



# Edgar Filing: HOCKEY CO - Form 10-Q

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 6, 2001
Common Stock, \$.01 par value	6,500,549

## THE HOCKEY COMPANY FORM 10-Q INDEX

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THE HOCKEY COMPANY  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

	Unaudited
	June 30, 2001
	-----
ASSETS	
Current assets	
Cash and cash equivalents	\$ 381
Accounts receivable, net	46,341
Inventories (Note 2)	51,804
Prepaid expenses and other receivables	5,491
Income taxes receivable	2,013
	-----
Total current assets	106,030
Property, plant and equipment, net of accumulated depreciation and amortization (\$13,378 and \$12,310, respectively)	18,621
Intangible and other assets, net of accumulated amortization (Note 3)	81,957
	-----
Total assets	\$206,608
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities	
Short-term borrowings (Note 4)	\$ 41,946
Accounts payable and accrued liabilities	17,841
Income taxes payable	2,497
Long term debt, current portion	230
Other current liabilities	698
	-----
Total current liabilities	63,212
Long-term debt (Note 4)	90,191
Deferred income taxes	460
	-----
Total liabilities	153,863
	-----
Contingencies (Note 8)	
13% Pay-In-Kind preferred stock (Note 5)	11,452
Stockholders' equity	
Common stock, par value \$0.01 per share, 20,000,000 shares authorized, 6,500,549 shares issued and outstanding at June 30, 2001 and at December 31, 2000	65
Re-organization warrants, 300,000 issued and 299,451 outstanding at June 30, 2001 and at December 31, 2000	-
Common stock purchase warrants, 699,101 issued and outstanding at June 30, 2001 and 159,127 outstanding at December 31, 2000	5,115
Additional paid-in capital	66,515
Deficit	(21,918)
Foreign currency translation adjustments	(8,484)
	-----
Total stockholders' equity	41,293

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Total liabilities and stockholders' equity -----  
\$206,608  
=====

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

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THE HOCKEY COMPANY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands, except share data)

	For the Three Months ended June 30, 2001 -----	For the Six Months ended June 30, 2001 -----
Net sales	\$42,252	\$ 77,087
Cost of goods sold before restructuring charges	24,579	45,452
Restructuring charges (Note 6)	-	901
	-----	-----
Gross profit	17,673	30,734
Selling, general and administrative expenses before restructuring charges	13,927	28,848
Restructuring charges (Note 6)	-	2,005
Amortization of excess reorganization value and goodwill	1,100	2,205
	-----	-----
Operating income (loss)	2,646	(2,324)
Other (income) expense, net	528	1,104
Interest expense	3,722	6,713
	-----	-----
Loss before income taxes and extraordinary item	(1,604)	(10,141)
Income taxes (benefit)	92	226
	-----	-----
Net loss before extraordinary item	(1,696)	(10,367)
Extraordinary item		
Loss on early extinguishing of debt (Note 3)	-	1,091
Net loss	(1,696)	\$ (11,458)
	-----	-----
Preferred stock dividends	525	1,051
Accretion of 13% Pay-In-Kind preferred stock	60	119
	-----	-----
Net loss attributable to common shareholders	\$ (2,281)	\$ (12,628)
	=====	=====
Basic loss before extraordinary item per share (See Note 7)	\$ (0.32)	\$ (1.60)
Diluted loss before extraordinary item per share (See Note 7)	\$ (0.32)	\$ (1.60)
Basic loss per share (See Note 7)	\$ (0.32)	\$ (1.75)
Diluted loss per share (See Note 7)	\$ (0.32)	\$ (1.75)

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

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THE HOCKEY COMPANY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(Unaudited)  
(In thousands)

	For the Three Months ended June 30, 2001	For the Six Months ended June 30, 2001
	-----	-----
Net loss	\$ (1,696)	\$ (11,458)
Foreign currency translation adjustments	(966)	(1,789)
	-----	-----
Net comprehensive loss	\$ (2,662)	\$ (13,247)
	=====	=====

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

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THE HOCKEY COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

