

Edgar Filing: TOPPS CO INC - Form 10-Q

TOPPS CO INC
Form 10-Q
July 16, 2002

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 1, 2002

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: 0-15817

THE TOPPS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-2849283
(I.R.S. Employer
Identification No.)

One Whitehall Street, New York, NY 10004
(Address of principal executive offices, including zip code)

(212) 376-0300
(Registrant's telephone number, including area code)

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

The number of outstanding shares of Common Stock as of July 9, 2002 was 41,816,000.

Edgar Filing: TOPPS CO INC - Form 10-Q

THE TOPPS COMPANY, INC.
AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Index	Page
Condensed Consolidated Balance Sheets as of June 1, 2002 and March 2, 2002	3
Condensed Consolidated Statements of Operations for the thirteen weeks ended June 1, 2002 and June 2, 2001	4
Condensed Consolidated Statements of Comprehensive Income for the thirteen weeks ended June 1, 2002 and June 2, 2001	5
Condensed Consolidated Statements of Cash Flows for the thirteen weeks ended June 1, 2002 and June 2, 2001	6
Notes to Condensed Consolidated Financial Statements	7
Report of Independent Public Accountants	12
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	13
ITEM 3. DISCLOSURES ABOUT MARKET RISK	16

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	17
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	18

Edgar Filing: TOPPS CO INC - Form 10-Q

THE TOPPS COMPANY, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	June 1, 2002	March 2, 2002
	-----	-----
	(amounts in thousands except share data)	
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	\$ 109,351	\$ 121,057
Accounts receivable - net	35,838	20,039
Inventories	24,436	23,096
Income tax receivable	874	3,230
Deferred tax assets	2,628	4,343
Prepaid expenses and other current assets	10,654	11,807
	-----	-----
TOTAL CURRENT ASSETS	183,781	183,572
	-----	-----
PROPERTY, PLANT & EQUIPMENT	26,383	25,134
Less: accumulated depreciation and amortization	11,419	10,528
	-----	-----
NET PROPERTY, PLANT & EQUIPMENT	14,964	14,606
	-----	-----
GOODWILL	48,710	46,773
INTANGIBLE ASSETS, net of accumulated amortization of \$30,799 and \$30,509 as of June 1, 2002 and March 2, 2002, respectively	6,960	7,250
OTHER ASSETS	7,618	5,749
	-----	-----
TOTAL ASSETS	\$ 262,033	\$ 257,950
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts payable	\$ 10,597	\$ 10,966
Accrued expenses and other liabilities	27,284	30,274
Income taxes payable	7,212	5,943
	-----	-----
TOTAL CURRENT LIABILITIES	45,093	47,183
DEFERRED INCOME TAXES	--	--
OTHER LIABILITIES	17,073	16,713
	-----	-----
TOTAL LIABILITIES	62,166	63,896
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.01 per share authorized 10,000,000 shares, none issued	--	--
Common stock, par value \$.01 per share, authorized 100,000,000 shares; issued 49,244,000 shares and 49,189,000 shares as of June 1, 2002 and March 2, 2002, respectively	492	492
Additional paid-in capital	27,214	26,824

Edgar Filing: TOPPS CO INC - Form 10-Q

Treasury stock, 7,363,000 shares and 7,143,000 shares as of June 1, 2002 and March 2, 2002, respectively.	(70,192)	(67,415)
Retained earnings	253,282	245,941
Accumulated other comprehensive loss, net of income taxes	(10,929)	(11,788)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	199,867	194,054
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 262,033	\$ 257,950
	=====	=====

See Notes to Condensed Consolidated Financial Statements and Accountants' Review Report.

