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HOCKEY CO  
Form 10-Q  
November 14, 2001

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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Commission file number 0 - 19596

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THE HOCKEY COMPANY  
(Exact name of registrant as specified in its charter)

Delaware

13-36-32297

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(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

c/o Maska U.S., Inc., 929 Harvest Lane,  
P.O. Box 1200, Williston, VT

05495

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(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code

(802) 872-4226

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Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or such shorter period that the registrant  
was required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days:

YES  -----

NO -----

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



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

	Unaudited	Audited
	Sept. 30, 2001	Dec. 31, 2000
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,153	\$ 2,423
Accounts receivable, net	67,837	39,376
Inventories (Note 2)	45,564	42,110
Prepaid expenses and other receivables	3,818	3,931
Income taxes receivable	1,774	4,043
Total current assets	122,146	91,883
Property, plant and equipment, net of accumulated depreciation and amortization (\$14,470 and \$12,310, respectively)	17,451	21,142
Intangible and other assets, net of accumulated amortization (Note 3)	79,157	82,554
Total assets	\$218,754	\$195,579
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Short-term borrowings (Note 4)	\$ 48,025	\$ 12,282
Accounts payable and accrued liabilities	21,669	23,673
Income taxes payable	3,166	3,322
Long term debt, current portion	243	264
Other current liabilities	698	698
Total current liabilities	73,801	40,239
Long-term debt (Note 4)	86,901	91,252
Deferred income taxes	517	495
Total liabilities	161,219	131,986
Contingencies (Note 8)		

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13% Pay-In-Kind preferred stock (Note 5)	11,511	11,333
Stockholders' equity		
Common stock, par value \$0.01 per share, 20,000,000 shares authorized 6,500,549 shares issued and outstanding	65	65
Re-organization warrants, 300,000 issued and 299,451 outstanding	--	--
Common stock purchase warrants, 699,101 and 159,127 issued and outstanding at September 30, 2001 and December 31, 2000, respectively	5,115	1,665
Additional paid-in capital	66,515	66,515
Deficit	(18,608)	(9,290)
Foreign currency translation adjustments	(7,063)	(6,695)
	-----	-----
Total stockholders' equity	46,024	52,260
	-----	-----
Total liabilities and stockholders' equity	\$218,754	\$195,579
	=====	=====

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

1

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

	For the Three Months ended Sept. 30, 2001	For the Nine Months ended Sept. 30, 2001
	-----	-----
Net sales	\$65,899	\$142,986
Cost of goods sold before restructuring charges	38,479	83,931
Restructuring charges (Note 6)	286	1,187
	-----	-----
Gross profit	27,134	57,868
Selling, general and administrative expenses before restructuring charges	15,446	44,294
Restructuring charges (Note 6)	810	2,815
Amortization of excess reorganization value and goodwill	1,098	3,303
	-----	-----
Operating income	9,780	7,456
Other (income) expense, net	885	1,989
Interest expense	3,622	10,335
	-----	-----
Income (loss) before income taxes and extraordinary item		

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Income taxes	5,273	(4,868)
	1,378	1,604
	-----	
Net income (loss) before extraordinary item	3,895	(6,472)
Extraordinary item		
Loss on early extinguishing of debt (Note 3)	--	1,091
	-----	
Net income (loss)	\$ 3,895	\$ (7,563)
	=====	
Preferred stock dividends	526	1,577
Accretion of 13% Pay-In-Kind preferred stock	59	178
	-----	
Net income (loss) attributable to common shareholders	\$ 3,310	\$ (9,318)
	=====	
Basic income (loss) before extraordinary item per share (See Note 7)	\$ 0.46	\$ (1.17)
Diluted income (loss) before extraordinary item per share (See Note 7)	\$ 0.46	\$ (1.17)
Basic income (loss) per share (See Note 7)	\$ 0.46	\$ (1.32)
Diluted income (loss) per share (See Note 7)	\$ 0.46	\$ (1.32)