	For the Six Months ended June 30, 2001	For Mon June
	-----	-----
OPERATING ACTIVITIES:		
Net loss before extraordinary items	\$ (10,367)	\$
Adjustments to reconcile net loss to net cash used in operating activities:		
Restructuring charges	2,906	
Depreciation and amortization	6,008	
Provisions for inventory, doubtful accounts and other deductions	3,436	
Deferred income taxes	43	
Gain on sales of fixed assets	(8)	
Gain on foreign exchange	(407)	
Change in operating assets and liabilities:		
Accounts receivable	(10,161)	(
Inventories	(11,774)	(
Prepaid expenses and other assets	530	
Accounts payable and accrued liabilities	(9,263)	
Income taxes	(999)	
	-----	---
Net cash used in operating activities	(30,056)	(

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INVESTING ACTIVITIES:		-----
Purchases of fixed assets		(709)
Proceeds from sales of fixed assets		332
Deferred expenses		539
		-----
Net cash provided by (used in) investing activities		162
		-----
FINANCING ACTIVITIES:		
Net change in short-term borrowings		29,969
Proceeds from long-term debt		191
Principal payments on debt		(123)
Issuance of warrants		3,450
Deferred financing costs		(5,482)
		-----
Net cash provided by financing activities		28,005
		-----
Effects of foreign exchange rate changes on cash		(153)
		-----
Decrease in cash		(2,042)
Cash and cash equivalents at beginning of period		2,423
		-----
Cash and cash equivalents at end of period		\$ 381
		=====

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

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THE HOCKEY COMPANY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share data)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
  - A. DESCRIPTION OF BUSINESS, CHANGE OF CORPORATE NAME AND PRINCIPLES OF CONSOLIDATION

The Hockey Company ("THC" or the "Company") was incorporated in September 1991 and reorganized in April 1997.

On January 31, 1999, the Board of Directors and stockholders of THC adopted an amendment to the Company's Certificate of Incorporation to change the name of THC from SLM International, Inc. to The Hockey Company.

The consolidated financial statements include the accounts of THC and its wholly-owned subsidiaries. The Company designs, develops, manufactures and markets a broad range of sporting goods. The Company manufactures hockey and hockey related products, including hockey uniforms, hockey sticks, goaltender equipment, protective equipment, hockey, figure and inline skates as well as street hockey products. These are marketed under the CCM(R), Jofa (R), Koho (R), Heaton (R), Titan(R) and Canadien tm brand names, and private label brands and licensed sports apparel under the CCM(R) and #1 Apparel TM brand names. THC sells its products world-wide to a diverse customer base consisting of mass merchandisers, retailers, wholesalers, sporting goods shops and international distributors. THC

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manufactures and distributes most of its products at facilities in North America, Finland and Sweden and sources products internationally.

### B. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements appearing in this quarterly report have been prepared on a basis consistent with the annual financial statements of THC and its subsidiaries.

In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the Company's Unaudited Consolidated Balance Sheets, Statements of Operations, Statements of Comprehensive Loss and Statements of Cash Flows for the 2001 and 2000 periods, have been included. These unaudited interim consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles to be included in a full set of financial statements. Results for the interim periods are not necessarily a basis from which to project results for the full year due to the seasonality of the Company's business. These unaudited consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K, filed with the Securities and Exchange Commission for the year ended December 31, 2000. Certain prior period amounts have been reclassified to conform to the current period presentation.

### C. ACCOUNTING PRONOUNCEMENTS

The Company has adopted SFAS 133 as of January 2001, and no significant transition adjustment resulted from its adoption.

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THE HOCKEY COMPANY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share data)

### 2. INVENTORIES

Net inventories consist of:

	June 30, 2001 -----	December 31, 2000 -----
Finished products	\$39,453	\$29,745
Work in process	3,142	2,727
Raw materials and supplies	9,209	9,638
	-----	-----
	\$51,804	\$42,110
	=====	=====

### 3. INTANGIBLE AND OTHER ASSETS

Net intangible and other assets consist of:

June 30, 2001                      December 31, 2000

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Goodwill	\$44,836	\$46,643
Excess Reorganization intangible	28,982	30,052
Deferred Financing Costs	4,918	2,084
Other	3,221	3,775
	-----	-----
	\$81,957	\$82,554
	=====	=====

Amortization expense for intangible assets was \$1,650 and \$3,740 for the three and six months ended June 30, 2001 respectively and \$6,569 for the twelve months ended December 31, 2000. A write-off of \$1,091 of deferred financing costs was recorded as an extraordinary item as a result of the substantive modifications of the terms of the Company's Credit agreement. - (see Note 4 b).

4. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

A) SHORT-TERM BORROWINGS

- i) Effective November 19, 1998, two of the Company's U.S. subsidiaries, Maska U.S., Inc. and SHC Hockey Inc., entered into a credit agreement (the "U.S. Credit Agreement") with the lenders referred to therein and with General Electric Capital Corporation, as Agent and Lender. Simultaneously, two of the Company's Canadian subsidiaries, Sport Maska Inc. and Tropsport Acquisitions Inc., entered into a credit agreement (the "Canadian Credit Agreement") with the lenders referred to therein and General Electric Capital Canada Inc., as Agent and Lender. The Credit Agreements are collateralized by eligible accounts receivable and inventories of the borrowers and are further collateralized by a guarantee of the Company and its other North American subsidiaries.

On March 14, 2001, (i) the Second Amendment to the U.S. Credit Agreement was entered into by Maska U.S., as borrower, the Credit Parties, the U.S. Lenders and General Electric Capital Corporation, as Agent and Lender, and (ii) the Second Amendment to the Canadian Credit Agreement was entered into by Sport Maska, as borrower, the Credit Parties, the Canadian Lenders and General Electric Capital Canada Inc., as Agent and Lender. On terms and subject to the conditions of each of the Second Amendments, the Credit Agreements were amended to reflect the Amended and Restated Credit Agreement (as hereinafter defined). The maximum amount of loans and letters of credit that may be outstanding under the two credit agreements is \$60,000. Total borrowings outstanding under the Credit Agreements at June 30, 2001 and December 31, 2000 were \$36,487 and \$12,282, respectively (excluding outstanding letters of credit). The Credit Agreements were for a period of two years with a possible extension of one year by the Company.

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THE HOCKEY COMPANY  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In thousands, except share data)

Borrowings under the U.S. Credit Agreement bear interest at rates of either U.S. prime rate plus 0.50%-1.25% or LIBOR plus 1.75%-2.75%



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depending on the borrower's Operating Cash Flow Ratio, as defined in the agreement. Borrowings under the Canadian Credit Agreement bear interest at rates of either the Canadian prime rate plus 0.75%-1.50% or LIBOR plus 1.75%-2.75% depending on the borrower's Operating Cash Flow Ratio, as defined in the agreement. In addition, the borrowers are charged a monthly commitment fee at an annual rate of up to 3/8 of 1% on the unused portion of the revolving credit facilities under the credit agreements and certain other fees.

The Credit Agreements contain customary negative and affirmative covenants including those relating to capital expenditures, total indebtedness to EBITDA, minimum interest coverage and fixed charges coverage ratio.

- ii) Effective March 18, 1999, Jofa AB ("Jofa"), a Swedish subsidiary of the Company, entered into a credit agreement with MeritaNordbanken in Sweden. The maximum amount of loans and letters of credit that may be outstanding under the agreement is SEK 65,000 (\$5,989). The facility is collateralized by the assets of Jofa, excluding intellectual property, bears interest at a rate of STIBOR plus 0.65% and is renewable annually. Total borrowings at June 30, 2001 and December 31, 2000 were SEK 54,217 (\$4,988) and nil, respectively.

Effective July 14, 1999, KHF Sports Oy ("KHF"), a Finnish subsidiary of the Company, entered into a credit agreement with MeritaNordbanken in Finland. The maximum amount of loans and letters of credit that may be outstanding under the agreement is FIM 30,000 (\$4,275). The facility is collateralized by the assets of KHF, bears interest at a rate of EURIBOR plus 2.0% and is renewable annually. Total borrowings as at June 30, 2001 and December 31, 2000 were nil.

### B) LONG-TERM DEBT

#### SECURED LOANS

On November 19, 1998, in connection with its acquisition of Sports Holdings Corp., the Company and Sport Maska Inc. entered into a Secured Loan Agreement with the Caisse de depot et placement du Quebec ("Caisse") to borrow a total of Canadian \$135,800. The loan was for a period of two years, renewable on November 19, 2000 at the Company's option.