3

THE TOPPS COMPANY, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited)	
	Thirteen weeks ended	
	June 1, 2002	June 2, 2001
	-----	-----
	(amounts in thousands, except share data)	
Net sales	\$ 87,739	\$ 86,892
Cost of sales	55,104	49,190
	-----	-----
Gross profit on sales	32,635	37,702
Other income (expense)	(66)	728
	-----	-----
	32,569	38,430
Selling, general and administrative expenses	21,904	21,437
	-----	-----
Income from operations	10,665	16,993
Interest income, net	632	1,465
	-----	-----
Income before provision for income taxes	11,297	18,458
Provision for income taxes	3,956	6,829
	-----	-----
Net income	\$ 7,341	\$ 11,629
	=====	=====
Net income per share - basic	\$ 0.17	\$ 0.27
Net income per share - diluted	\$ 0.17	\$ 0.26

Edgar Filing: TOPPS CO INC - Form 10-Q

Weighted average shares outstanding - basic .	42,000,000	43,854,000
Weighted average shares outstanding - diluted	42,960,000	45,049,000

See Notes to Condensed Consolidated Financial Statements and Accountants' Review Report.

4

THE TOPPS COMPANY, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF
 COMPREHENSIVE INCOME

	(Unaudited)	
	Thirteen weeks ended	
	June 1, 2002	June 2, 2001
	-----	-----
	(amounts in thousands)	
Net income	\$ 7,341	\$11,629
Currency translation adjustment	859	(3,994)
	-----	-----
Comprehensive income	\$ 8,200	\$ 7,635
	=====	=====

See Notes to Condensed Consolidated Financial Statements and Accountants' Review Report.

5

THE TOPPS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited)	
	Thirteen weeks ended	
	June 1, 2002	June 2, 2001
	-----	-----
	(amounts in thousands)	
Cash flows from operating activities:		
Net income	\$ 7,341	\$ 11,629
Add/(subtract) non-cash items included in net income:		
Depreciation and amortization	1,160	1,203
Deferred income taxes	1,715	(126)
Change in operating assets and liabilities:		
Accounts receivable	(15,799)	(10,815)
Inventories	(1,340)	(3,864)
Income tax receivable	2,356	4,482
Prepaid expenses and other current assets	1,153	388
Payables and other current liabilities	(2,090)	(5,682)
Currency translation adjustment and other liabilities	(1,840)	(9,207)
	-----	-----
Cash used in operating activities	(7,344)	(11,992)
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,249)	(1,333)
	-----	-----
Cash used in investing activities	(1,249)	(1,333)
	-----	-----
Cash flows from financing activities:		
Exercise of stock options	727	782
Repurchase of common stock	(2,792)	(6,618)
	-----	-----
Cash used in financing activities	(2,065)	(5,836)
	-----	-----

Edgar Filing: TOPPS CO INC - Form 10-Q

Effect of exchange rates on cash and cash equivalents	(1,048)	4,642
Net decrease in cash and cash equivalents	(11,706)	(14,519)
Cash and cash equivalents at beginning of quarter ...	121,057	158,741
	-----	-----
Cash and cash equivalents at end of quarter	\$109,351	\$144,222
	=====	=====

Supplemental disclosure of cash flow information:

Interest paid	\$ 23	\$ 70
Income taxes paid	\$ 1,256	\$ 3,645

See Notes to Condensed Consolidated Financial Statements and Accountants' Review Report.

6

THE TOPPS COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THIRTEEN WEEKS ENDED JUNE 1, 2002

1. Basis of Presentation

The accompanying unaudited condensed interim consolidated financial statements have been prepared by The Topps Company, Inc. and its subsidiaries (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which are, in the opinion of management, considered necessary for a fair presentation. Operating results for the thirteen weeks ended June 1, 2002 are not necessarily indicative of the results that may be expected for the year ending March 1, 2003. For further information refer to the consolidated financial statements and notes thereto in the Company's annual report for the year ended March 2, 2002.

2. Quarterly Comparison

Management believes that quarter-to-quarter comparisons of sales and operating results are affected by a number of factors, including new product introductions, seasonal products, the timing of various expenses such as advertising and variations in shipping and factory scheduling requirements. Thus, quarterly results vary.

