TOPPS CO INC
Form 10-Q
July 06, 2006

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 May 27, 2006

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: 000-15817

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)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 ____.

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

Large accelerated filer | | Accelerated filer |X| Non-accelerated filer | |

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

The number of outstanding shares of Common Stock as of June 28, 2006 was 39,147,060.

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

(amounts in thousands, except per share and share data)

	(Unaudited) May 27, 2006	February 25, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$27,557	$28,174
Short-term investments	52,071	53,269
Accounts receivable, net	38,384	31,180
Inventories	42,153	36,781
Income tax receivable	1,330	1,407
Deferred tax assets	5,672	5,687
Prepaid expenses and other current assets	9,060	11,134
TOTAL CURRENT ASSETS	176,227	167,632
PROPERTY, PLANT AND EQUIPMENT	31,073	30,430
Less: accumulated depreciation and amortization	20,219	19,402
PROPERTY, PLANT AND EQUIPMENT	10,854	11,028
GOODWILL	63,405	63,405
INTANGIBLE ASSETS, net	5,998	6,424
DEFERRED TAX ASSETS	7,269	6,334
OTHER ASSETS	12,087	13,815
TOTAL ASSETS	$ 275,840	$ 268,638
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,212	$ 11,263
Accrued expenses and other liabilities	31,586	25,345
Income taxes payable	4,121	3,311
TOTAL CURRENT LIABILITIES	47,919	39,919
OTHER LIABILITIES	24,202	24,083
TOTAL LIABILITIES	72,121	64,002
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 as of of May 27, 2006 and February 25, 2006	492	492
Additional paid-in capital	28,699	28,644
Treasury stock, 9,915,000 shares and 9,539,000 shares as of May 27, 2006 and February 25, 2006	(94,947)	(91,376)
Retained earnings	270,014	269,954

Minimum pension liability adjustment	(5,551)	(5,551)
Unrealized loss on securities available for sale ...	(311)	--
Cummulative foreign currency adjustment	5,323	2,473
TOTAL STOCKHOLDERS' EQUITY	203,719	204,636
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY ...	$ 275,840	$ 268,638

See Notes to Condensed Consolidated Financial Statements.

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THE TOPPS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share and share data)

	(Unaudited) Thirteen weeks ended	
	May 27, 2006	May 28, 2005
Net sales	$ 80,971	$ 78,584
Cost of sales	53,043	50,940
Gross profit on sales	27,928	27,644
Selling, general and administrative expenses	26,288	27,137
Income from operations	1,640	507
Interest income, net	757	740
Income before provision for income taxes	2,397	1,247
Provision for income taxes	760	285
Net income from continuing operations	1,637	962
Loss from discontinued operations -net of tax	32	65
Net income	$ 1,605	$ 897
Basic net income per share		
- From continuing operations	$ 0.04	$ 0.02
- From discontinued operations	$ --	$ --
Basic net income per share	$ 0.04	$ 0.02

Diluted net income per share:		
- From continuing operations	$ 0.04	$ 0.02
- From discontinued operations	$ --	$ --
Diluted net income per share	$ 0.04	$ 0.02
Weighted average shares outstanding		
- basic	39,497,000	40,455,000
- diluted	40,354,000	41,255,000

See Notes to Condensed Consolidated Financial Statements.

THE TOPPS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	(Unaudited) Thirteen weeks ended	
	May 27, 2006	May 28, 2005
Net income	$ 1,605	$ 897
Unrealized loss on securities available for sale	(311)	--
Currency translation adjustment	2,850	(1,806)
Comprehensive income (loss)	$ 4,144	$ (909)

See Notes to Condensed Consolidated Financial Statements.

THE TOPPS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	(Unaudited) Thirteen weeks ended May 27, 2006	May 28, 2005
Cash flows from operating activities:		
Net income from continuing operations.................	$ 1,637	$ 962
Adjustments to reconcile net income to cash flows provided by (used in) operating activities:		
Depreciation and amortization	1,243	1,394
Share based compensation	55	--
Deferred income taxes	(920)	(689)
Net effect of changes in:		
Accounts receivable	(7,204)	291
Inventories	(5,372)	(4,969)
Income tax receivable	77	11
Income tax payable	810	(864)
Prepaid expenses and other current assets	2,074	1,425
Payables and other current liabilities	7,190	(5,406)
All other	943	(1,517)
Cash provided by (used in) operating activities -- continuing operations	533	(9,362)
Cash used in operating activites -- discontinued operations	(32)	(73)
Cash provided by (used in) operating activites --total	501	(9,435)
Cash flows from investing activities:		
Purchase of short-term investments	(29,880)	(101,901)

Sale of short-term investments	30,767	100,975
Purchases of property, plant and equipment	(643)	(673)
Cash provided by (used in) investing activities	244	(1,599)
Cash flows from financing activities:		
Dividends paid	(1,545)	(1,618)
Exercise of stock options	1,389	40
Purchase of treasury stock	(4,960)	--
Cash used in financing activities - continuing operations	(5,116)	(1,578)
Effect of exchange rates on cash and cash equivalents	3,754	(1,782)
Net decrease in cash and cash equivalents	(617)	(14,394)
Cash and cash equivalents at beginning of period	28,174	36,442
Cash and cash equivalents at end of period	$ 27,557	$ 22,048
Supplemental disclosure of cash flow information:		
Interest paid	$ 33	$ 28
Income taxes paid	$ 676	$ 1,123

See Notes to Condensed Consolidated Financial Statements.