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

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

	For the Three Months ended Sept. 30, 2001	For the Nine Months ended Sept. 30, 2001
Net income (loss)	\$3,895	\$ (7,563)
Foreign currency translation adjustments	1,421	(368)
	-----	
Net comprehensive income (loss)	\$5,316	\$ (7,931)
	=====	

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

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THE HOCKEY COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

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(In thousands)

	For the Nine Months ended Sept. 30, 2001
<b>OPERATING ACTIVITIES:</b>	
Net loss before extraordinary items	\$ (6,472)
Adjustments to reconcile net loss to net cash used in operating activities:	
Restructuring charges	4,002
Depreciation and amortization	8,699
Provisions for inventory, doubtful accounts and other deductions	4,599
Deferred Income Taxes	167
Gain on sales of fixed assets	(8)
Gain on foreign exchange	(298)
Other	145
Change in operating assets and liabilities:	
Accounts receivable	(33,887)
Inventories	(6,203)
Prepaid expenses and other assets	2,891
Accounts payable and accrued liabilities	(6,848)
Income taxes payable	(36)
Net cash used in operating activities	(33,249)
<b>INVESTING ACTIVITIES:</b>	
Purchases of fixed assets	(984)
Proceeds from sales of fixed assets	342
Deferred expenses	--
Net cash used in investing activities	(642)
<b>FINANCING ACTIVITIES:</b>	
Net change in short-term borrowings	36,561
Proceeds from long-term debt	420
Principal payments on debt	(184)
Issuance of warrants	3,450
Deferred financing costs	(5,550)
Net cash provided by financing activities	34,697
Effects of foreign exchange rate changes on cash	(76)
Increase (decrease) in cash	730
Cash and cash equivalents at beginning of period	2,423
Cash and cash equivalents at end of period	\$ 3,153

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

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

## 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. DESCRIPTION OF BUSINESS, CHANGE OF CORPORATE NAME AND PRINCIPLES OF CONSOLIDATION

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

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

### B. BASIS OF PRESENTATION

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

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

### C. ACCOUNTING PRONOUNCEMENTS

The Company has adopted Statement of Financial Accounts Standards No 133 as of January 2001, and no significant transition adjustment resulted from its adoption.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No 141, Business Combinations, and No 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the

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nonamortization provisions of the Statement is expected to result in an increase in net income of \$4,400 (\$0.61 per share) per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective for fiscal year beginning after December 15, 2001. The new rules retain many of the fundamental recognition and measurement provisions of Statement of Financial Accounting Standards No 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of. The Company will apply the new rules effective January 1, 2002 and does not expect that Statement of Financial Accounting Standards No 144 will have a significant impact on the earnings and financial position of the Company.

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

### 2. INVENTORIES

Net inventories consist of:

	Sept. 30, 2001	December 31, 2000
Finished products	\$33,611	\$29,745
Work in process	3,279	2,727
Raw materials and supplies	8,674	9,638
	\$45,564	\$42,110

### 3. INTANGIBLE AND OTHER ASSETS

Net intangible and other assets consist of:

	Sept. 30, 2001	December 31, 2000
Goodwill	\$43,582	\$46,643
Excess Reorganization intangible	28,331	30,052
Deferred Financing Costs	4,388	2,084
Other	2,856	3,775
	\$79,157	\$82,554

Amortization expense for intangible assets was \$1,661 and \$5,401 for the three and nine months ended September 30, 2001 respectively, and \$6,569 for the twelve months ended December 31, 2000. A write-off of \$1,091 of deferred



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financing costs was recorded as an extraordinary item as a result of the substantive modifications of the terms of the Company's Credit agreement. - (see Note 4 b).

