

BRASS EAGLE INC  
Form 10-Q  
May 10, 2002

SECURITIES AND EXCHANGE COMMISSION  
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 March 31, 2002.

**OR**

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

For The Transition Period From \_\_\_\_ To

**Commission File Number 0-23385**

**BRASS EAGLE INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

71-0578572  
( I.R.S. Employer  
Identification Number)

1201 S. E. 30<sup>th</sup> St., Bentonville, Arkansas 72712

(Address of principal executive offices) (zip code)

**479-464-8700**

(Registrant's telephone number, including area code)

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

The number of shares of the Registrant's Common Stock, \$0.01 par value, outstanding as of May 6,  
2002 was 7,150,813.

FORM 10-Q

QUARTER ENDED MARCH 31, 2002

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**PART I: FINANCIAL INFORMATION**

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INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Shareholders  
Brass Eagle Inc.  
Bentonville, Arkansas

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We have reviewed the condensed consolidated balance sheet of Brass Eagle Inc. as of March 31, 2002 and the related condensed consolidated statements of operations, condensed consolidated statements of comprehensive income and cash flows for the three months ended March 31, 2002 and 2001. These financial statements are the responsibility of the Company's management.

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

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

Crowe, Chizek and Company LLP

Oak Brook, Illinois  
April 19, 2002

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

|   | MARCH 31,<br><u>2002</u><br>(unaudited) | DECEMBER 31,<br><u>2001</u> |
|---|---|-----------------------------|
| Assets  |   |                             |
| Current assets  |   |                             |
| Cash and cash equivalents   | \$ 3,189                                | \$ 9                        |
| Accounts receivable - less allowance<br>for doubtful accounts of \$2,063 in 2002<br>and \$2,000 in 2001 | 17,232                                  | 26,371                      |
| Inventories   | 13,161                                  | 13,120                      |
| Prepaid expenses and other current assets   | 1,624                                   | 1,191                       |
| Deferred taxes  | <u>2,467</u>                            | <u>2,544</u>                |
| Total current assets  | 37,673                                  | 43,235                      |
| Property, plant and equipment, net  | 16,259                                  | 16,506                      |
| Other assets:   |   |                             |
| Other assets  | 513                                     | 270                         |
| Intangible assets, net  | <u>32,284</u>                           | <u>32,284</u>               |
|   | \$ 86,729                               | \$ 92,295                   |
|   | =====                                   | =====                       |
| Liabilities and stockholders' equity  |   |                             |
| Current liabilities   |   |                             |

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|  |               |               |
|--|---------------|---------------|
| Revolving credit facility  | \$ 0          | \$ 3,900      |
| Accounts payable   | 3,215         | 4,438         |
| Accrued expenses   | 6,339         | 6,549         |
| Current maturities of long-term debt   | <u>6,407</u>  | <u>6,407</u>  |
| Total current liabilities  | 15,961        | 21,294        |
| Long-term debt, less current maturities  | 13,005        | 14,607        |
| Deferred income taxes  | 1,477         | 1,350         |
| Deferred compensation  | 231           | 0             |
| Other liabilities  | 686           | 889           |
| Stockholders' equity   |               |               |
| Common stock, \$.01 par value, 10,000,000 shares   |               |               |
| authorized, 7,268,433 issued and 7,148,733 outstanding in 2002; 7,266,618 issued and 7,146,918 outstanding in 2001 | 73            | 73            |
| Additional paid-in capital   | 25,861        | 25,851        |
| Accumulated other comprehensive loss   | (425)         | (540)         |
| Retained earnings  | 30,403        | 29,314        |
| Treasury stock 119,700 shares at cost  | <u>(543)</u>  | <u>(543)</u>  |
|  | <u>55,369</u> | <u>54,155</u> |
|  | \$ 86,729     | \$ 92,295     |
|  | =====         | =====         |