THE TOPPS COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MAY 27, 2006 AND FEBRUARY 25, 2006
AND FOR THE THIRTEEN WEEKS ENDED MAY 27, 2006 AND MAY 28, 2005

1. Summary of Significant Accounting Policies

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 week periods ended May 27, 2006 and May 28, 2005 are not necessarily indicative of the results that may be expected for the year. For further information, refer to the consolidated financial statements and notes thereto in the Company's annual report for the year ended February 25, 2006.

Impact of Recent Accounting Pronouncements

Share-Based Compensation Plans

Effective February 26, 2006, the Company adopted the provisions of Financial

Accounting Standards Board ("FASB") Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") using the modified prospective transition method. Under this method, prior periods are not revised for comparative purposes and the Company recognizes compensation cost using a fair-value based method for all share-based payments granted after February 25, 2006, plus any awards granted to employees up through February 25, 2006 that remain unvested at that time. Prior to February 26, 2006, the Company accounted for its share-based compensation plans in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25. "Accounting for Stock Issued to Employees", and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation--An Interpretation of APB Opinion No. 25". On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for purposes of calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R.

The Company has Stock Option Plans that provide for the granting of non-qualified stock options, incentive stock options and stock appreciation rights (SARs) to employees, non-employee directors and consultants within the meaning of Section 422A of the Internal Revenue Code. Options are granted with an exercise price equal to the closing market price of the stock on the grant date, generally vest within three years and expire ten years after the grant date. The Company re-issues treasury shares when stock options are exercised and the Company anticipates that it will have enough treasury shares purchased to cover all outstanding stock options.

The Company recorded compensation cost arising from share-based payment arrangements in selling, general and administrative expenses on the Consolidated Statement of Operations for the Company's Stock Option Plans of $55,000 and zero for the thirteen weeks ended May 27, 2006 and May 28, 2005, respectively.

As a result of adopting SFAS 123R, the Company's income before provision for income taxes and net income for the thirteen weeks ended May 27, 2006 was $55,000 and $38,000 lower, respectively. Basic and diluted income per share for the thirteen weeks ended May 27, 2006, did not change materially from the reported $0.04 and $0.04, respectively, upon the Company's adoption of SFAS 123R.

Determining Fair Value

Valuation and Amortization Method: The fair value of stock options granted under the Company's Stock Option Plans is estimated using the Black-Scholes option pricing model. The fair value of stock options granted after February 25, 2006 will be amortized on a straight-line basis. Compensation expense is amortized over the requisite service periods of the awards, which are generally the vesting periods.

Expected Volatility: Volatility is a measure of the amount by which a financial variable, such as share price, has fluctuated (historical volatility) or is expected to fluctuate (expected volatility). The expected volatility of stock option awards at the date of grant is estimated based on the historical selling price of the Company's securities. The decision to use historical volatility was based upon the lack of availability of actively traded options on the Company's common stock. Prior to the adoption of SFAS 123R, the Company calculated expected volatility using historical stock price volatility.

Expected Term: The expected term of an employee share option is the period of time for which the option is expected to be outstanding. The Company has made a determination of expected term by analyzing employees' historical exercise experience and post-vesting employment termination behavior from its history of grants and exercises in the Company's option database. The historical pattern of options exercised has been analyzed in an effort to determine if there were any discernable patterns of activity based on certain demographic characteristics such as employees' length of service, salary and job level.

Risk-Free Interest Rate: The risk-free interest rate used in the Black-Scholes option pricing model is based on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term used.

Dividends: On June 26, 2003, the Board of Directors of the Company initiated a regular quarterly cash dividend of $0.04 per share. An expected dividend yield of $0.16 was used in the Black-Scholes valuation model.

Forfeiture: The Company uses historical data to estimate pre-vesting option forfeitures. Share-based compensation expense is recorded only for those awards that are expected to vest.

The following assumptions were used to estimate the fair value of options granted under the Company's Stock Option Plans for the thirteen weeks ended May 27, 2006 and May 28, 2005:

	Stock Options Thirteen Weeks Ended	
	May 27, 2006	May 28, 2005
Expected term (years)	5.7	5.8
Expected volatility	29%	32%
Risk-free interest rate	4.9%	4.4%
Expected dividend	$0.16	$0.16

Stock Option Activity and Share-Based Compensation Expense

Stock option activity for the thirteen weeks ended May 27, 2006 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 25, 2006	3,427,543(1)	$ 7.30		
Granted	43,000	7.94		
Exercised	(199,649)	6.74		
Forfeitures	(116,460)	8.73		
Outstanding at May 27, 2006	3,154,434	7.29	4.71	$ 3,802
Vested or expected to vest	3,065,345	7.25	4.61	$ 3,816
Exercisable at May 27, 2006	2,687,182	$ 7.06	4.12	$ 3,879

(1) The number of shares outstanding has been adjusted from previously reported figures due to 13,333 shares incorrectly reported as forfeited during the year ended February 25, 2006.

The weighted average fair value of options granted during the thirteen weeks ended May 27, 2006 was $2.32 and there were no stock options granted during the thirteen weeks ended May 28, 2005. The aggregate intrinsic value of options outstanding at May 27, 2006 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for the 1,982,167 shares that had exercise prices that were lower than the $8.80 market price of the Company's common stock at May 26, 2006. The total intrinsic value of options exercised during the thirteen weeks ended May 27, 2006 and May 28, 2005 was $413,000 and $0, respectively, determined as of the date of exercise.

For the thirteen weeks ended May 27, 2006, the Company recognized approximately $55,000 in share-based compensation expense for stock options granted under the Company's Stock Option Plans. As of May 27, 2006, there was $353,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's Stock Option Plans. This amount assumes the Company's expected forfeiture rate. That cost is expected to be recognized over a weighted average period of 1.88 years. The Company utilizes treasury shares to satisfy the exercise of stock options.

