FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
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FILER

MIDDLETON DOLL CO

CIK:**723209**| IRS No.: **391364345** | State of Incorp.:**WI** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **811-03787** | Film No.: **02647403**
SIC: **6798** Real estate investment trusts

Mailing Address
W239 N1700 BUSSE ROAD
WAUKESHA WI 53188-1160

Business Address
W239 N1700 BUSSE ROAD
WAUKESHA WI 53188-1160
2625234300

UNITED STATES
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: 0-22663

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

Wisconsin	39-1364345
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
W239 N1700 Busse Road Waukesha, Wisconsin	53188-1160
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (262) 523-4300

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

Yes X No ___

On May 14, 2002, there were 3,727,589 shares outstanding of the Registrant's common stock, 6-2/3 cents par value.

THE MIDDLETON DOLL COMPANY
FORM 10-Q INDEX

<TABLE>

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<CAPTION>

	March 31, 2002 (Unaudited)	December 31, 2001
<S>	<C>	<C>
ASSETS		
Consumer Products		
Cash	$ 1,299,444	$ 681,267
Accounts receivable, net of allowance of $307,125 and $326,389 as of March 31, 2002 and December 31, 2001, respectively	2,514,588	3,954,444
Inventory	6,360,086	6,093,822
Prepaid inventory	180,935	676,943
Prepaid corporate taxes	842,228	798,262
Other prepaid expenses	568,046	296,065
Total current assets	11,765,327	12,500,803
Property and equipment, net of accumulated depreciation of $2,432,689 and $2,240,331 as of March 31, 2002 and December 31, 2001, respectively	4,191,131	4,150,695
Loan	--	621,968
Prepaid expenses and other assets	757,472	725,432
Licensing agreement, net of accumulated amortization of $1,958,334 and $1,833,334 as of March 31, 2002 and December 31, 2001, respectively	541,666	666,666
Goodwill, net of accumulated amortization of $113,608 as of March 31, 2002 and December 31, 2001, respectively	506,145	506,145
Total Consumer Products Assets	17,761,741	19,171,709
Financial Services		
Cash	568,301	229,506
Interest receivable	460,211	431,284
Rent receivable, net of allowance of $150,000 as of March 31, 2002 and December 31, 2001	203,605	136,939
Loans	90,588,017	99,218,367
Leased properties:		
Buildings, net of accumulated depreciation of $2,173,291 and $1,976,037 as of March 31, 2002 and December 31, 2001, respectively	30,133,663	30,375,142
Land	4,545,569	4,501,344
Total leased properties	34,679,232	34,876,486
Property and equipment, net of accumulated depreciation of $628,238 and $610,192 as of March 31, 2002 and December 31, 2001, respectively	123,293	141,340
Investment in swap contracts at fair value	1,546,646	1,704,170
Other assets	1,312,938	1,356,617
Total Financial Services Assets	129,482,243	138,094,709
Total Assets	$147,243,984	$157,266,418

</TABLE>

<TABLE>

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

<CAPTION>

	March 31, 2002	December 31, 2001
LIABILITIES, MINORITY INTEREST, PREFERRED STOCK AND SHAREHOLDERS' EQUITY	(Unaudited)	
Consumer Products		
<S>	<C>	<C>
Short-term borrowings	$ 3,100,000	$ 3,400,000
Accounts payable	867,908	794,179
Accrued salaries	161,479	217,078
Accrued liabilities	548,941	753,826
Total current liabilities	4,678,328	5,165,083
Long-term debt	14,465	16,518
Total Consumer Products Liabilities	4,692,793	5,181,601
Financial Services		
Commercial paper	60,437,125	62,806,903
Lines of credit	7,415,000	8,200,000
Direct pay letter of credit obligation	9,160,000	9,250,000
State of Wisconsin Investment Board notes payble	10,666,667	11,000,001
Loan participations with repurchase options	22,497,485	28,123,907
Other borrowings	60,775	62,317
Accrued liabilities	1,511,385	1,484,405
Total Financial Services Liabilities	111,748,437	120,927,533
Minority Interest and Preferred Stock		
Minority interest in subsidiaries	267,170	255,260
Redeemable Preferred stock, 1 cent par value, 3,000,000 shares authorized, 690,000 shares issued	17,250,000	17,250,000
Redeemable Preferred Treasury stock 15,809 shares, at cost	(395,225)	(395,225)
Shareholders' Equity		
Common stock, 6 2/3 cents par value, 15,000,000 shares authorized, 4,401,599 shares issued	293,441	293,441
Additional paid-in capital	16,604,744	16,604,744
Retained earnings	1,961,900	2,170,816
Treasury stock, 674,010 shares, at cost	(6,725,922)	(6,725,922)
Accumulated other comprehensive income	1,546,646	1,704,170
Total Shareholders' Equity	13,680,809	14,047,249
Total Liabilities, Minority Interest, Preferred Stock and Shareholders' Equity	$ 147,243,984	$ 157,266,418