On March 14, 2001, an Amended and Restated Credit Agreement was entered into by the Company and Sport Maska, as borrowers, Caisse, as Agent and Lender, and Montreal Trust Company, as Paying Agent (the "Amended and Restated Credit Agreement"). On the terms and subject to the conditions of the Amended and Restated Credit Agreement, Facility 1 of the Caisse Loan, which is a facility in the maximum amount of Canadian \$90,000, was extended to June 30, 2004, and Facility 2 of the Caisse Loan, which is a facility in the maximum amount of Canadian \$45,800, was extended to October 31, 2002. A repayment of Facility 1 in the minimum amount of Canadian \$5,000 is due on January 31, 2004. Facility 1 and Facility 2 have been fully utilized and no new advances are expected to be made under the Amended and Restated Credit Agreement. Each facility bears interest equal to the Canadian Banker's Acceptance Rate plus 6%, and Facility 2 bears additional interest of 3.5% which is to be capitalized and repaid on Facility 2 maturity.

The loan is collateralized by all of the tangible and intangible assets of the Company subject to the prior ranking claims on accounts receivable and inventories by the lenders under the Company's revolving credit facilities.

The loan contains customary negative and affirmative covenants including those

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relating to capital expenditures, total indebtedness to EBITDA and minimum interest coverage.

In May 2000, Jofa AB, a subsidiary of the Company, entered into a loan agreement with MeritaNordBanken Sweden to borrow SEK 10,000 (\$1,100). The loan is for four years with annual principal repayments of SEK 2,500 (\$275). The loan is secured by a chattel mortgage on the assets of the subsidiary and bears an interest rate of STIBOR plus 1.25%.

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### THE HOCKEY COMPANY NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except share data)

#### 5. COMMON STOCK, WARRANTS AND PREFERRED STOCK

The Company has authorized 20,000,000 shares of common stock, of which 6,500,549 are issued and outstanding.

Pursuant to the Warrant Agreement, dated as of March 14, 2001, between the Company and Caisse, the Company issued a warrant to Caisse to purchase 539,974 shares of common stock, par value \$.01 per share, of the Company, representing approximately 7.5% of the outstanding common stock, on a fully diluted basis, at an exercise price of \$.01 per share. The number of shares issuable upon exercise of the warrants is subject to certain adjustments as provided in the Warrant Agreement. The fair value of the warrants was determined to be \$3,450 and has been recorded in shareholders' equity as stock purchase warrants. In addition, the Company also issued warrants to Caisse to acquire 993,408 shares of common stock, par value \$.01 per share, which are only exercisable by Caisse if a minimum EBITDA required is not met and if Facility 2 is not repaid in cash on or prior to certain dates.

On November 19, 1998, the Company issued 100,000 shares of 13% Pay-In-Kind redeemable, \$0.01 par value per share, cumulative preferred stock together with warrants to purchase 159,127 common shares of the Company at a purchase price of \$0.01 per share, for cash consideration of \$12,500 (par value).

The fair value of the warrants was determined to be \$1,665 and has been recorded in Stockholder's Equity as common stock purchase warrants. The balance of the proceeds, \$10,835, has been recorded as 13% Pay-In-Kind preferred stock. The difference between the redemption value of the preferred stock and the recorded amount is being accreted on a straight-line basis over the seven-year period ending November 19, 2005, by a charge to retained earnings.

Dividends, which are payable semi-annually from November 19, 1998, may be paid in cash or in shares of the 13% Pay-In-Kind preferred stock, at the Company's option. The preferred stock is non-voting. If the Company fails to redeem the preferred stock on or before November 19, 2005 and for a sixty day period or more after being notified of its failure to redeem the preferred stock, then the preferred stockholders, as a class of stockholders, have the option to elect one director to the Company's Board of Directors with the provision that the preferred stockholders are to elect 28% of the Company's directors. At June 30, 2001 unpaid dividends totalled \$4,727.

The preferred stock is redeemable, at any time after November 19, 2000, in whole or in part, at the option of the Company, at a redemption price (together with all accumulated and unpaid dividends) as follows:

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Year	Percentage of par value
2001	104.333%
2002	102.166%
2003 and thereafter	100.000%

The preferred stock must be redeemed by the Company at the earlier of a change of control or by November 19, 2005.

### 6. RESTRUCTURING CHARGES

Effective January 24, 2001, the Company embarked on a plan to rationalize its operations. This rationalization involved the elimination of certain redundancies, both in terms of personnel and operations as well as the consolidation of facilities including the closure of its Mount Forest, Ontario plant. Accordingly, the Company has set up a reserve of \$2,900.

The Company has estimated that the restructuring charges would total \$2,900 as follows:

An amount of \$2,400 has been accrued for severance packages in Canada and the U.S., including the closure of the Mount Forest, Ontario plant. To date \$1,600 has been spent.