Comparable Disclosures

The following table illustrates the pro forma effect on the Company's net income and net income per share as if the Company had adopted the fair value based method of accounting for stock-based compensation under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," for the thirteen weeks ended May 28, 2005. See the assumptions disclosed previously in this note that were used to estimate the fair value of options granted under the stock option plans for the thirteen weeks ended May 28, 2005.

	Thirteen Weeks Ended May, 28, 2005 (In thousands, except per share amounts)
Net income, as reported	$ 897
Add: Stock-based employee compensation expense included in net income, tax effected	--
Deduct: Total share-based employee compensation expense determined under fair value method for all awards, net of income taxes	(116)
Pro forma net income	$ 781
Net income per share	
Basic - as reported	$ 0.02
Basic - pro forma	$ 0.02
Diluted - as reported	$ 0.02
Diluted - pro forma	$ 0.02

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 may vary.

3. Accounts Receivable

	May 27, 2006	February 25, 2006
	(in thousands of dollars)	
Gross receivables	$ 65,612	$ 55,244
Reserve for estimated returns	(23,806)	(21,181)
Other reserves	(3,422)	(2,883)
Net receivables	$ 38,384	$ 31,180

Other reserves consist of allowances for discounts, doubtful accounts and customer deductions for marketing promotional programs.

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4. Inventories

	May 27, 2006	February 25, 2006
	(in thousands of dollars)	
Raw materials	$ 12,553	$ 10,123
Work in process	6,769	4,623
Finished products	22,831	22,035
Total inventory	$ 42,153	$ 36,781

Obsolete inventory reserves for each category are included in the amounts shown above.

5. Segment Information

Following is the breakdown of industry segments as required by SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." The Company has two reportable business segments: Confectionery and Entertainment.

The Confectionery segment consists of a variety of candy products including Ring Pop, Push Pop, Baby Bottle Pop, Juicy Drop Pop, the Bazooka bubble gum line and, from time to time, confectionery products based on licensed characters, such as Pokemon and Yu-Gi-Oh!.

The Entertainment segment primarily consists of cards and sticker album products featuring sports and non-sports subjects. Trading cards feature players from Major League Baseball, the National Basketball Association and the National Football League, as well as characters from popular films, television shows and other entertainment properties. Sticker album products feature players from the English Premier League and characters from entertainment properties such as Pokemon and Yu-Gi-Oh! This segment also includes results from WizKids, a designer and marketer of strategy games acquired in July 2003.

Beginning with the quarter ended May 27, 2006, the Company began evaluating performance of each segment based upon its operating profit after direct overhead which is defined as net sales less cost of goods, product development, advertising and promotional costs, obsolescence and personnel and other direct costs, but before unallocated general and administrative expenses including rent, most insurance, professional fees and corporate personnel costs such as finance, management information systems, legal and human resources, depreciation and amortization, other income (expense), net interest and income taxes.

The majority of the Company's assets are shared across both segments, and the Company's chief decision-maker does not evaluate the performance of each segment utilizing asset-based measures. Therefore, the Company does not include a breakdown of assets or depreciation and amortization by segment.

The information provided below for the thirteen weeks ended May 28, 2005, has been reclassified to conform with the current year's presentation.

	Thirteen Weeks Ended	
	May 27, 2006	May 28, 2005
	(amounts in thousands)	
Net Sales		
Candy	$ 40,470	$ 40,407
Gum	2,239	3,632
Total Confectionery	42,709	44,039
Sports	27,638	15,033
Non-Sports	10,624	19,512
Entertainment Products	38,262	34,545
Total	$ 80,971	$ 78,584
Contributed Margin		
Confectionery	$ 13,212	$ 11,840
Entertainment Products	7,555	8,255
Total	$ 20,767	$ 20,095

Direct Overhead		
Confectionery	$ 5,679	$ 6,240
Entertainment Products	5,905	5,753
Total	$ 11,584	$ 11,993
Operating Profit Net of Direct Overhead		
Confectionery	$ 7,533	$ 5,600
Entertainment Products	1,650	2,502
Total	$ 9,183	$ 8,102

Reconciliation of Operating Profit to
Income Before Provision for Income Taxes:

Total operating profit,

net of direct overhead	$ 9,183	$ 8,102
Indirect overhead	(6,418)	(7,283)
Other income, net	240	1,058
Depreciation & amortization	(1,365)	(1,370)
Income from operations	1,640	507
Interest income, net	757	740
Income before provision for income taxes	$ 2,397	$ 1,247

6. Common Stock

In June 2003, the Board of Directors of the Company initiated a regular quarterly cash dividend of $0.04 per share which has been paid each quarter since that date.

In October 1999, the Company's Board of Directors authorized the repurchase of up to 5 million shares of the Company's common stock. In October 2001, the Company completed the authorization and the Board approved the purchase of another 5 million shares of the Company's common stock.

During the first half of fiscal 2006, the Company did not purchase any shares due to a strategic business review being performed by investment banking and consulting firms. In September 2005, the Company entered into a written trading plan that complies with Rule 10b5-1 under the Securities and Exchange Act of 1934, as amended, which provides for the purchase of up to 500,000 shares for each of the next four quarters starting in the third quarter of fiscal 2006 at the prevailing market price, per share, subject to certain conditions. In addition, the Board of Directors increased the outstanding share authorization by 3,390,700 shares to 5 million shares. As of May 27, 2006, the Company had purchased 1,611,211 shares under this amended authorization, leaving 3,388,789 shares available for future purchases.

