LaJobi)

As has been previously disclosed, following the discovery of the matters described above with respect to LaJobi, our Board authorized a review of customs compliance practices at the Company s non-LaJobi operating subsidiaries (the Customs Review ). In connection with this review, instances were identified in which these subsidiaries filed incorrect entries and invoices with U.S. Customs as a result of, in the case of Kids Line, incorrect descriptions, classifications and valuations of certain products imported by Kids Line and, in the case of CoCaLo, incorrect classifications and valuations of certain products imported by CoCaLo. Promptly after becoming aware of these issues, the Company submitted voluntary prior disclosures to U.S. Customs identifying such issues and duties anticipated to be owed. The Board also authorized an investigation into these non-LaJobi customs matters, and did not discover evidence that would lead it to conclude that there was intentional misconduct on the part of Company personnel.

As of December 31, 2013, the Company estimates that it will incur aggregate costs of approximately $2.0 million relating to such customs duties (plus approximately $0.3 million in aggregate related interest), for the years ended 2006 through 2013, and the Company is fully accrued for all such amounts. Of the total amount accrued as of December 31, 2013, $0.1 million was recorded during the twelve months ended December 31, 2013 for anticipated interest expense. As a result of the Restatement, these amounts are recorded in the periods to which they relate. (The Company had initially recorded the applicable anticipated customs duty payment requirements (and related interest) in the three and nine months ended June 30, 2011 (the period of discovery), and recorded additional interest expense in the subsequent quarterly periods.)

In the fourth quarter of 2012 (upon completion of the Customs Review), the Company completed and submitted to U.S. Customs voluntary prior disclosures, which included the Company s final determination of customs duty amounts it believes are owed by Kids Line and CoCaLo. The Kids Line submission included proposed payment terms for customs duties believed to be owed by Kids Line. As part of these settlement submissions in 2012, the Company included the following initial payments to U.S. Customs, to be credited against the amounts that U.S. Customs determines is to be paid in satisfaction of the Company s customs duties matters: $0.2 million with respect to Kids Line customs duties and $0.3 million with respect to CoCaLo customs duties. With respect to CoCaLo, the Company s payment represented the Company s determination of all amounts it believes are owed by CoCaLo for the relevant periods, including interest.

As U.S. Customs has not yet responded to these settlement submissions, it is possible that the actual amount of duties owed for the relevant periods will be higher than the amounts accrued by the Company and in any event, additional interest will continue to accrue until full payment is made. In addition, U.S. Customs may assess a penalty of up to 100% of the duty owed, and the Company may be subject to additional fines, penalties or other measures from U.S. Customs or other governmental authorities. With respect to the actual amount determined by U.S. Customs to be owed, and any such additional fines, penalties or other measures, the Company cannot currently estimate the amount of the loss (or range of loss), if any. The Company remains committed to working closely with U.S. Customs to address issues relating to incorrect duties.

(d) Putative Class Action and Derivative Litigations

Putative Class Action. On March 22, 2011, a complaint was filed in the United States District Court, District of New Jersey, encaptioned Shah Rahman v. Kid Brands, et al. (the Putative Class Action ). The Putative Class Action was brought by one plaintiff on behalf of a putative class of all those who purchased or otherwise acquired KID s common stock between specified dates. In addition to KID, various executives, and members and former members of KID s Board, were named as defendants.

The Putative Class Action alleged one claim for relief pursuant to Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and Rule 10b-5 promulgated thereunder, and a second claim pursuant to the Exchange Act, claiming generally that the Company and/or the other defendants issued materially false and misleading statements during the relevant time period regarding compliance with customs laws, the Company s financial reports and internal controls. The Putative Class Action did not state the size of the putative class. The Putative Class Action sought compensatory damages but did not quantify the amount of damages sought. The Putative Class Action also sought unspecified extraordinary and injunctive relief, the costs and disbursements of the lawsuit, including attorneys and experts fees and costs, and such equitable relief as the court deemed just and proper. By order dated July 26, 2011, Shah Rahman was appointed lead plaintiff pursuant to Section 21D (a) (3) (B) of the Exchange Act.

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On September 26, 2011, the lead plaintiff filed an amended complaint, which was dismissed without prejudice on March 7, 2012. On May 7, 2012, the lead plaintiff filed a second amended complaint that named the Company, Bruce G. Crain (the Company s former chief executive officer), Guy A. Paglinco (the Company s former chief financial officer), and Raphael Benaroya (the Company s then-Executive Chairman) as defendants. The second amended complaint repeated the same claims for relief and many of the allegations of the previous complaints in the action, but contained new allegations that, among other things, the Company and/or the other defendants issued materially false and misleading statements during the relevant time period regarding custom law violations and safety violations regarding certain of its products. The relief demanded and the class period were each the same as in the first amended complaint.

All of the defendants in the Putative Class Action filed motions to dismiss the second amended complaint on June 29, 2012. On October 17, 2012, the United States District Court for the District of New Jersey granted the defendants motion to dismiss such complaint with prejudice. On November 14, 2012, plaintiff filed a Notice of Appeal to the U.S. Court of Appeals for the Third Circuit from the judgment of the U.S. District Court. Briefing of the appeal was fully submitted to the Court of Appeals on May 29, 2013. On October 8, 2013, the appeal was submitted to the Court of Appeals for decision. On November 15, 2013, the Court of Appeals issued a decision and order affirming the District Court s dismissal of the case with prejudice and all deadlines to seek further review have expired without action by the plaintiff.

No amounts were accrued in connection with the Putative Class Action, although legal costs were expensed as incurred. As the Company has satisfied the deductible under its applicable insurance policy, the Company has been receiving reimbursement of substantially all of the legal costs incurred, which receivables are netted against the expense.

<u>Putative Shareholder Derivative Action</u>. On May 20, 2011, a putative stockholder derivative complaint was filed by the City of Roseville Employees Retirement System ( Roseville ) in the United States District Court of the District of New Jersey (the Putative Derivative Action ), against Bruce Crain (the Company s former chief executive officer), Guy Paglinco (the Company s former chief financial officer), Marc Goldfarb (the Company s former general counsel), each then-member of the Company s Board, and John Schaefer, a former member of the Company s Board (collectively, the Defendants ). In addition, the Company was named as a nominal defendant.

The Putative Derivative Action alleged, among other things, that the Defendants breached their fiduciary duties to the Company by allegedly failing to oversee and disclose alleged misconduct at KID s LaJobi subsidiary relating to LaJobi s compliance with certain U.S. customs laws. In addition to asserting the breach of fiduciary duty claim, the complaint also asserted claims of gross mismanagement, abuse of control and commission of corporate waste and unjust enrichment. The Putative Derivative Action sought monetary damages against the individual Defendants in an unspecified amount together with interest, in addition to exemplary damages, the costs and disbursements of the lawsuit, including attorneys and experts fees and costs, and such equitable relief as the court deems just and proper. On July 25, 2011, the individual Defendants and nominal defendant KID moved to dismiss the complaint pursuant to Federal Rules of Civil Procedure 12(b) (6) and 23.1. On October 24, 2011, the Court granted Defendants motion to

dismiss without prejudice with leave for plaintiff to amend the complaint.

