TOPPS CO INC
Form 10-Q
October 16, 2001

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 1, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from__________________to__________________

Commission File Number: 0-15817

THE TOPPS COMPANY, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 11-2849283 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

One Whitehall Street, New York, NY 10004
(Address of principal executive offices, including zip code)

(212) 376-0300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

The number of outstanding shares of Common Stock as of October 10, 2001 was 42,442,000.

THE TOPPS COMPANY, INC.
AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

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

| | (Unaudited) September 1, 2001 | March 3, 2001 |
|---|---|---|
| | (amounts in thousands except share data) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents ............................. | $ 134,457 | $ 158,741 |
| Accounts receivable - net ............................. | 22,432 | 10,770 |
| Inventories ............................................ | 30,548 | 22,926 |
| Income tax receivable ................................. | 6,817 | 11,570 |
| Deferred tax assets ................................... | 3,457 | 2,444 |
| Prepaid expenses and other current assets ............. | 3,875 | 4,328 |
| TOTAL CURRENT ASSETS .............................. | 201,586 | 210,779 |
| PROPERTY, PLANT, & EQUIPMENT .............................. | 23,094 | 19,136 |
| Less: accumulated depreciation and amortization ....... | 9,451 | 7,955 |
| NET PROPERTY, PLANT & EQUIPMENT ................... | 13,643 | 11,181 |
| INTANGIBLE ASSETS, net of accumulated amortization of $46,586 and $45,931 ................................ | 56,525 | 54,970 |
| OTHER ASSETS .............................................. | 4,159 | 3,342 |
| TOTAL ASSETS ...................................... | $ 275,913 | $ 280,272 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable ...................................... | $ 12,512 | $ 13,705 |
| Accrued expenses and other liabilities ................ | 38,134 | 36,969 |
| Income taxes payable .................................. | 14,117 | 22,026 |
| TOTAL CURRENT LIABILITIES ......................... | 64,763 | 72,700 |
| DEFERRED INCOME TAXES ..................................... | 434 | 1,344 |
| OTHER LIABILITIES ......................................... | 10,155 | 9,686 |
| TOTAL LIABILITIES ................................. | 75,352 | 83,730 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, par value $.01 per share authorized 10,000,000 shares, none issued .................... | -- | -- |
| Common stock, par value $.01 per share, authorized 100,000,000 shares; issued 48,554,300 shares and 48,421,000 shares as of September 1, 2001 and | | |

| | | |
|---|---|---|
| March 3, 2001, respectively | 486 | 484 |
| Additional paid-in capital | 23,817 | 21,758 |
| Treasury stock, 5,022,000 shares and 4,329,000 shares as of Sept. 1, 2001 and March 3, 2001, respectively | (55,473) | (38,051) |
| Retained earnings | 237,960 | 217,479 |
| Accumulated other comprehensive loss | (6,229) | (5,128) |
| TOTAL STOCKHOLDERS' EQUITY | 200,561 | 196,542 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 275,913 | $ 280,272 |

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

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

| | (Unaudited) | | | |
|---|---|---|---|---|
| | Thirteen weeks ended | | Twenty-six week | |
| | September 1, 2001 | August 26, 2000 | September 1, 2001 | |
| | (amounts in thousands, except share dat | | | |
| Net sales | $ 81,659 | $141,708 | $169,110 | |
| Cost of sales | 45,007 | 69,981 | 94,197 | |
| Gross profit on sales | 36,652 | 71,727 | 74,913 | |
| Other income (expense) | (2,568) | 324 | (1,840) | |
| | 34,084 | 72,051 | 73,073 | |
| Selling, general and administrative expenses | 21,789 | 21,604 | 43,785 | |
| Income from operations | 12,295 | 50,447 | 29,288 | |
| Interest income, net | 1,249 | 1,106 | 2,714 | |
| Income before provision for income taxes | 13,544 | 51,553 | 32,002 | |
| Provision for income taxes | 4,692 | 19,589 | 11,521 | |
| Net income | $ 8,852 | $ 31,964 | $ 20,481 | |
| Net income per share - basic | $ 0.20 | $ 0.71 | $ 0.47 | |
| - diluted | 0.20 | 0.68 | 0.46 | |
| Weighted average shares outstanding - basic | 43,376,000 | 45,307,000 | 43,615,000 | 4 |

| | | | | |
|---|---|---|---|---|
| - diluted | 44,709,000 | 46,732,000 | 44,878,000 | 4 |