Each of the members of the Board of Directors who is not an employee of the Company annually receives $20,000 worth of restricted stock, which is issued out of treasury stock and vests over one year.

7. Credit Agreement

On September 14, 2004, the Company entered into a new credit agreement with JPMorgan Chase Bank. The agreement provides for a $30.0 million unsecured facility to cover revolver and letter of credit needs and expires on September 13, 2007. Interest rates are variable and a function of market rates and the Company's earnings before interest, taxes, depreciation and amortization. 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 sell or acquire assets or borrow additional money and places certain restrictions on the purchase of Company shares and the payment of dividends. The credit agreement may be terminated by the Company at any point over the three-year term (provided the Company repays all outstanding amounts thereunder) without penalty.

There was no debt outstanding under the credit agreement as of May 27, 2006 or February 25, 2006.

8. Discontinued Operations - thePit.com

In August 2001, the Company acquired all the outstanding common stock of thePit.com, Inc., which operated a sports card exchange, for a net cash purchase price of $5.7 million. The acquisition was accounted for using the purchase method of accounting and resulted in recognizing $0.8 million in intangible assets and $4.1 million in goodwill. The Company included this subsidiary in the Entertainment segment of its business. The Company was unable to operate the subsidiary profitably and in January 2006 sold the subsidiary for $360,000, with scheduled payments to be made over four years.

Per Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment of Long-Lived Assets, the net book value of the assets of thePit.com, Inc., which consisted primarily of the $4.1 million goodwill from the acquisition as well as smaller amounts of inventory and unamortized intangibles, was written down $2,432,000 net of tax to $360,000, which is the fair value of the assets based on the expected proceeds from the sale of the subsidiary.

The Company incurred an additional $32,000 in expense, net of tax, related to the discontinued operations during the quarter ended May 27, 2006.

The purchaser has paid the Company $30,000 of the $360,000 sales price as of May 27, 2006. The remaining $330,000 is reported in prepaid expenses and other current assets and other assets on the Consolidated Balance Sheet as of May 27, 2006. The Company has restated its Consolidated Statements of Cash Flows for the thirteen weeks ended May 28, 2005 to reflect this discontinued operation.

9. Goodwill and Intangible Assets

On March 3, 2002, the Company adopted SFAS 141, Business Combinations and SFAS 142, Goodwill and Other Intangible Assets which require the Company to prospectively cease amortization of goodwill and instead conduct periodic tests of goodwill for impairment. Intangible assets as of May 27, 2006 and February 25, 2006 were as follows:

	May 27, 2006			February 25, 2006		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	
	(in thousands of dollars)					
Licenses and contracts	$ 21,569	$(18,779)	$ 2,790	$ 21,569	$(18,611)	$
Intellectual property	18,784	(15,576)	3,208	18,784	(15,318)	
Software and other	2,482	(2,482)	--	2,482	(2,482)	
Total intangibles	$ 42,835	$(36,837)	$ 5,998	$ 42,835	$(36,411)	$

In connection with the classification of the fair value of the assets of thePit.com as available for sale, $0.1 million of intangible assets and $4.1 million of goodwill were determined to be impaired and were written off in the third quarter of fiscal 2006.

Useful lives of the Company's intangible assets have been established based on the Company's intended use of such assets and their estimated period of future benefit, which are reviewed periodically. Useful lives are as follows:

Category	Useful Life	Weighted Average Remaining Useful Life
Licenses and contracts	15 years	4.2 years
Intellectual property	6 years	3.1 years

The weighted average remaining useful life for the Company's intangible assets in aggregate is 3.5 years. Over the next five years, the Company estimates annual amortization of the intangible assets detailed above to be as follows (in thousands):

Fiscal Year	Amount
2007	$ 1,703
2008	$ 1,703
2009	$ 1,703
2010	$ 1,036
2011 and thereafter	$ 279

In addition to the amortization of intangibles listed above, reported amortization expense, which was $572,000 and $595,000 for the thirteen weeks ended May 27, 2006 and May 28, 2005, respectively, included amortization of deferred financing fees and deferred compensation costs.

10. Legal Proceedings

On November 19, 2001, Media Technologies, Inc. sued the Company and nine other manufacturers of trading cards (the "Defendants") in the Federal District Court for the Central District of California for their sales of all types of "relic" cards that contain an authentic piece of equipment, i.e., a piece of sporting equipment or jersey. Plaintiffs alleged infringement of U.S. Patent Nos. 5,803,501 and 6,142,532. On May 23, 2005, the Company entered into a settlement agreement in which it paid Media Technologies, Inc. a sum of $2,000,000 which is being amortized over the term of the contract. Media Technologies Inc. agreed to dismiss all claims against the Company and to issue a license to the Company to distribute relic cards for seven years. The Company further agreed that under certain conditions which may arise in the future, it would make additional payments to Media Technologies, Inc. as part of the ongoing license.

In another matter, in September of 1999, the Company filed a lawsuit against Cadbury Stani S.A.I.C. ("Stani"), a corporation organized and existing under the laws of Argentina, in federal court in the Southern District of New York. The case centers on the licensing relationship the parties had since 1957 in which the Company had granted Stani the exclusive right to manufacture and distribute gum using the Bazooka brand and related formulas and technologies in Argentina, Bolivia, Chile, Paraguay and Uruguay. In particular, at issue is a 1980 Licensing Agreement (the "Agreement") between the parties and a 1985 Amendment to that Agreement. In its September 17, 2003 Fourth Amended Complaint, the Company alleges that Stani continued to use the Company's proprietary and specialized knowledge and experience, and its trade secrets, regarding the production of gum after the Agreement's expiration in April 1996, that it unlawfully disclosed this information to Cadbury Schweppes PLC ("Schweppes") which purchased Stani in 1993 and that it deliberately concealed its use and disclosure from the Company. The Company has filed claims for breach of contract, misappropriation of trade secrets and fraudulent inducement to enter into the 1985 Amendment. The Company is seeking to recover disgorgement of Stani's profits, certain lost royalties and punitive damages, interest and costs. It is also seeking a permanent injunction against Stani's future use and dissemination of the Company's proprietary information and trade secrets. In the Fourth Amended Complaint, the Company demanded damages in excess of $250 million. The Fourth Amended Complaint also initially contained claims against Schweppes, which the parties agreed to dismiss on February 4, 2003.