On November 23, 2011, Roseville sent a letter to KID demanding to inspect certain books and records of the Company pursuant to New Jersey state law. On April 28, 2012, Roseville filed a motion to compel inspection of documents beyond those previously provided by the Company. On November 8, 2012, the Court issued an Order granting Roseville s request in part and denying the request in part. The Order provided that any non-privileged documents that were responsive to the narrow scope of the inspection permitted by the Order be produced by the Company on December 3, 2012. The Company produced such documentation on December 3, 2012; however, Roseville asserted certain purported objections to the December 3, 2012 inspection, which the Company disputed. Some of the objections were overruled by the Court on February 5, 2013. In an order dated May 9, 2013, the Court granted limited additional inspection of certain records which inspection was provided on May 21, 2013. Thereafter, Roseville informed the Court that it had no further objections to the inspection provided by the Company.

On June 28, 2013, Roseville filed an amended complaint that re-alleged the claims asserted in the initial complaint and with the same requests for relief. On July 26, 2013, the Company filed a motion to dismiss the amended complaint and on September 26, 2013, the Court issued an order dismissing the amended complaint with prejudice. On October 28, 2013, Roseville filed a notice of appeal from the dismissal of the amended complaint with the United States Court of Appeals for the Third Circuit. On November 14, 2013, all parties in the case filed a stipulation in the Court of Appeals providing for the dismissal of the appeal and that all parties would bear their own costs, expenses and attorney fees in the trial and appellate courts. On November 15, 2013, the Court of Appeals issued an order dismissing the appeal as provided in the stipulation.

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While the Company incurred costs in connection with the defense of this lawsuit, the lawsuit did not seek monetary damages against the Company, and no amounts were accrued in connection therewith. As the Company has satisfied the deductible under its applicable insurance policy, the Company has been receiving reimbursement of substantially all of the legal costs being incurred, which receivables are netted against the expense.

(e) Wages and Hours Putative Class Action

On November 3, 2011, a complaint was filed in the Superior Court of the State of California for the County of Los Angeles, encaptioned Guadalupe Navarro v. Kids Line, LLC (the Wages and Hours Action ). One plaintiff brought the Wages and Hours Action on behalf of a putative class for damages and equitable relief for: (i) failure to pay minimum, contractual and/or overtime wages (including for former employees with respect to their final wages), and failure to provide adequate meal breaks, in each case based on defendant s time tracking system and automatic deduction and related policies; (ii) statutory penalties for failure to provide accurate wage statements; (iii) waiting time penalties in the form of continuation wages for failure to timely pay terminated employees; and (iv) penalties under the Private Attorneys General Act (PAGA). The plaintiff sought wages for all hours worked, overtime wages for all overtime worked, statutory penalties under Labor Code Section 226(e), and Labor Code Section 203, restitution for unfair competition under Business and Professions Code Section 17203 of all monies owed, compensation for missed meal breaks, and injunctive relief. The complaint also sought unspecified liquidated and other damages, statutory penalties, reasonable attorney s fees, costs of suit, interest, and such other relief as the court deems just and proper. Although the total amount claimed was not set forth in the complaint, the complaint asserted that the plaintiff and the class members were not seeking more than $4.9 million in damages at that time (with a statement that plaintiff would amend his complaint in the event that the plaintiff and class members claims exceed $4.9 million).

On January 30, 2013, the Court denied plaintiff s motion for class certification with respect to two of the proposed classes and continued for further briefing the motion for class certification with respect to the remaining proposed classes. During the quarter ended June 30, 2013, the Company reached an agreement in principle with counsel for the plaintiff on behalf of the purported classes to settle the litigation for $350,000, and during the quarter ended June 30, 2013 the Company accrued such amount. The Court has preliminarily approved the settlement, with the final approval hearing set for September 3, 2014. As the settlement has not yet been finally approved by the Court, there can be no assurance that the disposition of the litigation will not be in excess of amounts accrued or on terms less favorable to the Company than the agreed settlement.

(f) Other

In addition to the proceedings described above, in the ordinary course of its business, the Company is from time to time party to various copyright, patent and trademark infringement, unfair competition, breach of contract, customs, employment and other legal actions incidental to the Company s business, as plaintiff or defendant. In the opinion of management, the amount of ultimate liability with respect to any such actions that are currently pending will not, individually or in the aggregate, materially adversely affect the Company s consolidated results of operations, financial condition or cash flows.

(g) Kokopax Earnout

As partial consideration for the purchase of the Kokopax® assets (described in Note 5), Sassy has agreed to pay to the seller of such assets, on a quarterly basis (when and if applicable), an amount equal to 10% of net sales achieved in respect of Kokopax products (commencing July 3, 2012) in excess of the first $2.0 million of such net sales until the earlier of: (i) March 31, 2015, and (ii) the date that such Kokopax net sales equal at least $10.0 million (the Additional Consideration ); provided, that the aggregate amount paid in respect of the Additional Consideration (including an advance of $200,000 accrued by Sassy at closing) shall not exceed $1.0 million. The Company did not pay any amounts in connection with the foregoing during the twelve months ended December 31, 2013 and based on current projections the Company does not anticipate making any payments in the future.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

(h) Purchase Commitments

The Company has approximately $24.6 million in outstanding purchase commitments at December 31, 2013, consisting primarily of purchase orders for inventory.

(i) License and Distribution Agreements

The Company enters into various license and distribution agreements relating to trademarks, copyrights, designs, and products which enable the Company to market items compatible with its product line. Although the Company does not believe its business is dependent on any single license, the LaJobi Graco® license (which expires on March 31, 2015, subject to renewals and certain early termination rights commencing April 1, 2014) and the Kids Line Carter ®s license (which expires on December 31, 2014) are each material to and accounted for a material portion of the net revenues of LaJobi and Kids Line, respectively, as well as a significant percentage of the net revenues of the Company, in each case for the twelve months ended December 31, 2013 and 2012. In addition, the LaJobi Serta® license (which expires on December 31, 2018, subject to renewals) is material to and accounted for a significant percentage of the net revenues of LaJobi. In November 2013, Kids Line signed a new license agreement with Disney®(which expires on December 31, 2014 and which replaced a license agreement that expired on December 31, 2013), which is material to and accounted for a significant percentage of the net revenues of Kids Line for the twelve months ended December 31, 2013 and 2012. The Sassy Carters® license (which expires on December 31, 2014) and the Sassy Garanimals® license (which expires on December 31, 2014) are each material to and accounted for a significant percentage of the net revenues of Sassy, in each case for the twelve months ended December 31, 2013 and 2012. While historically the Company has been able to renew the license agreements that it wishes to continue on terms acceptable to it, there can be no assurance that this will be the case, and the loss of any of the foregoing and/or other significant license agreements could have a material adverse effect on the Company s results of operations. Several of these agreements require pre-payments of certain minimum guaranteed royalty amounts. The aggregate amount of minimum guaranteed royalty payments with respect to all license agreements pursuant to their original terms aggregates approximately $20.8million, of which approximately $10.9 million remained unpaid at December 31, 2013. Royalty expense for the twelve months ended December 31, 2013, 2012 and 2011was $9.5 million, $9.3 million and $8.9 million, respectively.

