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TOPPS CO INC  
Form 10-Q  
January 14, 2003

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 November 30, 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 January 8, 2002 was 40,779,901.

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## THE TOPPS COMPANY, INC. AND SUBSIDIARIES

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### PART I - FINANCIAL INFORMATION

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

	(Unaudited)	
	November 30, 2002	March 2, 2002
	(amounts in thousands except share data)	
<b>ASSETS</b>		
-----		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	\$ 118,211	\$ 121,057
Accounts receivable - net .....	15,888	20,039
Inventories .....	28,229	23,096
Income tax receivable .....	561	3,230
Deferred tax assets .....	4,204	4,343
Prepaid expenses and other current assets .....	13,986	11,807
	-----	-----
<b>TOTAL CURRENT ASSETS .....</b>	<b>181,079</b>	<b>183,572</b>
	-----	-----
PROPERTY, PLANT & EQUIPMENT .....	28,129	25,134
Less: accumulated depreciation and amortization ..	13,371	10,528
	-----	-----
<b>NET PROPERTY, PLANT &amp; EQUIPMENT .....</b>	<b>14,758</b>	<b>14,606</b>
	-----	-----
GOODWILL .....	48,840	46,773
INTANGIBLE ASSETS, net of accumulated amortization of \$31,378 and \$30,509 as of November 30, 2002 and March 2, 2002, respectively .	6,381	7,250
OTHER ASSETS .....	7,815	5,749
	-----	-----
<b>TOTAL ASSETS .....</b>	<b>\$ 258,873</b>	<b>\$ 257,950</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
-----		
<b>CURRENT LIABILITIES:</b>		
Accounts payable .....	\$ 8,143	\$ 10,966
Accrued expenses and other liabilities .....	31,200	30,274
Income taxes payable .....	2,534	5,943
	-----	-----
<b>TOTAL CURRENT LIABILITIES .....</b>	<b>41,877</b>	<b>47,183</b>
	-----	-----
DEFERRED INCOME TAXES .....	--	--
OTHER LIABILITIES .....	17,627	16,713
	-----	-----
<b>TOTAL LIABILITIES .....</b>	<b>59,504</b>	<b>63,896</b>
	-----	-----
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, par value \$.01 per share authorized 10,000,000 shares, none issued .....	--	--

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Common stock, par value \$.01 per share, authorized 100,000,000 shares; issued 49,244,000 shares and 49,189,000 shares as of November 30, 2002 and March 2, 2002, respectively .....	492	492
Additional paid-in capital .....	27,819	26,824
Treasury stock, 8,466,000 shares and 7,143,000 shares as of Nov 30, 2002 and March 2, 2002, respectively	(80,494)	(67,415)
Retained earnings .....	260,884	245,941
Accumulated other comprehensive loss, net of income taxes .....	(9,332)	(11,788)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY .....	199,369	194,054
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....	\$ 258,873	\$ 257,950
	=====	=====

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

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

	(Unaudited)			
	Thirteen weeks ended November 30, 2002	December 1, 2001	Thirty-nine weeks November 30, 2002	Dec 1,
	-----	-----	-----	---
	(amounts in thousands, except share data)			
Net sales .....	\$ 66,656	\$ 72,058	\$ 224,394	\$ 2
Cost of sales .....	45,007	49,793	144,814	1
	-----	-----	-----	---
Gross profit on sales .....	21,649	22,265	79,580	
Other income (expense) .....	(360)	718	(138)	
	-----	-----	-----	---
	21,289	22,983	79,442	
Selling, general and administrative expenses .....	20,476	17,066	61,653	
	-----	-----	-----	---
Income from operations .....	813	5,917	17,789	
Interest income, net .....	673	949	1,873	
	-----	-----	-----	---
Income before (benefit) provision for income taxes	1,486	6,866	19,662	
(Benefit) provision for income taxes .....	(1,424)	334	4,719	
	-----	-----	-----	---
Net income .....	\$ 2,910	\$ 6,532	\$ 14,943	\$
	=====	=====	=====	===
Net income per share - basic .....	\$ 0.07	\$ 0.15	\$ 0.36	\$
- diluted .....	0.07	0.15	0.35	

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Weighted average shares outstanding				
- basic .....	41,064,000	42,595,000	41,562,000	4
- diluted .....	41,850,000	43,818,000	42,457,000	4

