

HOCKEY CO  
Form 10-Q  
August 14, 2002

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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 X

NO

# Edgar Filing: HOCKEY CO - Form 10-Q

## APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under the plan confirmed by the court :

YES    X

-----

NO

-----

## 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 12, 2002 |
|----------------------------------|--------------------------------|
| -----                            | -----                          |
| Common Stock,<br>\$.01 par value | 7,040,523                      |

1

THE HOCKEY COMPANY  
FORM 10-Q  
INDEX

## ----- Part I      Financial Information -----

### Item 1.      Financial Statements (Unaudited)

Consolidated Balance Sheets at June 30, 2002 and December 31, 2001

Consolidated Statements of Operations for the Three and Six Months ended June 30, 2002 and for the Three and Six Months ended June 30, 2001

Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months ended June 30, 2002 and for the Three and Six Months ended June 30, 2001

Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2002 and for the Six Months ended June 30, 2001

Notes to Consolidated Financial Statements

### Item 2.      Management's Discussion and Analysis of Financial Condition and Results of Operations

### Item 3.      Quantitative and Qualitative Disclosure about Market Risk

# Edgar Filing: HOCKEY CO - Form 10-Q

## Part II Other Information

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

## THE HOCKEY COMPANY CONSOLIDATED BALANCE SHEETS (In thousands)

### PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

|                                                                                                      | Note 1(B)     |
|------------------------------------------------------------------------------------------------------|---------------|
|                                                                                                      | Dec. 31, 2001 |
| <b>ASSETS</b>                                                                                        |               |
| Current assets                                                                                       |               |
| Cash and cash equivalents                                                                            | \$ 6,503      |
| Accounts receivable, net                                                                             | 50,551        |
| Inventories (Note 2)                                                                                 | 42,865        |
| Prepaid expenses                                                                                     | 4,891         |
| Income taxes and other receivables                                                                   | 1,718         |
| Total current assets                                                                                 | 106,528       |
| Property, plant and equipment, net of accumulated depreciation (\$15,556 and \$18,564, respectively) | 16,834        |
| Goodwill and excess re-organization intangible (Note 3)                                              | 69,250        |
| Other assets                                                                                         | 6,811         |
| Total assets                                                                                         | \$199,423     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                          |               |
| Liabilities                                                                                          |               |
| Short-term borrowings (Note 4)                                                                       | \$ 27,792     |
| Accounts payable and accrued liabilities                                                             | 20,870        |
| Income taxes payable                                                                                 | 3,470         |
| Current portion of long term debt (Note 4)                                                           | 243           |

# Edgar Filing: HOCKEY CO - Form 10-Q

|                                                                                                                                                                                           |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Total current liabilities                                                                                                                                                                 | 52,375    |
| Long-term debt (Note 4)                                                                                                                                                                   | 86,350    |
| Accrued dividends payable (Note 5)                                                                                                                                                        | 5,779     |
| Deferred income taxes and other long-term liabilities                                                                                                                                     | 1,128     |
| Total liabilities                                                                                                                                                                         | 145,632   |
| Contingencies (Note 7)                                                                                                                                                                    |           |
| 13% Pay-In-Kind preferred stock (Note 5)                                                                                                                                                  | 11,571    |
| Stockholders' equity                                                                                                                                                                      |           |
| Common stock, par value \$0.01 per share, 20,000,000 shares authorized,<br>6,500,549 issued and outstanding at December 31, 2001 and 7,040,523<br>issued and outstanding at June 30, 2002 | 65        |
| Common stock purchase warrants, 699,101 issued and outstanding at<br>December 31, 2001 and 159,127 issued and outstanding at June 30,<br>2002 (Note 5)                                    | 5,115     |
| Additional paid-in capital                                                                                                                                                                | 66,515    |
| Deficit                                                                                                                                                                                   | (22,090)  |
| Accumulated other comprehensive loss                                                                                                                                                      | (7,385)   |
| Total stockholders' equity                                                                                                                                                                | 42,220    |
| Total liabilities and stockholders' equity                                                                                                                                                | \$199,423 |

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<br>Months ended<br>June 30, 2001 | For the Six<br>Months ended<br>June 30, 2001 |
|----------------------------------------------------------|------------------------------------------------|----------------------------------------------|
| Net sales                                                | \$ 42,252                                      | \$ 77,087                                    |
| Cost of goods sold before restructuring charges          | 24,579                                         | 45,452                                       |
| Restructuring and unusual charges (Note 9)               | -                                              | 901                                          |
| Gross profit                                             | 17,673                                         | 30,734                                       |
| Selling, general and administrative expenses             | 13,927                                         | 28,848                                       |
| Restructuring and unusual charges (Note 9)               | -                                              | 2,005                                        |
| Amortization of excess reorganization value and goodwill | 1,100                                          | 2,205                                        |
| Operating income (loss)                                  | 2,646                                          | (2,324)                                      |
| Other expense, net                                       | 760                                            | 1,415                                        |
| Interest expense                                         | 3,722                                          | 6,713                                        |
| Foreign exchange gain                                    | (232)                                          | (311)                                        |

# Edgar Filing: HOCKEY CO - Form 10-Q

|                                                                                                                         |            |             |
|-------------------------------------------------------------------------------------------------------------------------|------------|-------------|
| Income (loss) before income taxes and extraordinary item                                                                | (1,604)    | (10,141)    |
| Income taxes                                                                                                            | 92         | 226         |
| Net income (loss) before extraordinary item                                                                             | (1,696)    | (10,367)    |
| Extraordinary item - Loss on early extinguishment of debt, net of income taxes                                          | -          | 1,091       |
| Net income (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 and diluted income (loss) before extraordinary item per share (Note 6)                                            | \$ (0.32)  | \$ (1.60)   |
| Basic and diluted loss - extraordinary item                                                                             | -          | (0.15)      |
| Basic and diluted loss per share (Note 6)                                                                               | (0.32)     | (1.75)      |
| Adjusted income (loss) before extraordinary item and amortization of excess reorganization value and goodwill           | (596)      | (8,162)     |
| Adjusted income (loss) before amortization of excess reorganization value and goodwill                                  | (596)      | (9,253)     |
| Adjusted income (loss) per share before extraordinary item and amortization of excess reorganization value and goodwill | (0.08)     | (1.13)      |
| Adjusted loss per share before amortization of excess reorganization value and goodwill                                 | (0.08)     | (1.28)      |