3. Accounts Receivable

	(Unaudited)	
	June 1,	March 2,
	2002	2002
	-----	-----
	(amounts in thousands)	
Gross receivables	\$ 54,507	\$ 37,148
Reserve for returns	(17,699)	(15,875)
Reserve for bad debt	(970)	(1,234)

Edgar Filing: TOPPS CO INC - Form 10-Q

Net	----- \$ 35,838 =====	----- \$ 20,039 =====
4. Inventories	(Unaudited)	
	June 1, 2002	March 2, 2002
	-----	-----
	(amounts in thousands)	
Raw materials	\$ 6,651	\$ 6,395
Work in process	1,053	1,274
Finished products	16,732	15,427
	-----	-----
Total	\$ 24,436 =====	\$ 23,096 =====

5. Segment Information

Following is the breakdown of industry segments as required by SFAS No. 131. The Company has three reportable business segments: Confectionery, Collectible Sports Products and Entertainment Products.

7

The Confectionery segment consists of a variety of lollipop products including Ring Pop, Push Pop and Baby Bottle Pop, the Bazooka bubble gum line and other novelty confections including Pokemon products.

The Collectible Sports Products segment primarily consists of trading cards featuring players from Major League Baseball, the National Basketball Association, the National Football League and the National Hockey League, sticker album products featuring players from certain European soccer leagues as well as thePit, etopps and ToppsVault Internet businesses.

The Entertainment Products segment consists of trading cards and sticker album products featuring licenses from popular films, television shows and other entertainment properties, including Pokemon.

The Company's management regularly evaluates the performance of each segment based upon its contributed margin, which is profit after cost of goods, product development, advertising and promotional costs and obsolescence, but before unallocated general and administrative expenses and manufacturing overhead, depreciation and amortization, other income, net interest and income taxes.

The Company does not allocate assets among its business segments and therefore does not include a breakdown of assets or depreciation and amortization by segment.

Thirteen weeks ended	
June 1, 2002	June 2, 2001
-----	-----
(In thousands of dollars)	

Net Sales

Edgar Filing: TOPPS CO INC - Form 10-Q

Confectionery	\$ 43,080	\$ 44,808
Collectible Sports Products	34,343	30,911
Entertainment Products	10,316	11,173
	-----	-----
Total	\$ 87,739	\$ 86,892
	=====	=====
Contributed Margin		

Confectionery	\$ 16,020	\$ 17,735
Collectible Sports Products	8,664	11,069
Entertainment Products	2,939	5,245
	-----	-----
Total	\$ 27,623	\$ 34,049
	=====	=====
Reconciliation of contributed margin		
to income before provision for income taxes:		

Total contributed margin	\$ 27,623	\$ 34,049
Unallocated general and administrative		
expenses and manufacturing overhead	(15,732)	(16,581)
Depreciation and amortization	(1,160)	(1,203)
Other income (expense).....	(66)	728
	-----	-----
Income from operations	10,665	16,993
Interest income, net	632	1,465
	-----	-----
Income before provision for income taxes ..	\$ 11,297	\$ 18,458
	=====	=====

8

6. Credit Agreement

On June 26, 2000, the Company entered into a credit agreement with Chase Manhattan Bank and LaSalle Bank National Association. The agreement provides for a \$35.0 million unsecured facility to cover revolver and letter of credit needs and expires on June 26, 2004. Interest rates are variable and are a function of the Company's EBITDA. The credit agreement contains restrictions and prohibitions of a nature generally found in loan agreements of this type and requires the Company, among other things, to comply with certain financial covenants, limits the Company's ability to repurchase its shares, sell or acquire assets or borrow additional money and prohibits the payment of dividends.

The credit agreement may be terminated by the Company at any point over the four year term (provided the Company repays all outstanding amounts thereunder) without penalty. On June 1, 2002, the credit agreement was amended to provide for an increase in the number of shares permitted to be repurchased.