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

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

	(Unaudited)			
	Thirteen weeks ended		Thirty-nine weeks ended	
	November	December	November	December
	30, 2002	1, 2001	30, 2002	1, 2001
	-----	-----	-----	-----
Net income .....	\$ 2,910	\$ 6,532	\$ 14,943	\$ 27,013
Currency translation adjustment	131	(1,159)	2,456	(2,260)
	-----	-----	-----	-----
Comprehensive income .....	\$ 3,041	\$ 5,373	\$ 17,399	\$ 24,753
	=====	=====	=====	=====

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

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

	(Unaudited)	
	Thirty-nine weeks ended	
	November 30, 2002	December 1, 2001
	-----	-----
	(amounts in thousands)	
Cash flows from operating activities:		
Net income .....	\$ 14,943	\$ 27,013
Add/(subtract) non-cash items included in net income:		
Depreciation and amortization .....	3,681	4,196
Deferred income taxes .....	139	--
Change in operating assets and liabilities:		
Accounts receivable .....	4,151	(10,617)
Inventories .....	(5,133)	(3,953)
Income tax receivable .....	2,669	3,781
Prepaid expenses and other current assets .....	(2,178)	581
Payables and other current liabilities .....	(5,306)	(20,560)
Other assets and liabilities .....	(3,414)	402
	-----	-----
Cash provided by operating activities ...	9,552	843
	-----	-----
Cash flows from investing activities:		
Purchase of subsidiary .....	--	(5,597)
Additions to property, plant and equipment .....	(2,995)	(4,084)
	-----	-----
Cash used in investing activities .....	(2,995)	(9,681)
	-----	-----
Cash flows from financing activities:		
Exercise of stock options .....	995	2,061
Repurchase of common stock .....	(13,079)	(17,422)
	-----	-----
Cash used in financing activities .....	(12,084)	(19,443)
	-----	-----
Effect of exchange rates on cash and cash equivalents .	2,681	(3,071)

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Net increase (decrease) in cash and cash equivalents ..	(2,846)	(31,352)
Cash and cash equivalents at beginning of period .....	121,057	158,741
	-----	-----
Cash and cash equivalents at end of period .....	\$ 118,211	\$ 127,389
	=====	=====

Supplemental disclosure of cash flow information:

Interest paid .....	\$ 82	\$ 40
Income taxes paid .....	\$ 8,242	\$ 19,759

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

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THE TOPPS COMPANY, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THIRTY-NINE WEEKS ENDED NOVEMBER 30, 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 thirty-nine weeks ended November 30, 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, but not limited to, the timing of sports and entertainment releases, 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)	
	November	March
	30, 2002	2, 2002
	-----	-----
	(amounts in thousands)	
Gross receivables .....	\$ 37,426	\$ 37,148

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Reserve for returns .....	(20,336)	(15,875)
Reserve for bad debt .....	(1,202)	(1,234)
	-----	-----
Net .....	\$ 15,888	\$ 20,039
	=====	=====

### 4. Inventories

	(Unaudited)	
	November	March
	30, 2002	2, 2002
	-----	-----
	(amounts in thousands)	
Raw materials .....	\$ 6,386	\$ 6,395
Work in process .....	2,297	1,274
Finished product .....	19,546	15,427
	-----	-----
Total .....	\$ 28,229	\$ 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.

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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 licensed confections including Pokemon and Yu-Gi-Oh! 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 sales from thePit, etopps and Topps Vault 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 and Yu-Gi-Oh!. In addition, in the third quarter of fiscal 2003 this segment reflects costs associated with the launch of the Cool Junk collectible toy line.

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 (expense), 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.



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	(Unaudited)			
	Thirteen weeks ended November 30, 2002 -----	December 1, 2001 -----	Thirty-nine weeks November 30, 2002 -----	December 1, -----
	(amounts in thousands)			
Net Sales				
-----				
Confectionery .....	\$ 29,214	\$ 30,662	\$114,542	\$119,542
Collectible Sports Products .....	32,891	34,930	91,599	94,599
Entertainment Products .....	4,551	6,466	18,253	25,253
	-----	-----	-----	-----
Total .....	\$ 66,656	\$ 72,058	\$224,394	\$240,394
	=====	=====	=====	=====
Contributed Margin				
-----				
Confectionery .....	\$ 9,808	\$ 10,214	\$ 40,966	\$ 44,966
Collectible Sports Products .....	8,510	6,373	22,700	27,700
Entertainment Products .....	1,092	3,318	5,997	14,997
	-----	-----	-----	-----
Total .....	\$ 19,410	\$ 19,905	\$ 69,663	\$ 86,663
	=====	=====	=====	=====
Reconciliation of Contributed Margin to Income				
Before (Benefit) Provision for income Taxes:				
Total Contributed Margin .....	\$ 19,410	\$ 19,905	\$ 69,663	\$ 86,663
Unallocated General and Administrative Expenses and Manufacturing Overhead	(16,989)	(13,091)	(48,055)	(46,055)
Depreciation & Amortization .....	(1,248)	(1,615)	(3,681)	(4,681)
Other Income (Expense) .....	(360)	718	(138)	(1,138)
	-----	-----	-----	-----
Income from Operations .....	813	5,917	17,789	35,789
Interest Income, Net .....	673	949	1,873	3,873
	-----	-----	-----	-----
Income Before (Benefit) Provision for Income Taxes ..	\$ 1,486	\$ 6,866	\$ 19,662	\$ 38,662
	=====	=====	=====	=====