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



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

| | (Unaudited) | | | |
|---|---|---|---|---|
| | Thirteen weeks ended | | Twenty-six weeks ended | |
| | September 1, 2001 | August 26, 2000 | September 1, 2001 | August 26, 2000 |
| | (Amounts in thousands) | | | |
| Net income .................... | $ 8,852 | $ 31,964 | $ 20,481 | $ 60,993 |
| Currency translation adjustment | 2,893 | (423) | (1,101) | (2,565) |
| Comprehensive income .......... | $ 11,745 | $ 31,541 | $ 19,380 | $ 58,428 |

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



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

| | (Unaudited) Twenty-six weeks ended September 1, 2001 | August 26, 2000 |
|---|---|---|
| | (amounts in thousands) | |
| Cash flows from operating activities: | | |
| Net income | $ 20,481 | $ 60,993 |
| Add non-cash items included in net income: | | |
| Depreciation and amortization | 2,581 | 1,962 |
| Deferred income taxes | 14 | 1,776 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (11,548) | (8,611) |
| Inventories | (6,651) | 484 |
| Income tax receivable | 4,753 | 108 |
| Prepaid expenses and other current assets | 523 | 323 |
| Payables and other current liabilities | (9,133) | 19,953 |
| Other liabilities | 239 | (1,523) |
| Cash provided by operating activities | 1,259 | 75,465 |
| Cash flows from investing activities: | | |
| Purchase of subsidiary, net of cash | (5,671) | - |
| Additions to property, plant and equipment | (3,096) | (1,301) |
| Cash used in investing activities | (8,767) | (1,301) |
| Cash flows from financing activities: | | |
| Exercise of stock options | 2,061 | 1,571 |
| Repurchase of common stock | (17,422) | (10,369) |
| Cash used in financing activities | (15,361) | (8,798) |
| Net (decrease)/increase in cash and cash equivalents | (22,869) | 65,366 |
| Effect of exchange rate changes on cash and cash equivalents. | (1,415) | (970) |
| Cash and cash equivalents at beginning of period | 158,741 | 75,853 |
| Cash and cash equivalents at end of period | $ 134,457 | $ 140,249 |

Supplemental disclosures of cash flow information:

| | | |
|---|---|---|
| Interest paid ............................................. | $ 19 | $ 26 |
| Income taxes paid ......................................... | $ 13,851 | $ 3,610 |

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



THE TOPPS COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TWENTY-SIX WEEKS ENDED SEPTEMBER 1, 2001

1. Basis of Presentation

The accompanying unaudited condensed interim consolidated financial statements have been prepared by The Topps Company, Inc. and its subsidiaries (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which are, in the opinion of management, considered necessary for a fair presentation. Operating results for the twenty-six weeks ended September 1, 2001 are not necessarily indicative of the results that may be expected for the year ending March 2, 2002. For further information refer to the consolidated financial statements and notes thereto in the Company's annual report for the year ended March 3, 2001.

2. Quarterly Comparison

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

3. Inventories

| | (Unaudited) September 1, 2001 | March 3, 2001 |
|---|---|---|
| | (amounts in thousands) | |
| Raw materials | $ 4,985 | $ 2,804 |
| Work in process | 2,235 | 805 |
| Finished product | 23,328 | 19,317 |
| Total | $ 30,548 | $ 22,926 |

4. Segment Information

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

The Confectionery segment consists of a variety of lollipop products including Ring Pop, Push Pop and Baby Bottle Pop, the Bazooka bubble gum line and other novelty confectionery products, including Pokemon confectionery products.