7. Reclassifications

Effective March 3, 2002, the Company adopted the EITF Issue No. 00-14 accounting standards that require certain trade promotion expenses, such as slotting fees, to be reported as a reduction of net sales rather than as marketing expense. Adoption of these requirements reduced both net sales and marketing expenses in the first quarters of fiscal 2003 and 2002 by \$798,000 and \$559,000, respectively, but did not impact net earnings in

Edgar Filing: TOPPS CO INC - Form 10-Q

either year.

8. Accounting Changes

On March 3, 2002 the Company adopted Statements of Financial Accounting Standards Board standards Nos. 141, Business Combinations (SFAS 141), and 142, Goodwill and Other Intangible Assets (SFAS 142) which require the Company to prospectively cease amortization of goodwill and instead conduct periodic tests of goodwill for impairment. The table below compares reported earnings and earnings per share for the thirteen weeks ended June 1, 2002 with earnings and earnings per share assuming proforma applications of the new accounting standards for the thirteen weeks ended June 2, 2001.

	Thirteen weeks ended	
	June 1, 2002	June 2, 2001
	-----	-----
	(amounts in thousands)	
Net income	\$7,341	\$11,629
Add back:		
Goodwill amortization	-	392
	-----	-----
Adjusted net income	\$7,341	\$12,021
	=====	=====
Basic net income per share	\$0.17	\$0.27
Goodwill amortization	-	\$0.01
	-----	-----
Adjusted basic net income per share	\$0.17	\$0.28
	=====	=====
Diluted net income per share	\$0.17	\$0.26
Goodwill amortization	-	\$0.01
	-----	-----
Adjusted diluted net income per share	\$0.17	\$0.27
	=====	=====

9

The Company has evaluated its goodwill and intangible assets acquired prior to June 30, 2001 using the criteria of SFAS 141, which resulted in no other intangible being included in goodwill. The Company has evaluated its intangible assets and determined that all such assets have determinable lives. Furthermore, the Company has reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of the intangible assets. The Company reclassified \$1.5 million in deferred financing fees from intangible assets to other assets and \$0.8 million in software development costs from intangible assets to property, plant and equipment in order to conform with the definitions contained in SFAS 142.

SFAS 142 prescribes a two-phase process for impairment testing of goodwill. The first phase, required to be completed by August 31, 2002, screens for impairment; while the second phase (if necessary), required to be completed by March 1, 2003 measures the impairment. The Company is in the process of completing the first phase and will report the results of that process in the second quarter Form 10-Q.

Edgar Filing: TOPPS CO INC - Form 10-Q

For the three months ended June 1, 2002 no goodwill or other intangibles were acquired, impaired or disposed. Other intangibles consisted of the following:

	(amounts in thousands)					
	June 1, 2002			June 2, 2001		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Licenses & Contracts	\$ 21,879	\$ 15,936	\$ 5,943	\$ 21,569	\$ 14,261	\$ 7,308
Intellectual Property	12,584	12,355	229	12,584	12,038	546
Software & Other	2,952	2,508	444	2,482	2,375	107
FAS 132 Pension	344	-	344	-	-	-
	-----	-----	-----	-----	-----	-----
Total Intangibles	\$ 37,759	\$ 30,799	\$ 6,960	\$ 36,635	\$ 28,674	\$ 7,961
	=====	=====	=====	=====	=====	=====

Over the next five years we expect the annual amortization of the intangible assets described to be as follows:

Fiscal Year	Amount
-----	-----
(in thousands)	
2003	\$ 1,160
2004	\$ 1,060
2005	\$ 826
2006	\$ 826
2007	\$ 826

Amortization expense was \$321,000 for the three months ended June 1, 2002 and \$670,000 including goodwill amortization of \$392,000 for the three months ended June 2, 2001.

