

Edgar Filing: HOCKEY CO - Form 10-Q

HOCKEY CO
Form 10-Q
May 15, 2002

=====

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-19596

THE HOCKEY COMPANY

(Exact name of registrant as specified in its charter)

Delaware

13-36-32297

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

3500, Boul. de Maisonneuve, Suite 800, Montreal, Quebec, Canada

H3Z 3C1

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code

(514) 932-1118

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 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

NO

Edgar Filing: HOCKEY CO - Form 10-Q

Item 2.	Changes in Securities	17
Item 3.	Defaults Upon Senior Securities	17
Item 4.	Submission of Matters to a Vote of Security Holders	17
Item 5.	Other Information	17
Item 6.	Exhibits and Reports on Form 8-K	17

THE HOCKEY COMPANY
CONSOLIDATED BALANCE SHEETS
(In thousands)

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

	Audited Dec. 31, 2001	Unaud Mar. 31

ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,503	\$
Accounts receivable, net	50,551	3
Inventories (Note 2)	42,865	4
Prepaid expenses and other receivables	4,891	
Income taxes receivable	1,718	

Total current assets	106,528	9
Property, plant and equipment, net of accumulated depreciation (\$15,556 and \$16,175, respectively)	16,834	1
Goodwill and excess re-organization intangible, net of accumulated amortization (Note 3)	69,250	6
Other assets	6,811	

Total assets	\$199,423	\$18
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Short-term borrowings (Note 4)	\$ 27,792	\$ 2
Accounts payable and accrued liabilities	20,870	1
Income taxes payable	3,470	
Current portion of long term debt (Note 4)	243	

Total current liabilities	52,375	4
Long-term debt (Note 4)	86,350	8

Edgar Filing: HOCKEY CO - Form 10-Q

Accrued dividends payable (Note 5)	5,779	
Deferred income taxes and other long-term liabilities	1,128	

Total liabilities	145,632	13

Contingencies (Note 7)		
13% Pay-In-Kind preferred stock (Note 5)	11,571	1

Stockholders' equity		
Common stock, par value \$0.01 per share, 20,000,000 shares authorized, 6,500,549 shares issued and outstanding	65	
Re-organization warrants, 300,000 issued and 299,451 outstanding (Note 5)	-	
Common stock purchase warrants, 699,101 issued and outstanding (Note 5)	5,115	
Additional paid-in capital	66,515	6
Deficit	(22,090)	(2
Accumulated other comprehensive loss	(7,385)	(

Total stockholders' equity	42,220	3

Total liabilities and stockholders' equity	\$199,423	\$18
	=====	

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

1

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

	For the Three Months ended Mar. 31, 2001	For t Mont Mar.

Net sales	\$ 34,835	\$3
Cost of goods sold before restructuring charges	20,873	1
Restructuring and unusual charges (Note 9)	901	

Gross profit	13,061	1
Selling, general and administrative expenses	14,921	1
Restructuring and unusual charges (Note 9)	2,005	
Amortization of excess reorganization value and goodwill	1,105	

Operating income (loss)	(4,970)	
Other expense, net	576	
Interest expense	2,991	

Edgar Filing: HOCKEY CO - Form 10-Q

Loss before income taxes and extraordinary item	(8,537)	(
Income taxes	134	
<hr/>		
Loss before extraordinary item	(8,671)	(
Extraordinary item		
Loss on early extinguishing of debt, net of income taxes	1,091	
<hr/>		
Net loss	(9,762)	(
Preferred stock dividends	526	
Accretion of 13% Pay-In-Kind preferred stock	59	
<hr/>		
Net loss attributable to common shareholders	\$ (10,347)	\$ (
<hr/>		
Basic and diluted loss per share before extraordinary item (See Note 6)	\$ (1.37)	\$
Basic and diluted loss per share (See Note 6)	\$ (1.53)	\$
Adjusted loss before extraordinary item and amortization of excess reorganization value and goodwill	(7,566)	(
Adjusted loss before amortization of excess reorganization value and goodwill	(8,657)	(
Adjusted loss per share before extraordinary item and amortization of excess reorganization value and goodwill	(1.12)	
Adjusted loss per share before amortization of excess reorganization value and goodwill	(1.28)	

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

2

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

	For the Three Months ended Mar. 31, 2001	For Month Mar.
<hr/>		
Net loss	\$ (9,762)	\$ (
Foreign currency translation adjustments	(823)	
<hr/>		
Net comprehensive loss	\$ (10,585)	\$ (
<hr/>		