An amount of \$500 has been accrued to cover the cost of facility consolidations. To date \$400 has been spent.

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THE HOCKEY COMPANY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except share data)

### 7. EARNINGS PER SHARE

Losses per share for the three and six months periods are as follows:

	For the Three Months ended June 30, 2001		For the Six Months ended June 30, 2001		For the Three Months ended June 30,	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net loss before extraordinary item attributable to common stockholders	\$ (2,281)	\$ (2,281)	\$ (11,537)	\$ (11,537)	\$ (1,838)	\$ (1,838)
Net loss attributable to common stockholders	\$ (2,281)	\$ (2,281)	\$ (12,628)	\$ (12,628)	\$ (1,838)	\$ (1,838)
Weighted average common and common equivalent shares outstanding:						

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Common stock	6,500,549	6,500,549	6,500,549	6,500,549	6,500,549	6,500,549
Common equiv. Shares (a)	698,000	698,000	698,000	698,000	158,977	1
Total weighted average common and common equivalent shares outstanding	7,198,549	7,198,549	7,198,549	7,198,549	6,659,526	6,6
Net loss before extraordinary item per common share (b)	\$ (0.32)	\$ (0.32)	\$ (1.60)	\$ (1.60)	\$ (0.28)	\$
Net loss per common share (b)	\$ (0.32)	\$ (0.32)	\$ (1.75)	\$ (1.75)	\$ (0.28)	\$

(a) Common equivalent shares include warrants and stock options. The Company used the average book value of its common stock in calculating the common equivalent shares as required by Statement of Financial Accounting Standards No. 128 due to the fact that the Company's stock had extremely limited trading volume during the period.

(b) Common equivalent shares include warrants and stock options when dilutive. The Company used the average book value of its common stock in calculating the common equivalent shares as required by statement of Financial Accounting Standards no. 128 due to the fact that Company's stock had extremely limited trading volume during the period.

8. CONTINGENCIES AND LITIGATION

A. ENVIRONMENTAL LITIGATION

In 1992, T. Copeland & Sons, Inc. (" Copeland "), the owner of a property adjacent to Maska's former manufacturing and distribution facility in Bradford, Vermont, filed an action in Vermont Superior Court alleging that its property had been contaminated as a result of the Company's manufacturing activities and seeking compensatory and punitive damages under the Vermont Groundwater Protection Law and various common law theories. In June 1995, Maska settled this action for \$1,000 cash, paid in July 1995, and a \$6,000 promissory note. Subsequently, Copeland received a distribution of shares of THC's Common Stock to satisfy the note. Copeland asserted the right to recover from the Company as a secured claim, the difference between the aggregate value of the Common Stock and the amount of the promissory note. In October 1998, Copeland's claim in the Bankruptcy Court to recover this difference was disallowed without an evidentiary hearing. Copeland filed an appeal of this decision. On May 1, 2000, the District Court overruled the Bankruptcy Court's decision and remanded the claim to the Bankruptcy Court for an evidentiary hearing. In February 2001, the Company reached an agreement with Copeland and settled this claim for \$1,000 in cash.

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### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except share data)

#### B. PRODUCT LIABILITY LITIGATION

The Company is unaware of any personal injury claims for which there is inadequate insurance coverage.

#### C. OTHER LITIGATION

On October 16, 1997, ZMD Sports Investments Inc. and 2938201 Canada Inc., landlords of the Company's properties located in St. Jean, Quebec and St. Hyacinthe, Quebec, brought motions against the Company which would require the Company to undertake certain repairs to the properties for an estimated \$630. The Company believes these motions to be without merit.

Other than certain legal proceedings arising from the ordinary course of business, which we believe will not have a material adverse effect, either individually or collectively, on the financial position, results of operations or cash flows, there is no other litigation pending or threatened against us.

#### 9. SEGMENT INFORMATION

##### REPORTABLE SEGMENTS

The Company has two reportable segments: Equipment and Apparel. The Equipment segment derives its revenue from the sale of skates, including ice hockey, roller hockey and figure skates, as well as protective hockey equipment and sticks for both players and goaltenders. The Apparel segment derives its revenue from the sale of hockey apparel, such as authentic and replica hockey jerseys, as well as a high quality line of baseball style caps, jackets and other casual apparel using its own designs and graphics.

##### MEASUREMENT OF SEGMENT PROFIT OR LOSS AND SEGMENT ASSETS

Segment assets only include inventory.