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except share and per share data)

|                    | THREE MONTHS ENDED |               |
|--------------------|--------------------|---------------|
|                    | <u>MARCH 31,</u>   |               |
|                    | <u>2002</u>        | <u>2001</u>   |
|                    | (unaudited)        |               |
| Net sales          | \$ 20,130          | \$ 20,770     |
| Cost of sales      | <u>12,396</u>      | <u>12,233</u> |
| Gross profit       | 7,734              | 8,537         |
| Operating expenses | <u>5,649</u>       | <u>5,871</u>  |
| Operating income   | 2,085              | 2,666         |
| Minority interest  | 51                 | 54            |
| Interest income    | 29                 | 73            |

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|                                      |              |              |
|--------------------------------------|--------------|--------------|
| Interest expense                     | <u>(410)</u> | <u>(613)</u> |
|                                      | <u>(330)</u> | <u>(486)</u> |
| Income before income taxes           | 1,755        | 2,180        |
| Provision for income taxes           | <u>666</u>   | <u>872</u>   |
| Net income                           | \$ 1,089     | \$ 1,308     |
|                                      | =====        | =====        |
| Net income per share:                |              |              |
| Basic                                | \$ 0.15      | \$ 0.18      |
| Diluted                              | 0.14         | 0.17         |
| Weighted average shares outstanding: |              |              |
| Basic                                | 7,148,673    | 7,142,907    |
| Diluted                              | 7,541,389    | 7,557,250    |

See accompanying notes to condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands)

|                                       | THREE MONTHS ENDED |              |
|---------------------------------------|--------------------|--------------|
|                                       | <u>MARCH 31,</u>   |              |
|                                       | <u>2002</u>        | <u>2001</u>  |
|                                       | (unaudited)        |              |
| Net income                            | \$ 1,089           | \$ 1,308     |
| Other comprehensive income (loss):    |                    |              |
| Gain (loss) on derivative, net of tax | <u>115</u>         | <u>(420)</u> |
| Comprehensive income                  | \$ 1,204           | \$ 888       |
|                                       | =====              | =====        |

See accompanying notes to condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(In thousands)

| THREE MONTHS ENDED |             |
|--------------------|-------------|
| <u>MARCH 31,</u>   |             |
| <u>2002</u>        | <u>2001</u> |
| (Unaudited)        |             |

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Cash flows from operating activities

|   |                |                |
|---|----------------|----------------|
| Net income  | \$ 1,089       | \$ 1,308       |
| Adjustments to reconcile net income to net cash from operating activities |                |                |
| Deferred income taxes   | 116            | 44             |
| Deferred compensation   | 20             | 0              |
| Depreciation and amortization   | 687            | 1,051          |
| Provision for doubtful accounts   | 46             | 58             |
| Minority interest   | (51)           | (54)           |
| Stock compensation expense  | 10             | 6              |
| Changes in assets and liabilities   |                |                |
| Accounts receivable   | 9,086          | 6,946          |
| Inventories   | (41)           | 555            |
| Prepaid expenses and other assets   | (433)          | 207            |
| Accounts payable and accrued expenses                                     | <u>(1,433)</u> | <u>(4,561)</u> |
| Net cash from operating activities  | <u>9,096</u>   | <u>5,560</u>   |
| Cash flows from investing activities                                      |                |                |
| Purchases of property and equipment                                       | (414)          | (330)          |
| Acquisition of Nittan assets  | <u>0</u>       | <u>(2,322)</u> |
| Net cash from investing activities  | <u>(414)</u>   | <u>(2,652)</u> |
| Cash flows from financing activities                                      |                |                |
| Payments on long-term debt  | (1,602)        | (1,402)        |
| Net payments on line of credit  | (3,900)        | (3,860)        |
| Issuance of stock   | <u>0</u>       | <u>16</u>      |
| Net cash from financing activities  | <u>(5,502)</u> | <u>(5,246)</u> |
| Net change in cash  | <u>3,180</u>   | <u>(2,338)</u> |
| Cash at beginning of period   | <u>9</u>       | <u>3,457</u>   |
| Cash at end of period   | \$ 3,189       | \$ 1,119       |
|   | =====          | =====          |

