TOPPS CO INC
Form 10-Q
July 17, 2001

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 2, 2001

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	11-2849283
(State or other jurisdiction of incorporation or organization)	(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 16, 2001 was

43,687,000.

THE TOPPS COMPANY, INC.
AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PART II - OTHER INFORMATION

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

	(Unaudited) June 2, 2001	March 3, 2001
	(amounts in thousands except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 144,222	$ 158,741
Accounts receivable - net	21,585	10,770
Inventories	26,790	22,926
Income tax receivable	7,088	11,570
Deferred tax assets	2,010	2,444
Prepaid expenses and other current assets	3,940	4,328
TOTAL CURRENT ASSETS	205,635	210,779
PROPERTY, PLANT, & EQUIPMENT	20,469	19,136
Less: accumulated depreciation and amortization	8,425	7,955
NET PROPERTY, PLANT & EQUIPMENT	12,044	11,181
INTANGIBLE ASSETS, net of accumulated amortization of $46,586 and $45,931 as of June 2, 2001 and March 3, 2001, respectively	54,315	54,970
OTHER ASSETS	4,081	3,342
TOTAL ASSETS	$ 276,075	$ 280,272
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 11,391	$ 13,705
Accrued expenses and other liabilities	36,600	36,969
Income taxes payable	19,027	22,026
TOTAL CURRENT LIABILITIES	67,018	72,700
DEFERRED INCOME TAXES	784	1,344
OTHER LIABILITIES	9,918	9,686
TOTAL LIABILITIES	77,720	83,730
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 and outstanding 48,554,300 shares and 48,421,000 shares as of June 2, 2001 and March 3, 2001, respectively	486	484
Additional paid-in capital	22,545	21,758
Treasury stock, 5,022,000 shares and 4,329,000 shares as of June 2, 2001 and March 3, 2001, respectively	(44,662)	(38,051)
Retained earnings	229,108	217,479
Accumulated other comprehensive loss	(9,122)	(5,128)
TOTAL STOCKHOLDERS' EQUITY	198,355	196,542
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 276,075	$ 280,272

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

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

	(Unaudited) Thirteen weeks ended June 2, 2001	May 27, 2000
	(amounts in thousands, except share data)	
Net sales	$ 87,451	$144,332
Cost of sales	49,190	75,922
Gross profit on sales	38,261	68,410
Other income	728	647
	38,989	69,057
Selling, general and administrative expenses	21,996	23,047
Income from operations	16,993	46,010
Interest income, net	1,465	811
Income before provision for income taxes	18,458	46,821
Provision for income taxes	6,829	17,792

Net income	$ 11,629	$ 29,029
Net income per share - basic	$ .27	$ .64
Net income per share - diluted	$ .26	$ .62
Weighted average shares outstanding - basic	43,854,000	45,581,000
Weighted average shares outstanding - diluted	45,049,000	46,789,000

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

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

	(Unaudited) Thirteen weeks ended	
	June 2, 2001	May 27, 2000
	(amounts in thousands, except share data)	
Net income	$ 11,629	$ 29,029
Currency translation adjustment	(3,994)	(1,318)
Comprehensive income	$ 7,635	$ 27,711

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

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

	(Unaudited) Thirteen weeks ended June 2, 2001	May 27, 2000
	(amounts in thousands, except share data)	
Cash flows from operating activities:		
Net income	$ 11,629	$ 29,029
Add/(subtract) non-cash items included in net income:		
Depreciation and amortization	1,203	983
Deferred income taxes	(126)	1,141
Change in operating assets and liabilities:		
Accounts receivable	(10,815)	(32,042)
Inventories	(3,864)	469
Income tax receivable	4,482	(221)
Prepaid expenses and other current assets	388	758
Payables and other current liabilities	(5,682)	17,305
Currency translation adjustment and other liabilities	(4,565)	(1,113)
Cash (used) in/provided by operating activities	(7,350)	16,309
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,333)	(818)
Cash used in investing activities	(1,333)	(818)

Cash flows from financing activities:		
Exercise of stock options	782	485
Repurchase of common stock	(6,618)	(4,456)
Cash used in financing activities	(5,836)	(3,971)
Net(decrease)/increase in cash and cash equivalents	(14,519)	11,520
Cash and cash equivalents at beginning of quarter	158,741	75,853
Cash and cash equivalents at end of quarter	$ 144,222	$ 87,373

Supplemental disclosures of cash flow information:

Interest paid	$ 19	$ 26
Income taxes paid	$ 3,645	$ 3,610

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

THE TOPPS COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THIRTEEN WEEKS ENDED JUNE 2, 2001

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 2, 2001 are not necessarily indicative of the results that may be expected for the year ending March 2, 2002. For further information refer to the consolidated financial statements and notes thereto in the Company's annual report for the year ended March 3, 2001.