On December 17, 2003, Stani moved for partial summary judgment and to limit the Company's possible damages. In its August 2, 2005 decision, the Court denied Stani's summary judgment motion, in part, and ruled that (i) the Company's claims were not barred by the statute of limitations; and (ii) disgorgement of profits and punitive damages are available remedies on the Company's misappropriation of trade secrets claims. The Court granted Stani's summary judgment motion, in part, and ruled that (i) disgorgement of profits and punitive damages are not available remedies on the Company's breach of contract and fraudulent inducement claims; and (ii) Stani was not estopped from claiming the 1985 Amendment altered the 1980 Agreement.

On February 9, 2006, the Court adjourned the trial which had been scheduled for March 13, 2006 and ruled it would consider a new motion by Stani for partial summary judgment which argues that the Agreement permitted Stani to use the Company's information and trade secrets after the Agreement's expiration in 1996. Oral argument was held on March 15, 2006 and the parties await a decision. If the Company ultimately prevails in this litigation, it could have a material impact on the Company's consolidated financial statements.

In another matter, on December 12, 2003, WizKids, Inc. ("WizKids") and Jordan Weisman filed a complaint in Washington state court for professional malpractice, breach of fiduciary duty and disgorgement of fees against the law firm Michael, Best & Friedrich, LLP ("MB&F"), and Timothy Kelley, one of its partners, based on their submission of a PCT patent application for WizKids' combat dial that alleged to have prejudiced WizKids' United States patent rights by failing to designate the United States as one of the member states for subsequent conversion to a national application. In a settlement reached on October 31, 2005, defendants agreed to pay WizKids $2,950,000.

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

11. Employee Benefit Plans

The components of net periodic benefit costs for the thirteen weeks ended May 27, 2006 and May 28, 2005 are as follows (in thousands):

	Pension		Postretirement Healthcare	
	May 27, 2006	May 28, 2005	May 27, 2006	May 28, 2005

Service cost	$ 181	$ 399	$ 67	$ 93
Interest cost	560	618	151	143
Expected return on plan assets	(574)	(551)	-	-
Initial transition obligation	(14)	(16)	50	50
Prior service cost	7	13	(46)	-
Actuarial losses	134	238	41	10
Net periodic benefit cost	$ 294	$ 701	$ 263	$ 296

The fiscal 2007 costs are estimated based on actuarial assumptions, and actual costs will be adjusted at the end of the fiscal year.

12. Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements and, therefore, there is no effect on its financial position, changes in financial position, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources from this type of arrangement.

13. Restructuring Charge

On September 29, 2005, a restructuring program was announced which separates the Confectionery and Entertainment businesses to the extent practical and streamlines the organizational structure through headcount reductions. In connection with the headcount reductions, the Company incurred charges of approximately $3.7 million; consisting of $1.3 million for termination costs in each of the third and fourth quarters of fiscal 2006 and $1.1 million for pension settlement costs in the fourth quarter. These charges are reflected in selling, general and administrative expenses in the Consolidated Statements of Operations for the year ended February 25, 2006. The table below reconciles the activity to the liability related to the restructuring from February 25, 2006, through May 27, 2006 (in thousands):

	February 25, 2006	Payments	Additions	May 27, 2006
Termination costs	$ 980	$ (61)	$ --	$ 919
Pension settlement	1,050	--	--	1,050
	$ 2,030	$ (61)	$ --	$ 1,969

14. Subsequent Event

In June 2006, the Company internally announced a restructuring program, principally related to its entertainment operations in New York, Pennsylvania and Seattle (WizKids' headquarters.) This program will result in estimated annual savings of approximately $3.3 million. The Company expects to incur a charge of approximately $1.7 million in connection with this restructuring in the second quarter of fiscal 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of The Topps Company, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of The Topps Company, Inc. and subsidiaries (the "Company") as of May 27, 2006, and the related condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the thirteen week periods ended May 27, 2006 and May 28, 2005. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), 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 reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the condensed consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, effective February 26, 2006.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of February 25, 2006, and the related consolidated statements of operations, stockholders' equity, comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated May 9, 2006, 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 February 25, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

New York, New York
July 5, 2006

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

First Quarter Fiscal Year 2007 (thirteen weeks ended May 27, 2006) versus First Quarter Fiscal Year 2006 (thirteen weeks ended May 28, 2005)

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

NET SALES

	Thirteen Weeks Ended	
	May 27, 2006	May 28, 2005
	(amounts in thousands)	

Net Sales		
Confectionery	$ 42,709	$ 44,039
Entertainment	38,262	34,545
Total	$ 80,971	$ 78,584

Net sales for the first quarter of fiscal 2007 were $81.0 million, an increase of $2.4 million, or 3.1%, from $78.6 million in the same period last year. Weaker foreign currencies versus the prior year reduced 2007 first quarter sales by $1.0 million.