Supplemental disclosures of cash flow information

Cash paid during the period:

|          |        |          |
|----------|--------|----------|
| Taxes    | \$ 320 | \$ 1,521 |
| Interest | 389    | 661      |

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

(All information for the three month periods ended March 31, 2002 and 2001 is unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The significant accounting policies and practices followed by Brass Eagle are as follows:

**Description of Business:** Brass Eagle is a leading manufacturer of paintball markers and other paintball products. Brass Eagle sells its products through major domestic and international retailers and paintball specialty stores. The financial statements include the accounts of Brass Eagle and its subsidiaries.

**Interim Results:** The accompanying condensed consolidated balance sheet at March 31, 2002 and the condensed consolidated statements of operations and cash flows for the three month periods ended March 31, 2002 and 2001 are unaudited. In the opinion of management, these statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the results of the interim periods. The results of operations for the three month period ended March 31, 2002 are not necessarily indicative of the results expected for the full calendar year. Because all of the disclosures required by generally accepted accounting principles are not included, these interim statements should be read in conjunction with the financial statements and notes thereto contained in Brass Eagle's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

### NOTE 2 - INVENTORIES

Inventories consist of the following components (in thousands):

|                 | March 31,<br><u>2002</u> | December 31,<br><u>2001</u> |
|-----------------|--------------------------|-----------------------------|
| Finished goods  | \$ 10,301                | \$ 11,327                   |
| Raw materials   | <u>2,860</u>             | <u>1,793</u>                |
| Total Inventory | \$ 13,161                | \$ 13,120                   |
|                 | =====                    | =====                       |

### NOTE 3 - FINANCIAL INSTRUMENTS

Brass Eagle adopted FASB SFAS No. 133, "Accounting for Derivative Investments and Hedging Activities", on January 1, 2001. This statement establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

During fiscal 2000, Brass Eagle entered into an interest rate swap arrangement, which is a derivative financial instrument with a bank. The purpose of the interest rate swap arrangement is to reduce exposure to interest rate fluctuations by effectively fixing the interest rate on part of the borrowings under Brass Eagle's term debt. The term of the hedge is through August 29, 2003. As a result of its adoption of SFAS No. 133, Brass Eagle recorded a gain to Comprehensive Income of \$115,000, net of income taxes of \$88,000, during the three months ended March 31, 2002, and a loss of \$420,000, net of income taxes of \$280,000, for the three months ended March 31, 2001.

### NOTE 4 - CREDIT FACILITY & LONG-TERM DEBT BORROWINGS

The Senior Credit Facility, dated June 30, 2000 and modified on February 1, 2001 and December 31, 2001, is comprised of a \$5.5 million revolving credit facility (zero outstanding at March 31, 2002), a \$2.0 million term loan

and a \$25.2 term loan used for the acquisition of substantially all the assets of JT USA, LP. The funds available under the revolving credit facility are limited to eligible accounts receivable and inventory, as defined, up to a maximum of \$5.5 million. The credit facility is secured by all tangible and intangible assets of Brass Eagle, exclusive of its investment in Challenge Park LLC.

The \$25.2 million term loan requires quarterly principal payments of \$1.4 million and matures in June 2005. The \$2.0 million term loan requires quarterly principal payments of \$0.2 million and matures in September, 2003.

Borrowings bear interest as designated by Brass Eagle at either the bank's prime rate (adjusted up to prime plus 1.50% based on Brass Eagles' leverage ratio) or LIBOR (plus 1.25% to 2.50% based on Brass Eagle's leverage ratio).