### 4. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

#### a) SHORT-TERM BORROWINGS

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

On March 14, 2001, (i) the Second Amendment to the U.S. Credit Agreement was entered into by Maska U.S., as borrower, the Credit Parties, the U.S. Lenders and General Electric Capital Corporation, as Agent and Lender, and (ii) the Second Amendment to the Canadian Credit Agreement was entered into by Sport Maska, as borrower, the Credit Parties, the Canadian Lenders and General Electric Capital Canada Inc., as Agent and Lender. On terms and subject to the conditions of each of the Second Amendments, the Credit Agreements were amended to reflect the Amended and Restated Credit Agreement (as hereinafter defined). The maximum amount of loans and letters of credit that may be outstanding under the two credit agreements is \$60,000. Total borrowings outstanding under the Credit Agreements at September 30, 2001 and December 31, 2000 were \$42,933 and \$12,282, respectively (excluding outstanding letters of credit). The Credit Agreements were for a period of two years with a possible extension of one year by the Company.

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

Borrowings under the U.S. Credit Agreement bear interest at rates of either U.S. prime rate plus 0.50%-1.25% or LIBOR plus 1.75%-2.75% depending on the borrower's Operating Cash Flow Ratio, as defined in the agreement. Borrowings under the Canadian Credit Agreement bear interest at rates of either the Canadian prime rate plus 0.75%-1.50% or LIBOR plus 1.75%-2.75% depending on the borrower's Operating Cash Flow Ratio, as defined in the agreement. In addition, the borrowers are charged a monthly commitment fee at an annual rate of up to 3/8 of 1% on the unused portion of the revolving credit facilities under the credit agreements and certain other fees.

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

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- ii) Effective March 18, 1999, Jofa AB ("Jofa"), a Swedish subsidiary of the Company, entered into a credit agreement with MeritaNordbanken in Sweden. The maximum amount of loans and letters of credit that may be outstanding under the agreement is SEK 65,000 (\$6,325). The facility is collateralized by the assets of Jofa, excluding intellectual property, bears interest at a rate of STIBOR plus 0.65% and is renewable annually. Total borrowings at September 30, 2001 and December 31, 2000 were SEK 45,792 (\$4,456) and nil, respectively.

Effective July 14, 1999, KHF Sports Oy ("KHF"), a Finnish subsidiary of the Company, entered into a credit agreement with MeritaNordbanken in Finland. The maximum amount of loans and letters of credit that may be outstanding under the agreement is FIM 30,000 (\$4,602). The facility is collateralized by the assets of KHF, bears interest at a rate of EURIBOR plus 2.0% and is renewable annually. Total borrowings as at September 2001 and December 31, 2000 were nil.

### b) LONG-TERM DEBT

#### SECURED LOANS

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

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

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

The loan contains customary negative and affirmative covenants including those relating to capital expenditures, total indebtedness to EBITDA and minimum interest coverage.

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

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

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

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

Pursuant to the Warrant Agreement, dated as of March 14, 2001, between the Company and Caisse, the Company issued a warrant to Caisse to purchase 539,974 shares of common stock, par value \$.01 per share, of the Company, representing approximately 7.5% of the outstanding common stock, on a fully diluted basis, at an exercise price of \$.01 per share. The number of shares issuable upon exercise of the warrants is subject to certain adjustments as provided in the Warrant Agreement. The fair value of the warrants was determined to be \$3,450 and has been recorded in shareholders' equity as stock purchase warrants. In addition, the Company also issued warrants to Caisse to acquire 993,408 shares of common stock, par value \$.01 per share, which are only exercisable by Caisse if a minimum EBITDA required is not met and if Facility 2 is not repaid in cash on October 31, 2002.

On November 19, 1998, the Company issued 100,000 shares of 13% Pay-In-Kind redeemable, \$0.01 par value per share, cumulative preferred stock together with warrants to purchase 159,127 common shares of the Company at a purchase price of \$0.01 per share, for cash consideration of \$12,500 (par value). The fair value of the warrants was determined to be \$1,665 and has been recorded in Stockholder's Equity as common stock purchase warrants. The balance of the proceeds, \$10,835, has been recorded as 13% Pay-In-Kind preferred stock. The difference between the redemption value of the preferred stock and the recorded amount is being accreted on a straight-line basis over the seven-year period ending November 19, 2005, by a charge to retained earnings. Dividends, which are payable semi-annually from November 19, 1998, may be paid in cash or in shares of the 13% Pay-In-Kind preferred stock, at the Company's option. The preferred stock is non-voting. If the Company fails to redeem the preferred stock on or before November 19, 2005 and for a sixty day period or more after being notified of its failure to redeem the preferred stock, then the preferred stockholders, as a class of stockholders, have the option to elect one director to the Company's Board of Directors with the provision that the preferred stockholders are to elect 28% of the Company's directors. At September 30, 2001 unpaid dividends totalled \$5,253.