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

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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 of Topps common stock 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 reclassified. As a result, trade promotion expenses for fiscal 2003 of \$584,000 in the third quarter and \$2,250,000 in the nine-month period have been reported as a reduction of net sales rather than as marketing expense. Fiscal 2002 financials reflect similar treatment of these expenses which totaled \$864,000 in the third quarter and \$1,868,000 in the nine months. These changes did not impact reported earnings in 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 and the thirty-nine weeks ended November 30, 2002 with earnings and earnings per share assuming proforma application of the new accounting standards for the thirteen and the thirty-nine weeks ended December 1, 2001.

	(Unaudited)			
	Thirteen weeks ended		Thirty-nine weeks ended	
	November 30, 2002	December 1, 2001	November 30, 2002	December 1, 2001
	-----	-----	-----	-----
	(amounts in thousands, except share data)			
Net income .....	\$ 2,910	\$ 6,532	\$ 14,943	\$ 27,013
Add back:				
Goodwill amortization .....	--	392	--	1,176
Adjusted net income .....	\$ 2,910	\$ 6,924	\$ 14,943	\$ 28,189
	=====	=====	=====	=====
Basic net income per share .....	\$ 0.07	\$ 0.15	\$ 0.36	\$ 0.62
Goodwill amortization .....	--	\$ 0.01	--	\$ 0.03
Adjusted basic net income per share .	\$ 0.07	\$ 0.16	\$ 0.36	\$ 0.65
	=====	=====	=====	=====
Diluted net income per share .....	\$ 0.07	\$ 0.15	\$ 0.35	\$ 0.61
Goodwill amortization .....	--	\$ 0.01	--	\$ 0.03
Adjusted diluted net income per share	\$ 0.07	\$ 0.16	\$ 0.35	\$ 0.64
	=====	=====	=====	=====

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The Company has evaluated its goodwill and intangible assets acquired prior to June 30, 2002 using the criteria of SFAS 141, and has determined that no intangible assets should be reclassified to goodwill. The Company has also 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 intangible assets to review for any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of the intangible assets. In order to conform with the definitions contained in SFAS 142, 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. Additionally, \$1.9 million of deferred tax assets related to thePit.com acquisition were reclassified to goodwill.

SFAS 142 prescribes a two-phase process for impairment testing of goodwill. The first phase, completed on 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 has completed the first phase and has concluded that no impairment of goodwill exists. Therefore, completion of phase two of the transitional impairment test is not necessary.

For the nine months ended November 30, 2002, no goodwill or other intangibles were acquired, impaired or disposed. Intangible assets consisted of the following as of November 30, 2002 and December 1, 2001:

(amounts in thousands)

	November 30, 2002				December 1, 2001		
	Gross Carrying Value	Accumulated Amortization	Net		Gross Carrying Value	Accumulated Amortization	N
Licenses & Contracts ...	\$ 21,879	\$ 16,375	\$ 5,504		\$ 21,879	\$ 15,498	\$ 6
Intellectual Property ..	12,584	12,433	151		12,584	12,275	
Software & Other .....	2,952	2,570	382		2,952	2,445	
FAS 132 Pension .....	344	--	344		--	--	
Total Intangibles ...	\$ 37,759	\$ 31,378	\$ 6,381		\$ 37,415	\$ 30,219	\$ 7

Over the next five years the Company expects the annual amortization of the intangible assets detailed above to be as follows:

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

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2007

\$ 748

In addition to the amortization of intangibles listed above, reported amortization expense, which was \$962,000 for the nine months ended November 30, 2002 and \$2,056,000 for the nine months ended December 1, 2001, included amortization of deferred financing fees and, in fiscal 2002, goodwill amortization of \$1,176,000.