With respect to Items (a) through (e) above, the outcome of such matters (individually or in the aggregate) could materially and adversely affect the Company s ability to maintain compliance with its financial covenants under its amended Credit Agreement, its financial position and/or its liquidity. See Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

**Note 19 Quarterly Financial Information (Unaudited)**

The following quarterly financial data for the four quarters ended December 31, 2013 and 2012, was derived from unaudited financial statements and includes all adjustments which are, in the opinion of management, of a normal recurring nature and necessary for a fair presentation of the results for the interim periods presented.

The quarter ended September 30, 2013 and December 31, 2013 include non-cash impairment of intangibles of $4.2 million and $5.0 million, respectively.

The quarters ended December 31, 2012 and September 30, 2012 include non-cash increases in valuation allowance for deferred tax assets of $5.3 million and $45.0 million, respectively.

| | For Quarters Ended | | | |
|---|---|---|---|---|
| **2013** | **March 31** | **June 30** | **September 30** | **December 31** |
| | **(Dollars in Thousands, Except Per Share Data)** | | | |
| Net sales | $ 51,439 | $ 44,093 | $ 46,685 | $ 45,938 |
| Gross profit | 14,392 | 11,075 | 6,819 | 4,272 |
| Income (loss) from operations | 574 | (3,625) | (7,977) | (13,641) |
| Net (loss) income | (983) | (3,427) | (9,470) | (14,950) |
| Basic (Loss) Earnings per Common Share | $ (0.04) | $ (0.16) | $ (0.43) | $ (0.68) |
| Diluted (Loss) Earnings per Common Share | $ (0.04) | $ (0.16) | $ (0.43) | $ (0.68) |

| | For Quarters Ended | | | |
|---|---|---|---|---|
| **2012** | **March 31** | **June 30** | **September 30** | **December 31** |
| | **(Dollars in Thousands, Except Per Share Data)** | | | |
| Net sales | $ 55,228 | $ 55,470 | $ 60,909 | $ 57,879 |
| Gross profit | 15,209 | 14,359 | 14,438 | 13,783 |
| Income (loss) from operations | (655) | 873 | 1,054 | (395) |
| Net (loss) income | $ (803) | $ 209 | $ (49,562) | $ (3,944) |
| Basic (Loss) Earnings per Common Share | $ (0.04) | $ 0.01 | $ (2.27) | $ (0.18) |
| Diluted (Loss) Earnings per Common Share | $ (0.04) | $ 0.01 | $ (2.27) | $ (0.18) |

Earnings per share are computed independently for each of the quarters presented and the cumulative amount may not agree to annual amount.

**NOTE 20 COMMON STOCK PURCHASE**

On August 30, 2013, the Company sold 200,000 treasury shares to our President and Chief Executive Officer pursuant to the terms of his employment agreement with the Company at a price of $1.25 per share, representing the fair market value of our common stock at the time of such sale. These shares were originally repurchased by the Company at a weighted average cost of $19.54 per share, representing fair market value at the time of such repurchase. The difference between the fair market value at the time of sale to our President and Chief Executive Officer and the cost of the common stock at the time of the Company s repurchase was recorded as a charge to Retained Earnings in the approximate amount of $3.7 million during the year ended December 31, 2013.

**KID BRANDS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011 (CONTINUED)**

**NOTE 21 GOING CONCERN**

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of our current operational expectations, the limited availability anticipated under the Credit Agreement (notwithstanding the execution of Amendment No. 4), and the uncertainty as to the amount and timing of payments that we will be required to make to U.S. Customs and/or other governmental authorities in respect of pending Customs duty matters, to satisfy any obligations resulting from the arbitration with Mr. Bivona, and/or to the CPSC in respect of its pending investigation, in each case when such matters are finalized, there can be no assurance that we will be in compliance with the financial covenants or will be able to borrow under the Credit Agreement at the time a final determination with respect to such matters is made, or whether any payment requirements pursuant to such matters will result in a default or inability to borrow under such credit agreement. In addition, there can be no assurance that we will have sufficient liquidity to satisfy these or our ordinary course working capital requirements. As a result of these uncertainties, there is substantial doubt about our ability to continue as a going concern. The accompanying financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to liquidate its assets and discharge its liabilities in other than the normal course of business and at amounts that may differ from those reflected in the accompanying consolidated financial statements.

In response to these uncertainties: (i) we have initiated a review of strategic and financing alternatives, including the retention of financial advisors to explore options and investment structures available to increase the Company s liquidity (described under Recent Developments above); (ii) we will continue to use all reasonable efforts to further increase Availability under the Credit Agreement by reducing levels of ineligible items; (iii) as part of our Settlement Submissions to U.S. Customs, we proposed settlement amounts and payment terms; (iv) we are seeking to negotiate a global settlement including payment terms with U.S. Customs and the USAO; (v) we have proposed settlement amounts and payments terms to the CPSC; and (vi) we intend to continue to reduce operating and administrative costs, continue to consolidate back office functions, and liquidate excess inventory, all of which we believe will help us to more effectively manage our liquidity in the near term. We cannot make assurances as to whether any of these actions can be effected on a timely basis, on satisfactory terms or maintained once initiated. Even if such actions are successfully implemented, our liquidity plan could result in limiting certain operational and strategic initiatives that were designed to grow our business over the long term. In addition, our Credit Agreement requires us to maintain a 1.0:1.0 Collateral Coverage Ratio, and as of August 31, 2014, minimum Availability and gross sales levels, as further described in Note 8 to the Notes to Consolidated Financial Statements, which we could have difficulty meeting to the extent that our plans are unsuccessfully implemented or for a number of additional reasons that are outside of our control, including but not limited to, the loss of key customers or suppliers. As described above, any covenant violation or other default under our credit agreement could cause us to be unable to continue as a going concern.

At December 31, 2013 our revolving loan availability was $4.9 million, and such availability is currently expected to remain very tight for the remainder of 2014. Management believes that the execution of Amendment No. 4 and actions presently being taken to increase liquidity may provide an opportunity for the Company to continue as a going

concern. However, our liquidity is highly dependent on the amount and timing of any required payments (described above), our ability to remain in compliance with the Credit Agreement, and our ability to increase our availability thereunder or otherwise increase capital resources available to us. Without a sufficient increase in availability under our credit agreement (notwithstanding the April 2014 amendment thereto) or an increase in liquidity resulting from operations or as a result of an action or transaction arising out of our review of strategic and financing alternatives described herein, there can be no assurance that we will be able to satisfy our ordinary course cash requirements for the one-year period subsequent to the issuance of our audited financial statements for 2013, or any payments that we will be required to make to U.S. Customs, other governmental authorities, Mr. Bivona, and/or the CPSC, when such matters are finalized. LaJobi s issues with U.S. Customs, the USAO and the SEC, as well as the arbitration with Mr. Bivona and the pending investigation of the CPSC have continued over a period of several years. The Company believes that the lack of finality, and consequent uncertainty stemming from these issues, has (and continues to) hinder the Company in its efforts to raise additional capital.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures.***

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) that are designed to ensure that information required to be disclosed in our reports filed or submitted pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that information required to be disclosed in our Exchange Act reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to paragraph (b) of Exchange Act Rules 13a-15 or 15d-15 as of December 31, 2013. Based upon our evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2013, as a result of the material weaknesses described below.