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

2

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

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

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 Six<br>Months ended<br>June 30, 2001 |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| OPERATING ACTIVITIES:                                                                                          |                                              |
| Net income (loss) before extraordinary items                                                                   | \$ (10,367)                                  |
| Adjustments to reconcile net income (loss) before extraordinary item to net cash used in operating activities: |                                              |
| Restructuring and unusual charges                                                                              | 2,906                                        |
| Depreciation and amortization                                                                                  | 6,008                                        |
| Deferred income taxes                                                                                          | 43                                           |
| Gain on sales of fixed assets                                                                                  | (8)                                          |
| Gain on foreign exchange                                                                                       | (407)                                        |
| Change in operating assets and liabilities:                                                                    |                                              |
| Accounts receivable                                                                                            | (7,515)                                      |
| Inventories                                                                                                    | (15,389)                                     |
| Prepaid expenses                                                                                               | 1,069                                        |
| Accounts payable and accrued liabilities                                                                       | (4,858)                                      |
| Income taxes payable                                                                                           | (999)                                        |
| Net cash used in operating activities                                                                          | (29,517)                                     |
| INVESTING ACTIVITIES:                                                                                          |                                              |
| Purchases of property, plant & equipment                                                                       | (709)                                        |
| Proceeds from sales of property, plant & equipment                                                             | 332                                          |
| Net cash provided by (used in) investing activities                                                            | (377)                                        |
| FINANCING ACTIVITIES:                                                                                          |                                              |
| Deferred financing costs                                                                                       | (5,482)                                      |
| Net change in short-term borrowings                                                                            | 29,969                                       |
| Proceeds from long-term debt                                                                                   | 191                                          |
| Principal payments on debt                                                                                     | (123)                                        |
| Issuance of warrants                                                                                           | 3,450                                        |
| 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.

# 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 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 in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10Q and Article 10 of Regulation S-X, 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 Income (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. Sales of hockey equipment products are generally highly seasonal and in many instances are dependent on weather conditions. This seasonality causes our financial results to vary from quarter to quarter, with sales and earnings usually weakest in the first and second quarters. In addition, the nature of our business requires that in anticipation of the peak selling season for our products, we make relatively large investments in inventory. Relatively large investments in receivables consequently exist during and after such season.

The Balance Sheet at December 31, 2001 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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.

## Edgar Filing: HOCKEY CO - Form 10-Q

### C. ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") 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 using a two-step process. The first step is to screen for potential impairment, while the second step measures the amount of impairment, if any. Other intangible assets will continue to be amortized over their estimated useful lives.

5

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

In accordance with the transition provisions of the SFAS No. 142, the Company has completed the first step of the transitional goodwill impairment test for all reporting units of the Company. The results of that test have indicated that no impairment in the value of goodwill and excess re-organizational intangible exists.

In August 2001, the FASB issued SFAS 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.

On April 30, 2002, the FASB 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 will adopt this Statement on January 1, 2003 upon which the extraordinary item - loss on early extinguishment of debt, net of income taxes will be reclassified.

In July 2002, FASB issued SFAS no. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3 "LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING)". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at the time when the liability is incurred. SFAS 146 eliminates the definition and requirement for recognition of exit costs at the data of an entity's commitment to an exit plan in Issue 94-3. SFAS 146 will be effective for exit and disposal activities initiated after December 31, 2002 and had no impact on the Company's financial statements, but will impact the accounting treatment of future exit and disposal activities should they occur.

# Edgar Filing: HOCKEY CO - Form 10-Q

## 2. INVENTORIES

Net inventories consist of:

|                            | December 31, 2001 | June 30, 2002    |
|----------------------------|-------------------|------------------|
| Finished products          | \$ 31,892         | \$ 51,575        |
| Work in process            | 2,665             | 2,630            |
| Raw materials and supplies | 8,308             | 10,288           |
|                            | <u>\$ 42,865</u>  | <u>\$ 64,493</u> |
|                            | =====             | =====            |

## 3. GOODWILL AND EXCESS RE-ORGANIZATION INTANGIBLE

Goodwill and excess re-organization intangible consist of:

|                                   | December 31, 2001 | June 30, 2002    |
|-----------------------------------|-------------------|------------------|
| Goodwill                          | \$ 42,883         | \$ 44,252        |
| Excess re-organization intangible | 26,367            | 26,432           |
|                                   | <u>\$ 69,250</u>  | <u>\$ 70,684</u> |
|                                   | =====             | =====            |

6

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

## 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.

In connection with the issuance of the Notes (See Note 4b), the Third

## Edgar Filing: HOCKEY CO - Form 10-Q

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 Fourth 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. 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 4b), 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 June 30, 2002 were \$27,792 and \$4,043, respectively (excluding outstanding letters of credit of \$5,732 at December 31, 2001 and \$6,025 at June 30, 2002). The Credit Agreements will mature on October 17, 2002. Management believes the Credit Agreements can be renewed or refinanced upon maturity. If these agreements cannot be renewed or refinanced with GECC, the Company will seek alternative sources of financing to replace these credit agreements.

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 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 (\$9,800) (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 (4.5% at June 30, 2002) plus 0.90%, matures December 31, 2002 and is renewable annually. Total borrowings as at December 31, 2001 and June 30, 2002 were nil and SEK 50,901 (\$5,528), respectively. Management believes that the credit agreement can be renewed or refinanced upon maturity. If this agreement cannot be renewed or financed with Nordea Bank, the Company will seek alternate sources of financing to replace this agreement.

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 (\$2,365). The facility is collateralized by the assets of KHF and bears interest at a rate of EURIBOR (3.4% at June 30, 2002) plus 0.9% and is renewable annually. Total borrowings as at December 31, 2001 and June 30, 2002 were nil.