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### 9. Legal Proceedings

In November 1998, the Company was named as a defendant in a purported class action commenced in the United States District Court for the Southern District of California (the "California Court") entitled Rodriguez, et. al. v. The Topps Company, Inc., No. CV 2121-B (AJB) (S.D. Cal.) (the "California Federal Action"). The California Federal Action alleges that the Company violated the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the California Unfair Business Practices Act, by its practice of selling sports and entertainment trading cards with randomly-inserted "insert" cards, allegedly in violation of state and federal anti-gambling laws. The California Federal Action sought treble damages and attorneys' fees on behalf of all individuals who purchased packs of cards at least in part to obtain an "insert" card over a four-year period. On January 22, 1999, plaintiffs moved to consolidate the California Federal Action with similar class actions pending against several of the Company's principal competitors and licensors in the California Court. On January 25, 1999, the Company moved to dismiss the complaint, or, alternatively, to transfer the California Federal Action to the Eastern District of New York or stay the California Federal Action pending the outcome of the Declaratory Judgment Action pending in the Eastern District of New York. By orders dated May 14, 1999, the California Court denied the Company's motions to dismiss or transfer the California Federal Action but granted the Company's motion to stay the California Federal Action pending the outcome of the Declaratory Judgment Action. The California Court also denied plaintiffs' motion to consolidate the California Federal Action with similar purported class actions. On April 18, 2000, the California Court entered an order requiring plaintiffs in the California Federal Action as well as in the other purported class actions to show cause why all such actions should not be dismissed. By order dated June 21, 2000, the California Court vacated its May 14, 2000 order denying the Company's motion to dismiss the Class, dismissed the RICO claim in the California Federal Action with prejudice and without leave to replead, and dismissed the pendent state law claims without prejudice. Plaintiffs filed a notice of appeal of the California Court's decision to the United States Court of Appeals for the Ninth Circuit on July 21, 2000. On August 20, 2002 the Ninth Circuit affirmed the dismissal of the RICO claims. Plaintiffs' time to seek review of the Ninth Circuit's decision has now expired, and the dismissal of the California Federal Action has now become final.

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 State Action"). The California Class Action alleges that the Company and other

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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 federal anti-gambling laws and state consumer laws. The California State 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 his 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

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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. The California State Action is proceeding with discovery.

In the fall of 2002, the parties reached a tentative settlement of the California State Action which calls for the defendants collectively, without admitting liability, to make a payment toward the cost and attorneys' fees incurred by plaintiffs. Topps' share of this payment would be slightly in excess of \$1.6 million. The tentative settlement is subject to the final agreement of the parties on precise settlement details and on appropriate documentation.

The Company is a defendant in several other civil actions which are routine and incidental to its business. In management's opinion, after consultation with legal counsel, these actions will not have a material adverse effect on the Company's financial condition or results of operations.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholders  
The Topps Company, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of The Topps Company, Inc. and subsidiaries (the "Company") as of November 30, 2002, and the related condensed consolidated statements of operations and cash flows for the thirty-nine weeks ended November 30, 2002 and December 1, 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

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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

January 7, 2003  
New York, New York

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

Third Quarter Fiscal Year 2003 (thirteen weeks ended November 30, 2002) versus

-----  
Third Quarter Fiscal Year 2002 (thirteen weeks ended December 1, 2001)  
-----

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	November	December	November	December
	30, 2002	1, 2001	30, 2002	1, 2001
	-----	-----	-----	-----
	(amounts in thousands)			
Net Sales				
-----				
Confectionery .....	\$ 29,214	\$ 30,662	\$114,542	\$119,912
Collectible Sports Products	32,891	34,930	91,599	94,568
Entertainment Products ....	4,551	6,466	18,253	25,684
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Total .....	\$ 66,656	\$ 72,058	\$224,394	\$240,164
	=====	=====	=====	=====

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Net sales for the third quarter of fiscal 2003 decreased 7.5% to \$66.7 million from \$72.1 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 third quarters of fiscal 2003 and 2002 by \$0.6 million and \$0.9 million, respectively, but did not impact reported 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 4.7% in the third quarter of this year to \$29.2 million from \$30.7 million in fiscal 2002. The single largest reason for lower sales this year was a decline in Baby Bottle Pop; however, sales of both Ring Pop and Push Pop were also below year ago levels. Included in fiscal 2003 third quarter, were \$0.6 million of Pokemon confectionery sales, versus \$0.3 million in the third quarter of fiscal 2002.