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

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

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

On September 26, 2001 the Company authorized the grant of employee stock options to purchase 440,000 shares of common stock at an exercise price of \$8.50 per share, of which 255,000 shares are allocated to executive officers. In addition, the Company has approved the reduction of the exercise price per share of stock options held by certain employees relating to 160,000 shares at prices of \$10.00 to \$14.00 to \$8.50, of which 150,000 shares are subject to options held by executive officers.

### 6. RESTRUCTURING CHARGES

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Effective January 24, 2001, the Company embarked on a plan to rationalize its operations. This rationalization involved the elimination of certain redundancies, both in terms of personnel and operations as well as the consolidation of facilities including the closure of its Mount Forest, Ontario plant. Accordingly, the Company has set up reserves totaling \$4,002.

The Company has estimated that the restructuring charges would total \$4,002 as follows:

An amount of \$2,986 has been accrued for severance packages in Canada and the U.S., including the closure of the Mount Forest, Ontario plant. To date \$2,212 has been spent.

An amount of \$1,016 has been accrued to cover the cost of facility consolidations. To date \$736 has been spent.

### 7. EARNINGS PER SHARE

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

Net income (loss) per share for the three and nine-month periods are as follows:

	For the Three Months ended Sept. 30, 2001		For the Nine Months ended Sept. 30, 2001		For the Three Months ended Sept. 30, 2000	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income (loss) before extraordinary item attributable to common stockholders	\$ 3,310	\$ 3,310	\$ (8,227)	\$ (8,227)	\$ 3,206	\$ 3,206
Net income (loss) attributable to common stockholders	\$ 3,310	\$ 3,310	\$ (9,318)	\$ (9,318)	\$ 3,206	\$ 3,206
Weighted average common and common equivalent shares outstanding:						
Common stock	6,500,549	6,500,549	6,500,549	6,500,549	6,500,549	6,500,549
Common equiv. Shares (a)	698,114	698,114	548,333	548,333	158,946	158,946
Total weighted average common and common equivalent shares outstanding	7,198,663	7,198,663	7,048,882	7,048,882	6,659,495	6,659,495
Net income (loss) before extraordinary item per common share (b)	\$ 0.46	\$ 0.46	\$ (1.17)	\$ (1.17)	\$ 0.48	\$ 0.48

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Net income (loss) per common share (b)	\$	0.46	\$	0.46	\$	(1.32)	\$	(1.32)	\$	0.48	\$
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- (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 earning 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 Company's stock had extremely limited trading volume during the period.
- (c) Options to purchase 1,322,222 shares of common stock and warrants to purchase 299,451 shares of common stock were outstanding during 2001 (982,222 and 299,451 in 2000 respectively) 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.

8. CONTINGENCIES AND LITIGATION

A. ENVIRONMENTAL LITIGATION

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

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

B. PRODUCT LIABILITY LITIGATION

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

C. OTHER LITIGATION

On October 16, 1997 and October 20, 1997, ZMD Sports Investments Inc. and 2938201 Canada Inc., landlords of the Company's properties located in St.

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Jean, Quebec and St. Hyacinthe, Quebec, respectively brought motions against the Company which would require the Company to undertake certain repairs to the properties for an estimated \$630. The Company believes these motions to be without merit.

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

### 9. SEGMENT INFORMATION

#### REPORTABLE SEGMENTS

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

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

Segment assets only include inventory.