## Edgar Filing: HOCKEY CO - Form 10-Q

### B) LONG-TERM DEBT

#### SECURED LOANS

On November 19, 1998, in connection with its acquisition of Sports Holdings Corp., the Company and Sport Masko 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 Masko 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 was capitalized and repaid on Facility 2 maturity. At December 31, 2001 Facility 2 included \$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. On March 8, 2002 the Company acquired an option from the lender to extend the maturity of Facility 2 plus capitalized interest to February 28, 2003.

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. The agreement restricted, among others, the ability to pay cash dividends on the preferred shares.

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

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

## Edgar Filing: HOCKEY CO - Form 10-Q

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, (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

8

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

to borrow under its revolving credit facilities to a maximum of \$35,000 and limits payments of dividends or repurchases of stock.

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 (\$1,086). The loan is for four years with annual principal repayments of SEK 2,500 (\$272). 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 7,040,523 shares 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, at an exercise price of \$.01 per share. Concurrent with the repayment of the Caisse loan (Note 4b), 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. The warrants expired on April 11, 2002.

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 stockholders' 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

## Edgar Filing: HOCKEY CO - Form 10-Q

redemption value of the preferred stock and the recorded amount is being accreted over the term of the Notes, 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 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 issuance of the Notes as described in Note 4b, 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 June 30, 2002 unpaid dividends of \$6,967 (December 31, 2001 -\$5,779) have been accrued on the preferred stock and are included as long-term liabilities. 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.

9

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

#### 6. EARNINGS PER SHARE

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

|                                                                                          | For the Three Months<br>ended June 30, 2001 |            | For the Six Months<br>ended June 30, 2001 |             | For the Three<br>ended June 30, |      |
|------------------------------------------------------------------------------------------|---------------------------------------------|------------|-------------------------------------------|-------------|---------------------------------|------|
|                                                                                          | Basic                                       | Diluted    | Basic                                     | Diluted     | Basic                           | Dil  |
| Net income (loss) before<br>extraordinary item<br>attributable to common<br>stockholders | \$ (2,281)                                  | \$ (2,281) | \$ (11,537)                               | \$ (11,537) | \$ 2,935                        | \$   |
| Net loss attributable to<br>common stockholders                                          | \$ (2,281)                                  | \$ (2,281) | \$ (12,628)                               | \$ (12,628) | \$ (330)                        | \$   |
| Weighted average common and common equivalent shares outstanding:                        |                                             |            |                                           |             |                                 |      |
| Common stock                                                                             | 6,500,549                                   | 6,500,549  | 6,500,549                                 | 6,500,549   | 7,040,523                       | 7,04 |
| Common equivalent<br>shares (a)                                                          | 698,000                                     | 698,000    | 698,000                                   | 698,000     | 158,868                         | 15   |
| Total weighted average<br>common and common<br>equivalent shares                         |                                             |            |                                           |             |                                 |      |

# Edgar Filing: HOCKEY CO - Form 10-Q

|                                                                        |           |           |           |           |           |      |
|------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|------|
| outstanding                                                            | 7,198,549 | 7,198,549 | 7,198,549 | 7,198,549 | 7,199,381 | 7,19 |
| -----                                                                  |           |           |           |           |           |      |
| Net income (loss) before<br>extraordinary item per<br>common share (b) | \$ (0.32) | \$ (0.32) | \$ (1.60) | \$ (1.60) | \$ 0.40   | \$   |
| -----                                                                  |           |           |           |           |           |      |
| Net loss per common<br>share (b)                                       | \$ (0.32) | \$ (0.32) | \$ (1.75) | \$ (1.75) | \$ (0.05) |      |
| -----                                                                  |           |           |           |           |           |      |

- (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 were outstanding but were not included in the computation of diluted earnings per share because the options' 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.

10

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

## 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 licensed authentic and replica hockey jerseys, team uniforms and socks 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.

# Edgar Filing: HOCKEY CO - Form 10-Q

## INFORMATION ABOUT SEGMENT PROFIT OR LOSS AND SEGMENT ASSETS

| 2001                                               | Equipment                                |                                        | Apparel                                  |                                        |
|----------------------------------------------------|------------------------------------------|----------------------------------------|------------------------------------------|----------------------------------------|
|                                                    | For the Three<br>Months ended<br>June 30 | For the Six<br>Months ended<br>June 30 | For the Three<br>Months ended<br>June 30 | For the Six<br>Months ended<br>June 30 |
| Net sales                                          | \$ 34,372                                | \$ 55,691                              | \$ 7,880                                 | \$ 21,396                              |
| Gross profit before restructuring                  | 14,348                                   | 22,243                                 | 3,325                                    | 9,392                                  |
| Inventories                                        | 33,984                                   | 33,984                                 | 17,820                                   | 17,820                                 |
| Goodwill and excess<br>reorganizational intangible | 64,274                                   | 64,274                                 | 9,544                                    | 9,544                                  |

| 2002                                               | Equipment                                |                                        | Apparel                                  |                                        |
|----------------------------------------------------|------------------------------------------|----------------------------------------|------------------------------------------|----------------------------------------|
|                                                    | For the Three<br>Months ended<br>June 30 | For the Six<br>Months ended<br>June 30 | For the Three<br>Months ended<br>June 30 | For the Six<br>Months ended<br>June 30 |
| Net sales                                          | \$ 33,473                                | \$ 56,273                              | \$ 11,094                                | \$ 22,455                              |
| Gross profit before restructuring                  | 14,733                                   | 24,301                                 | 5,452                                    | 10,681                                 |
| Inventories                                        | 37,997                                   | 37,997                                 | 26,496                                   | 26,496                                 |
| Goodwill and excess<br>reorganizational intangible | 61,961                                   | 61,961                                 | 8,723                                    | 8,723                                  |

## Reconciliation of Segment Profit or Loss

|                                           | For the Three<br>Months ended<br>June 30, 2001 | For the Six<br>Months ended<br>June 30, 2001 |
|-------------------------------------------|------------------------------------------------|----------------------------------------------|
| Segment gross profit before restructuring | \$ 17,673                                      | \$ 31,635                                    |
| Restructuring and unusual charges         | -                                              | (901)                                        |
| Gross Profit                              | 17,673                                         | 30,734                                       |