##### INFORMATION ABOUT SEGMENT PROFIT OR LOSS AND SEGMENT ASSETS

2001	Equipment		Apparel	
	For the Three Months ended June 30	For the Six Months ended June 30	For the Three Months ended June 30	For the Six Months ended June 30
Net sales to external customers	\$34,372	\$55,691	\$ 7,880	\$21,396
Gross profit	14,348	22,243	3,325	8,491
Depreciation of property, plant and equipment	608	1,351	96	251
Inventories	33,984	33,984	17,820	17,820

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THE HOCKEY COMPANY  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In thousands, except share data)

2000	Equipment		Apparel	
	For the Three Months ended June 30	For the Six Months ended June 30	For the Three Months ended June 30	For the Six Months ended June 30
Net sales to external customers	\$37,351	\$62,004	\$7,263	\$17,016
Gross profit	16,477	26,294	2,491	6,421
Depreciation of property, plant and equipment	688	1,397	136	275
Inventories	43,520	43,520	17,492	17,492

### RECONCILIATION OF SEGMENT PROFIT OR LOSS

	For the Three Months ended June 30, 2001	For the Six Months ended June 30, 2001
Segment Gross Profit	\$17,673	\$ 30,734
Unallocated amounts:		
Selling general and administrative expenses	13,927	28,848
Restructuring charges	-	2,005
Amortization of excess reorganizational value and goodwill	1,100	2,205
Other (income) expense, net	528	1,104
Interest expense	3,722	6,713
Loss before income taxes and extraordinary item	(1,604)	(10,141)

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THE HOCKEY COMPANY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
 AND RESULTS OF OPERATIONS

#### ITEM 2.

##### INTRODUCTION

The Hockey Company ("THC" or the "Company") was incorporated in September 1991 and reorganized in April 1997.

On January 31, 1999, the Board of Directors and stockholders of The Hockey Company adopted an amendment to THC's Certificate of Incorporation to change the

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name of THC from SLM International, Inc. to The Hockey Company. The amendment was filed with the Secretary of State of the State of Delaware on February 9, 1999.

The operations of The Hockey Company and its subsidiaries include the design, development, manufacturing and marketing of hockey and hockey related products, including hockey uniforms, hockey sticks, protective equipment, hockey, figure and inline skates and street hockey products, marketed under the CCM(R), Jofa (R), Koho (R), Heaton (R), Titan(R) and Canadien TM brand names, and private label brands and licensed hockey apparel under the CCM(R), and #1 Apparel TM names. The Company sells its products worldwide to a diverse customer base consisting of mass merchandisers, sporting goods chains, independent retailers and international distributors. The Company manufactures and distributes most of its products at facilities in North America, Finland and Sweden and sources products internationally.

The Company's business is seasonal. The seasonality of the Company's business affects net sales and borrowings under the Company's credit agreements. Traditional quarterly fluctuations in the Company's business may vary in the future depending upon, among other things, changes in order cycles and product mix.

### SELECTED FINANCIAL DATA

The following discussion provides an assessment of the Company's results of continuing operations, financial condition and liquidity and capital resources, and should be read in conjunction with the Unaudited Consolidated Financial Statements of the Company and Notes thereto included elsewhere herein. (All references to "Note(s)" refer to the Notes to Unaudited Consolidated Financial Statements.)

EBITDA is a measure of the cash generated from operations and has been included in the selected income statement highlights because management believes that it would be a useful indicator for readers. EBITDA is defined as the earnings (net income) before interest, income and capital taxes, depreciation and amortization, and unusual items. EBITDA is not a measure of performance or financial condition under generally accepted accounting principles, but is presented because it is a widely accepted indicator of a company's ability to source and incur debt. EBITDA should not be considered as an alternative to net income as an indicator of the company's operating performance or as an alternative to cash flows as a measure of liquidity.

### RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2001

#### 2001 COMPARED TO 2000

Apparel net sales increased 25.7% to \$21.4 million in the six months ended June 30, 2001, as compared to \$17.0 million in the six months ended June 30, 2000. For the three months ended June 30, 2001, apparel net sales were \$7.9 million, representing an 8.5% increase compared to net sales in the three months ended June 30, 2000 of \$7.3 million. The increase was attributable primarily to stronger demand resulting from the Company's exclusive status under its license agreement with NHL Enterprises, LP, the marketing affiliate of the NHL.