The agreement, including the amendment executed on February 1, 2001 and December 31, 2001, includes certain restrictive covenants, including maintaining a minimum net worth of \$40.0 million at time of borrowing plus 75% of net income, a leverage ratio of 2.0 to 1.0, a 1.0 to 1.0 fully-loaded fixed charge coverage ratio from December 31, 2001 until September 30, 2002 and 1.0 to 1.0 fully-loaded fixed charge coverage ratio from December 31, 2002 and thereafter, minimum EBITDA of \$11.25 million for the twelve months ended March 31, 2002, minimum EBITDA of \$12.0 million for the twelve months ended June 30, 2002, and minimum EBITDA of \$14.25 million for the twelve months ended September 30, 2002. If Brass Eagle's fully-loaded fixed charge coverage ratio falls below 1.0 to 1.0, Brass Eagle will pay a 25 basis point premium above the stated pricing spreads until such time that it reports a fully-loaded fixed charge coverage ratio in excess of 1.0 to 1.0. The agreement also limits capital expenditures to \$4.5 million in 2001, excluding the Nittan assets, and \$4.5 million in 2002. Brass Eagle was in compliance with these covenants at March 31, 2002.

In addition, the agreement provides for an excess cash flow recapture requirement for the first two years of the agreement equal to 50% of the excess cash flow over fixed charges not to exceed \$750,000.

Financing costs incurred are capitalized and amortized over the remaining life of the respective loan. These costs are classified as other long term assets on the accompanying balance sheet.

#### **NOTE 5- GOODWILL AND OTHER INTANGIBLE ASSETS**

Brass Eagle adopted FAS 142, "Goodwill and Other Intangible Assets", on January 1, 2002. This statement resulted in the cessation of goodwill amortization. All of the provisions of the statement will be applied to future fiscal years, to all goodwill and intangible assets recognized in Brass Eagle's statement of financial position, regardless of when these assets were initially recognized.

As of March 31, 2002, Brass Eagle has goodwill and other intangible assets (net of amortization) of \$32.3 million. For the three months ended March 31, 2002, Brass Eagle recorded \$19,000 in amortization expense associated with deferred financing costs.

For the three months ended March 31, 2001, Brass Eagle recognized \$0.5 million in amortization expenses relating to goodwill amortization.

The following adjusts reported net income and earnings per share to exclude goodwill amortization:

|                                | <u>2002</u> | <u>2001</u> |
|--------------------------------|-------------|-------------|
| Reported net income            | \$ 1,089    | \$ 1,308    |
| Add back goodwill amortization | <u>0</u>    | <u>495</u>  |



|                                |          |          |
|--------------------------------|----------|----------|
| Adjusted net income            | \$ 1,089 | \$ 1,803 |
|                                | =====    | =====    |
| Adjusted net income per share: |          |          |
| Basic                          | \$ 0.15  | \$ 0.25  |
| Diluted                        | 0.14     | 0.24     |

**NOTE 6 - DEFERRED COMPENSATION**

In November, 2001, Brass Eagle established a non-qualified Deferred Compensation Plan which is exempt from certain restrictions imposed by the Internal Revenue Code on 401(k) plans. Participation in the Deferred Compensation Plan is limited to select management of the company. Participants may contribute up to 100 percent of their gross pay, including bonuses. Brass Eagle will match 50 percent of the first 10 percent of each participant's contribution. Assets are held in individual accounts for each participant. The amounts deposited in the plan by the participants are unsecured liabilities of Brass Eagle.

Brass Eagle purchased company-owned life insurance policies insuring the lives of the group of participants to finance the plan.

The cash surrender value of life insurance at March 31, 2002 was \$212,000. Brass Eagle's contribution for the three months ended March 31, 2002 was \$22,000. The liability for deferred compensation at March 31, 2001 was \$231,000.

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

The following discussion should be read in conjunction with the accompanying condensed consolidated financial statements for the three months ended March 31, 2002 and the 2001 10-K.