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

3

Edgar Filing: HOCKEY CO - Form 10-Q

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

	For the Three Months ended Mar. 31, 2001	For t Mont Mar.
	-----	-----
OPERATING ACTIVITIES:		
Net loss before extraordinary item	\$ (8,671)	\$
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Restructuring charges	2,906	
Depreciation and amortization	3,290	
Deferred income taxes	121	
Gain on disposal of fixed assets	(6)	
Gain on foreign exchange	(488)	
Change in operating assets and liabilities:		
Accounts receivable	9,259	
Inventories	(5,864)	
Prepaid expenses and other receivables	(502)	
Accounts payable and accrued liabilities	(9,058)	
Income taxes payable	(935)	

Net cash provided by (used in) operating activities	(9,948)	

INVESTING ACTIVITIES:		
Deferred expense	268	
Purchases of fixed assets	(543)	
Proceeds from sales of fixed assets	8	

Net cash used in investing activities	(267)	

FINANCING ACTIVITIES:		
Net change in short-term borrowings	10,468	
Deferred financing costs	(5,937)	
Proceeds from long-term debt	-	
Principal payments on debt	(63)	
Issuance of warrants	3,450	

Net cash provided by (used in) financing activities	7,918	

Effects of foreign exchange rate changes on cash	392	

Decrease in cash	(1,905)	
Cash and cash equivalents at beginning of period	2,423	

Cash and cash equivalents at end of period	\$ 518	\$
	=====	=====

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

Edgar Filing: HOCKEY CO - Form 10-Q

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.

The consolidated financial statements include the accounts of The Hockey Company and its wholly-owned subsidiaries (collectively, the "Company"). 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, protective equipment and hockey, figure and inline skates, as well as street hockey products, marketed under the CCM(R), KOHO(R), JOFA(R), TITAN(R), CANADIEN(TM) and HEATON(R) brand names. The Company sells its products worldwide to a diverse customer base consisting of mass merchandisers, retailers, wholesalers, sporting goods shops and international distributors. The Company 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, except for the application of accounting pronouncements as discussed below.

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 2002 and 2001 periods have been included. These unaudited interim consolidated financial statements do not include all of the information and footnotes required by United States 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, 2001. Certain prior period amounts have been reclassified to conform to the current period presentation.

- C. ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS, and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Under the new rules, goodwill and intangible assets with indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their estimated useful lives.

The Company has applied the new rules on accounting for goodwill as of January 1, 2002. The Company will test goodwill annually for impairment using a two-step process prescribed in Statement 142. The first step is a screen for

Edgar Filing: HOCKEY CO - Form 10-Q

potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to complete the required testing of indefinite lived assets for initial impairment as of January 1, 2002 in the first half of 2002. The amounts of goodwill and excess re-organizational value have not yet been allocated to reporting units and will be allocated in the second quarter.

In August 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 144, IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. Under the new rules, assets held for sale would be recorded at the lower of the assets' carrying amounts and fair values and would cease to be depreciated. The Company adopted the Statement as of January 1, 2002 and no significant transition adjustment resulted from its adoption.

5

THE HOCKEY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

On April 30, 2002, the Financial Accounting Standards Board Issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be classified as an extraordinary item, net of related income tax effect, if material in the aggregate. Due to the rescission of SFAS No. 4, the criteria in Opinion 30 will now be used to classify those gains and losses.

The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria for classification as an extraordinary item will be reclassified. The provisions of SFAS No. 145 related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002. The Company is currently assessing the impact adoption of this statement will have on its financial statements.

2. INVENTORIES

Net inventories consist of:

	December 31, 2001	March 31, 2002
Finished products	\$31,892	\$34,609
Work in process	2,665	2,712
Raw materials and supplies	8,308	8,324
	\$42,865	\$45,645

3. GOODWILL AND EXCESS RE-ORGANIZATION INTANGIBLE

Goodwill and excess re-organization intangible consist of:

Edgar Filing: HOCKEY CO - Form 10-Q

	December 31, 2001	March 31,
Goodwill	\$42,883	\$42,
Excess re-organization intangible	26,367	26,
	-----	-----
	\$69,250	\$69,

4. REVOLVING CREDIT FACILITIES AND LONG-TERM DEBT

A) REVOLVING CREDIT FACILITIES

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 with General Electric Capital Canada Inc., as Agent and Lender. The Credit Agreements are collateralized by all accounts receivable, inventories and related assets of the borrowers and the Company's other North American subsidiaries and are further collateralized by a second lien on all of the Company's and the Company's North American subsidiaries' other tangible and intangible assets.