## Edgar Filing: HOCKEY CO - Form 10-Q

### Reconciliation of Segment Profit or Loss (cont'd)

|                                                           | For the Three<br>Months ended<br>June 30, 2001 | For the Six<br>Months ended<br>June 30, 2001 |
|-----------------------------------------------------------|------------------------------------------------|----------------------------------------------|
| <hr/>                                                     |                                                |                                              |
| Unallocated amounts:                                      |                                                |                                              |
| Selling, general and administrative expenses              | 13,927                                         | 28,848                                       |
| Restructuring and unusual charges                         | -                                              | 2,005                                        |
| Amortization of excess re-organization value and goodwill | 1,100                                          | 2,205                                        |
| Other expense, net                                        | 760                                            | 1,415                                        |
| Interest expense                                          | 3,722                                          | 6,713                                        |
| Foreign exchange gain                                     | (232)                                          | (311)                                        |
|                                                           | <hr/>                                          |                                              |
| Income (loss) before income taxes and extraordinary item  | \$ (1,604)                                     | \$ (10,141)                                  |

### 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 \$640 remained unpaid at June 30, 2002 (December 31, 2001 - \$1,900).

### 10. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL INFORMATION

THC's and Sport Masko Inc.'s payment obligations under the Notes (see note 4b) are guaranteed by certain subsidiaries of the Company's and Sport Masko Inc.'s wholly owned subsidiaries (the Other Guarantors) excluding the Finnish subsidiaries which is a pledge of the stock. Such guarantees are full, unconditional and joint and several. Under the Company's revolving credit facilities, both Sport Masko Inc., and Masko U.S. Inc., a guarantor subsidiary, are restricted from paying dividends or providing loans or advances to the Company. The following supplemental financial information sets forth, on an unconsolidated basis, balance sheets, statements of operations and statements of cash flows information for THC, Sport Masko Inc., Other Guarantors and for the Company's other subsidiaries (the Non-Guarantor Subsidiaries), which have been included in the elimination column. The supplemental financial information reflects the investments of the THC, Sport Masko Inc., and the Other Guarantors in the Other Guarantor and Non-Guarantor Subsidiaries using the equity method of accounting. The supplemental financial information also reflects pushdown of the Company's loan with the Caisse (See Note 4b).

# Edgar Filing: HOCKEY CO - Form 10-Q

(In thousands, except share data)

| As at June 30, 2002                                               | The Hockey<br>Company | Sport Mask Inc. | Guarantors | Eli |
|-------------------------------------------------------------------|-----------------------|-----------------|------------|-----|
| <hr/>                                                             |                       |                 |            |     |
| ASSETS                                                            |                       |                 |            |     |
| Cash and cash equivalents                                         | -                     | -               | 1,485      |     |
| Accounts receivable, net                                          | -                     | 22,690          | 29,616     |     |
| Inventories                                                       | -                     | 46,570          | 17,275     |     |
| Prepaid expenses                                                  | 802                   | 2,685           | 2,155      |     |
| Income taxes and other<br>receivables                             | 420                   | 1,245           | 226        |     |
| Intercompany accounts                                             | 79,147                | 30,856          | 21,225     |     |
| <hr/>                                                             |                       |                 |            |     |
| Total current assets                                              | 80,369                | 104,046         | 71,982     |     |
| Property, plant and equipment,<br>net of accumulated depreciation | -                     | 12,284          | 2,098      |     |
| Intangible and other assets                                       | 2,022                 | 28,278          | 48,358     |     |
| Investments in subsidiaries                                       | 36,812                | -               | 44,621     |     |
| Intercompany accounts                                             | 11,092                | -               | 25,000     |     |
| <hr/>                                                             |                       |                 |            |     |
| Total assets                                                      | 130,295               | 144,608         | 192,059    |     |
| <hr/>                                                             |                       |                 |            |     |
| LIABILITIES AND STOCKHOLDERS' EQUITY                              |                       |                 |            |     |
| Liabilities                                                       |                       |                 |            |     |
| Short-term borrowings                                             | -                     | 5,461           | 5,979      |     |
| Accounts payable and<br>accrued liabilities                       | 2,284                 | 17,602          | 8,971      |     |
| Income taxes payable                                              | -                     | 2,656           | 668        |     |
| Current portion of long<br>term debt                              | -                     | -               | 272        |     |
| Intercompany accounts                                             | 1,528                 | 26,015          | 80,590     |     |
| <hr/>                                                             |                       |                 |            |     |
| Total current liabilities                                         | 3,812                 | 51,734          | 96,480     |     |
| Long-term debt                                                    | 36,780                | 61,781          | 25,339     |     |
| Deferred income taxes and other<br>long-term liabilities          | 6,969                 | 2,041           | 691        |     |
| Intercompany accounts                                             | 25,000                | -               | 43,930     |     |
| <hr/>                                                             |                       |                 |            |     |
| Total liabilities                                                 | 72,561                | 115,556         | 166,440    |     |
| <hr/>                                                             |                       |                 |            |     |
| 13% Pay-in-Kind preferred stock                                   | 11,659                | -               | -          |     |
| <hr/>                                                             |                       |                 |            |     |
| Stockholders' equity                                              |                       |                 |            |     |
| Common stock, par value \$0.01<br>per share                       | 70                    | 30,706          | 4,901      |     |
| Common stock purchase warrants                                    | 1,665                 | -               | -          |     |
| Additional paid-in capital                                        | 69,965                | -               | 19,344     |     |
| Retained earnings (Deficit)                                       | (26,067)              | (1,008)         | 1,444      |     |
| Accumulated other comprehensive<br>loss                           | 442                   | (646)           | (70)       |     |
| <hr/>                                                             |                       |                 |            |     |
| Total stockholders' equity                                        | 46,075                | 29,052          | 25,619     |     |
| <hr/>                                                             |                       |                 |            |     |
| Total liabilities and                                             |                       |                 |            |     |

Edgar Filing: HOCKEY CO - Form 10-Q

|                      |         |         |         |   |
|----------------------|---------|---------|---------|---|
| stockholders' equity | 130,295 | 144,608 | 192,059 | ( |
| =====                |         |         |         |   |