9. Legal Proceedings

On August 21, 2000, the Company was named as a defendant in a purported class action commenced in the Superior Court of the State of California for the County of Alameda (the "California State Court") entitled Chaset, et al. v. The Upper Deck Company, et al., No. 830257-9 (the "California Class Action"). The California Class Action alleges that the Company and other manufacturers and licensors of sports and entertainment trading cards committed unlawful, unfair and fraudulent business acts under the California Unfair Business Practices Act (CUBPA) and the California Consumer Legal Remedies Act (CLRA) by the practice of selling trading cards with randomly-inserted "insert" cards allegedly in violation of state and

Edgar Filing: TOPPS CO INC - Form 10-Q

federal anti-gambling laws and state consumer laws. The California Class Action asserts three claims for relief and seeks declaratory, equitable and injunctive relief and attorneys' fees on behalf of a purported nationwide class of trading card purchasers. Plaintiff filed an amended complaint on October 13, 2000, including an amendment to demand compensatory and punitive damages and restitution. On December 14, 2000, plaintiff moved for summary judgment on one of the CUBPA claims.

On December 15, 2000, all defendants filed a motion to dismiss two of the claims for failure to state a claim upon which relief can be granted; a motion for summary judgment dismissing the remaining claim; and a motion to strike all allegations of fraudulent or deceptive representations and all references to plaintiff's prayer for monetary relief. On March 29, 2001, the Court issued a tentative ruling granting defendants' motion for summary judgment on the grounds that the defendant's practices do not constitute illegal gambling as a matter of law, but denying the demurrer to the extent that the remaining two claims allege false or misleading advertising practices unrelated to the gambling issue. On March 30, 2001, in accordance with the California State practice, the Court heard oral argument on whether or not its tentative ruling should stand as a final ruling. On June 12, 2001, the Court denied both motions. On September 21, 2001, plaintiff moved for class certification. Briefing and discovery concerning the class certification issue was completed in January 2002, and oral argument was heard on February 27, 2002. On March 7, 2002, Judge Sabraw of the California State Court issued a ruling denying class certification under the CUBPA and granting class certification under the CLRA. On April 2, 2002, the defendants filed a joint motion to dismiss the CLRA cause of action. This motion was granted on May 6, 2002. Plaintiff has indicated that he intends to appeal both the ruling denying class certification under the CUBPA and the ruling dismissing the CLRA cause of action.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholders
The Topps Company, Inc.

Edgar Filing: TOPPS CO INC - Form 10-Q

We have reviewed the accompanying condensed consolidated balance sheet of The Topps Company, Inc. and subsidiaries (the "Company") as of June 1, 2002, and the related condensed consolidated statements of operations and cash flows for the thirteen week periods ended June 1, 2002 and June 2, 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of The Company as of March 2, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 3, 2002 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 2, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

SIGNATURE

June 24, 2002
New York, New York

12

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

First Quarter Fiscal Year 2003 versus Fiscal Year 2002

The following table sets forth, for the periods indicated, net sales by key business segment:

	June 1, 2002	June 2, 2001
--	-----------------	-----------------

Edgar Filing: TOPPS CO INC - Form 10-Q

	-----	-----
	(In thousands of dollars)	
Confectionery	\$ 43,080	\$ 44,808
Collectible Sports Products	34,343	30,911
Entertainment Products	10,316	11,173
	-----	-----
Total	\$ 87,739	\$ 86,892
	=====	=====

Net sales for the first quarter of fiscal 2003 increased 1% to \$87.7 million from \$86.9 million for the same period last year.

Effective March 3, 2002, the Company adopted the EITF Issue No. 00-14 accounting standards that require certain trade promotion expenses, such as slotting fees, to be reported as a reduction of net sales rather than as selling, general and administrative expense ("SG&A"). Adoption of these requirements reduced both net sales and marketing expenses in the first quarters of fiscal 2003 and 2002 by \$798,000 and \$559,000, respectively, but did not impact net earnings in either year.

Net sales of confectionery products, which include, among other things, Bazooka brand bubble gum and Ring Pop, Push Pop, Baby Bottle Pop and Pokemon candies, decreased 3.9% in the first quarter of this year to \$43.1 million from \$44.8 million in fiscal 2002. Included in first quarter fiscal 2003 sales were \$376,000 of Pokemon confectionery products versus \$1.4 million in the first quarter of fiscal 2002. Topps branded (non-Pokemon) confectionery sales in the quarter were 1.5% below last year due to lower sales of Baby Bottle Pop in the U.S. and Japan.