Net sales of confectionery products, which include, among other things, Ring Pop, Push Pop, Baby Bottle Pop, Juicy Drop Pop, Bazooka brand bubble gum and licensed candy products, were $42.7 million in the first quarter of this year, a decrease of $1.3 million, or 3.0%, from $44.0 million in fiscal 2006. This decrease was largely a function of the later shipment this year of the GrandSlam pre-pack (a combined sports card and candy product sold primarily to smaller retail accounts) as a function of the new baseball agreement, and lower sales of Bazooka in the period leading up to the relaunch. U.S. sales of Baby Bottle Pop increased in the quarter this year, reflecting the success of the new 2DMax line extension, as did international confectionery sales, driven by Mega Mouth Spray and Juicy Drop Pop in Europe and stronger lollipop sales in Latin America. Weaker foreign currencies versus the prior year reduced 2007 first quarter confectionery sales by $0.2 million.

Net sales of entertainment products, which include cards, stickers, sticker albums and the WizKids line of strategy games, were $38.3 million in the first quarter of fiscal 2007, an increase of $3.7 million, or 10.8%, from $34.5 million in the same period last year. This increase reflected significantly higher sales of US sports cards, driven by a new arrangement with the baseball licensors as well as the Company's strong product line up and marketing campaign which encompasses national television advertising and in-stadium promotions. Sales of European sports products also showed strong gains as a result of the addition of products surrounding the World Cup tournament held once every four years. Sales of non-sports publishing products declined year-over-year due to last year's strong Star Wars release. Additionally, sales of WizKids products were impacted by a softer gaming industry and lower sales of Pirates products introduced last year. Weaker foreign currencies versus the prior year reduced 2007 first quarter entertainment sales by $0.8 million.

RESULTS of OPERATIONS

	Thirteen Weeks Ended			
	May 27, 2006		May 28, 2005	
	(amounts in thousands)			
Net Sales	$ 80,971	100.0%	$ 78,584	100.0%
Cost of Sales	53,043	65.5%	50,940	64.8%
Gross Profit	27,928	34.5%	27,644	35.2%
Selling, General & Administrative	26,288	32.5%	27,137	34.5%
Income from Operations	1,640	2.2%	507	0.6%

Gross profit as a percentage of net sales in the first quarter of fiscal 2007 was 34.5% as compared with 35.2% in the first quarter of last year. Approximately half of the margin decline was a function of the higher proportion of entertainment sales, which have a lower gross profit margin. The remainder of the margin decline was a result of higher costs, primarily for autographs and relics for U.S. sports products as well as related to returns on sales of European entertainment products.

SG&A expense was $26.3 million in the first quarter fiscal 2007, down from $27.1 million in fiscal 2006. As a percentage of net sales, SG&A was 32.5% in the first quarter of fiscal 2007 versus 34.5% in the first quarter of fiscal 2006. Lower costs this year reflect the Company's cost reduction initiatives, specifically the September 2005 workforce reduction as well as cost savings put in place at year end related to pension, post retirement medical, consulting, legal and insurance expenses. Marketing expenditures for the quarter this year were flat with prior year as increases in advertising and promotional support for U.S. baseball card products were offset by lower spending at WizKids and in Canada.

Net interest income of $757,000 in the first quarter of fiscal 2007 was roughly flat with that in the first quarter of fiscal 2006 due to more favorable interest rates offset by a lower average cash balance.

The Company reflects provisions for federal, state and local income taxes in accordance with statutory income tax rates. The Company reported an effective tax rate of 31.7% in the first quarter of fiscal 2007 versus an effective tax rate of 22.9% in the first quarter of fiscal 2006.

The Company reported net income in the first quarter of fiscal 2007 of $1.6 million, or $0.04 per diluted share, versus $897,000, or $0.02 per diluted share in the first quarter of fiscal 2006.

Other Matters

In June 2006, the Company internally announced a restructuring program, principally related to its entertainment operations in New York, Pennsylvania and Seattle (WizKids' headquarters.) This program will result in estimated annual savings of approximately $3.3 million. The Company expects to recognize a charge of approximately $1.7 million in connection with the restructuring in the second quarter of fiscal 2007.

Liquidity and Capital Resources

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

On May 27, 2006, the Company had $27.6 million in cash and cash equivalents and $52.1 million in short-term investments.

On September 14, 2004, the Company entered into a credit agreement with JPMorgan Chase Bank. The agreement provides for a $30.0 million unsecured facility to cover revolver and letter of credit needs and expires on September 13, 2007. Interest rates are variable and a function of market rates and the Company's earnings before interest, taxes, depreciation, and amortization. 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 sell or acquire assets or borrow additional money and places certain restrictions on the purchase of Company shares and the payment of dividends. The credit agreement may be terminated by the Company at any point over the three-year term (provided the Company repays all outstanding amounts thereunder) without penalty.

During the first half of fiscal 2006, the Company did not purchase any shares due to a strategic business review being performed by investment banking and consulting firms. In September 2005, the Company entered into a written trading plan that complies with Rule 10b5-1 under the Securities and Exchange Act of 1934, as amended, which provides for the purchase of up to 500,000 shares for each of the next four quarters starting in the third quarter of fiscal 2006 at the prevailing market price, per share, subject to certain conditions. In addition, the Board of Directors increased the outstanding share authorization by 3,390,700 shares to 5 million shares. As of May 27, 2006, the Company had purchased 1,611,211 shares under this amended authorization leaving 3,388,789 shares available for future purchases.

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In the thirteen weeks ended May 27, 2006, the Company's net decrease in cash and cash equivalents was $0.6 million versus a decrease of $14.4 million in the comparable period of fiscal 2006.