13

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

| As at December 31, 2001                                           | The Hockey<br>Company | Sport Maska Inc. | Guarantors | El |
|-------------------------------------------------------------------|-----------------------|------------------|------------|----|
| -----                                                             |                       |                  |            |    |
| ASSETS                                                            |                       |                  |            |    |
| Cash and cash equivalents                                         | -                     | 6                | 2,002      |    |
| Accounts receivable, net                                          | -                     | 17,615           | 32,268     |    |
| Inventories                                                       | -                     | 27,539           | 15,726     |    |
| Prepaid expenses                                                  | 790                   | 2,438            | 1,581      |    |
| Income taxes and other<br>receivable                              | 420                   | 1,187            | 111        |    |
| Intercompany accounts                                             | 66,325                | 35,262           | 33,492     | (  |
| -----                                                             |                       |                  |            |    |
| Total current assets                                              | 67,535                | 84,047           | 85,180     | (  |
| Property, plant and equipment,<br>net of accumulated depreciation | -                     | 12,579           | 2,199      |    |
| Intangible and other assets                                       | 1,119                 | 25,781           | 48,606     |    |
| Investments in subsidiaries                                       | 36,769                | -                | 43,470     |    |
| Intercompany accounts                                             | 11,092                | -                | 24,058     |    |
| -----                                                             |                       |                  |            |    |
| Total assets                                                      | 116,515               | 122,407          | 203,513    | (  |
| =====                                                             |                       |                  |            |    |
| LIABILITIES AND STOCKHOLDERS' EQUITY                              |                       |                  |            |    |
| Liabilities                                                       |                       |                  |            |    |
| Short-term borrowings                                             | -                     | 12,769           | 15,023     |    |
| Accounts payable and<br>accrued liabilities                       | 933                   | 10,961           | 8,744      |    |
| Income taxes payable                                              | -                     | 2,046            | 1,265      |    |
| Current portion of long<br>term debt                              |                       | -                | 243        |    |
| Intercompany accounts                                             | 1,534                 | 27,309           | 84,437     | (  |
| -----                                                             |                       |                  |            |    |
| Total current liabilities                                         | 2,467                 | 53,085           | 109,712    | (  |
| Long-term debt                                                    | 22,586                | 39,279           | 24,485     |    |
| Deferred income taxes and other<br>long-term liabilities          | 5,779                 | 2,135            | 1,122      |    |
| Intercompany accounts                                             | 24,058                | -                | 43,930     |    |
| -----                                                             |                       |                  |            |    |
| Total liabilities                                                 | 54,890                | 94,499           | 179,249    | (  |
| 13% Pay-in-Kind preferred stock                                   | 11,571                | -                | -          |    |
| -----                                                             |                       |                  |            |    |
| Stockholders' equity                                              |                       |                  |            |    |
| Common stock, par value \$0.01<br>per share,                      | 65                    | 29,281           | 4,770      |    |

# Edgar Filing: HOCKEY CO - Form 10-Q

|                                            |          |         |         |
|--------------------------------------------|----------|---------|---------|
| Common stock purchase warrants,            | 5,115    | -       | -       |
| Additional paid-in capital                 | 66,515   | -       | 19,344  |
| Deficit                                    | (22,089) | (668)   | 799     |
| Accumulated other comprehensive loss       | 448      | (705)   | (649)   |
| Total stockholders' equity                 | 50,054   | 27,908  | 24,264  |
| Total liabilities and stockholders' equity | 116,515  | 122,407 | 203,513 |

14

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

| Six months ended<br>June 30, 2002                                             | The Hockey<br>Company | Sport Maska Inc. | Guarantors | EL |
|-------------------------------------------------------------------------------|-----------------------|------------------|------------|----|
| Net sales                                                                     | -                     | 42,106           | 48,814     |    |
| Cost of goods                                                                 | -                     | 27,861           | 30,931     |    |
| Gross profit                                                                  | -                     | 14,245           | 17,883     |    |
| Selling, general and<br>administrative expenses                               | 25                    | 12,059           | 15,525     |    |
| Operating income (loss)                                                       | (25)                  | 2,186            | 2,358      |    |
| Other expense, net [1]                                                        | 217                   | 193              | (832)      |    |
| Interest expense                                                              | 1,598                 | 3,021            | 1,616      |    |
| Foreign exchange gain                                                         | -                     | (2,272)          | -          |    |
| Income (loss) before income taxes<br>and extraordinary item                   | (1,840)               | 1,244            | 1,574      |    |
| Income taxes                                                                  | -                     | 95               | (100)      |    |
| Income (loss) before<br>extraordinary item                                    | (1,840)               | 1,149            | 1,674      |    |
| Extraordinary item - loss on<br>early extinguishment<br>of debt, net of taxes | 861                   | 1,486            | 918        |    |
| Net income (loss)                                                             | (2,701)               | (337)            | 756        |    |

[1] Other expense, net for the Hockey Company and Other Guarantors includes equity in net income (loss) of subsidiaries of \$43 and (\$1,151) respectively.

| Three months ended<br>June 30, 2002 | The Hockey<br>Company | Sport Maska Inc. | Guarantors | E |
|-------------------------------------|-----------------------|------------------|------------|---|
|-------------------------------------|-----------------------|------------------|------------|---|

Edgar Filing: HOCKEY CO - Form 10-Q

|                                                                        |         |         |        |
|------------------------------------------------------------------------|---------|---------|--------|
| Net sales                                                              | -       | 25,848  | 25,684 |
| Cost of goods                                                          | -       | 16,664  | 16,269 |
| Gross profit                                                           | -       | 9,184   | 9,415  |
| Selling, general and administrative expenses                           | 7       | 6,293   | 7,467  |
| Operating income (loss)                                                | (7)     | 2,891   | 1,948  |
| Other expense, net [1]                                                 | (2,112) | 28      | (742)  |
| Interest expense                                                       | 951     | 1,894   | 736    |
| Foreign exchange gain                                                  | -       | (2,251) | -      |
| Income (loss) before income taxes and extraordinary item               | 1,154   | 3,220   | 1,954  |
| Income taxes                                                           | -       | 48      | 9      |
| Income (loss) before extraordinary item                                | 1,154   | 3,172   | 1,945  |
| Extraordinary item - loss on early extinguishment of debt net of taxes | 861     | 1,486   | 918    |
| Net income (loss)                                                      | 293     | 1,686   | 1,027  |

[1] Other expense, net for the Hockey Company and Other Guarantors includes equity in net income (loss) of subsidiaries of \$2,230 and (\$904) respectively.