Notwithstanding the existence of these material weakness in internal control over financial reporting, we believe that the consolidated financial statements in this Annual Report on Form 10-K fairly present, in all material respects, the Company s consolidated financial condition, and consolidated results of its operations and cash flows as of the dates, and for the periods presented, in conformity with U.S. generally accepted accounting principles (GAAP).

***Management s Annual Report on Internal Control Over Financial Reporting***

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting 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 the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Management recognizes that the Company s internal control over financial reporting cannot prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met.

Under the supervision and with the participation of the Company s management, including its principal executive officer and principal financial officer, management evaluated the effectiveness, as of December 31, 2013, of the

Company s internal control over financial reporting. In making this evaluation, management used the framework set forth in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO Framework ). Based on its evaluation under the COSO Framework, and as a result of the material weaknesses described below, management has concluded that, as of December 31, 2013, the Company s internal control over financial reporting was not effective.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financing reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified by management:

The Company did not maintain effective controls over financial forecasting which required a material adjustment to the valuation of its indefinite-lived intangible assets.

As a result of the aggregation of several deficiencies, including significant deficiencies related to LaJobi s financial close process, we did not maintain an effective control environment at our LaJobi subsidiary. The specific deficiencies contributing to this material weakness related to: (a) inadequate revenue cut-off controls and procedures where revenue recognition controls were not enforced and shipments were not timely or accurately recorded in the correct accounting period; and (b) inadequate timing and cut-off procedures with respect to accounting for in-transit inventory. Although compensating corporate finance management review controls were in place, they were not designed and documented at such a precision level to detect, identify or correct a material misstatement in relevant accounts and assertions to mitigate the identified control deficiencies.

These material weaknesses did not result in any misstatements in the Company s audited annual financial statements, but did require an adjustment during the 2013 annual audit with respect to the magnitude of impairment of specified indefinite-lived intangible assets to our preliminary 2013 consolidated financial statements. As a result of these material weaknesses, there is a reasonable possibility that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis.

Management s Planned Remediation Actions to Address Material Weaknesses

To address these material weaknesses, we have initiated the implementation of the following remedial actions:

Evaluation of the Valuation of Indefinite-lived Intangible Assets

Increase the level of documentation with respect to the assumptions used in the underlying forecast supporting the annual impairment assessment and increase the level of review performed with respect to the reasonableness of certain key assumptions used in the underlying forecast supporting the impairment analysis

Develop additional procedures in financial reporting areas affected by projected financial information to ensure accurate forecasting and adequate sharing of information relevant to the forecast between accounting, sales and operating departments

Internal Control Environment at LaJobi

Consolidate the various control and finance processes related to the financial close process at LaJobi with the corporate finance organization under the management of the Executive Director Finance and

Accounting

Reinforce the financial close processes and procedures including responsibilities and due dates, including pertaining to the close-the-books process, invoicing reports and cut-off controls for shipments and receipts

Commence utilization of a closing checklist to ensure all procedures are performed and appropriate reviews are completed on a timely basis each quarter and year-end period.

Design and document the compensating corporate finance management review controls that are relied upon to detect material financial misstatements.

The identified material weaknesses in our internal control over financial reporting will not be considered remediated until the new controls are fully implemented, in operation for a sufficient period of time, tested and concluded by management to be designed and operating effectively. We expect that the remediation of the material weaknesses will be completed prior to the close of the second quarter, however, there can be no assurance that we will successfully remediate the material weaknesses within our anticipated timeframe.

***Changes in Internal Control Over Financial Reporting***

Except as described above, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 or 15d-15 that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Pursuant to Item 308(b) of Regulation S-K, management s report is not subject to attestation by our independent registered public accounting firm because the Company is neither an accelerated filer nor a large accelerated filer as those terms are defined by the Securities and Exchange Commission.

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**ITEM 9B. OTHER INFORMATION**

**None.**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this Item 10 under Items 401 and 405 of Regulation S-K of the Exchange Act (other than with respect to executive officers), appears under the captions **ELECTION OF DIRECTORS** and **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE** , respectively, of the 2014 Proxy Statement, which are each incorporated herein by reference. Information relating to executive officers is included under the caption Executive Officers of the Registrant in Part I of this Annual Report on Form 10-K.

**Audit Committee**

The Company maintains a separately designated standing Audit Committee established in accordance with Section 3(a) 58(A) of the Exchange Act. The Audit Committee currently consists of Salvatore Salibello (Chair), Frederick J. Horowitz, and Jan Loeb.

**Audit Committee Financial Expert**

The Board of Directors has affirmatively determined that the Chair of the Audit Committee, Mr. Salibello, is an audit committee financial expert , as that term is defined in Item 407(d)(5) of Regulation S-K of the Exchange Act, and is independent for purposes of current listing standards of the New York Stock Exchange.

**Code of Ethics for Senior Financial Officers**

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to its principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions (the SFO Code ). The SFO Code can be found on the Company s website located at *www.kidbrands.com*, by clicking onto the Investor Relations tab, and then onto the Corporate Governance tab, and then on the Code of Ethics for Principal Executive Officer and Senior Financial Officers link. Such SFO Code will be provided, without charge, to any person who makes a written request therefore to the Company at One Meadowlands Plaza, 8th Floor, New Jersey 07073, Attention: Chief Financial Officer. The Company will post any amendments to the SFO Code, as well as the details of any waivers to the SFO Code that are required to be disclosed by the rules of the SEC, on our website within four business days of the date of any such amendment or waiver.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item 11 under Items 402 and 407 (e)(4) and (e)(5) of Regulation S-K of the Exchange Act appears under the caption **EXECUTIVE COMPENSATION** of the 2014 Proxy Statement, which is incorporated herein by reference thereto.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this Item 12 under Item 403 of Regulation S-K of the Exchange Act appears under the captions **SECURITY OWNERSHIP OF MANAGEMENT** and **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS** of the 2014 Proxy Statement, which are each incorporated herein by reference thereto.

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## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information, as of December 31, 2013, regarding compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders(1) | 2,553,375(2) | $ 3.92 | 2,192,750(3) |
| Equity compensation plans not approved by security holders | 797,015(4)(5) | 1.38 | |
| Total | 3,350,390 | $ 3.31 | 2,192,750 |

(1) The plans are the Company s (i) 2013 Equity Incentive Plan ( 2013 EI Plan ); (ii) 2008 Equity Incentive Plan (the 2008 EI Plan ); and (iii) 2004 Stock Option, Restricted and Non-Restricted Stock Plan ( 2004 Option Plan , and together with each of the 2008 EI Plan and the 2013 EI Plan, the Plans ). The Company s 2009 Employee Stock Purchase Plan was suspended during 2012 and 2013, and expired by its terms on December 31, 2013.