Net sales of collectible sports products, which consist of traditional sports cards, sports sticker album products and the sports Internet businesses, decreased 5.8% to \$32.9 million in the third quarter of fiscal 2003 from \$34.9 million in the same period last year. Within collectible sports, sales of traditional products decreased 7.9% to \$29.5 million, reflecting lower sales of U.S. sports card products, partially offset by almost \$2 million in returns reversals related to the strong sell-through of 2002 European soccer products. Reported Internet sales in the quarter increased to \$3.4 million from \$2.9 million last year.

Net sales of entertainment products, which consist of entertainment trading cards and the Merlin line of entertainment sticker album products, decreased to \$4.6 million in the third quarter of fiscal 2003 from \$6.5 million in fiscal 2002. Included in the third quarter this year were \$1.3 million of Pokemon sales versus \$1.8 million last year. Non-Pokemon entertainment sales, which in the quarter this year consisted primarily of products based on the Lord of the Rings and Yu-Gi-Oh! licenses, decreased to \$3.3 million from \$4.7 million last year.

Gross profit as a percentage of net sales for the third quarter of fiscal 2003 increased to 32.5% from 30.9% for the same period last year. This improvement was primarily a function of unusually high obsolescence costs last year associated with the launch of both etopps and the seasonal confectionery businesses, combined with lower autograph and relics costs this year on the U.S. sports business.

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Other income (expense) was an expense of \$0.4 million this year versus income of \$0.7 million last year reflecting the absence of the beneficial impact in the quarter last year of the strengthening dollar on U.S. dollar-denominated cash balances held in Europe.

SG&A increased as a percentage of net sales to 30.7% in the third quarter of fiscal 2003 from 23.7% a year ago, and SG&A dollar spending increased to \$20.5 million from \$17.1 million. The dollar increase was driven by the timing of an accrual for year-end employee incentive bonus payments and a \$1.6 million reserve for Topps' share of the anticipated legal settlement of the Chaset class action.



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Net interest income in the quarter decreased to \$0.7 million in fiscal 2003 from \$0.9 million in fiscal 2002 due to a decrease in cash on hand and lower interest rates.

The Company recorded a tax credit of \$1.4 million in the quarter this year versus a tax expense of \$0.3 million in the same period last year. In both years, taxes were favorably impacted by a reduction in the full year forecasted tax rate, which triggered a catch-up adjustment in the quarter.

Net income for the third quarter of fiscal 2003 was \$2.9 million, or \$0.07 per diluted share, compared with \$6.5 million, or \$0.15 per diluted share last year.

Nine Months Fiscal 2003 (thirty-nine weeks ended November 30, 2002) compared to  
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Nine Months Fiscal 2002 (thirty-nine weeks ended December 1, 2001)  
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Net sales in the first nine months of fiscal 2003 decreased 6.6% to 224.4 million from \$240.2 million for the same period last year. This decrease was largely a function of the reduction in Pokemon sales to \$5.6 million this year from \$20.9 million last year. Included in Pokemon sales were return provision reversals of \$2.2 million this year versus \$8.5 million 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 SG&A. Adoption of these requirements reduced both net sales and marketing expenses by \$2.3 million in fiscal 2003 and \$1.9 million in fiscal 2002. These changes did not impact reported earnings in either year.

Net sales of confectionery products decreased 4.5% in the first nine months of this year to \$114.5 million from \$119.9 million in fiscal 2002. Included in fiscal 2003 sales were \$1.4 million of Pokemon confectionery products versus \$5.0 million a year ago. Excluding Pokemon products, sales of branded confectionery products decreased to \$113.1 million from \$114.9 million last year, largely the result of lower sales of Baby Bottle Pop, partially offset by double-digit growth of Ring Pop and Push Pop in the U.S. and the introduction of Pro Flip Pop in Japan.

Net sales of collectible sports products decreased 3.1% to \$91.6 million in the first nine months of fiscal 2003 from \$94.6 million in the comparable period last year. This decrease was the result of lower sales of traditional sports cards in the U.S., partially offset by strong sales of European soccer products (which included the World Cup this year) and an increase in reported Internet sales to \$9.1 million this year versus \$3.2 million last year. Cash received from etopps sales in fiscal 2003 was \$1.8 million higher than reported sales; however, in accordance with accounting regulations, recognition of the sales associated with these higher cash receipts has been deferred pending production of the related inventory.