**Special Note Regarding Forward-Looking Statements**

Certain statements in this filing and in other filings by Brass Eagle with the Securities and Exchange Commission and in press releases, presentations by Brass Eagle or its management and oral statements may constitute forward-looking statements within the meaning of the Private

Securities Litigation Reform Act of 1995. These statements may include statements regarding Brass Eagle's financial position, results of operations, market position, product development, regulatory matters, growth opportunities and growth rates, acquisition and divestiture opportunities, and other similar forecasts and statements of expectation. Words such as expects, anticipates, intends, plans, projects, believes, seeks, estimates, should, may, would, will and variations of these words and similar expressions, are intended to identify these forward-looking statements. The statements are not statements of historical fact. Rather, they are based on Brass Eagle's estimates, assumptions, projections and current expectations, and are not guarantees of future performance. Brass Eagle disclaims any obligation to update or revise any forward-looking statement based upon the occurrence of future events, the receipt of new information, or otherwise. The forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Brass Eagle to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause Brass Eagle's actual results to differ materially from the results, projections and

expectations expressed in the forward-looking statements include, but are not limited to, the following possibilities:

- (1) Intensifying competition, including specifically the intensification of price competition, the entry of new competitors and the introduction of new products by new and existing competitors
- (2) Failure to obtain new customers or retain existing customers or maintain relationships with mass merchandisers
- (3) Inability to carry out marketing and sales plans or to integrate acquired businesses
- (4) Loss of key executives
- (5) General economic and business conditions which are less favorable than expected or which improve at a slower rate than expected.
- (6) Failure to maintain or renew credit facilities on satisfactory terms
- (7) Unanticipated changes in industry trends
- (8) The increased risk during economic downturns that Brass Eagle's customers may declare bankruptcy or experience payment difficulties
- (9) The timing and effectiveness of marketing programs.

## RESULTS OF OPERATIONS

The following table sets forth operations data as a percentage of net sales for the periods indicated:

|                    | Three Months Ended |             |
|--------------------|--------------------|-------------|
|                    | <u>March 31,</u>   |             |
|                    | <u>2002</u>        | <u>2001</u> |
| Net sales          | 100.0%             | 100.0%      |
| Cost of sales      | 61.6%              | 58.9%       |
| Gross profit       | 38.4%              | 41.1%       |
| Operating expenses | 28.1%              | 28.3%       |
| Operating income   | 10.4%              | 12.8%       |
| Net income         | 5.4%               | 6.3%        |

### THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

#### Net Sales.

Net sales decreased by 3.4% to \$20.1 million for the three months ended March 31, 2002, compared to \$20.8 million for the three months ended March 31, 2001. The decrease in net sales was primarily due to decline in the retail market. The overall slow down in consumer purchases has resulted in retailers more tightly controlling inventory levels.

Domestic sales of Brass Eagle products decreased by 5.1% to \$18.8 million (or 93.5% of sales) for the three months ended March 31, 2002 from \$19.8 million (or 95.2% of sales) for the three months ended March 31, 2001. International sales increased by 30.0% to \$1.3 million (4.8% of sales) for the three months ended March 31, 2002 from \$1.0 million (or 6.5% of sales) for the three months ended March 31, 2001. The increase in international sales was primarily due to increased sales to Europe and Mexico.

*Gross Profit.* Gross profit as a percentage of net sales decreased to 38.4% for the three months ended March 31, 2002, compared to 41.1% for the three months ended March 31, 2001. The decrease was due primarily to some price

reductions and some manufacturing inefficiencies.

*Operating Expenses.* Operating expenses decreased 3.4% to \$5.7 million in the three months ended March 31, 2002, compared to \$5.9 million in the three months ended March 31, 2001. The decrease in operating expenses is due to Brass Eagle's adoption of SFAS 142 in which it ceased recording amortization expense associated with goodwill, which was \$0.5 million for the three months ended March 31, 2001. This decrease in expense was partially offset by increases in distribution and freight cost.