The Collectible Sports Products segment primarily consists of trading cards featuring players from Major League Baseball, the National Basketball Association, the National Football League and the National Hockey League as well as sticker/album products featuring players from certain European soccer leagues.



The Entertainment Products segment consists of trading cards and sticker/album products featuring licenses from popular films, television shows and other entertainment properties including Pokemon.

The Company's management evaluates the performance of each segment based upon its contributed margin, which is profit after cost of goods, product development, advertising and promotional costs and obsolescence, but before unallocated general and administrative expenses and manufacturing overhead, depreciation and amortization, other income, interest and income taxes.

The Company does not allocate assets among its business segments and therefore does not include a breakdown of assets or depreciation and amortization by segment.

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | September 1, 2001 | August 26, 2000 | September 1, 2001 | August 26, 2000 |
| | (in thousands of dollars) | | | |
| **Net Sales** | | | | |
| Confectionery ............. | $ 44,882 | $ 57,221 | $ 90,249 | $109,663 |
| Collectible Sports Products | 28,727 | 34,471 | 59,638 | 63,581 |
| Entertainment Products .... | 8,050 | 50,016 | 19,223 | 112,796 |
| Total ..................... | $ 81,659 | $141,708 | $169,110 | $286,040 |
| **Contributed Margin** | | | | |
| Confectionery ............. | $ 16,841 | $ 24,162 | $ 34,576 | $ 41,703 |
| Collectible Sports Products | 9,826 | 12,862 | 20,895 | 25,715 |
| Entertainment Products .... | 5,914 | 29,671 | 11,159 | 61,241 |
| Total ..................... | $ 32,581 | $ 66,695 | $ 66,630 | $128,659 |

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

| | | | | |
|---|---|---|---|---|
| Total contributed margin .... | $ 32,581 | $ 66,695 | $ 66,630 | $128,659 |
| Unallocated general and adminstrative expenses and manufacturing overhead ...... | (16,340) | (15,593) | (32,921) | (31,211) |
| Depreciation & amortization . | (1,378) | (979) | (2,581) | (1,962) |
| Other income (expense) ...... | (2,568) | 324 | (1,840) | 971 |
| Income from operations ...... | 12,295 | 50,447 | 29,288 | 96,457 |
| Interest income, net ........ | 1,249 | 1,106 | 2,714 | 1,917 |
| Income before provision for income taxes ........... | $ 13,544 | $ 51,553 | $ 32,002 | $ 98,374 |



5. Reclassifications

The Company has changed the classification of certain accounts. Prepress, autograph and relic costs related to future period releases, which previously had been included in the balance of prepaid expenses and other current assets, have been reclassified to inventory. The cost of autographs, relics, and freight related to merchandise sold in the period, which previously had been included in selling, general and administrative expenses, has been reclassified to cost of goods sold. This presentation has been reflected on the Condensed and Consolidated Balance Sheets as of September 1, 2001 and March 3, 2001 and the Statement of Operations for the thirteen and twenty-six week periods ended September 1, 2001 and August 26, 2000. There is no impact on reported income from operations, net income or working capital as a result of these reclassifications.

6. Acquisition of thePit.com, Inc.

On August 26, 2001 the Company acquired all of the outstanding common stock in thePit.com, Inc., which operates a sports card exchange, for $5.7 million in cash. The acquisition was accounted for using the purchase method of accounting. The financial statements of thePit.com, Inc. have been consolidated into the financial statements of the Company. The impact on the Company's financial statements is not material, and, accordingly, proforma information has not been provided. Additionally, the allocation of the purchase price had not been completed and, accordingly, no amortization of intangibles was included in the Consolidated Statement of Operations for the period ended September 1, 2001, although the impact would not have been material. Management expects that the allocation of the purchase price will be completed by December 1, 2001 and reflected in the financial statements as of that date.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholders
The Topps Company, Inc.