Net sales of entertainment products decreased 28.9% to \$18.3 million in the first nine months of fiscal 2003 from \$25.7 million in fiscal 2002, reflecting a decrease in sales of Pokemon entertainment products from \$15.9 million last year to \$4.1 million this year. Non-Pokemon sales, which this year consisted primarily of products related to the Star Wars, Spiderman, Lord of the Rings and Yu-Gi-Oh! licenses, increased to \$14.2 million from \$9.8 million last year.

Gross profit as a percentage of net sales for the first nine months of fiscal 2003 decreased to 35.5% as compared with 40.0% for the same period last year. This was primarily the result of a reduction in high-margin Pokemon sales, a mix shift in the U.S. favoring lower margin products including transactions on thePit.com, and the absence of a one-time rebate from our French distributor received last year.

Other income (expense) improved to an expense of \$0.1 million this year versus an expense of \$1.1 million last year primarily reflecting the absence of charges in the first half of last year related to the impact of the weakening dollar on U.S. dollar-denominated cash balances held in Europe.

SG&A expenses increased as a percentage of net sales to 27.5% in the first nine months of fiscal 2003 from 24.9% a year ago. SG&A dollar spending increased to \$61.7 million from \$59.8 million. The dollar increase was primarily driven by the timing of accruals for year-end employee incentive bonus payments and a \$1.6 million reserve for the anticipated settlement of the Chaset class action.

Net interest income for the nine month period decreased to \$1.9 million in fiscal 2003 from \$3.7 million in fiscal 2002 primarily due to lower interest rates.

The tax rate through the first nine months of fiscal 2003 was 24.0% versus 30.5% for the same period last year, largely due to the favorable impact of foreign and R&D tax credits recognized in the third quarter of this year.

Net income in the first nine months of fiscal 2003 was \$14.9 million, or \$0.35 per diluted share, as compared with \$27.0 million, or \$0.61 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 November 30, 2002, the Company had \$118.2 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 of Topps common stock permitted to be repurchased.

In October 1999, the Board of Directors authorized the Company to purchase up to

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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 November 30, 2002, the Company had repurchased a total of 7.5 million shares at an average price per share of \$9.52 under these authorizations. During the third quarter of fiscal 2003, the Company repurchased 481,000 shares at an average price per share of \$8.28.

During the nine-month period ended November 30, 2002, the Company's net decrease in cash and cash equivalents was \$2.8 million versus a decrease of \$31.4 million in the comparable period of fiscal 2002. Cash provided by operating activities in the nine months this year was \$9.6 million versus \$0.8 million last year. The favorable operating cash performance this year was the result of a decrease in accounts receivable, in part the result of an increase in the return reserve for sports and entertainment products, as well as lower European income tax

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payments, partially offset by lower net income this year. Cash used in investing activities consisted of \$3.0 million in capital expenditures this year as compared with \$5.6 million for the acquisition of thePit.com and \$4.1 million in capital expenditures last year. Cash used in financing activities reflects expenditures for the repurchase of Company stock, net of cash from the exercise of stock options, of \$12.1 million this year versus \$19.4 million last year.

### Cautionary Statements

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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) the Company's inability to produce timely, or at all, certain new planned confectionery products; (iii) quarterly fluctuations in results; (iv) the Company's loss of important licensing arrangements; (v) the failure of etopps, the Company's on-line trading card 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.

### Critical Accounting Policies

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Refer to the Company's Annual Report for the year ended March 2, 2002 for details.

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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.

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REGISTRANT

/s/ Catherine Jessup

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Vice President-Chief Financial  
Officer

January 14, 2003

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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 November 30, 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 an unfavorable mark-to-market adjustment in the quarter.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

99.3 Certification of Arthur T. Shorin, Chief Executive Officer and President, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.4 Certification of Catherine K. Jessup, Vice-President and Chief Financial Officer and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

I, Arthur T. Shorin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Topps Company, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; and
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or person performing the equivalent function):
  - a) all significant deficiencies in the design of operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

THE TOPPS COMPANY, INC.

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REGISTRANT

/s/ Arthur T. Shorin

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Chairman, Chief Executive  
Officer and President

I, Catherine K. Jessup, certify that:



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1. I have reviewed this quarterly report on Form 10-Q of The Topps Company, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; and
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or person performing the equivalent function):
  - a) all significant deficiencies in the design of operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

THE TOPPS COMPANY, INC.

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REGISTRANT

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/s/ Catherine K. Jessup

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Vice President-Chief Financial  
Officer