On March 14, 2001, the Second Amendment to the U.S. Credit Agreement was entered into by Maska U.S., Inc., as borrower, the Credit Parties, the U.S. Lenders and General Electric Capital Corporation, as Agent and Lender. Simultaneously, the Second Amendment to the Canadian Credit Agreement was entered into by Sport Maska Inc., 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

6

THE HOCKEY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

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. However, under the terms of the Offering (See Note 10), indebtedness cannot exceed \$35,000 and must be repaid in its entirety at least once a year. Each of the Credit Agreements is subject to a minimum excess requirement of \$1,750 in certain months. Total borrowings outstanding under the Credit Agreements at December 31, 2001 and March 31, 2002 were \$27,792 and \$18,636, respectively (excluding outstanding letters of credit of \$5,732 at December 31, 2001 and \$5,543 at March 31, 2002). The Credit Agreements will mature on October 17, 2002. Management believes the Credit Agreements can be renewed or refinanced upon maturity.

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% depending on the Company's Operating Cash Flow Ratio, as defined in the agreement. Borrowings

Edgar Filing: HOCKEY CO - Form 10-Q

under the Canadian credit agreement bear interest at rates between the Canadian prime rate plus 0.75% to 1.50%, or LIBOR plus 1.75% to 2.75% depending on the Company'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, minimum interest coverage and fixed charges coverage ratio. The agreement restricts, among others, the ability to pay cash dividends on the preferred shares.

Effective March 18, 1999, Jofa AB (Jofa), a Swedish subsidiary of the Company, entered into a credit agreement with Nordea Bank in Sweden. The maximum amount of loans and letters of credit that may be outstanding under the agreement is SEK 90,000 (\$8,700) (SEK 80,000 in 2001(\$7,700)). The facility is collateralized by the assets of Jofa, excluding intellectual property, bears interest at a rate of STIBOR (4.2% at March 31, 2002) plus 0.90% and is renewable annually. Total borrowings as at December 31, 2001 and March 31, 2002 were nil and SEK 17,700 (\$1,700), respectively.

Effective July 10, 2001, KHF Finland Oy (KHF), a Finnish subsidiary of the Company, entered into a credit agreement with Nordea Bank in Finland, replacing the former credit facility for FIM 30,000 (\$4,600) which was terminated during 2001. The maximum amount of loans and letters of credit that may be outstanding under the agreement is EUR 2,400 (\$2,100). The facility is collateralized by the assets of KHF and bears interest at a rate of EURIBOR (3.4% at March 31, 2002) plus 0.9% and is renewable annually. Total borrowings as at December 31, 2001 and March 31, 2002 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 Maskas 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 initially for a period of two years that was extended until March 14, 2001, on which date, an Amended and Restated Credit Agreement was entered into by the Company and Sport Maskas Inc., 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 was 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. Each facility bore interest equal to the Canadian prime rate plus 5%, and Facility 2 bore additional interest of 3.5% which is to be capitalized and repaid on Facility 2 maturity. At March 31, 2002, Facility 2 included \$1,019 (December 31, 2001-\$654) of capitalized interest. The loan was 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 was guaranteed by the Company and certain of its subsidiaries.

The loan contained customary negative and affirmative covenants including those relating to capital expenditures, total indebtedness to EBITDA and minimum interest coverage, and a minimum EBITDA requirement which was met in 2001. The agreement restricted, among others, the ability to pay cash dividends on the preferred shares.

On March 8, 2002, the Company acquired an option from the lender to extend

Edgar Filing: HOCKEY CO - Form 10-Q

the maturity of Facility 2 plus capitalized interest to February 28, 2003 in exchange for a nominal fee. The unconditional and irrevocable option maintained all the terms of the Amended and Restated Credit Agreement and expired on April 30, 2002. On April 3, 2002, the Company

7

THE HOCKEY COMPANY NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS, EXCEPT SHARE DATA)

issued \$125,000 of 11 1/4% Senior Secured Note Units due April 15, 2009 (the "Offering"), the proceeds of which were used to repay in full Facility 1 and Facility 2 plus capitalized interest (See Note 10). As a result, Facility 2 plus capitalized interest has been classified as a non-current liability in the Consolidated Balance Sheet at March 31, 2002. In connection with the Offering (See Note 10), the Amended and Restated Credit Agreement was terminated.

In May 2000, Jofa AB, a subsidiary of the Company, entered into a loan agreement with Nordea Bank in Sweden to borrow SEK 10,000 (\$973). The loan is for four years with annual principal repayments of SEK 2,500 (\$243). The loan is secured by a chattel mortgage on the assets of the subsidiary and bears an interest rate of STIBOR plus 1.25%.