2. Quarterly Comparison

Management believes that quarter-to-quarter comparisons of sales and operating results are affected by a number of factors, including the timing of product introductions and variations in shipping and factory scheduling requirements. Thus, annual sales and earnings amounts are unlikely to consist of equal quarterly portions.

3. Inventories

	(Unaudited) June 2, 2001	March 3, 2001
	(amounts in thousands)	

Raw materials	$ 4,040	$ 2,804
Work in process	2,470	805
Finished products	20,280	19,317
Total	$ 26,790	$ 22,926

4. Segment Information

The Company has three reportable business segments: Confectionery, Collectible Sports Products and Entertainment Products.

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 confectionery products, including Pokemon confectionery 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 as well as sticker/album products featuring players from certain European soccer leagues.

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 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, 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 2, 2001	Thirteen weeks ended May 27, 2000
	(In thousands of dollars)	
Net Sales		
Confectionery	$ 45,367	$ 52,442
Collectible Sports Products	30,911	29,110
Entertainment Products	11,173	62,780
Total	$ 87,451	$ 144,332
Contributed Margin		
Confectionery	$ 17,735	$ 17,541

Collectible Sports Products	11,069	12,853
Entertainment Products	5,245	31,570
Total	$ 34,049	$ 61,964

Reconciliation of contributed margin to income before provision for income taxes:

Total contributed margin	$ 34,049	$ 61,964
Unallocated general and administrative expenses and manufacturing overhead	(16,581)	(15,618)
Depreciation & amortization	(1,203)	(983)
Other income	728	647
Income from operations	16,993	46,010
Interest income, net	1,465	811
Income before provision for income taxes	$ 18,458	$ 46,821

5. 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.

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6. Reclassifications

The Company has changed the classification of certain accounts. Prepress, autograph and relic costs related to future period releases, which previously had been included in the balance of prepaid expenses and other current assets, have been reclassified to inventory. The cost of autographs, relics, and freight related to merchandise sold in the period, which previously had been included in selling, general and administrative expenses, has been reclassified to cost of goods sold. This presentation has been reflected on the condensed and consolidated balance sheets as of June 2, 2001 and March 3, 2001 and statement of operations for the thirteen weeks ended June 2, 2001 and May 27, 2000. There is no impact on reported income from operations, net income or working capital as a result of these reclassifications.

7. 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 Chase 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 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 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 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 defendants' 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. Thereafter, the court issued a tentative ruling denying the motion for summary adjudication and demurrer and set a hearing for June 1, 2001 to hear additional argument on the motion. On June 12, 2001 the Court entered an order denying defendants' motion for summary judgment. At a case management conference held on June 29, 2001, the Court stayed discovery pending defendants' appeal of the summary judgment decision and ruled that, if the appeal is denied, the parties are to address issues relating to the certification of a class before proceeding to merits discovery. An adverse outcome in the California Class Action could materially adversely affect the Company's future plans and results.

On March 16, 2001, the Major League Baseball Players Association ("MLBPA") served a notice of intention to arbitrate upon the Company, contending that the Company has no valid license from the Major League baseball players authorizing it to manufacture and sell trading cards containing game-used items, such as jerseys and bats. The MLBPA alleges that absent a specific license from the Major League baseball players, the Company should not be permitted to manufacture and sell such trading cards. The MLBPA seeks injunctive and declaratory relief and an unspecified monetary award. The Company believes that the Major League baseball players have authorized it to manufacture and sell trading cards containing memorabilia pursuant to the grant of a license contained in the standard Baseball Players Picture License Agreement ("BPPLA") between Topps and the ballplayers. On March 28, 2001, pursuant to the arbitration clause of the BPPLA, the Company designated David G. Ebert, Esq. and the MLBPA designated Steven Fehr as their respective partisan arbitrators. Messrs. Ebert and Fehr have selected Frank H. Wohl, Esq. as the neutral arbitrator. The parties, however, reached a settlement in principle in this matter, subject to the execution of a definitive agreement.

In all the above matters, the Company's management believes that it has meritorious defenses and intends to vigorously defend against these claims.

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 made a review of the accompanying condensed consolidated balance sheet of The Topps Company, Inc. and subsidiaries (the "Company") as of June 2, 2001, and the related condensed consolidated statements of operations and cash flows for the thirteen week periods ended June 2, 2001 and May 27, 2000. 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 generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of The Company as of March 3, 2001, 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 4, 2001 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 3, 2001 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 22, 2001
New York, New York

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

First Quarter Fiscal Year 2002 versus Fiscal Year 2001

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

	June	May

	2, 2001	27, 2000
	(In thousands of dollars)	
Confectionery	$ 45,367	$ 52,442
Collectible Sports Products	30,911	29,110
Entertainment Products	11,173	62,780
Total	$ 87,451	$144,332

Net sales for the first quarter of fiscal 2001 decreased 39.4% to $87.5 million from $144.3 million for the same period last year. This decrease was a function of a significant reduction in Pokemon sales to $10.2 million in the quarter this year from $75.4 million last 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 13.5% in the first quarter of this year to $45.4 million from $52.4 million in fiscal 2001. Included in fiscal 2002 sales are $1.5 million of Pokemon confectionery products versus $12.9 million in fiscal 2001. Topps branded (non-Pokemon) confectionery sales grew 11.3% in the quarter to $43.9 million, versus $39.5 million last year, with Baby Bottle Pop continuing to show the largest gains.