Net sales of collectible sports products, which consist of traditional sports cards and sports sticker albums, as well as the sports Internet businesses, increased 11.1% to \$34.3 million in the first quarter of fiscal 2003 from \$30.9 million in the comparable period last year. This increase reflects \$3.0 million in sales from the Internet businesses which did not generate sales a year ago, strong sales of Premier League soccer products and the release of stickers and albums featuring players from World Cup Soccer. Sales of traditional sports cards in the U.S. declined, the result of continuing weak industry conditions.

Net sales of entertainment products, which consist of entertainment trading cards and the Merlin line of entertainment sticker album products, decreased to \$10.3 million in the first quarter of fiscal 2003 from \$11.2 million in fiscal 2002 reflecting lower sales of Pokemon products. Included in the first quarter this year were \$1.6 million of Pokemon sales versus \$8.7 million last year. Also included in reported sales are Pokemon return reserve reversals totaling \$0.7 million this year versus \$3.1 million last year, the result of higher than expected sell-through of product at retail. As of June 1, 2002, the return reserve balance for Pokemon products was \$4.5 million. Non-Pokemon entertainment sales, which consisted primarily of products associated with the recently released Star Wars and Spiderman films, increased to \$8.7 million from \$2.5 million last year.

Gross profit as a percentage of net sales for the first quarter of fiscal 2003

Edgar Filing: TOPPS CO INC - Form 10-Q

decreased to 37.2% from 43.4% for the same period last year. This was primarily the result of a reduction in high-margin Pokemon sales, lower margins on sales of traditional sports card products and the addition of thePit business, which has a lower gross profit margin on average.

Other income (expense) was an expense of \$66,000 this year versus income of \$728,000 last year, reflecting less favorable mark-to-market adjustments on foreign currency contracts this year than last.

SG&A increased as a percentage of net sales to 25.0% in the first quarter of fiscal 2003 from 24.7% a year ago, while SG&A dollar spending increased to \$21.9 million from \$21.4 million. The dollar increase was driven by higher marketing spending, primarily on the etopps and European businesses. Overhead costs in the quarter were lower this year than last due to a smaller accrual for employee incentive bonus payments, a reduction in etopps programming costs and the elimination of goodwill amortization resulting from the adoption of FAS 142.

Net interest income decreased to \$632,000 in fiscal 2003 from \$1.5 million in fiscal 2002 due to a decrease in cash on hand and lower interest rates.

The tax rate in the first quarter of fiscal 2003 was 35.0% versus 37.0% in the first quarter of fiscal 2002, primarily as a result of the new accounting treatment for goodwill amortization.

Net income for the first quarter of fiscal 2003 was \$7.3 million, or \$0.17 per diluted share, compared with \$11.6 million, or \$0.26 per diluted share last year.

Liquidity and Capital Resources

Management believes that the Company has adequate means to meet its liquidity and capital resource needs over the foreseeable future as a result of the combination of cash on hand, anticipated cash from operations and credit line availability.

As of June 1, 2003, the Company had \$109.4 million in cash and cash equivalents.

On June 26, 2000, the Company entered into a credit agreement with Chase Manhattan Bank and LaSalle Bank National Association. The agreement provides for a \$35.0 million unsecured facility to cover revolver and letter of credit needs and expires on June 26, 2004. Interest rates are variable and are a function of the Company's EBITDA. The credit agreement contains restrictions and prohibitions of a nature generally found in loan agreements of this type and requires the Company, among other things, to comply with certain financial covenants, limits the Company's ability to repurchase its shares, sell or acquire assets or borrow additional money and prohibits the payment of dividends. The credit agreement may be terminated by the Company at any point over the four year term (provided the Company repays all outstanding amounts thereunder) without penalty. On June 1, 2002, the credit agreement was amended to provide for an increase in the number of shares permitted to be repurchased.