5. COMMON STOCK, WARRANTS AND PREFERRED STOCK

The Company has authorized 20,000,000 shares of common stock, par value \$0.01 per share, of which 6,500,549 shares are issued and outstanding (7,040,523 issued and outstanding as at May 1, 2002) (See Note 10).

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 was 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 stockholders' equity as stock purchase warrants. Concurrent with the repayment of the Caisse loan (Note 10), the Caisse exercised the warrants and purchased the Company's common stock.

On April 11, 1997, in connection with a re-organization, THC's old common stock was extinguished and the holders received a total of 300,000 five-year warrants to purchase an aggregate of 300,000 shares of common stock at an exercise price of \$16.92 per share (subject to adjustments for stock splits, stock dividends, recapitalizations and similar transactions). Each holder of 67 shares of old common stock can receive one warrant to purchase, for cash, one share of common stock, with no fractional warrants issued.

On November 19, 1998, the Company issued 100,000 shares of 13% Pay-In-Kind redeemable preferred stock, \$0.01 par value per share, 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.

Edgar Filing: HOCKEY CO - Form 10-Q

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 the mandatory redemption date 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 our Board of Directors with the provision that the preferred stockholders are to elect 28% of the Company's directors. In connection with the Offering as described in Note 10, the holder agreed to extend the redemption of the preferred stock to October 15, 2009, a date six months beyond the maturity of the notes issued in the Offering. At March 31, 2002 unpaid dividends of \$6,373 (December 31, 2001 -\$5,779) have been accrued on the preferred stock and are included as long-term liabilities, given the restrictions of our Credit Agreements. The preferred stock is redeemable. However, under the terms of the Company's debt covenants, the preferred stock may not be redeemed while its debt is outstanding.

The preferred stock must be redeemed by the Company upon a change of control or by the mandatory redemption date.

8

THE HOCKEY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

6. EARNINGS PER SHARE

LOSS PER SHARE FOR THE THREE MONTH PERIODS ARE AS FOLLOWS:

	For the Three Months ended March 31, 2001		For the Three Mo March 31,	
	Basic	Diluted	Basic	
Net loss before extraordinary item attributable to common stockholders	\$ (9,256)	\$ (9,256)	\$ (3,647)	
Net loss attributable to common stockholders	(10,347)	(10,347)	(3,647)	
Weighted average common and common equivalent shares outstanding:				
Common stock	6,500,549	6,500,549	6,500,549	6
Common equivalent shares (a)	248,771	248,771	697,902	
Total weighted average common and common equivalent shares outstanding	6,749,320	6,749,320	7,198,451	7
Net loss before extraordinary item per common share (b)	\$ (1.37)	\$ (1.37)	\$ (0.51)	
Net loss per common share (b)	\$ (1.53)	\$ (1.53)	\$ (0.51)	

Edgar Filing: HOCKEY CO - Form 10-Q

- (a) Common equivalent shares include warrants and stock options issuable for little or no cash consideration.
- (b) Other warrants and stock options are considered in diluted earnings per share 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 the Company's stock had extremely limited trading volume during the period.
- (c) Options to purchase 1,322,222 shares of common stock and warrants to purchase 299,451 shares of common stock were outstanding but were not included in the computation of diluted earnings per share because the options' and warrants' exercise price was greater than the average book value of the common stock.

7. CONTINGENCIES

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

8. 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

The accounting policies of the segment are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on gross profit. Segment assets only include inventory.

THE HOCKEY COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

INFORMATION ABOUT SEGMENT PROFIT OR LOSS AND SEGMENT ASSETS

Equipment		Apparel	
For the Three Months ended	For the Three Months ended	For the Three Months ended	For the Three Months ended

Edgar Filing: HOCKEY CO - Form 10-Q

	Mar. 31, 2001	Mar. 31, 2002	Mar. 31, 2001	Mar. 31, 2002
Net sales	\$ 21,319	\$ 22,800	\$ 13,516	\$ 11,361
Gross profit before restructuring	7,895	9,568	6,067	5,229
Inventory	32,185	26,470	13,624	19,175

RECONCILIATION OF SEGMENT PROFIT OR LOSS

	For the Three Months ended Mar. 31, 2001	For t Mont Mar.
Segment gross profit before restructuring	\$ 13,962	\$
Restructuring and unusual charges	901	
Gross profit	13,061	
Unallocated amounts:		
Selling, general and administrative expenses	14,921	
Restructuring and unusual charges	2,005	
Amortization of excess re-organization value and goodwill	1,105	
Other expense, net	576	
Interest expense	2,991	
Loss before income taxes and extraordinary item	\$ (8,537)	\$