Cash provided by operating activities during the first quarter of fiscal 2007 was $0.5 million versus cash used of $9.4 million during the first quarter of fiscal 2006. This was primarily due to a $7.2 million increase in accounts payable and other current liabilities, a $2.1 million increase in prepaid expenses, $1.2 million in depreciation and amortization and $1.6 million in net income. Partially offsetting these were a $7.2 million increase in accounts receivable due to higher sales compared to the fourth quarter of fiscal 2006 and a $5.4 million increase in inventories stemming from the timing of board stock purchases and the acquisition of autographs for future sports products. The prior periods unfavorable cash performance reflected lower net income, a substantial increase in inventories and decreases in accounts payable and other current liabilities.

Cash provided by investing activities was $0.2 million in the first quarter of fiscal 2007 versus a use of cash of $1.6 million last year. Year-to-date this year, short-term investments were reduced by $0.9 million, partially offset by capital spending of $0.6 million, largely related to the rollout of new ERP system. Last year's use of cash of $1.6 million reflected the net purchase of $0.9 million of short-term investments and $0.7 million in capital spending. Fiscal 2007 full year capital spending is projected to be $4.0 - $5.0 million driven by investments in Ring Pop production equipment and computer software and hardware. Capital spending will be funded out of cash flow from operating activities. The proceeds from the sale of thePit.com, Inc. will be received over the next four years.

Cash used in financing activities of $5.1 million this period reflects $1.5 million in cash dividends and $5.0 million in treasury stock purchases, partially offset by $1.4 million in cash from options exercised. This compares with a total outlay for financing activities of $1.6 million in the same period last year, comprised of $1.6 million in cash dividends. There were no treasury stock purchases or options exercised in the first quarter of fiscal 2006. Dividend payments and treasury stock purchases are being funded out of cash flow from operating activities.

There are no material changes outside the ordinary course of business with respect to Company's purchase obligations as presented in the Commitments table included in its Annual Report on Form 10-K for the year ended February 25, 2006.

The Company does not have any off-balance sheet arrangements and, therefore, there is no effect on its financial condition, changes in financial position, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources from this type of arrangement.

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-looking statements are: (i) the failure of certain of the Company's principal products, particularly sports cards, entertainment cards, WizKids strategy games, confectionery products 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 Company's loss of important supply arrangements with third parties; (vi) the loss of any of the Company's key customers or distributors; (vii) further material contraction in the trading card industry as a whole; (viii) excessive returns of the Company's products; (ix) civil unrest, currency devaluation, health-related issues, or political upheaval in certain foreign countries in which the Company conducts business; and 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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Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Topps management to make estimates and judgments that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Note 1 to the Company's consolidated financial statements, included in its Annual Report on Form 10-K for the year ended February 25, 2006, "Summary of Significant Accounting Policies," summarizes its significant accounting policies. Following is a summary of the critical policies and methods used.

Revenue Recognition: Revenue related to sales of the Company's products is generally recognized when products are shipped, the title and risk of loss has passed to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. Sales made on a returnable basis are recorded net of a provision for estimated returns. These estimates are revised, as necessary, to reflect actual experience and market conditions.

Returns Provisions: In determining the provision for returns, the Company performs an in-depth review of wholesale and retail inventory levels for each product sold, trends in product sell-through by sales channel, and other factors. The provision for returns was $9.4 million in the first thirteen weeks of fiscal 2007 and $7.6 million in 2006, which equates to 11.6% and 9.6% of net sales, respectively. The increase in the provision this year was partially the result of higher returns on certain European publishing products and on WizKids products sold to retail channels. An increase or decrease in the provision for returns by 1% of net sales would have decreased or increased operating income by approximately $0.8 million.

Intangible Assets: Intangible assets include trademarks and the value of sports, entertainment and proprietary product rights. Amortization is by the straight-line method over estimated lives which range between three and fifteen years. Management evaluates the recoverability of finite-lived intangible assets under the provisions of SFAS No. 144 Accounting for the Impairment or Disposal of Long-lived Assets.

Accrual for Obsolete Inventory: The Company's accrual for obsolete inventory reflects the cost of items in inventory not anticipated to be sold. This accrual is deemed necessary as a result of discontinued items and packaging or a reduction in forecasted sales and is adjusted periodically based on a review of inventory levels and sales projections. The provision for obsolete inventory was $0.7 million in the first thirteen weeks of fiscal 2007 and $1.3 million in fiscal 2006, which equates to 0.9% and 1.6% of net sales, respectively. An increase or decrease in the provision for obsolescence by 1% of net sales would have decreased or increased operating income by approximately $0.8 million.

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 outstanding and does not engage in any commodity-related derivative transactions. As of May 27, 2006, the Company had $21.7 million in contracts which were entered into for the purpose of hedging forecasted receipts and disbursements in various foreign currencies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

Changes in internal controls

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

On November 19, 2001, Media Technologies, Inc. sued the Company and nine other manufacturers of trading cards (the "Defendants") in the Federal District Court for the Central District of California for their sales of all types of "relic" cards that contain an authentic piece of equipment, i.e., a piece of sporting equipment or jersey. Plaintiffs alleged infringement of U.S. Patent Nos. 5,803,501 and 6,142,532. On May 23, 2005, the Company entered into a settlement agreement in which it paid Media Technologies, Inc. a sum of $2,000,000 which is being amortized over the term of the contract. Media Technologies Inc. agreed to dismiss all claims against the Company and to issue a license to the Company to distribute relic cards for seven years. The Company further agreed that under certain conditions which may arise in the future, it would make additional payments to Media Technologies, Inc. as part of the ongoing license.