Equipment net sales decreased 10.2% to \$55.7 million in the six months ended June 30, 2001, as compared to \$62.0 million in the six months ended June 30, 2000. For the three months ended June 30, 2001, equipment net sales were \$34.4 million, representing an 8.0% decrease compared to net sales in the three months ended June 30, 2000 of \$37.4 million. The decrease was attributable primarily to much weaker sales of ice skates, protective equipment and sticks.

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### THE HOCKEY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Gross profit on apparel sales before restructuring charges for the six months ended June 30, 2001 was \$9.4 million compared to \$6.4 million in 2000, an increase of 46.3%. Gross profit on apparel sales for the three months ended June 30, 2001 was \$3.3 million compared to \$2.5 million in 2000, an increase of 33.5%. Measured as a percentage of apparel net sales, gross profit margins before restructuring charges increased to 43.9% in the first half of 2001 from 37.7% in the same period in 2000.

Gross profit on equipment sales for the six months ended June 30, 2001 was \$22.2 million compared to \$26.3 million in 2000, a decrease of 15.4%. Gross profit on equipment sales for the three months ended June 30, 2001 was \$14.3 million compared to \$16.5 million in 2000, a decrease of 12.9%. Measured as a percentage of equipment net sales, gross profit margins decreased to 39.9% in the first half of 2001 from 42.4% in the same period in 2000.

For the six months ended June 30, 2001, selling, general and administrative expenses before restructuring charges decreased 6.8% to \$28.8 million compared to \$31.0 million in the first half of 2000. In the three months ended June 30, 2001, these expenses decreased 9.3% to \$13.9 million from \$15.4 million in 2000. Measured as a percentage of net sales, in the first six months of the year the ratio also decreased to 37.4% in 2001 from 39.2% in 2000. The decrease in the selling, general and administrative expenses is a result of first quarter restructuring activities (see Restructuring reserves), offset by increased NHL commitments.

The amortization of excess reorganization value and goodwill decreased slightly from \$2.3 million in the first half of 2000 to \$2.2 million in the first half of 2001. The operating income before restructuring charges for the six months period ended June 30, 2001 was \$0.6 million, compared to an operating loss of \$0.5 million for the six months period ending June 30, 2000.

Other expense consists primarily of amortization of deferred financing costs.

Earnings before interest, taxes, depreciation and amortization (EBITDA), which is a measure of cash generated from operations, was \$5.8 million for the six months (\$5.4 million for the three months) ended June 30, 2001 compared to \$4.9 million for the six months (\$5.3 million for the three months) ended June 30, 2000.

Interest expense of \$6.7 million for the six months ended June 30, 2001 increased by \$0.6 million from the same period for the prior year (\$6.1 million). The increase is mainly attributable to extension fees on short-term borrowings, the Company incurred in the first quarter of the year. For the three months ended June 30, 2001 interest expense increased to \$3.7 million compared to \$3.2 million for the same period of the prior year.

As a result of a business restructuring at the beginning of the year, the Company incurred costs related to severance and facility closures (restructuring charges). - see Restructuring reserves.

The Company's net loss for the six months ended June 30, 2001 was \$11.5 million compared to \$6.5 million for the six months ended June 30, 2000. For the three months ended June 30, 2001, the Company had a net loss of \$1.7 million



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compared to \$1.3 for the three months ended June 30, 2000.

### LIQUIDITY AND CAPITAL RESOURCES

Management expects to finance the Company's working capital and capital expenditures requirements through cash generated by its operations and through its new credit facilities established on November 19, 1998 and amended and restated on March 14, 2001.

Effective November 19, 1998, two of the Company's subsidiaries, Maska U.S, Inc. and SHC Hockey Inc. entered into a credit agreement (the "U.S. Credit Agreement") with the lenders referred to therein and with General Electric Capital Corporation, as Agent and Lender. Simultaneously, two of the Company's Canadian subsidiaries, Sport Maska Inc. and Tropsport Acquisitions Inc., entered into a credit agreement (the "Canadian Credit Agreement") with the lenders referred to therein and General Electric Capital Canada Inc. as Agent and Lender. The maximum amount of loans and letters of credit that may be outstanding under the two credit agreements (collectively, the "Credit Agreements") is \$60.0 million.