9. RESTRUCTURING AND UNUSUAL CHARGES

In 2001, the Company embarked on a plan to rationalize its operations and consolidate its facilities. 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 the Mount Forest, Ontario plant, the Paris, France sales office, and the consolidation of North American distribution into Canada. Approximately 380 employees were affected, of which 240 were from the apparel segment. Accordingly, the Company set up reserves of approximately \$5,700 in 2001 for the expected cost of the restructuring. Of this amount, approximately \$4,300 was to cover the cost of severance packages to affected employees, with the remainder representing other closure costs. Of these amounts, approximately \$1,600 remained unpaid at March 31, 2002 (December 31, 2001 - \$1,900).

10. SUBSEQUENT EVENTS

On April 3, 2002, THC issued \$125,000 11 1/4% Senior Secured Note Units due April 15, 2009 (the "Notes") at a price of 98.806%, each such Unit consisting of \$0.5 principal amount of 11 1/4% Senior Secured Notes due April 15, 2009 of THC and \$0.5 principal amount of 11 1/4% Senior Secured Notes due April 15, 2009 of Sport Maska Inc., a wholly-owned subsidiary of THC, through a private placement.

THC has fully and unconditionally guaranteed the Sport Maska Inc. Notes on a senior secured basis. Sport Maska Inc. has fully and unconditionally guaranteed the THC Notes. Also, certain subsidiaries of THC and Sport Maska Inc., excluding the Finnish subsidiaries, have fully and unconditionally guaranteed the Notes on a senior secured basis. The Notes

THE HOCKEY COMPANY
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS, EXCEPT SHARE DATA)

and guarantees are secured by substantially all the tangible and intangible assets of the Company, excluding the Finnish subsidiaries, subject to the prior ranking claims by lenders under the revolving credit facilities (see Note 4a), and by a pledge of stock of the first-tier Finnish subsidiary. The security interest in the Company's Swedish subsidiaries (other than intellectual property) is limited to \$15,000 .

The Notes may be redeemed at any time after April 15, 2006 at the following redemption prices (expressed as percentages of the principal amount thereof) plus accrued and unpaid interest to the date of redemption, if redeemed during the twelve-month period commencing on April 15 of the year set forth below:

YEAR ----	PERCENTAGE -----
2006	105.625%
2007	102.813%
2008 and thereafter	100.000%

In addition, up to one-third of the Notes may be redeemed with the net proceeds of an equity offering at any time until April, 15, 2005 at a redemption price of 111.25% of the principal amount plus accrued and unpaid interest to the date of redemption. If the Company undergoes a change of control, the Company will be required to offer to purchase the units from the holders at 101% of principal amount plus accrued and unpaid interest to the date of repurchase.

The proceeds of \$123,508 were used (i) to repay all outstanding secured loans under the Amended and Restated Credit Agreement, dated March 14, 2001 (See Note 4b), (ii) to repay a portion of the secured indebtedness under the U.S. and Canadian Credit Agreements (See Note 4a), (iii) to pay fees and expenses of the Offering and (iv) for general corporate purposes. The Amended and Restated Credit Agreement with Caisse and any documents related thereto have been terminated and are of no further force and effect. Among other financial covenants, the indenture governing the Notes restricts the Company's ability to borrow under its revolving credit facilities to a maximum of \$35,000 and limits payments of dividends or repurchases of stock.

Also concurrent with the repayment of the Caisse loan, the Caisse exercised its warrants to purchase 539,974 shares of common stock at \$.01 per share (See Note 5).

Edgar Filing: HOCKEY CO - Form 10-Q

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

INTRODUCTION

We can trace our origins to September 1899, when the Canada Cycle and Motor Company (CCM) was formed as a manufacturer of bicycles and motorcars. In 1905, CCM began marketing ice hockey skates for a sport barely 30 years old at that time and, in 1937, acquired the Tackaberry (later Tacks) trade name. In 1983, CCM was amalgamated with Sport Maska Inc., a manufacturer of hockey jerseys for the NHL since 1967. In November 1998, we acquired Sports Holdings Corp., Europe's largest manufacturer of ice, roller and street hockey equipment and their Jofa, Koho, Canadien, Heaton and Titan brands. As a result, we are now the world's largest marketer, designer and manufacturer of hockey equipment and related apparel.