In another matter, in September of 1999, the Company filed a lawsuit against Cadbury Stani S.A.I.C. ("Stani"), a corporation organized and existing under the laws of Argentina, in federal court in the Southern District of New York. The case centers on the licensing relationship the parties had since 1957 in which the Company had granted Stani the exclusive right to manufacture and distribute gum using the Bazooka brand and related formulas and technologies in Argentina, Bolivia, Chile, Paraguay and Uruguay. In particular, at issue is a 1980 Licensing Agreement (the "Agreement") between the parties and a 1985 Amendment to that Agreement. In its September 17, 2003 Fourth Amended Complaint, the Company alleges that Stani continued to use the Company's proprietary and specialized knowledge and experience, and its trade secrets, regarding the production of gum after the Agreement's expiration in April 1996, that it unlawfully disclosed this information to Cadbury Schweppes PLC ("Schweppes") which purchased Stani in 1993 and that it deliberately concealed its use and disclosure from the Company. The Company has filed claims for breach of contract, misappropriation of trade secrets and fraudulent inducement to enter into the 1985 Amendment. The Company is seeking to recover disgorgement of Stani's profits, certain lost royalties and punitive damages, interest and costs. It is also seeking a permanent injunction against Stani's future use and dissemination of the Company's proprietary information and trade secrets. In the Fourth Amended Complaint, the Company demanded damages in excess of $250 million. The Fourth Amended Complaint also initially contained claims against Schweppes, which the parties agreed to dismiss on February 4, 2003.

On December 17, 2003, Stani moved for partial summary judgment and to limit the Company's possible damages. In its August 2, 2005 decision, the Court denied Stani's summary judgment motion, in part, and ruled that (i) the Company's claims were not barred by the statute of limitations; and (ii) disgorgement of profits and punitive damages are available remedies on the Company's misappropriation of trade secrets claims. The Court granted Stani's summary judgment motion, in part, and ruled that (i) disgorgement of profits and punitive damages are not available remedies on the Company's breach of contract and fraudulent inducement claims; and (ii) Stani was not estopped from claiming the 1985 Amendment altered the 1980 Agreement.

On February 9, 2006, the Court adjourned the trial which had been scheduled for March 13, 2006 and ruled it would consider a new motion by Stani for partial summary judgment which argues that the Agreement permitted Stani to use the Company's information and trade secrets after the Agreement's expiration in 1996. Oral argument was held on March 15, 2006 and the parties await a decision. If the Company ultimately prevails in this litigation, it could have a material impact on the Company's consolidated financial statements.

In another matter, on December 12, 2003, WizKids, Inc. ("WizKids") and Jordan Weisman filed a complaint in Washington state court for professional malpractice, breach of fiduciary duty and disgorgement of fees against the law firm Michael, Best & Friedrich, LLP ("MB&F"), and Timothy Kelley, one of its partners, based on their submission of a PCT patent application for WizKids' combat dial that alleged to have prejudiced WizKids' United States patent rights by failing to designate the United States as one of the member states for subsequent conversion to a national application. In a settlement reached on October 31, 2005, defendants agreed to pay WizKids $2,950,000.

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

ITEM 1A. RISK FACTORS

Dependence on Licenses. The Company's trading card and sticker album businesses are highly dependent upon licensing arrangements with third parties. These licenses, which have varying expiration dates, are obtained from the various professional sports leagues, players associations and, in certain instances, the players themselves as well as from non-sports entertainment companies. The Company's inability to renew or retain certain of these licenses, or the lack of vitality of these licenses, could have a material adverse affect on its future plans and results.

Contraction in Sports Card Industry. The sports card industry as a whole has contracted significantly over at least the last ten years. Further prolonged and material contraction in the sports card industry, whether caused by labor strife or otherwise, could have a material adverse affect on the Company's future plans and results.

New Products. The Company may be unable to produce timely, or at all, certain new planned products. The inability of the Company to produce planned products could have a material adverse affect on its future plans and results.

Returns. Approximately 68% of the Company's fiscal 2006 sales were made on a returnable basis. Although the Company maintains returns provisions, returns considerably in excess of the Company's provisions could have a material adverse affect on its future plans and results.

Suppliers. The Company has a single source of supply for most of its lollipop products. The loss of this supplier due to civil unrest or for any other reason could have a material adverse affect on the Company's future plans and results. Additionally, failure of the new Bazooka manufacturer to supply the Company with quality products on a timely basis could have a material adverse affect on the sales of Bazooka.

Customers. The Company has several large customers, some of which are serviced by single distributors. The loss of any of these customers or distributors could have a material adverse affect on the Company's future plans and results.

International, Political and Economic Risk. There is an increase in risk generally associated with operating outside of the U.S. Events such as civil unrest, currency devaluation, political upheaval and health-related issues could have a material adverse affect on the Company's future plans and results.

Legal Proceedings. See Part II Item 1: Legal Proceedings for a discussion of legal matters that could have a material adverse affect on the Company's future plans and results.

Raw materials. Raw materials required for production of the Company's products are generally available. However, the unavailability of certain raw materials or a significant increase in their cost could have a material adverse affect on future plans and results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table lays out the information required by Item 703 of Reg S-K:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
February 26, 2006 to March 25, 2006	166,660	$ 8.18	166,660	3,805,441
March 26, 2006 to April 29, 2006	219,992	8.38	219,992	3,585,449
April 30, 2006 to May 27, 2006	196,660	8.84	196,660	3,388,789
Total	583,312	$ 8.48	583,312	3,388,789

ITEM 6. EXHIBITS AND REPORTS

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

31.1 Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.

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

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

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 K. Jessup

Catherine K. Jessup
Duly Authorized Officer

July 6, 2006