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### THE HOCKEY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Credit Agreements were for a period of two years with a possible extension of one year by the Company, and were amended and restated on March 14, 2001. Total borrowings outstanding under the Credit Agreements were \$36.5 million on June 30, 2001 (excluding \$6.4 million of letters of credit outstanding). Total borrowings as at December 31, 2000 under the Credit Agreements were \$12.3 million (excluding \$0.9 million of letters of credit outstanding).

In addition, on March 14, 2001, an Amended and Restated Credit Agreement was entered into by the Company and Sport Maska, as borrowers, Caisse de depot et placement du Quebec ("Caisse"), as Agent and Lender, and Montreal Trust Company, as Paying Agent (the "Amended and Restated Credit Agreement "). On the terms and subject to the conditions of the Amended and Restated Credit Agreement, Facility 1 of the Caisse Loan, which is a facility in the maximum amount of Canadian \$90 million, was extended to June 30, 2004, and Facility 2 of the Caisse Loan, which is a facility in the maximum amount of Canadian \$45.8 million, was extended to October 31, 2002. A repayment of Facility 1 in the minimum amount of Canadian \$5 million is due on January 31, 2004. Facility 1 and Facility 2 have been fully utilized and no new advances are expected to be made under the Amended and Restated Credit Agreement.

The Company's financing requirements for long-term growth, future capital expenditures and debt service are expected to be met through its operations as well as cash borrowed under its Credit Agreements. During the six months ended June 30, 2001, the Company's operations used \$30.1 million of cash from its operations as compared to \$29.3 million of cash used in the same six months of 2000.

Cash used in investing activities during the six months ended June 30, 2001 and the six months ended June 30, 2000 included \$0.7 million and \$1.5 million, respectively, of purchases of fixed assets.

During the six months period ended June 30, 2001, financing activities

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provided \$30.0 million from borrowings under the Company's New Credit Agreements and provided \$28.0 million for the same period last year.

The Company follows the customary practice in the sporting goods industry of offering extended payment terms to credit-worthy customers on qualified orders. The Company's working capital requirements generally peak in the third and fourth quarters as it builds inventory and makes shipments under these extended payment terms.

### EURO CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies and the Euro. The participating countries agreed to adopt the Euro as their common legal currency on that date. Fixed conversion rates between these participating countries' existing currencies (the legacy currencies) and the Euro were established as of that date. The legacy currencies are scheduled to remain legal tender as denominations of the Euro until at least January 1, 2002 (but not later than July 1, 2002.) During this transition period, parties may settle transactions using either the Euro or a participating country's legacy currency.

Management currently believes that the introduction of the Euro will not have a material impact related to pricing or foreign currency exposures. Finland is one of the countries adopting the Euro, however Sweden has not yet chosen to adopt the new currency. The Finnish subsidiaries' base currency is now the Euro, Sweden has yet to decide on adopting the new currency. The Company foresees no adverse impact resulting from the Euro conversion, including competitive implications related to pricing and foreign currency considerations. However, uncertainty exists as to the effects the Euro will have on the marketplace.

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### THE HOCKEY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESTRUCTURING RESERVES

Effective January 24, 2001, the Company embarked on a plan to rationalize its operations. This rationalization involved the elimination of certain redundancies, both in terms of personnel and operations as well as the consolidation of facilities including the closure of its Mount Forest, Ontario plant. Accordingly, the Company has set up a reserve of 2.9 million.

The Company has estimated that the restructuring charges would total \$2.9 million as follows:

An amount of \$2.4 million has been accrued for severance packages in Canada and the U.S., including the closure of the Mount Forest, Ontario plant. To date \$1.6 million has been spent.

An amount of \$0.5 million has been accrued to cover the cost of facility consolidations. To date \$0.4 million has been spent.

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THE HOCKEY COMPANY  
PART II  
OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Note 7 of the Notes to Unaudited Consolidated Financial Statements included in Part I of this report.

Item 2. Changes in Securities.  
None.

Item 3. Defaults Upon Senior Securities.  
Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.  
None.

Item 5. Other Information  
None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

Reports dated May 9 and May 24, 2001 were filed on Form 8-K during the three months ended June 30, 2001.

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THE HOCKEY COMPANY

SIGNATURES

Pursuant to 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 HOCKEY COMPANY  
(Registrant)

By: /s/ Robert A. Desrosiers

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Name: Robert A. Desrosiers  
Title: Vice President, Finance and Administration  
(Principal Financial and Accounting Officer)

Date: July 20, 2001