Our business is seasonal. The seasonality of our business affects net sales and borrowings under our credit agreements. Traditional quarterly fluctuations in our 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 our 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, restructuring charges and other unusual or non-recurring 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 is defined in accordance with our existing seasonal working capital facilities. EBITDA should not be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flows as a measure of liquidity. In addition, since companies calculate EBITDA differently, EBITDA as presented for us may not be comparable to EBITDA reported by other companies.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2002

2002 COMPARED TO 2001

Net sales decreased 1.9% to \$34.2 million in the three months ended March 31, 2002, as compared to \$34.8 million in the three months ended March 31, 2001. The decrease was attributable to lower sales of apparel due to a lower back order position at the beginning of the year offset in part by stronger sales of ice skates and sticks.

Gross profit for the three months ended March 31, 2002, was \$14.8 million, compared to \$13.1 million in 2001, an increase of 13.0%, attributable to a strong product mix in the period, as well as improved product costs resulting from the restructuring in the prior year. Measured as a percentage of net sales, gross profit margins increased to 43.3% from 37.5% in the same period in 2001. The gross profit before restructuring was 40.0%.

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

In the three months ended March 31, 2002, selling, general and administrative expenses decreased as a percentage of sales to 42.4% from 42.8% in 2001. In absolute dollar terms, there was a 2.9% decrease to \$14.5 million in the first quarter of 2002 from \$14.9 million in the same period of 2001. The decrease in the selling, general and administrative expenses is a result of the realization of savings from 2001 restructuring activities, offset by increased NHL commitments.

Other expense of \$0.5 million consists primarily of amortization of deferred financing costs.

EBITDA was \$1.4 million for the three months ended March 31, 2002, compared to \$0.4 million for the three months ended March 31, 2001.

Interest expense of \$2.7 million for the three months ended March 31, 2002, was down \$0.3 million versus the same three months of 2001.

Our net loss for the three months ended March 31, 2002, was \$3.0 million compared to a net loss of \$9.8 million for the three months ended March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Our anticipated financing requirements for long-term growth, future capital expenditures and debt service are expected to be met through cash generated from our operations and borrowings under our credit facilities. Effective November 19, 1998, one of our U.S. subsidiaries, Maska U.S., Inc., as the borrower, and the credit parties named therein entered into a credit agreement with the lenders referred to therein and with General Electric Capital Corporation, as Agent and Lender. Simultaneously, one of our Canadian subsidiaries, Sport Maska Inc., as the borrower, and the credit parties named therein entered into a credit agreement with the lenders referred to therein and General Electric Capital Canada Inc., as Agent and Lender (together with General Electric Capital Corporation, "GECC"). The credit agreements are collateralized by all accounts receivable, inventories and related assets of the borrowers and our other North American subsidiaries, and are further collateralized by a second lien on all of our and our North American subsidiaries' other tangible and intangible assets. The credit agreements were amended on March 14, 2001 to reflect the amended Caisse term loans. The maximum amount of loans and letters of credit that may be outstanding under the two credit agreements is \$60.0 million. However under the terms of the Offering (See Note 10), Indebtedness cannot exceed \$35 million and must be repaid in full at least once a year. Total borrowings outstanding under the credit agreements were \$18.6 million as at March 31, 2002 (\$27.8 million at December 31, 2001), excluding \$5.5 million of letters of credit outstanding. The maturity date of the GECC credit agreements is October 17, 2002. Management believes the GECC credit agreements can be renewed or refinanced upon maturity.

Borrowings under the U.S. credit agreement bear interest at rates between U.S. prime plus 0.50% to 1.25% or LIBOR plus 1.75% to 2.75% depending on THC's Operating Cash Flow Ratio, as defined in the agreement. Borrowings under the Canadian credit agreement bear interest at rates between the Canadian prime rate plus 0.75% to 1.50%, the U.S. prime rate plus 0.50% to 1.25% and the

Edgar Filing: HOCKEY CO - Form 10-Q

Canadian Bankers' Acceptance rate or LIBOR plus 1.75% to 2.75% depending on THC's Operating Cash Flow Ratio, as defined in the agreement. In addition, we are charged a GECC monthly commitment fee at an annual rate of 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, minimum interest coverage and fixed charge coverage. The credit agreements restrict, among other things, the ability to pay cash dividends on the preferred shares.

On November 19, 1998, in connection with the acquisition of Sports Holdings Corp., we entered into a credit agreement with Caisse de depot et placement du Quebec ("Caisse") to borrow Canadian \$135.8 million. The loan, initially for a period of two years was extended and matured on March 14, 2001, on which date we entered into an Amended and Restated Credit Agreement. This renewed Caisse loan was made up of 2 facilities (Facility 1--Canadian \$90 million and Facility 2--Canadian \$45.8 million). Each facility bore interest equal to the Canadian prime rate plus 5% and Facility 2 bore additional interest of 3.5% which was to be capitalized and repaid on the maturity of Facility 2. The Amended and Restated Credit Agreement was terminated in connection with the Offering (as defined below).