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

2001	Equipment		Apparel	
	For the Three Months ended Sept. 30	For the Nine Months ended Sept. 30	For the Three Months ended Sept. 30	For the Nin Months ended Sept. 30
Net sales to external customers	\$49,635	\$105,326	\$16,264	\$37,660
Gross profit	19,789	42,032	7,345	15,836
Depreciation of property, plant and equipment	611	1,962	92	343
Inventories	27,316	27,316	18,248	18,248
2000	Equipment		Apparel	
	For the Three Months ended Sept. 30	For the Nine Months ended Sept. 30	For the Three Months ended Sept. 30	For the Nin Months ended Sept. 30
Net sales to external customers	\$52,200	\$114,204	\$15,824	\$32,840
Gross profit	21,089	47,383	6,477	12,898

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

Depreciation of property, plant and equipment	689	2,086	136	411
Inventories	32,319	32,319	16,665	16,665

RECONCILIATION OF SEGMENT PROFIT OR LOSS

	For the Three Months ended Sept. 30, 2001	For the Nine Months ended Sept. 30, 2001	
Segment Gross Profit	\$27,134	\$57,868	
Unallocated amounts:			
Selling general and administrative expenses	15,446	44,294	
Restructuring charges	810	2,815	
Amortization of excess reorganizational value and goodwill	1,098	3,303	
Other (income) expense, net	885	1,989	
Interest expense	3,622	10,335	
Income (loss) before income taxes and extraordinary item	5,273	(4,868)	

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

ITEM 2.

INTRODUCTION

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

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

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

### SELECTED FINANCIAL DATA

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

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

### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

#### 2001 COMPARED TO 2000

Apparel net sales increased 14.7% to \$37.7 million in the nine months ended September 30, 2001, as compared to \$32.8 million in the nine months ended September 30, 2000. For the three months ended September 30, 2001, apparel net sales were \$16.3 million, representing a 2.8% increase compared to net sales in the three months ended September 30, 2000 of \$15.8 million. The increase was attributable primarily to stronger demand resulting from the Company's exclusive status under its license agreement with NHL Enterprises, LP, the marketing affiliate of the NHL.

Equipment net sales decreased 7.8% to \$105.3 million in the nine months ended September 30, 2001, as compared to \$114.2 million in the nine months ended September 30, 2000. For the three months ended September 30, 2001, equipment net sales were \$49.6 million, representing a 4.9% decrease compared to net sales in the three months ended September 30, 2000 of \$52.2 million. The decrease was attributable primarily to unfavourable exchange rates in 2001 compared to last year and weaker sales of ice skates, protective equipment and sticks.

Gross profit on apparel sales before restructuring charges for the nine months ended September 30, 2001 was \$17.0 million compared to \$12.9 million in 2000, an increase of 32.0%. Gross profit on apparel sales before restructuring



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charges for the three months ended September 30, 2001 was \$7.6 million compared to \$6.5 million in 2000, an increase of 17.8%.

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

Measured as a percentage of apparel net sales, gross profit margins before restructuring charges increased to 45.2% in the first nine months of 2001 from 39.3% in the same period in 2000.

Gross profit on equipment sales for the nine months ended September 30, 2001 was \$42.0 million compared to \$47.4 million in 2000, a decrease of 11.3%. Gross profit on equipment sales for the three months ended September 30, 2001 was \$19.8 million compared to \$21.1 million in 2000, a decrease of 6.2%. Measured as a percentage of equipment net sales, gross profit margins decreased to 39.9% in the first nine months of 2001 from 41.5% in the same period in 2000.

For the nine months ended September 30, 2001, selling, general and administrative expenses before restructuring charges decreased 8.5% to \$44.3 million compared to \$48.4 million in the first nine months of 2000. In the three months ended September 30, 2001, these expenses decreased 11.5% to \$15.4 million from \$17.5 million in 2000. Measured as a percentage of net sales, in the first nine months of the year the ratio also decreased to 31.0% in 2001 from 32.9% in 2000. The decrease in the selling, general and administrative expenses is a result of first quarter restructuring activities (see Restructuring reserves), offset by increased NHL commitments.