15

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

| Six months ended<br>June 30, 2001                        | The Hockey<br>Company | Sport Maska Inc. | Guarantors | E |
|----------------------------------------------------------|-----------------------|------------------|------------|---|
| Net sales                                                | -                     | 53,367           | 44,722     |   |
| Cost of goods sold before restructuring charges          | -                     | 39,950           | 28,837     |   |
| Restructuring and unusual charges                        | -                     | 901              | -          |   |
| Gross profit                                             | -                     | 12,516           | 15,885     |   |
| Selling, general and administrative expenses             | 11                    | 12,080           | 15,453     |   |
| Restructuring and unusual charges                        | -                     | 1,394            | 611        |   |
| Amortization of excess reorganization value and goodwill | -                     | 635              | 1,675      |   |
| Operating income (loss)                                  | (11)                  | (1,593)          | (1,854)    |   |
| Other expense, net [1]                                   | 9,706                 | 675              | (295)      |   |
| Interest expense                                         | 1,453                 | 3,128            | 2,129      |   |

Edgar Filing: HOCKEY CO - Form 10-Q

|                                                                         |          |         |         |
|-------------------------------------------------------------------------|----------|---------|---------|
| Foreign exchange gain                                                   | -        | (311)   | -       |
| Income (loss) before income taxes and extraordinary item                | (11,170) | (5,085) | (3,688) |
| Income taxes                                                            | -        | 89      | (115)   |
| Net income (loss) before extraordinary item                             | (11,170) | (5,174) | (3,573) |
| Extraordinary item - loss on early extinguishment of debt, net of taxes | 288      | 499     | 304     |
| Net income (loss)                                                       | (11,458) | (5,673) | (3,877) |

[1] Other expense, net for the Hockey Company and Other Guarantors includes equity in net income (loss) of subsidiaries of \$10,191 and (\$466) respectively.

| Three months ended<br>June 30, 2001                      | The Hockey<br>Company | Sport Maska Inc. | Guarantors |
|----------------------------------------------------------|-----------------------|------------------|------------|
| Net sales                                                | -                     | 29,891           | 23,211     |
| Cost of goods sold before restructuring charges          | -                     | 21,380           | 15,099     |
| Restructuring and unusual charges                        | -                     | -                | -          |
| Gross profit                                             | -                     | 8,511            | 8,112      |
| Selling, general and administrative expenses             | 1                     | 5,954            | 7,375      |
| Restructuring and unusual charges                        | -                     | -                | -          |
| Amortization of excess reorganization value and goodwill | -                     | 318              | 836        |
| Operating income (loss)                                  | (1)                   | 2,239            | (99)       |
| Other expense, net [1]                                   | 850                   | 221              | (430)      |
| Interest expense                                         | 844                   | 1,445            | 1,434      |
| Foreign exchange gain                                    | -                     | (232)            | -          |
| Income (loss) before income taxes                        | (1,695)               | 805              | (1,103)    |
| Income taxes                                             | -                     | 45               | (47)       |
| Net income (loss)                                        | (1,695)               | 760              | (1,056)    |

[1] Other expense, net for the Hockey Company and Other Guarantors includes equity in net income (loss) of subsidiaries of \$1,185 and (\$378) respectively.

# Edgar Filing: HOCKEY CO - Form 10-Q

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

| Six months ended<br>June 30, 2002                        | The Hockey<br>Company | Sport Maska<br>Inc. | Guarantors | Eli |
|----------------------------------------------------------|-----------------------|---------------------|------------|-----|
| OPERATING ACTIVITIES:                                    |                       |                     |            |     |
| Net cash provided by (used for)<br>operating activities  | (13,295)              | (10,971)            | 10,474     |     |
| INVESTING ACTIVITIES:                                    |                       |                     |            |     |
| Purchases of property, plant &<br>equipment              | -                     | (463)               | (86)       |     |
| Net cash used for investing activities                   | -                     | (463)               | (86)       |     |
| FINANCING ACTIVITIES:                                    |                       |                     |            |     |
| Deferred financing costs                                 | (1,820)               | (3,347)             | (1,363)    |     |
| Net change in short-term borrowings                      | -                     | (7,290)             | (9,578)    |     |
| Principal payments on debt                               | (21,853)              | (39,471)            | (25,124)   |     |
| Proceeds from long term debt                             | 36,963                | 61,898              | 25,000     |     |
| Issuance of warrants                                     | 5                     | -                   | -          |     |
| Net cash provided by (used for)<br>financing activities  | 13,295                | 11,790              | (11,065)   |     |
| Effects of foreign exchange rate<br>changes on cash      | -                     | (54)                | 160        |     |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                  | -                     | 302                 | (517)      |     |
| Cash & cash equivalents at beginning<br>of period        | -                     | (302)               | 2,002      |     |
| Cash & cash equivalents at end<br>of period              | -                     | -                   | 1,485      |     |
| Six months ended<br>June 30, 2001                        | The Hockey<br>Company | Sport Maska<br>Inc. | Guarantors | El  |
| OPERATING ACTIVITIES:                                    |                       |                     |            |     |
| Net cash used for operating activities                   | (1,617)               | (12,867)            | (13,920)   |     |
| INVESTING ACTIVITIES:                                    |                       |                     |            |     |
| Purchases of property, plant &<br>equipment              | -                     | (656)               | (38)       |     |
| Proceeds from disposal of property,<br>plant & equipment | -                     | 332                 | -          |     |
| Net cash used for investing activities                   | -                     | (324)               | (38)       |     |
| FINANCING ACTIVITIES:                                    |                       |                     |            |     |