(2) Includes securities to be issued upon the exercise of stock options issued under the Plans, and, to the extent settled in common stock, upon the exercise of stock appreciation rights ( SARs ) issued under the Plans (such SARs may be settled in stock, cash, or a combination of both as determined by the Compensation Committee in its sole discretion), in each case outstanding as of December 31, 2013. Excludes 645,000 SARs granted under the 2013 EI Plan after December 31, 2013, and includes 213,705 SARs forfeited/cancelled after December 31, 2013. Includes 975 stock options that were forfeited/cancelled after December 31, 2013. Excludes a total of: (i) 129,700 Restricted Stock Units ( RSUs ) outstanding as of December 31, 2013; and (ii) 11,600 RSUs forfeited/cancelled after December 31, 2013, which in each case are not subject to an exercise price (and with respect to RSUs, may also be settled in stock, cash, or a combination of both as determined by the Compensation Committee in its sole discretion).

(3) The 2013 EI Plan was approved by the Company s shareholders and became effective on July 18, 2013 (no further shares could be issued under the 2008 EI Plan as of July 10, 2013). At inception, a total of 2,500,000 shares of Common Stock were reserved for issuance under the 2013 EI Plan. A total of 2,192,750 shares of Common Stock remained available as of December 31, 2013 for awards under the 2013 EI Plan (which awards may be in the form of stock options, stock appreciation rights, restricted stock, stock units, non-restricted stock, dividend equivalent rights or any combination of the foregoing). Note that in connection with the grant of a stock option or other award (other than a full value award, as defined in the 2013 EI Plan), the number of shares of Common Stock available for issuance under the 2013 EI Plan will be reduced by the number of shares in respect of which

such option or other than full-value award is granted or denominated. If full value awards are granted, each full value award will reduce the total number of shares available for issuance under the 2013 EI Plan by 1.45 shares of Common Stock for each share of Common Stock in respect of which such full value award is granted. In the event all or a portion of an award is forfeited, terminated or cancelled, expires, is settled for cash, or otherwise does not result in the issuance of all or a portion of the shares of Common Stock subject to the award in connection with the exercise or settlement of such award ( Unissued Shares ), such Unissued Shares will in each case again be available for awards under the 2013 EI Plan, provided that to the extent any such expired, canceled, forfeited, or otherwise terminated award (or portion thereof) was a full value award, the number of shares of Common Stock that may again be the subject of options or other awards granted under the 2013 EI Plan shall increase by 1.45 shares of Common Stock for each share of Common Stock in respect of which such full value award was granted. Includes 645,000 SARs granted under the 2013 EI Plan after December 31, 2013.

(4) Consists of the inducement award described in footnote (5) below and an inducement grant outside of the Company s 2008 EI Plan of 373,134 SARs to Kerry Carr, the Company s Executive Vice President and Chief Operating Officer, and 223,881 SARs to Renee Pepys Lowe, the President of Kids Line and CoCaLo, each with an exercise price of $1.34 per share (collectively, the SARs ). The SARs may be settled in cash, common stock, or a combination of both, in the sole discretion of the Compensation Committee of the Board, and are generally exercisable for a period of ten years from the date of grant. The SARs vest at a rate of 20% per year commencing on the first anniversary of the date of grant. In the event of disability or death of Ms. Carr or Ms. Pepys Lowe, as applicable, while in the employ of the Company, all unexercised SARs will be deemed vested and may be exercised for up to one year (or the exercise period, if shorter) after such event. If Ms. Carr or Ms. Pepys Lowe, as applicable, retires, vested unexercised SARs may be exercised within one year of such retirement or the remaining term of the grant, if earlier. If Ms. Carr s or Ms. Pepys Lowe s employment, as applicable, is terminated for any other reason, any unexercised SARs will be cancelled and deemed terminated immediately, except that if the individual s employment is terminated by the Company for other than Cause (as defined in the relevant individual s employment agreement), all unexercised SARs, to the extent vested, may be exercised within 90 days of the date of such event (or the exercise period, if shorter). Notwithstanding the foregoing, however, note that as of January 29, 2014, in connection with the resignation of Ms. Pepys Lowe, her unvested SARs were forfeited (179,105 SARs), and her vested SARs (44,776 SARs) will remain exercisable until April 29, 2014. In addition, with respect to Ms. Carr s SARs, in the event of a specified change in control, if any unexercised SARs are not assumed or converted into comparable awards with respect to the stock of the acquiring or successor company (or parent thereof), then immediately prior to such change of control, each such SAR, whether or not previously vested, will be converted into the right to receive cash, or at the election of Ms. Carr, consideration in a form that is paripassu with the form of the consideration payable to the Company s shareholders in exchange for their shares (less any applicable exercise price). Any award that is not assumed or converted as described above may be canceled at the time of the change of control for no consideration if its per share exercise price is greater than such per share fair market value of the Company s common stock. In addition, if Ms. Carr s employment is terminated by the Company without Cause or by Ms. Carr for Good Reason (as defined in her employment agreement with the Company) within nine months following such change of control, her SARs will immediately vest, and remain exercisable for the remainder of their term.

(5) Includes 200,000 non-qualified stock options (the Inducement Options ) granted to Mr. Benaroya upon the commencement of his employment with the Company as President and CEO in March 2013 outside of the 2008 EI Plan. The Inducement Options have an exercise price equal to the closing price of the Company s common stock on the New York Stock Exchange on March 15, 2013, the date of grant, are immediately exercisable and will generally be exercisable for a period of ten years. If the employment of Mr. Benaroya is terminated by the Company for Cause (as defined in the employment agreement), any unexercised Inducement Options shall generally remain exercisable for a period of 30 open trading window days following such termination (subject to extension to the extent the Company s insider trading policy or applicable law prohibits their exercise or the sale of the underlying shares at the end of such period). If the employment of Mr. Benaroya is terminated by Mr. Benaroya without Good Reason (as defined in the employment agreement), any unexercised Inducement Options shall be exercisable for a period of six months following the termination, or, if later, until the 30th open trading window day following such termination (subject to extension as described above). Notwithstanding the foregoing, in no event shall any Inducement Options be exercisable after the expiration of their term. If the Company terminates the employment of Mr. Benaroya without Cause or he terminates his employment for Good Reason, or if the termination of the employment of Mr. Benaroya occurs as a result of the expiration of his employment agreement at the end of its term, any unexercised Inducement Options will remain exercisable in accordance with their terms. If the employment of Mr. Benaroya is terminated as a result of his death or Disability (as defined in the employment agreement), any unexercised Inducement Options will remain exercisable for the shorter of one year following the date of termination and the remainder of their terms. If Mr. Benaroya s employment is terminated by the Company without Cause or by Mr. Benaroya for Good Reason

at any time on or after, or within six months before the occurrence of a Change of Control (as defined in the employment agreement), and if any unexercised Inducement Options are not assumed or converted into comparable awards with respect to the stock of the acquiring or successor company (or parent thereof), then immediately prior to such Change of Control, any unexercised Inducement Options will be converted into the right to receive cash or, at the election of Mr. Benaroya, consideration in a form that is paripassu with the form of the consideration payable to the Company s shareholders in exchange for their shares, in an amount or having a value equal to the product of: (i) the per share fair market value of the Company s common stock (based upon the consideration payable to the Company s shareholders), less, if applicable, the per share exercise price of such Inducement Options, multiplied by (ii) the number of shares of the Company s common stock covered by the unexercised Inducement Options. Any Inducement Options not assumed or converted (as described above) may be canceled at the time of the Change of Control for no consideration if the relevant per share exercise price is greater than the per share fair market value of the Company s common stock (determined with regard to all per share consideration, including the value of any contingent and/or deferred consideration payable in the Change of Control transaction).