13

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

On March 8, 2002, we acquired an option from Caisse to extend the maturity of Facility 2 plus capitalized interest to February 28, 2003 in exchange for a nominal fee. This unconditional and irrevocable option maintained all the terms of the Amended and Restated Credit Agreement and expired on April 30, 2002. As a result, Facility 2 plus capitalized interest has been classified as a non-current liability in the consolidated Balance Sheet at March 31, 2002. The Caisse loan was collateralized by all of our tangible and intangible assets, subject to the prior ranking claims on accounts receivable, inventories and related assets by GECC under the GECC U.S. and Canadian credit agreements. The loan was guaranteed by us and certain of our subsidiaries.

The Amended and Restated Credit Agreement contained customary negative and affirmative covenants including those relating to capital expenditures, total indebtedness to EBITDA, minimum interest coverage and a minimum EBITDA requirement which was met in 2001.

On April 3, 2002 (the "Closing Date"), we completed a private offering of \$125 million aggregate principal amount of 11 1/4% Senior Secured Note Units due 2009 (the "Units"), at a discount of 1.194%, each such Unit consisting of \$500 principal amount of 11 1/4% Senior Secured Notes due 2009 of The Hockey Company and \$500 principal amount of 11 1/4% Senior Secured Notes due 2009 of Sport Masko Inc., our wholly-owned subsidiary (the "Offering"). The Notes are fully and unconditionally guaranteed by all of our restricted subsidiaries, excluding the Finnish subsidiaries. The stock of the first-tier Finnish subsidiary was pledged. Among the financial covenants in the indenture, our ability to borrow under the revolving credit facilities is restricted to a maximum of \$35 million and the payments of dividends or repurchases of stock are limited.

The proceeds of \$123.5 million from the sale of the Units were used by us

Edgar Filing: HOCKEY CO - Form 10-Q

(i) to repay all outstanding secured loans under the Amended and Restated Credit Agreement with Caisse, dated March 14, 2001 (See Note 4b), (ii) to pay down secured indebtedness under the U.S. and Canadian Credit Agreements with GECC, (iii) to pay fees and expenses for the Offering and (iv) for general corporate purposes. The Amended and Restated Credit Agreement with Caisse and any documents related thereto have been terminated and are of no further force and effect. The terms of the GECC Credit Agreements were amended by each of the Fourth Amendment to Canadian Credit Agreement, dated the Closing Date, among the respective parties thereto, and the Third Amendment to U.S. Credit Agreement, dated the Closing Date, among the respective parties thereto.

Effective March 18, 1999, Jofa AB, a Swedish subsidiary of the Company, entered into a credit agreement with Nordea Bank in Sweden. The maximum amount of loans and letters of credit that may be outstanding under the agreement is SEK 90 million (\$8.7 million) (SEK 80 million in 2001 (\$7.7 million)). The facility is collateralized by the assets of Jofa AB, excluding intellectual property, bears interest at a rate of STIBOR (4.2% at March 31, 2002) plus 0.90% (increased from 0.65% in connection with the guarantee by Jofa AB of the Offering) and is renewable annually. Total borrowings as at December 31, 2001 and March 31, 2002 were nil and SEK 17.7 million (\$1.7 million), respectively. In addition, in May 2000, Jofa AB entered into a separate credit agreement with Nordea Bank to borrow SEK 10 million, or approximately \$1.0 million. The loan has a term of four years with annual principal repayments of SEK 2.5 million, or approximately \$0.2 million. The loan is secured by a chattel mortgage on the assets of Jofa AB and bears an interest rate of STIBOR plus 1.25%.

Effective July 10, 2001, KHF Finland Oy, our Finnish subsidiary, entered into a credit agreement with Nordea Bank in Finland, replacing the former credit facility for FIM 30 million (\$4.6 million) which was terminated in 2001. The maximum amount of loans and letters of credit that may be outstanding under the agreement is EUR 2.4 million (\$2.1 million). The facility is valid until further notice and is collateralized by the assets of KHF Finland Oy and bears interest at a rate of EURIBOR plus 0.9%. Total borrowings as at December 31, 2001 and March 31, 2002 were nil.