*Operating Income.* Operating income decreased by 22.2% to \$2.1 million in the three months ended March 31, 2002, compared to \$2.7 million in the three months ended March 31, 2001. The decrease was primarily due to decreased sales and lower gross profit margins associated with the economic slow down.

*Interest.* Brass Eagle recorded net interest expense of \$381,000 for the three months ended March 31, 2002, compared to \$540,000 for the three months ended March 31, 2001. The decrease in net interest expense was due to a reduction in the average amount borrowed for the three months ended March 31, 2002 compared to the three months ended March 31, 2001, as well as lower interest rates.

*Income Tax Rate.* Brass Eagle's effective federal and state income tax rate was 38.0% for the three months ended March 31, 2002 and 40.0% for the three months ended March 31, 2001. The decrease in the income tax rate is due to changes in the mix and volume of production resulting in a reduction in the overall effective state income tax rates.

## **Liquidity and Capital Resources**

At March 31, 2002, Brass Eagle had working capital of \$21.7 million. Brass Eagle is planning capital expenditures of approximately \$2.1 million for the remainder of 2002 for the expansion and improvement of manufacturing capacity. The investments will be funded from available cash and borrowings from the credit facility.

Brass Eagle believes that funds generated from operations, together with borrowings under the credit facility, will be adequate to meet its anticipated cash requirements for at least the next 18 months. Brass Eagle's operating cash flows are subject to risk of a decrease if demand for the company's products decline. Brass Eagle may, when and if the opportunity arises, acquire or participate in other businesses or ventures involved in activities or having product lines that are compatible with those of Brass Eagle or pursue the vertical integration of production capabilities for one or more of Brass Eagle's products which are currently purchased from third parties. The capital expenditures that would be associated with any such activities that may occur in the future would be funded with available cash and cash equivalents, borrowings from the credit facility, working capital, or a combination of such sources.

Net cash provided by operating activities for the three months ended March 31, 2002 was \$9.1 million, consisting primarily of net income of \$1.1 million, depreciation and amortization expense of \$687,000, plus a net decrease in accounts receivable of \$9.1 million, a decrease in accounts payable and accrued expenses of \$1.4 million, an increase in prepaid expenses of \$433,000, an increase in inventory of \$41,000 and a decrease in deferred taxes of \$116,000.

Net cash used in investing activities was \$414,000 for the three months ended March 31, 2002, which was for the purchases of property and equipment.

Net cash used in financing activities was \$5.5 million in the three months ended March 31, 2002, due to the reduction of long-term debt of \$1.6 million and payments on the line of credit of \$3.9 million.

Brass Eagle has the following contractual obligations as of March 31, 2002 that can impact its liquidity:

### **Contractual Obligations**

### **Payments Due by Period**

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(In thousands)

|                                       | Total     | Less Than 1<br>Year | 1-3 Years | 4-5 Years | After 5 Years |
|---------------------------------------|-----------|---------------------|-----------|-----------|---------------|
| Long-Term Debt                        | \$ 19,412 | \$ 6,407            | \$ 13,005 | \$ 0      | \$ 0          |
| Line of Credit *                      | \$ 0      | \$ 0                | \$ 0      | \$ 0      | \$ 0          |
| Operating Leases                      | \$ 1,702  | \$ 823              | \$ 879    | \$ 0      | \$ 0          |
|                                       |           |                     |           |           |               |
| Total Contractual Cash<br>Obligations | \$ 21,114 | \$ 7,230            | \$ 13,884 | \$ 0      | \$ 0          |
|                                       | =====     | =====               | =====     | =====     | =====         |

| Other Commercial<br>Commitments<br>(In thousands) | Amount of Commitment Expiration Per Period |                     |           |           |              |
|---|--|---------------------|-----------|-----------|--------------|
|   | Total Amounts<br>Committed                 | Less Than 1<br>Year | 1-3 Years | 4-5 Years | Over 5 Years |
| Lines of Credit                                   | \$ 5,500                                   | \$ 0                | \$ 5,500  | \$ 0      | \$ 0         |
| Standby Letters of Credit *                       | \$ 0                                       | \$ 0                | \$ 0      | \$ 0      | \$ 0         |
|   |  |                     |           |           |              |
| Total Commercial<br>Commitments                   | \$ 5,500                                   | \$ 0                | \$ 5,500  | \$ 0      | \$ 0         |
|   | =====                                      | =====               | =====     | =====     | =====        |

\* The standby letter of credit borrowings are considered advances against the line of credit.