## Edgar Filing: HOCKEY CO - Form 10-Q

|                                                  |         |         |         |
|--------------------------------------------------|---------|---------|---------|
| Deferred financing costs                         | (1,936) | (2,579) | (1,536) |
| Net change in short-term borrowings              | -       | 14,780  | 15,189  |
| Principal payments on debt                       | -       | -       | (123)   |
| Proceeds from long-term debt                     | 103     | 88      | -       |
| Issuance of warrants                             | 3,450   | -       | -       |
| Net cash provided by financing activities        | 1,617   | 12,289  | 13,530  |
| Effects of foreign exchange rate changes on cash | -       | (23)    | (73)    |
| NET CHANGE IN CASH AND CASH EQUIVALENTS          | -       | (925)   | (501)   |
| Cash & cash equivalents at beginning of period   | -       | 925     | 517     |
| Cash & cash equivalents at end of period         | -       | -       | 16      |

17

### THE HOCKEY COMPANY PART II OTHER INFORMATION

#### 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 defined as the earnings (net income) before interest, income and

## Edgar Filing: HOCKEY CO - Form 10-Q

capital taxes, and depreciation and amortization. EBITDA includes restructuring charges and other unusual and non-recurring items, if any. 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 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. EBITDA is calculated as follows:

|                             | For the Three<br>Months ended<br>June 30, 2001 | For the Six<br>Months ended<br>June 30, 2001 | For the T<br>Months en<br>June 30, |
|-----------------------------|------------------------------------------------|----------------------------------------------|------------------------------------|
| Operating income (loss)     | 2,646                                          | (2,324)                                      | 5,36                               |
| Depreciation & amortization | 2,168                                          | 4,473                                        | 94                                 |
| Capital taxes               | 140                                            | 296                                          | 14                                 |
| Other expenses, net         | 436                                            | 430                                          | (49                                |
| EBITDA                      | 5,390                                          | 2,875                                        | 5,95                               |

### RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2002

#### 2002 COMPARED TO 2001

Net sales increased 2.1% to \$78.7 million in the six months ended June 30, 2002, as compared to \$77.1 million in the six months ended June 30, 2001. For the three months ended June 30, 2002 net sales increased \$2.3 million to \$44.6 million. The increases were attributable to improved sales of licensed apparel due in part to the success of major market teams in the NHL playoffs as well as non-hockey sales in Scandinavia which is primarily due to the timing of shipments.

18

#### THE HOCKEY COMPANY PART II OTHER INFORMATION

Gross profit for the six months ended June 30, 2002 was \$35.0 million, compared to \$30.7 million in 2001, an increase of 13.8%, 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 44.4% from 39.9% in the same period in 2001. The gross profit before restructuring in 2001 was 41.0%. Gross profit for the three months ended June 30, 2002 was \$20.2 million, an increase of \$2.5 million over the second quarter of 2001.

In the six months ended June 30, 2002, selling, general and administrative expenses decreased marginally as a percentage of sales to 37.2% from 37.4% in 2001 despite a \$1.9 million increase due to higher amounts payable to the NHL and higher insurance and benefits costs. In absolute dollar terms, there was a 1.6% increase to \$29.3 million in the first half of 2002 from \$28.8 million in the same period of 2001. For the three months ended June 30, 2002, selling,

## Edgar Filing: HOCKEY CO - Form 10-Q

general and administrative expenses increased to \$14.8 million from \$13.9 million largely as a result of increase NHL related expenses as well as the timing of certain marketing expenses.

Other income of \$1.5 million consists a foreign exchange gain resulting for the translation of our long-term debt of \$2.8 million offset by the amortization of deferred financing costs.

EBITDA was \$7.4 million for the six months ended June 30, 2002, compared to \$2.9 million for the six months ended June 30, 2001. The three months ended June 30, 2002 EBITDA was \$6.0 million compared to \$5.4 million in the second quarter of 2001.

Interest expense of \$6.2 million for the six months ended June 30, 2002 was down from \$6.7 million versus the same six months of 2001. For the three months ended June 30, 2002, interest expense was \$3.6 million compared to \$3.7 million in the second quarter of 2001.

Our net income before extraordinary items for the six months ended June 30, 2002 was \$0.6 million, compared to a net loss before extraordinary items of \$10.4 million for the six months ended June 30, 2001. In three months ended June 30, 2002 we had a net income before extraordinary item of \$3.6 million compared to a net loss before extraordinary item in the second quarter of 2001 of \$1.7 million.

As a result of the extinguishment of the Caisse loan, we wrote-off \$3.3 million of deferred financing costs which is recorded as an extraordinary item. See Liquidity and Capital Resources.

Our net loss for the six months ended June 30, 2002, was \$2.7 million compared to a net loss of \$11.5 million for the six months ended June 30, 2001. In three months ended June 30, 2002 we had a net income of \$0.3 million compared to a net loss in the second quarter of 2001 of \$1.7 million.

Our net loss attributable to common shareholders for the six months ended June 30, 2002 was \$4.0 million compared to \$12.6 million for the same six months in 2001. For the three months ended March 31, 2002, net loss attributable to common shareholders was \$0.3 million compared to a loss of \$2.3 million in the second quarter of 2001. Further, the accrual for preferred stock dividends increased by \$0.1 million in the second quarter of 2002 compared to the same quarter in 2001. The difference between the redemption value of the preferred stock and the recorded amount is now being accreted over the term of the Notes (as described below) by a charge to retained earnings.

### 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 HOCKEY COMPANY  
PART II  
OTHER INFORMATION

The credit agreements were amended in connection with the issuance of the Notes (as described below) to reflect the repayment of the 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 Notes, Indebtedness cannot exceed \$35 million and must be repaid in full at least once a year. Total borrowings outstanding under the credit agreements were \$4.0 million as at June 30, 2002 (\$27.8 million at December 31, 2001), excluding \$6.0 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. If these agreements cannot be renewed or refinanced with GECC, we will seek alternative sources of financing to replace these credit agreements.

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 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 issuance of the Notes (as described below). On March 8, 2002 we acquired an option from the lender to extend the maturity of Facility 2 plus capitalized interest to February 28, 2003.