The amortization of excess reorganization value and goodwill decreased slightly from \$3.4 million in the first nine months of 2000 to \$3.3 million in the first nine months of 2001. The operating income before restructuring charges for the nine months ended September 30, 2001 was \$11.5 million, compared to \$8.5 million for the nine months ending September 30, 2000.

Other expense consists primarily of amortization of deferred financing costs.

Earnings before interest, taxes, depreciation and amortization (EBITDA), which is a measure of cash generated from operations, was \$18.8 million for the nine months (\$13.0 million for the three months) ended September 30, 2001 compared to \$16.6 million for the nine months (\$11.7 million for the three months) ended September 30, 2000.

Interest expense of \$10.3 million for the nine months ended September 30, 2001 increased by \$0.4 million from the same period for the prior year (\$9.9 million). The increase is mainly attributable to extension fees on short-term borrowings the Company incurred in the first quarter of the year. For the three months ended September 30, 2001 interest expense decreased to \$3.6 million compared to \$3.8 million for the same period of the prior year.

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

The Company's net loss for the nine months ended September 30, 2001 was \$7.6 million compared to \$2.8 million for the nine months ended September 30, 2000. For the three months ended September 30, 2001, the Company had a net

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income of \$3.9 million compared to \$3.7 million for the three months ended September 30, 2000.

### LIQUIDITY AND CAPITAL RESOURCES

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

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

The Credit Agreements were for a period of two years with a possible extension of one year by the Company, and were amended and restated on March 14, 2001. Total borrowings outstanding under the Credit Agreements were \$42.9 million on September 30, 2001 (excluding \$5.5 million of letters of credit outstanding). Total borrowings as at December 31, 2000 under the Credit Agreements were \$12.3 million (excluding \$0.9 million of letters of credit outstanding).

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

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

The Company's financing requirements for long-term growth, future capital expenditures and debt service are expected to be met through its operations as well as cash borrowed under its Credit Agreements. During the nine months ended September 30, 2001, the Company's operations used \$33.2 million of cash from its operations as compared to \$24.8 million of cash used in the same nine months of 2000.

Investing activities during the nine months ended September 30, 2001 and the nine months ended September 30, 2000 included \$1.0 million and \$2.2 million, respectively, of purchases of fixed assets.

During the nine months period ended September 30, 2001, financing

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activities provided \$36.6 million from borrowings under the Company's New Credit Agreements and provided \$26.1 million for the same period last year.

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

### EURO CONVERSION

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

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

### RESTRUCTURING RESERVES

Effective January 24, 2001, the Company embarked on a plan to rationalize its operations. This rationalization involved the elimination of certain redundancies, both in terms of personnel and operations as well as the consolidation of facilities including the closure of its Mount Forest, Ontario plant. Accordingly, the Company has set up reserves totaling \$4.0 million.

The Company has estimated that the restructuring charges would total \$4.0 million as follows:

An amount of \$3.0 million has been accrued for severance packages in Canada and the U.S., including the closure of the Mount Forest, Ontario plant. To date \$2.2 million has been spent.

An amount of \$1.0 million has been accrued to cover the cost of facility consolidations. To date \$0.7 million has been spent.

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### THE HOCKEY COMPANY PART II OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Reference is made to Note 8 of the Notes to Unaudited Consolidated Financial Statements included in Part I of this report.

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ITEM 2. CHANGES IN SECURITIES.

On September 26, 2001 the Company authorized the grant of employee stock options to purchase 440,000 shares of common stock at an exercise price of \$8.50 per share, of which 255,000 shares are allocated to executive officers. In addition, the Company has approved the reduction of the exercise price per share of stock options held by certain employees relating to 160,000 shares at prices of \$10.00 to \$14.00 to \$8.50, of which 150,000 shares are subject to options held by executive officers.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.  
Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.  
None.

ITEM 5. OTHER INFORMATION  
None.

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

(a) Exhibits:

27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

No reports were filed on Form 8-K during the three months ended September 30, 2001.

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SIGNATURES

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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: Vice President, Finance and Administration  
(Principal Financial and Accounting Officer)

Date: October 31, 2001