In October 1999, the Board of Directors authorized the Company to purchase up to 5 million shares of its stock. In October 2001, purchases against this authorization were completed, and the Board of Directors authorized the purchase of up to an additional 5 million shares of stock. As of June 1, 2002, the Company had repurchased a total of 6.3 million shares at an average price of \$9.66. During the first quarter of fiscal 2003, the Company repurchased 291,000 shares at an average price of \$9.92 and used 70,500 shares for the exercise of stock options.

During the first quarter of fiscal 2003, the Company's net decrease in cash and cash equivalents was \$11.7 million versus a decrease of \$14.5 million in the first quarter of fiscal 2002. Cash used in operating activities in the first quarter of this year was \$7.3 million versus \$12.0 million last year, primarily as a result of lower European income tax payments in the current fiscal period. Cash used in investing activities reflects \$1.2 million in capital expenditures this year compared with \$1.3 million last year. Cash used in financing activities reflects expenditures for the repurchase of Company stock of \$2.8 million this year versus \$6.6 million last year.

Cautionary Statements

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"), the Company is hereby filing cautionary statements identifying important factors that could cause actual results to differ materially from those projected in any forward-looking statements of the Company made by or on behalf of the Company, whether oral or written. Among the factors that could cause the Company's actual results to differ materially from those indicated in any such forward statements are: (i) the failure of certain of the Company's principal products, particularly sports cards, entertainment cards, lollipops and sticker album collections, to achieve expected sales levels; (ii) a player strike or lock-out in Major League Baseball; (iii) quarterly fluctuations in results; (iv) the Company's loss of important licensing arrangements; (v) the failure of the Company's Internet initiative to achieve expected levels of success; (vi) the Company's loss of important supply arrangements with third parties; (vii) the loss of any of the Company's key customers or distributors; (viii) further prolonged and material contraction in the trading card industry as a whole; (ix) excessive returns of the Company's products; (x) civil unrest, currency devaluation or political upheaval in certain foreign countries in which the Company conducts business; as well as other risks detailed from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission.

ITEM 3. DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk associated with activities in derivative financial instruments (e.g., hedging or currency swap agreements), other financial instruments and derivative commodity instruments is confined to the impact of mark-to-market changes in foreign currency rates on the Company's forward contracts and options. The Company has no debt and does not engage in any commodity-related derivative transactions. As of June 1, 2002, the Company had contracts and options which were entered into for the purpose of hedging forecasted receipts and disbursements in various foreign currencies and which, due to the weakening of the U.S. dollar, resulted in a unfavorable mark-to-market in the quarter.

THE TOPPS COMPANY, INC.

PART II

OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders of the Company took place on June 27, 2002 for the following purposes:

1. To elect three directors;
2. To ratify and approve an amendment and restatement of the Company's 1994 Directors' stock option plan;
3. To ratify the appointment of auditors.

The results of the matters voted on are as follows:

	For -----	Withheld -----	
1. Election of Directors			
Stephen D. Greenberg	37,844,214	551,316	
Ann Kirschner	27,208,665	11,186,865	
Richard Tarlow	37,775,789	619,741	
	For -----	Against -----	Abstentions -----
2. Approval of amendment to Directors' stock option plan	32,851,870	1,687,043	3,856,617
3. Ratification of appointment of auditors	37,581,082	763,869	50,579

Edgar Filing: TOPPS CO INC - Form 10-Q

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits as required by Item 601 of Regulation S-K

- 10.26 1994 Non-Employee Director Stock Option Plan as Amended and Restated as of June 27, 2002
- 10.27 Amended and Restated Supplemental Pension Agreement with Arthur T. Shorin

Edgar Filing: TOPPS CO INC - Form 10-Q

SIGNATURE

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

THE TOPPS COMPANY, INC.

REGISTRANT

/s/ Catherine Jessup

Vice President-Chief Financial
Officer

July 16, 2002