We have made a review of the accompanying condensed consolidated balance sheet of The Topps Company, Inc. and subsidiaries (the "Company") as of September 1, 2001, and the related condensed consolidated statements of operations and cash flows for the thirteen week periods ended September 1, 2001 and August 26, 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of The Company as of March 3, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 4, 2001 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 3, 2001 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

SIGNATURE

October 1, 2001
New York, New York



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

Second Quarter Fiscal Year 2002 (thirteen weeks ended September 1, 2001) versus Second Quarter Fiscal Year 2001 (thirteen weeks ended August 26, 2000)

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

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | September 1, 2001 | August 26, 2000 | September 1, 2001 | August 26, 2000 |
| | (In thousands of dollars) | | | |
| Net Sales | | | | |
| Confectionery .................... | $ 44,882 | $ 57,221 | $ 90,249 | $109,663 |
| Collectible Sports Products ...... | 28,727 | 34,471 | 59,638 | 63,581 |
| Entertainment Products ........... | 8,050 | 50,016 | 19,223 | 112,796 |
| Total .................. | $ 81,659 | $141,708 | $169,110 | $286,040 |

Net sales in the second quarter of fiscal 2002 decreased 42.4% to $81.7 million from $141.7 million for the same period last year. This decrease was primarily a function of a significant reduction in sales of Pokemon products to $8.7 million in the quarter this year from $64.1 million last year. Approximately $4.8 million of the Pokemon sales in the quarter this year, versus $2.0 million last year, were the result of a reversal of the provision for returns.

Net sales of confectionery products, which include among other things, Bazooka brand bubble gum and Ring Pop, Push Pop, Baby Bottle Pop and Pokemon candies, decreased 21.6% in the second quarter of this year to $44.9 million from $57.2 million in fiscal 2001. Included in fiscal 2002 sales are $3.2 million of Pokemon confectionery products principally overseas versus $16.2 million worldwide in 2001. Sales of branded (non-Pokemon) confectionery products increased 2% in the quarter this year to $41.6 million, reflecting continued growth in the U.S., partially offset by weaker sales internationally.

Net sales of collectible sports products, which consist of both sports cards and sports sticker/album products, decreased 16.7% to $28.7 million in the second quarter of fiscal 2002 from $34.5 million in the comparable period last year. This decrease was principally the result of lower sales of football products in the U.S.

Net sales of entertainment products, which consist of entertainment cards and the Merlin line of entertainment sticker/album products, decreased to $8.1

million in the second quarter of fiscal 2002 from $50.0 million in fiscal 2001 reflecting lower sales of Pokemon products.

Gross profit as a percentage of net sales in the second quarter of fiscal 2002 decreased to 44.9% as compared with 50.6% in the same period last year. Margins this year were negatively impacted by the reduction in sales of high-margin Pokemon products as well as an increase in sports autograph and relic costs and higher product development costs, partially offset by a volume rebate from a French distributor.

Other income/(expense) was an expense of $2.6 million this year versus income of $324,000 last year primarily as a result of a non-cash foreign exchange loss of $2.7 million on substantial dollar-denominated cash balances held in Europe.



Selling, general and administrative ("SG&A") expenses increased as a percentage of net sales to 26.7% in the second quarter of fiscal 2002 from 15.2% a year ago primarily as a result of lower sales. SG&A dollar spending increased to $21.8 million this year from $21.6 million in the quarter last year as a result of the timing of the accrual for employee incentive compensation and increased legal, pension and depreciation expenses, partially offset by lower expenditures this year for marketing and the Company's Internet initiative.

Net income in the second quarter of fiscal 2002 was $8.9 million, or $0.20 per fully diluted share, as compared with $32.0 million, or $0.68 per fully diluted share last year.