During the quarter ended March 31, 2002, our operations provided \$4.2 million of cash compared to using \$9.9 million in the first quarter of 2001. We had a net loss of \$3.0 million in 2002 compared to a net loss of \$9.8 million in 2001. EBITDA, was \$1.4 million for the quarter ended March 31, 2002 compared to \$0.4 million for the first quarter of 2001.

Cash used in investing activities during the quarter ended March 31, 2002, was \$0.2 million compared to \$0.3 million in 2001.

Cash used by financing activities during the quarter ended March 31, 2002, was \$6.4 million compared to having provided \$7.9 million in 2001.

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

We follow the customary practice in the sporting goods industry of offering extended payment terms to creditworthy customers on qualified orders. Our working capital requirements generally peak in the second and third quarters as we build inventory and make shipments under these extended payment terms.

RESTRUCTURING RESERVES

Edgar Filing: HOCKEY CO - Form 10-Q

In 2001, we embarked on a plan to rationalize our operations and consolidate our facilities. 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, and our Paris, France sales office, and the consolidation of North American distribution into Canada. Accordingly, we set up reserves of approximately \$5.7 million for the expected cost of the restructuring. Of this amount, approximately \$4.3 million was to cover the cost of severance packages to affected employees, with the remainder representing other closure costs. Of these amounts, approximately \$1.6 million remained unpaid as at March 31, 2002.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS, and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Under the new rules, goodwill and intangible assets with indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their estimated useful lives.

We have applied the new rules on accounting for goodwill as of January 1, 2002. We will test goodwill annually for impairment using a two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. We expect to complete the required testing of indefinite lived assets and the allocation of goodwill to reporting units as of January 1, 2002 in the first half of 2002.

In August 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 144, IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. Under the new rules, assets held for sale would be recorded at the lower of the assets' carrying amounts and fair values and would cease to be depreciated. We adopted the Statement as of January 1, 2002 and no significant transition adjustment resulted from its adoption.

On April 30, 2002, the Financial Accounting Standards Board Issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be classified as an extraordinary item, net of related income tax effect, if material in the aggregate. Due to the rescission of SFAS No. 4, the criteria in Opinion 30 will now be used to classify those gains and losses.

The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria for classification as an extraordinary item will be reclassified. The provisions of SFAS No. 145 related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002. We are currently assessing the impact adoption of this statement will have on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We, in the normal course of doing business, are exposed to market risk from changes in foreign currency exchange rates and interest rates. Our principal currency exposures relate to the Canadian dollar and to certain European currencies. Management's objective, regarding foreign currency risk, is to protect cash flows resulting from sales, purchases and other costs from the

Edgar Filing: HOCKEY CO - Form 10-Q

adverse impact of exchange rate movements.

Our European and Canadian subsidiaries each have operating credit facilities denominated in their respective local currencies; these debt facilities are hedged by the operating revenues generated in the local currencies of the subsidiaries. Our long-term debt is denominated in Canadian dollars (Canadian \$135.8 million). Our equity investment in our Canadian subsidiary is effectively hedged by the Canadian dollar denominated debt up to our investment in our Canadian subsidiary. As a result of the Offering, as described above, our equity investment in our Canadian subsidiary is no longer hedged and we

15

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

are exposed to the fluctuations in Canadian dollars. As we hold either long-term or operating debt facilities denominated in the currencies of our European subsidiaries, our equity investments in those entities are hedged against foreign currency fluctuations. We do not engage in speculative derivative activities.

We are exposed to changes in interest rates primarily as a result of our long-term debt and operating credit facilities used to maintain liquidity and fund capital expenditures. Management's objective, regarding interest rate risk, is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve these objectives, we maintain the ability to borrow funds in different markets, thereby mitigating the effect of large changes in any one market. Our debts have variable interest rates and thus a 1% variation in the interest rate will cause approximately \$1.1 million increase or decrease in interest expense.

We are also exposed to foreign exchange fluctuations due to our significant sales and costs in Canada, Sweden and Finland. If the average exchange rate of the Canadian Dollar, Swedish Krona and Finnish Markka were to vary by 1% versus the U.S. Dollar, the effect on sales for 2001 would have been \$0.7 million, \$0.2 million and \$0.2 million, respectively. We also have operating expenses in each of these currencies which would mitigate the impact of such foreign exchange variation on cash flows from operations.

16

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.

Edgar Filing: HOCKEY CO - Form 10-Q

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Not applicable.

(b) Reports on Form 8-K. Not applicable.

Not applicable.

17

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

Name: Robert A. Desrosiers
Title: Chief Financial Officer and Vice President,
Finance and Administration

Date: May 15, 2002