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## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this Item 13 under Items 404 and 407(a) of Regulation S-K of the Exchange Act appears under the captions **TRANSACTIONS WITH RELATED PERSONS** , **CORPORATE GOVERNANCE I. INDEPENDENCE DETERMINATIONS** of the 2014 Proxy Statement, which is incorporated herein by reference thereto.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item 14 appears under the captions INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM , AUDIT FEES , AUDIT-RELATED FEES , TAX FEES , ALL OTHER FEES , AND AU COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES of the 2014 Proxy Statement, which are each incorporated herein by reference thereto.

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## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**Documents filed as part of this Report.**

1. **Financial Statements:**

*Report of Independent Registered Public Accounting Firm*

*Consolidated Balance Sheets at December 31, 2013 and 2012*

*Consolidated Statements of Operations for the years ended December 31, 2013, 2012, and 2011*

*Consolidated Statements of Comprehensive (Loss) for the years ended December 31, 2013, 2012, and 2011*

*Consolidated Statements of Shareholders Equity for the years ended December 31, 2013, 2012, and 2011*

*Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011*

*Notes to Consolidated Financial Statements*

2. **Financial Statement Schedule:**

*Schedule II Valuation and Qualifying Accounts Years Ended December 31, 2013, 2012, and 2011*

Other schedules are omitted because they are either not applicable or not required or the information is presented in the Consolidated Financial Statements or Notes thereto.

3. **Exhibits:**

**(Listed by numbers corresponding to Item 601 of Regulation S-K)**

2.1 Asset Purchase Agreement, dated as of April 1, 2008, among LaJobi, Inc.; LaJobi Industries, Inc.; and each of Lawrence Bivona and Joseph Bivona. In accordance with Section 601(b)(2) of Regulation S-K, the registrant agrees to furnish supplementally any omitted schedules to the Commission upon request.(1)

2.2 Stock Purchase Agreement, dated as of April 1, 2008, among I&J HoldCo., Inc., and Renee Pepys Lowe and Stanley Lowe. In accordance with Section 601(b)(2) of Regulation S-K, the registrant agrees to furnish supplementally any omitted schedules to the Commission upon request.(1)

2.3 Purchase Agreement, dated December 23, 2008, among Kid Brands, Inc., and The Russ Companies, Inc. In accordance with Section 601(b)(2) of Regulation S-K, the registrant agrees to furnish supplementally any omitted schedules to the Commission upon request.(2)

| | |
|---|---|
| 3.1 | (a) Restated Certificate of Incorporation of the Company and amendment thereto.(3) |
| | (b) Certificate of Amendment to Restated Certificate of Incorporation of the Company filed April 30, 1987. (3) |
| | (c) Certificate of Amendment to Restated Certificate of Incorporation of the Company filed September 22, 2009. (3) |
| 3.2 | Second and Amended and Restated By-Laws of the Registrant. (4) |
| 4.1 | Form of Common Stock Certificate. (3) Stock certificates bearing the name Kid Brands, Inc. will not affect the validity or transferability of currently outstanding stock certificates bearing the name Russ Berrie and Company, Inc. , and shareholders with such certificates need not surrender for exchange any such certificates. The rights of shareholders holding certificated shares bearing the name Russ Berrie and Company, Inc. and the number of shares represented by those certificates remain unchanged. |
| 4.2 | Investor Rights Agreement, dated as of August 10, 2006, among the Company and the investors listed on the signatures pages thereto. (5) |
| 10.1 | Kid Brands, Inc., 2004 Stock Option Plan, Restricted and Non-Restricted Stock Plan.*(6) |
| 10.2 | Form of Stock Option Agreement with respect to 2004 Stock Option Restricted and Non-Restricted Stock Plan.*(7) |
| 10.3 | Form of Stock Option Agreement for Non-Employee Directors with respect to 2004 Stock Option Restricted and Non-Restricted Stock Plan.*(7) |

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| 10.4 | Form of Restricted Stock Agreement with respect to 2004 Stock Option Restricted and Non-restricted Stock Plan.*(7) |
| 10.5 | Stockholders Agreement dated as of December 23, 2008, among Kid Brands, Inc.; The Russ Companies, Inc.; and Encore Investors II, Inc.(2) |
| 10.6 | License Agreement dated as of December 23, 2008, among RB Trademark Holdco, LLC and The Russ Companies, Inc. (2) |
| 10.7 | Licensor Agreement dated as of December 23, 2008, among RB Trademark Holdco, LLC; Wells Fargo Bank; National Association; and the Russ Companies, Inc.(2) |
| 10.8 | Transition Services Agreement dated as of December 23, 2008, between Kid Brands, Inc., and The Russ Companies, Inc. (2) |
| 10.9 | Secured Promissory Note dated December 23, 2008, in the original principal amount of $19.0 million from The Russ Companies, Inc., for the benefit of Kid Brands, Inc.(2) |
| 10.10 | Guaranty dated as of December 23, 2008, among The Encore Group, Inc.; the other guarantors specified therein; and Kid Brands, Inc. (2) |
| 10.11 | Subordinated Security Agreement dated as of December 23, 2008, among The Russ Companies, Inc.; The Encore Group, Inc.; the other parties specified therein; and Kid Brands, Inc.(2) |
| 10.12 | Inter-Creditor Agreement dated as of December 23, 2008, between Kid Brands, Inc., and Wells Fargo Bank, National Association, and acknowledged by The Russ Companies, Inc.(2) |
| 10.13 | 2008 Equity Incentive Plan.*(8) |
| 10.14 | Employment Agreement dated as of April 2, 2008, between LaJobi, Inc., and Lawrence Bivona.*(9) |
| 10.15 | Form of 2008 Equity Incentive Plan Stock Option Agreement.*(10) |
| 10.16 | Form of 2008 Equity Incentive Plan Restricted Stock Agreement.*(10) |
| 10.17 | Form of 2008 Equity Incentive Plan Stock Appreciation Right Agreement.*(10) |
| 10.18 | Form of 2008 Equity Incentive Plan Restricted Stock Unit Agreement.*(10) |
| 10.19 | Employment Agreement dated as of December 7, 2009, between Kid Brands, Inc. (on behalf of Kids Line, LLC) and David Sabin.* (11) |
| 10.20 | Employment Agreement dated as of February 17, 2010, between Kid Brands, Inc. (on behalf of Sassy, Inc.) and Richard F. Schaub, Jr.* (11) |
| 10.21 | Sublease, effective as of September 30, 2010, between The Capital Group Companies, Inc. and Kids Line, LLC.* (12) |
| 10.22 | Landlord Consent to Kids Line Sublease, effective as of September 30, 2010. (12) |
| 10.23 | Irrevocable Standby Letter of Credit from Bank of America, dated October 26, 2010. (12) |
| 10.24 | Employment Agreement, dated May 26, 2011, between Kid Brands, Inc. on behalf of Sassy, Inc. and Dean Robinson.*(13) |
| 10.25 | Agreement between RB, Inc. and the Company dated September 12, 2011.* (14) |
| 10.26 | Agreement between RB, Inc. and the Company dated February 14, 2012.* (15) |
| 10.27 | |