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Brass Eagle is exposed to market risk from changes in interest rates. Brass Eagle holds a derivative instrument in the form of an interest rate swap, which is viewed as a risk management tool and is not used for trading or speculative purposes. The intent of the interest rate swap is to effectively fix the interest rate on part of the borrowings under Brass Eagle's term debt. Quantitative disclosures relating to financial instruments and debt are included in the tables below.

The following table provides information on Brass Eagle's fixed maturity investments as of March 31, 2002 that are sensitive to changes in interest rates. The table also presents the debt upon which an interest rate swap agreement was entered. Since the interest rate swap effectively fixes the interest rate on the notional amount of debt, changes in interest rates have no current effect on the interest expense recorded by Brass Eagle on the portion of the debt covered by the interest rate swap.

| <u>Liability</u>  | <u>Amount</u>   | <u>Maturity Date</u> |
|---|-----------------|----------------------|
| Variable rate debt  | \$ 19.4 million | June 30, 2005        |
| Interest rate swap notional amount<br>(Amount included in \$19.4 million) | \$ 14.0 million | August 29, 2003      |

**PART II: OTHER INFORMATION**

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

The following exhibits are filed with this Report:

(a) Exhibits

| Exhibit       |  |
|---------------|--|
| <u>Number</u> | <u>Description of Document</u>                 |
| 11            | Statement of Computation of Earnings Per Share |

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(b) Reports on Form 8-K:

Brass Eagle filed a Current Report on Form 8-K dated February 6, 2002 announcing a one-time charge in the fourth quarter ended December 31, 2001 related to receivable exposure with K-Mart Corporation.

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

Brass Eagle Inc.

Date: May 10, 2002

By: /s/ J. R. Brian Hanna  
J. R. Brian Hanna  
Vice President-Finance and Chief Financial Officer  
and Treasurer  
(on behalf of the Registrant and as the Registrant's  
principal Financial and Accounting Officer)

**EXHIBIT INDEX**

The following exhibits are filed with this Report:

| <u>NUMBER</u> | <u>DESCRIPTION OF DOCUMENT</u>                 |
|---------------|--|
| 11            | Statement of Computation of Earnings Per Share |

Exhibit 11

**STATEMENT OF COMPUTATION OF EARNINGS PER SHARE**

(In thousands except share and per share data)

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THREE MONTHS ENDED  
MARCH 31.  
2002                      2001

Basic Net Income Per Share:

|   |           |           |
|---|-----------|-----------|
| Net income available to common stockholders | \$ 1,089  | \$ 1,308  |
|   | =====     | =====     |
| Weighted average common shares outstanding  | 7,148,673 | 7,142,907 |
|   | =====     | =====     |
| Basic net income per share                  | \$ 0.15   | \$ 0.18   |
|   | =====     | =====     |

Diluted Net Income Per Share:

|   |                |                |
|---|----------------|----------------|
| Net income available to common stockholders         | \$ 1,089       | \$ 1,308       |
|   | =====          | =====          |
| Pro forma basic weighted average common shares      |                |                |
| Outstanding   | 7,148,673      | 7,142,907      |
| Add dilutive effect of stock options                | <u>392,716</u> | <u>414,343</u> |
| Weighted average dilutive common shares outstanding | 7,541,389      | 7,557,250      |
|   | =====          | =====          |
| Diluted net income per share                        | \$ 0.14        | \$ 0.17        |
|   | =====          | =====          |