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, we completed a private offering of \$125 million aggregate principal amount of 11 1/4% Senior Secured Note Units due April 15, 2009 (the "Notes"), at a price of 98.806%, each such Unit consisting of \$500 principal amount of 11 1/4% Senior Secured Notes due April 15, 2009 of the Company and \$500 principal amount of 11 1/4% Senior Secured Notes due April 15, 2009 of

## Edgar Filing: HOCKEY CO - Form 10-Q

Sport Maska Inc., our wholly-owned subsidiary. 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 (i) to repay all outstanding secured loans under the Amended and Restated Credit Agreement with Caisse, dated March 14, 2001, (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, among the respective parties thereto, and the Third Amendment to U.S. Credit Agreement, 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 (\$9.8 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 (4.5% at June 30, 2002) plus 0.90%, matures on December 31, 2002 and is renewable annually. Total borrowings as at December 31, 2001 and June 30, 2002 were nil and SEK

20

### THE HOCKEY COMPANY PART II OTHER INFORMATION

50,901 million (\$5.5 million), respectively. Management believes that the credit agreement can be renewed or refinanced upon maturity. If this agreement cannot be renewed or financed with Nordea Bank, the Company will seek alternate sources of financing to replace this agreement. 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 \$0.3 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 (\$2.4 million). The facility is renewable annually and is collateralized by the assets of KHF Finland Oy and bears interest at a rate of EURIBOR (3.4% at June 30, 2002) plus 0.9%. Total borrowings as at December 31, 2001 and June 30, 2002 were nil.

During the six months ended June 30, 2002, our operations used \$14.0 million of cash compared to using \$29.5 million in the first half of 2001. We had a net loss of \$2.7 million in the first six months of 2002 compared to a net loss of \$11.4 million in 2001. EBITDA was \$10.2 million for the six months ended June 30, 2002 compared to \$2.9 million for the first half of 2001. Inventory increased by \$21.6 million from December 31, 2001 to June 30, 2002, the build-up is in line with the seasonal nature of our business and due

## Edgar Filing: HOCKEY CO - Form 10-Q

to the earlier arrival of our apparel inventories to be able to provide timelier service to our customers in the peak shipping months ahead. Accordingly, accounts receivable were up \$4.9 million due to higher sales in the first half of the year. Accounts payable and accrued liabilities are higher due to the accrual of the interest expense related to the bond issue and extended terms from our overseas suppliers on the purchase of the inventory.

Cash used in investing activities during the period ended June 30, 2002, was \$0.4 million compared to \$0.2 million provided in 2001. The variance is caused by \$0.3 million from the proceeds of the sales of equipment in 2001.

Cash provided by financing activities during the six months ended June 30, 2002, was \$14.1 million compared to having provided \$28.0 million in 2001. The variance is due to the issuance of the notes of approximately \$117.3 million (net of deferred financing costs of \$6.5 million), the resulting repayment of the Caisse debt of \$86.4 million as well as the pay-down of the entire GECC balances outstanding at that time of approximately \$17.2 million.

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.

Certain of our subsidiaries lease office and warehouse space and equipment under operating lease agreements. Certain of our subsidiaries have also entered into agreements that call for royalty payments generally based on net sales of certain products and product lines. Certain agreements require guaranteed minimum payments over the royalty term. We also pay certain professional players and teams an endorsement fee in exchange for promotion of our brands. Furthermore, we have repayment obligations on our long-term debt. The following is a schedule of future minimum payments and annual obligations under these commitments, as well as repayment of the Notes in 2009:

|              |            |
|--------------|------------|
| 2002         | \$ 16,161  |
| 2003         | 14,787     |
| 2004         | 14,188     |
| 2005         | 6,422      |
| 2006 to 2008 | 1,332      |
| 2009         | 125,000    |
|              | -----      |
|              | =====      |
|              | \$ 177,890 |
|              | =====      |

### THE HOCKEY COMPANY PART II OTHER INFORMATION

#### RESTRUCTURING RESERVES

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

## Edgar Filing: HOCKEY CO - Form 10-Q

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 \$0.6 million remained unpaid as at June 30, 2002.

### NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") 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 using a two-step process. The first step is to screen for potential impairment, while the second step measures the amount of impairment, if any. Other intangible assets will continue to be amortized over their estimated useful lives.

In accordance with the transition provisions of the SFAS No. 142, we have completed the first step of the transitional goodwill impairment test for all of our reporting units of the Company. The results of that test have indicated that no impairment in the value of goodwill and excess re-organizational intangible exists.

In August 2001, FASB issued SFAS 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, FASB 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 will adopt this Statement on January 1, 2003 upon which the extraordinary item - loss on early extinguishment of debt, net of income taxes will be reclassified.

In July 2002, FASB issued SFAS no. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3 "LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING)". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at the time when the liability is incurred. SFAS 146 eliminates the definition and requirement for recognition of exit costs at the data of an entity's commitment to an exit plan in Issue 94-3. SFAS 146 will be effective for exit and disposal activities initiated after December 31, 2002 and had no impact on our financial statements, but will

## Edgar Filing: HOCKEY CO - Form 10-Q

impact the accounting treatment of future exit and disposal activities should they occur.

22

### THE HOCKEY COMPANY PART II OTHER INFORMATION

#### 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 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 U.S. dollars but 50% is held by the Canadian operating company and we are exposed to the fluctuations in United States 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 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 operating lines have variable interest rates and thus a 1% variation in the interest rate will cause approximately \$0.4 million increase or decrease in interest expense if we were to borrow at the peak for the entire year.

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 the first six months of 2002 would have been \$0.2 million, \$0.1 million and \$0.1 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. Further, a 1% variation in Canadian Dollar versus the U.S. Dollar would have an effect of less than \$0.1 million on interest expense for the entire year given that 50% of the debt is held by the Canadian operating company.

23

### THE HOCKEY COMPANY PART II OTHER INFORMATION

## Edgar Filing: HOCKEY CO - Form 10-Q

### 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 AND USE OF PROCEEDS.

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.

99.1 Certification Pursuant to 18 U.S.C 1350, as Adopted Pursuant to Section 106 of the Sarbanes-Oxley Act of 2002.  
(filed herewith)

#### (b) Reports on Form 8-K.

On April 11, 2002, the Company issued a report on Form 8K regarding the issuance of \$125 million of Senior Secured Note Units.

24

### 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: August 14, 2002