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| | Agreement of Lease, dated June 27, 2003 between Keystone Cranbury East, LLC and LaJobi Industries, Inc. (16) |
| 10.28 | First Amendment to Lease Agreement, dated July 9, 2008, between LaJobi, Inc. and Keystone Cranbury East, LLC. (16) |
| 10.29 | Letter Agreement between the Company and Guy Paglinco, dated as of April 26, 2012.* (17) |
| 10.30 | Letter Agreement between the Company and Marc Goldfarb, dated as of April 26, 2012.* (17) |
| 10.31 | Letter Agreement, dated May 4, 2012, among Kid Brands, Inc., Kids Line LLC, Sassy, Inc., I & J HoldCo, Inc., LaJobi, Inc. and CoCaLo, Inc., as Borrowers; Bank of America, N.A., as Administrative Agent and as a Lender, Swing Line Lender and L/C Issuer; and the other Lenders party thereto. (17) |
| 10.32 | Waiver, First Amendment to Credit Agreement and First Amendment to Security Agreement, dated August 13, 2012, among Kids Brands, Inc., its domestic subsidiaries party thereto, the Lenders party thereto and Bank of America, N.A., as Administrative Agent, incorporated herein by reference to the Current Report on Form 8-K filed by the Company on August 15, 2012. (18) |
| 10.33 | Separation and Release Agreement, dated as of September 11, 2012, among David Sabin, Kids Line, LLC and CoCaLo, Inc., incorporated herein by reference to the Current Report on Form 8-K filed by the Company on September 12, 2012.* (19) |
| 10.34 | Employment Agreement, dated as of September 12, 2012, between the Company and Kerry Carr, incorporated herein by reference to the Current Report on Form 8-K filed by the Company on September 12, 2012.* (19) |
| 10.35 | Employment Agreement, dated as of September 12, 2012, between the Company and Renee Pepys-Lowe, incorporated herein by reference to the Current Report on Form 8-K filed by the Company on September 12, 2012.* (19) |

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| 10.36 | Second Amendment to Credit Agreement, dated November 15, 2012, among Kids Brands, Inc., its domestic subsidiaries party thereto, the Lenders party thereto and Bank of America, N.A., as Administrative Agent. (20) |
| 10.37 | Credit Agreement dated as of December 21, 2012, among Kid Brands, Inc., specified domestic subsidiaries party thereto, Salus Capital Partners, LLC, as Administrative Agent and Collateral Agent, and the other lenders from time to time party thereto. (21) |
| 10.38 | Security Agreement dated as of December 21, 2012, by Kid Brands, Inc. and the other Borrowers and Loan Parties party thereto from time to time in favor of Salus Capital Partners, LLC, as Collateral Agent. (21) |
| 10.39 | Employment Agreement, dated March 14, 2013, between Kid Brands, Inc. and Raphael Benaroya.*(22) |
| 10.40 | Amendment to Employment Agreement, dated as of March 26, 2013, between Kid Brands, Inc. and Kerry Carr.* (23) |
| 10.41 | First Amendment to Credit Agreement, dated as of April 16, 2013, among Kid Brands, Inc., its subsidiaries party thereto, and Salus Capital Partners, LLC as Agent. (23) |
| 10.42 | Second Amendment to Credit Agreement, dated as of May 16, 2013, among Kid Brands, Inc., its subsidiaries party thereto, and Salus Capital Partners, LLC as Agent. (24) |
| 10.43 | Transition and Release Agreement, dated May 29, 2013, between Guy Paglinco and Kid Brands, Inc.* (25) |
| 10.44 | Offer Letter, dated April 15, 2013, and related letter, dated August 2, 2013 between James Christl and Kid Brands, Inc. * (25) |
| 10.45 | Acquisition Agreement, dated June 30, 2013, among RB Trademark Holdco LLC and Larsen and Bowman Holdings Ltd., a Limited Corporation organized under the laws of British Columbia ( L+B ). (25) |
| 10.46 | Security Agreement, dated June 30, 2013, among RB Trademark Holdco LLC and L+B. (25) |
| 10.47 | Promissory Note, dated June 30, 2013, by L+B as payor and RB Trademark Holdco LLC as payee. (25) |
| 10.48 | Letter Agreement, dated as of August 13, 2013, among Kid Brands, Inc., its subsidiaries party thereto, and Salus Capital Partners, LLC as Agent.(25) |
| 10.49 | Offer Letter, dated March 26, 2013, and related letter, dated August 14, 2013, between Jodie Simon Friedman and Kid Brands, Inc.*(25) |
| 10.50 | 2013 Equity Incentive Plan.* (26) |
| 10.51 | Form of 2013 Equity Incentive Plan Stock Option Agreement.* (27) |
| 10.52 | Form of 2013 Equity Incentive Plan Stock Option Agreement for Non-Employee Directors.* (27) |
| 10.53 | Form of 2013 Equity Incentive Plan Stock Appreciation Right Agreement.* (27) |
| 10.54 | Form of 2013 Equity Incentive Plan Stock Appreciation Right Agreement for Non-Employee Directors.* (27) |
| 10.55 | Form of 2013 Equity Incentive Plan Restricted Stock Agreement.* (27) |
| 10.56 | Form of 2013 Equity Incentive Plan Restricted Stock Agreement for Non-Employee Directors.* (27) |
| 10.57 | Form of 2013 Equity Incentive Plan Restricted Stock Unit Agreement.* (27) |
| 10.58 | Form of 2013 Equity Incentive Plan Restricted Stock Unit Agreement for Non-Employee Directors.* (27) |
| 10.59 | Consulting Agreement dated September 18, 2013, between Kid Brands, Inc. and Marc Goldfarb.* (27) |