First Half Fiscal 2002 (twenty-six weeks ended September 1, 2001) compared to First Half Fiscal 2001 (twenty-six weeks ended August 26, 2000)

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Net sales in the first half of fiscal 2002 decreased 40.9% to $169.1 million from $286.0 million for the same period last year. This decrease was a function of a significant reduction in Pokemon sales to $18.8 million in the first half this year from $139.5 million last year. Approximately $7.9 million of the Pokemon sales in the period this year, versus $1.7 million last year, were the result of reversals of the provision for returns.

Net sales of confectionery products decreased 17.7% in the first half this year to $90.2 million from $109.7 million in fiscal 2001. Included in fiscal 2002 sales are $4.7 million of Pokemon confectionery products principally overseas versus $29.2 million worldwide a year ago. Excluding Pokemon products, sales of branded confectionery products increased 6.3%, primarily driven by growth of Baby Bottle Pop.

Net sales of collectible sports products decreased 6.2% to $59.6 million in the first half of fiscal 2002 from $63.6 million in the comparable period last year. Sales of U.S. football cards, basketball cards and European soccer sticker/album products were less this year than last.

Net sales of entertainment products decreased to $19.2 million in the first half of fiscal 2002 from $112.8 million in fiscal 2001 reflecting lower sales of Pokemon products.

Gross profit as a percentage of net sales for the first half of fiscal 2002 decreased to 44.3% as compared with 49.0% for the same period last year. Margins this year were negatively impacted by the reduction in sales of high-margin Pokemon products as well as an increase in sports autograph and relic costs and higher product development costs, partially offset by a volume rebate from a French distributor.

Other income/(expense) was an expense of $1.8 million this year versus income of $971,000 last year primarily as a result of a non-cash foreign exchange loss of $2.7 million on substantial dollar-denominated cash balances held in Europe.

Selling, general and administrative ("SG&A") expenses increased as a percentage of net sales to 25.9% in the first half of fiscal 2002 from 15.6% a year ago as a result of lower sales. SG&A dollar spending decreased to $43.8 million this year from $44.7 million last year as a result of lower marketing expenses partially offset by increased costs for legal, pension and depreciation.

Net interest income increased to $2.7 million in fiscal 2002 from $1.9 million in fiscal 2001 as a result of higher average cash balances.

Net income in the first half of fiscal 2002 was $20.5 million, or $.46 per fully diluted share, as compared with $61.0 million, or $1.30 per fully diluted share last year.



## Liquidity and Capital Resources

On June 26, 2000, the Company entered into a credit agreement with Chase Manhattan Bank and LaSalle Bank National Association. The agreement provides for a $35.0 million unsecured facility to cover revolver and letter of credit needs and expires on June 26, 2004. Interest rates are variable and are a function of the Company's EBITDA. The credit agreement contains restrictions and prohibitions of a nature generally found in loan agreements of this type and requires the Company, among other things, to comply with certain financial covenants, limits the Company's ability to repurchase its shares, sell or acquire assets or borrow additional money and prohibits the payment of dividends. The credit agreement may be terminated by the Company at any point over the four year term (provided the Company repays all outstanding amounts thereunder) without penalty.

In October 1999, the Board of Directors authorized the Company to repurchase up to 5 million shares of its stock. During the second quarter of fiscal 2002, the Company repurchased 903,500 shares at an average price of $11.93, bringing total shares purchased under this authorization as of September 1, 2001 to 4.8 million. On October 1, 2001, the Board of Directors authorized the Company to repurchase up to an additional 5 million shares of its stock.

As of September 1, 2001, the Company had $134.5 million in cash and cash equivalents.