Net sales of collectible sports products, which consist of both sports cards and sports sticker/album products, increased 6.2% to $30.9 million in the first quarter of fiscal 2002 from $29.1 million in the comparable period last year. This growth reflects increases in both baseball, where we continue to benefit from a focus on nostalgia and the Company's 50th anniversary of marketing baseball cards, as well as in football.

Net sales of entertainment products, which consist of entertainment cards and the Merlin line of entertainment sticker/album products, decreased to $11.2 million in the first quarter of fiscal 2002 from $62.8 million in fiscal 2001 reflecting lower sales of Pokemon products.

Gross profit for the quarters ended June 2, 2001 and May 27, 2000 includes costs for autographs, relics and freight which were previously recorded within selling, general and administrative expenses ("SG&A"). Gross profit as a percentage of net sales for the first quarter of fiscal 2002 decreased to 43.8% from 47.4% for the same period last year as a result of an increase in autograph and relic costs and the reduction in Pokemon sales in the quarter this year.

Other income was $728,000 this year versus $647,000 last year, reflecting mark-to-market treatment of foreign currency contracts this year and unusually high levels of prompt payment discounts on European inventory purchases last year.

SG&A increased as a percentage of net sales to 25.2% in the first quarter of fiscal 2002 from 16.0% a year ago as a result of lower sales. SG&A dollar spending decreased to $22.0 million in fiscal 2002 from $23.0 million last year as a result of the timing of bonus and advertising expenditures as well as the reversal of a marketing accrual which benefited the quarter this year.

Net interest income increased to $1.5 million in fiscal 2002 from $811,000 in fiscal 2001 due to an increase in cash on hand. The tax rate in the first quarter of fiscal 2002 was 37% vs. 38% in the first quarter of fiscal 2001.

Net income for the first quarter of fiscal 2002 was $11.6 million, or $0.26 per diluted share, as compared with $29.0 million, or $0.62 per diluted share last year.

Liquidity and Capital Resources

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.

In October 1999, the Board of Directors authorized the Company to repurchase up to 5 million shares of its stock. As of June 2, 2001, the Company had repurchased a total of 3.9 million shares at an average price of $9.08. During the first quarter of fiscal 2002, the Company repurchased 692,500 shares at an average price of $9.52.

As of June 2, 2001, the Company had $144.2 million in cash and cash equivalents.

During the first quarter of fiscal 2002, the Company's net decrease in cash and cash equivalents was $14.5 million versus an $11.5 million increase in the first quarter of fiscal 2001. Cash provided (used) by operating activities in the first quarter of this year was ($7.4) million versus $16.3 million last year, as a result of lower net income and a decrease in payables and other current liabilities related to income tax payments. Cash used in investing activities reflects $1.3 million in capital expenditures this year compared with $818,000 in capital expenditures last year. Cash used in financing activities reflects expenditures for the repurchase of Company stock of $6.6 million this year and $4.5 million last year.

Management believes that the Company has adequate means to meet its liquidity and capital resource needs over the foreseeable future.

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) quarterly fluctuations in results; (iii) the Company's loss of important licensing arrangements; (iv) technological, production, legal costs or other problems which result in the Company's inability to launch its Internet initiative; (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) further declines in the sale of U.K. Premier League sticker/album collections; (x) excessive returns of the Company's products; (xi) 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.

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ITEM 3. DISCLOSURES ABOUT MARKET RISK

The Company's exposures 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 2, 2001, 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 strengthening of the U.S. dollar, resulted in a favorable mark-to-market in the quarter.

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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 28, 2001 for the following purposes:

1. To elect three directors;
2. To approve the Company's 2001 stock incentive plan;
3. To ratify the appointment of auditors.

The results of the matters voted on are as follows:

	For	Withheld
1. Election of Directors		
Allan A. Feder	39,773,362	1,172,094
David M. Mauer	38,330,038	2,615,418
Jack H. Nusbaum	39,757,947	1,187,509

	For	Against	Abstentions
2. Approval of stock incentive plan	35,213,521	5,073,669	658,266
3. Ratification of appointment of auditors	40,840,544	55,536	49,376

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

10.24 2001 Stock Incentive Plan

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 17, 2001