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| 10.60 | Third Amendment to Credit Agreement and Limited Waiver among Salus Capital Partners, LLC, Kids Brands, Inc., and specified domestic subsidiaries thereof dated November 14, 2013. (27) |
| 10.61 | Buy and Sell Agreement, dated October 10, 2013, between Sassy, Inc. and Ventra Grand Rapids 5, LLC. |
| 10.62 | Office Lease Agreement, dated November 15, 2013, between Kid Brands, Inc. and Meadows Office, L.L.C. |
| 10.63 | Operating Services Agreement, dated November 23, 2013, between Kid Brands, Inc. and National Distribution Centers, L.P.** |
| 10.64 | Consulting Agreement, dated December 5, 2013, among Kid Brands, Inc., LaJobi, Inc. and Mr. Schaub.* |
| 10.65 | Letter, dated April 3, 2014, between Keith Kotel and Kid Brands, Inc.* |
| 10.66 | Agreement Regarding Commitments, dated as of December 16, 2013, among Salus Capital Partners, LLC, Kids Brands, Inc., specified domestic subsidiaries thereof, and the Lenders party thereto. |
| 10.67 | Release Agreement dated January 2, 2014 between Kid Brands, Inc. and Guy Paglinco.* |
| 10.68 | Consulting Agreement, dated January 29, 2014, between Kid Brands, Inc. and RPL and Associates, LLC.* |
| 10.69 | Letter, dated April 3, 2014, between Bradley Sell and Kid Brands, Inc.* |
| 10.70 | Waiver and Fourth Amendment to Credit Agreement among Salus Capital Partners, LLC, Kids Brands, Inc., specified domestic subsidiaries thereof, and the lenders party thereto, dated as of April 8, 2014. |
| 21 | List of Subsidiaries |

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|---|---|
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of principal executive officer required by Section 302 of the Sarbanes Oxley Act of 2002. |
| 31.2 | Certification of principal financial officer required by Section 302 of the Sarbanes Oxley Act of 2002. |
| 32.1 | Certification of principal executive officer required by Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of principal financial officer required by Section 906 of the Sarbanes Oxley Act of 2002 |
| 101.INS | XBRL Instance Document [1] |
| 101.SCH | XBRL Taxonomy Schema Document [1] |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document [1] |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document [1] |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document [1] |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document [1] |

[1] Pursuant to Rule 405 of Regulation S-T, includes the following financial information from the Company s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in eXentsible Business Reporting Language ( XBRL ) interactive data files: (i) the Consolidated Statement of Operations for the years ended December 31, 2013, 2012 and 2011, (ii) Consolidated Statements of Comprehensive (Loss) for the years ended December 31, 2013, 2012 and 2011; (iii) the Consolidated Balance Sheets as of December 31, 2013 and 2012; (iv) the Consolidated Statement of Cash Flows for the years ended December 31, 2013, 2012 and 2011, and (v) the Notes to Consolidated Financial Statements.

* Represent management contracts or compensatory plans or arrangements

** Certain confidential portions of this exhibit have been omitted by means of redacting a portion of the text. This exhibit has been filed separately with the Secretary of the Securities and Exchange Commission without redactions pursuant to an Application for an Order Granting Confidential Treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(1) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-08681-08730475

(2) Incorporated by reference to Current Report on Form 8-K filed on December 29, 2008, File No. 001-08681-081273512

(3) Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009

(4) Incorporated by reference to Current Report on Form 8-K filed on January 7, 2008, File No. 001-08681-08514232

(5) Incorporated by reference to Current Report on Form 8-K filed on August 14, 2006, File No. 001-08681-061031616

(6) Incorporated by reference to the Company s definitive Proxy Statement filed on April 4, 2003, File No. 001-08681-03639525

(7) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-08681-05720550

(8) Incorporated by reference to the Company s definitive Proxy Statement filed on June 13, 2008, File No. 001-08681-08898516

(9) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-08681-09720557

(10) Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2009

(11) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2009
(12) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2010
(13) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
(14) Incorporated by reference to Current Report on Form 8-K filed on September 14, 2011
(15) Incorporated by reference to the Current Report on Form 8-K filed by the Company on February 17, 2012
(16) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2011
(17) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
(18) Incorporated by reference to Current Report on Form 8-K filed on August 15, 2012
(19) Incorporated by reference to Current Report on Form 8-K filed on September 12, 2012
(20) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
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(22) Incorporated by reference to Current Report on Form 8-K filed on March 15, 2013
(23) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2012
(24) Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.
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(26) Incorporated by reference to the Kid Brands, Inc. Definitive Proxy Statement filed on June 4, 2013.
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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KID BRANDS, INC.

(Registrant)

April 15, 2014

By: /s/ Kerry Carr
Kerry Carr
Executive Vice President, Chief Operating Officer and

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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

| | |
|---|---|
| /s/ RAPHAEL BENAROYA<br>Raphael Benaroya<br>*Chairman of the Board,*<br>*President and CEO (principal executive officer)* | April 15, 2014<br>Date |
| /s/ MARIO CIAMPI<br>Mario Ciampi, Director | April 15, 2014<br>Date |
| /s/ FREDERICK J. HOROWITZ<br>Frederick J. Horowitz, Director | April 15, 2014<br>Date |
| /s/ JAN LOEB<br>Jan Loeb, Director | April 15, 2014<br>Date |
| /s/ SALVATORE SALIBELLO<br>Salvatore Salibello, Director | April 15, 2014<br>Date |
| /s/ MICHAEL ZIMMERMAN<br>Michael Zimmerman, Director | April 15, 2014<br>Date |

**Exhibit Index**

| **Exhibit**<br><br>**Numbers** | |
|---|---|
| 10.61 | Buy and Sell Agreement, dated October 10, 2013, between Sassy, Inc. and Ventra Grand Rapids 5, LLC. |
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| 10.70 | Waiver and Fourth Amendment to Credit Agreement among Salus Capital Partners, LLC, Kids Brands, Inc., specified domestic subsidiaries thereof, and the lenders party thereto dated as of April 8, 2014. |
| 21 | List of Subsidiaries |
| 23 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of CEO required by Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of CFO required by Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of CEO required by Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of CFO required by Section 906 of the Sarbanes Oxley Act of 2002 |

* represents a management contract or compensatory plan or arrangement

** Certain confidential portions of this exhibit have been omitted by means of redacting a portion of the text. This exhibit has been filed separately with the Secretary of the Securities and Exchange Commission without redactions pursuant to an Application for an Order Granting Confidential Treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

| | |
|---|---|
| 101.INS | XBRL Instance Document[1] |
| 101.SCH | XBRL Taxonomy Schema Document[1] |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document[1] |

| | |
|---|---|
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document[1] |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document[1] |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document[1] |

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**KID BRANDS, INC. AND SUBSIDIARIES**

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

**(Dollars in Thousands)**

| Column A<br>Description | Column B<br>Balance at Beginning of Period | Column C<br>Charged to Expenses | Column D<br>Deductions | Column E<br>Balance at End of Period |
|---|---|---|---|---|
| Allowance for accounts receivable: | | | | |
| Year ended December 31, 2011 | $ 6,934 | $ 33,272 | $ 33,422 | $ 6,784 |
| Year ended December 31, 2012 | 6,784 | 25,717 | 26,694 | 5,807 |
| Year ended December 31, 2013 | 5,807 | 22,882 | 23,337 | 5,352 |
| Allowance for inventory: | | | | |
| Year ended December 31, 2011 | $ 1,589 | $ 2,500 | $ 2,388 | $ 1,701 |
| Year ended December 31, 2012 | 1,701 | 3,304 | 3,726 | 1,279 |
| Year ended December 31, 2013 | 1,279 | 2,664 | 1,978 | 1,965 |