During the first half of fiscal 2002, the Company's net decrease in cash and cash equivalents was $22.9 million versus an increase of $65.4 million in the first half of fiscal 2001. Cash provided by operating activities in the first half of this year was $1.3 million versus $75.5 million last year, primarily as a result of lower net income and tax payments in Europe. Cash used in investing activities this year reflects the $5.7 million acquisition of thePit.com as well as $3.1 million in capital expenditures compared with $1.3 in capital expenditures last year. Cash used in financing activities reflects expenditures for the repurchase of Company stock net of the exercise of stock options of $15.4 million this year versus $8.8 million last year.

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



Cautionary Statements
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In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"), the Company is hereby filing cautionary statements identifying important factors that could cause actual results to differ materially from those projected in any forward-looking statements of the Company made by or on behalf of the Company, whether oral or written. Among the factors that could cause the Company's actual results to differ materially from those indicated in any such forward statements are: (i) the failure of certain of the Company's principal products, particularly sports cards, entertainment cards, lollipops and sticker/album collections, to achieve expected sales levels; (ii) quarterly fluctuations in results; (iii) the Company's loss of important licensing arrangements; (iv) the failure of the Company's Internet initiative to achieve expected levels of success for any reason whatsoever; (v) the Company's loss of important supply arrangements with third parties; (vi) the loss of any of the Company's key customers or distributors; (vii) further prolonged and material contraction in the trading card industry as a whole; (viii) further declines in the sale of U.K. Premier League sticker/album collections; (ix) excessive returns of the Company's products; (x) civil unrest, currency devaluation, terrorism or political upheaval in the U.S. or certain foreign countries in which the Company conducts business; as well as other risks detailed from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission.

ITEM 3. DISCLOSURES ABOUT MARKET RISK

The Company's exposures to market risk associated with activities in derivative financial instruments (e.g., hedging or currency swap agreements), other financial instruments and derivative commodity instruments is confined to the impact of mark-to-market changes in foreign currency rates on the Company's forward contracts and options. The Company has no debt and does not engage in any commodity-related derivative transactions. As of September 1, 2001, the Company had contracts and options which were entered into for the purpose of hedging forecasted receipts and disbursements as well as cash balances in various foreign currencies and which, due to the weakening of the U.S. dollar, resulted in an unfavorable mark-to-market in the quarter.



ITEM 1. LEGAL PROCEEDINGS

On August 21, 2000, the Company was named as a defendant in a purported class action commenced in the Superior Court of the State of California for the County of Alameda (the "California State Court") entitled Chaset, et al. v. The Upper Deck Company, et al., No. 830257-9 (the "California Class Action"). The California Class Action alleges that the Company and other manufacturers and licensors of sports and entertainment trading cards committed unlawful, unfair and fraudulent business acts under the California Unfair Business Practices Act (CUBPA) and the California Consumer Legal Remedies Act by the practice of selling trading cards with randomly-inserted "insert" cards allegedly in violation of state and federal anti-gambling laws and state consumer laws. The California Class Action asserts three claims for relief and seeks declaratory, equitable and injunctive relief and attorneys' fees on behalf of a purported nationwide class of trading card purchasers. Plaintiff filed an amended complaint on October 13, 2000, including an amendment to demand compensatory and punitive damages and restitution. On December 14, 2000, plaintiff moved for summary judgment on one of his CUBPA claims. On December 15, 2000, all defendants filed a motion to dismiss two of the claims for failure to state a claim upon which relief can be granted; a motion for summary judgment dismissing the remaining claim; and a motion to strike all allegations of fraudulent or deceptive representations and all references to plaintiff's prayer for monetary relief. On March 29, 2001, the Court issued a tentative ruling granting defendants' motion for summary judgment on the grounds that defendants' practices do not constitute illegal gambling as a matter of law, but denying the motion to dismiss to the extent that the remaining two claims allege false or misleading advertising practices unrelated to the gambling issue. On March 30, 2001, in accordance with California state practice, the Court heard oral argument on whether or not its tentative ruling should stand as a final ruling. Thereafter, the Court issued a tentative ruling denying the motion for summary judgment and motion to dismiss, and set a hearing for June 1, 2001 to hear additional argument on the motions. On June 12, 2001, the Court entered an order denying defendants' motion for summary judgment and their motions to dismiss and to strike. At a case management conference on June 29, 2001, the Court stayed discovery pending defendants' appeal of the summary judgment decision and ruled that, if the appeal is denied, the parties are to address issues relating to the certification of a plaintiff class before proceeding to merits discovery. In addition, the Court has ruled that plaintiff's motion for summary judgment will not be heard until the Court had ruled on the class certification issue. Subsequently, review of the Court's decision denying defendants' motion for summary judgment was denied by the California Court of Appeal and the California Supreme Court. On September 21, 2001, plaintiff moved for class certification. Briefing and discovery concerning the class certification issue is not expected to be completed until January 2002, with a hearing on that issue set for February 4, 2002. An adverse outcome in the California Class Action could materially effect the Company's future plans and results. The Company's management believes that it has meritorious defenses and intends to vigorously defend against these claims.

On February 26, 2001, The Upper Deck Company LLP ("Upper Deck") and Ken Griffey, Jr. commenced an action in the United States District Court for the Southern District of California against the Company for alleged unfair competition and invasion of privacy arising from the Company's planned launch of its 2001 Gold Label trading card series featuring trading cards containing game-used memorabilia of Griffey, Sammy Sosa, Jose Canseco and Alex Rodriguez, amount others. Upper Deck alleges that it has the exclusive right to sell memorabilia trading cards of the foregoing players. Plaintiffs seek unspecified damages, injunctive and declaratory relief and attorneys' fees and costs of suit. On February 28, 2001, Upper Deck and Griffey sought a temporary restraining order enjoining the Company from using the baseball pictures of the foregoing four players with trading cards containing game-used items. The Company submitted a written opposition on March 5, 2001. On March 6, 2001, Judge Judith Keep, U.S.D.J., ruling from the bench, denied Upper Deck's and Griffey's motion for a temporary restraining order. Judge Keep found, among other things, that in light of the Company's factual showing regarding the existence and scope of the players' licenses to the Company, as set forth in the BPPLA, Upper Deck and Griffey failed to establish any likelihood of success on the merits of their claims. In light of Judge Keep's ruling and the MLBPA's subsequent decision to commence an arbitration (see below), Upper Deck and Griffey agreed to a temporary stay of this litigation pending agreement on the terms of a formal stipulation between the parties pursuant to which the action may be dismissed or stayed pending a ruling in the arbitration between the MLBPA and the Company. On June 12, 2001, Upper Deck and Griffey voluntarily dismissed their Complaint with Prejudice.

On March 16, 2001, the MLBPA served upon the Company a notice of intention to arbitrate, contending that the Company does not have a license from the Major League baseball players authorizing it to manufacture and sell trading cards containing game-used items, such as jerseys and bats. The MLBPA alleges that absent a specific license from the Major League baseball players regarding such game-used items, the Company should not be permitted to manufacture and sell such trading cards. The MLBPA seeks unspecified damages and injunctive and declaratory relief. The Company believes that the Major League baseball players have authorized it to manufacture and sell trading cards containing memorabilia pursuant to the grant of a license contained in the standard Baseball Players Picture License Agreement ("BPPLA") between Topps and the ball players. On March 28, 2001, pursuant to the arbitration clause of the BPPLA, the Company designated David G. Ebert, Esq. and the MLBPA designated Steven Fehr as their respective partisan arbitrators, who in turn, have selected Frank H. Wohl, Esq. to serve as the neutral arbitrator. However, the MLBPA and the Company have agreed to settle the dispute and are in the process of preparing a written settlement agreement.

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



ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE TOPPS COMPANY, INC.
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REGISTRANT

/s/ Catherine Jessup
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Vice President-Chief Financial Officer

October 16, 2001