</TABLE>

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended March 31, 2002	2001
Consumer Products		
Net sales	$ 5,584,106	$ 6,758,223
Cost of goods sold	3,141,995	3,389,195
Gross profit	2,442,111	3,369,028
Operating expenses		
Sales and marketing	1,161,678	1,129,338
New product development	225,536	239,460
General and administrative	1,127,987	1,249,792
Total operating expenses	2,515,201	2,618,590
Net operating income (loss)	(73,090)	750,438
Other income (expenses)		
Interest expense	(42,814)	(41,288)

Other income, net	7,455	7,540
Net other expenses	(35,359)	(33,748)
Income (loss) before income taxes, minority interest and intercompany charges	(108,449)	716,690
Income tax benefit (expense)	43,380	(286,676)
Minority interest in earnings of subsidiaries	(11,910)	(24,452)
Income (Loss) Before Intercompany Charges - Consumer Products	(76,979)	405,562
Financial Services		
Revenues		
Interest on loans	1,369,183	2,319,575
Rental income	976,176	962,905
Gain on sale of leased properties	893	--
Other income	135,350	127,687
Total revenues	2,481,602	3,410,167
Expenses		
Interest expense	1,035,721	2,357,466
Depreciation expense	216,193	221,087
Management fee expense	261,007	241,365
Other operating expenses	206,092	198,661
Total expenses	1,719,013	3,018,579
Income Before Intercompany Charges - Financial Services	$ 762,589	$ 391,588

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS - (Continued)
(Unaudited)

	For the Three Months Ended March 31,	
	2002	2001
Total Company		
Income (loss) before income taxes, minority interest and intercompany activity		
Consumer products	$ (108,449)	$ 716,690
Financial services	762,589	391,588
Total company	654,140	1,108,278
Income tax benefit (expense)	118,264	(97,544)
Minority interest in earnings of subsidiaries	(11,910)	(24,452)
Net income	760,494	986,282
Preferred stock dividends	(359,428)	(359,428)
Net income available to common shareholders	$ 401,066	$ 626,854
Basic Earnings Per Common Share	$ 0.11	$ 0.17
Diluted Earnings Per Common Share	$ 0.11	$ 0.17
Weighted average shares outstanding (diluted)	3,727,589	3,727,589

Segment Reconciliation

Consumer Products		
Income (loss) before intercompany charges	$ (76,979)	$ 405,562
Interest/rental expense to parent	(182,113)	(412,260)
Management fees to parent	(103,858)	(102,419)
Applicable income tax benefit related to intercompany charges and other items	74,884	189,132
Total segment net income (loss)	(288,066)	80,015
Financial Services		
Income before intercompany revenue	762,589	391,588
Interest/rental income from subsidiary	182,113	412,260
Management fees from subsidiary	103,858	102,419
Total segment net income	1,048,560	906,267
Net Income	$ 760,494	$ 986,282

<TABLE>

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

<CAPTION>

<S>	Common Stock <C>	Additional Paid-In Capital <C>	Retained Earnings <C>	Common Treasury Stock <C>	Accumulated Other Comprehensive Income <C>	Total <C>
BALANCES, December 31, 2000	$ 293,441	$ 16,604,744	$ 2,965,814	$ (6,725,922)	$ --	$ 13,138,077
Comprehensive income						
Net income three months ended March 31, 2001	--	--	986,282	--	--	986,282
Change in fair market value of interest rate swap agreement	--	--	--	--	1,951,696	1,951,696
Total Comprehensive Income						2,937,978
Cash dividends on preferred stock	--	--	(359,428)	--	--	(359,428)
Cash dividends on common stock	--	--	(609,982)	--	--	(609,982)
BALANCES, March 31, 2001	$ 293,441	$ 16,604,744	$ 2,982,686	$ (6,725,922)	$ 1,951,696	$ 15,106,645
BALANCES, December 31, 2001	$ 293,441	$ 16,604,744	$ 2,170,816	$ (6,725,922)	$ 1,704,170	$ 14,047,249
Comprehensive income						
Net income three months ended March 31, 2002	--	--	760,494	--	--	760,494
Change in fair market value of interest rate swap agreement	--	--	--	--	(157,524)	(157,524)
Total Comprehensive Income						602,970
Cash dividends on preferred stock	--	--	(359,428)	--	--	(359,428)
Cash dividends on common stock	--	--	(609,982)	--	--	(609,982)
BALANCES, March 31, 2002	$ 293,441	$ 16,604,744	$ 1,961,900	$ (6,725,922)	$ 1,546,646	$ 13,680,809

</TABLE>

<TABLE>

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<CAPTION>

	For the Three Months Ended March 31, 2002		For the Three Months Ended March 31, 2001	
	Consumer Products	Financial Services	Consumer Products	Financial Services
<S>	<C>	<C>	<C>	<C>
Cash Flows from Operating Activities:				
Segment income (loss)	$ (288,066)	$ 1,048,560	$ 80,015	$ 906,267
Adjustments to reconcile segment net income to net cash flows from operating activities				
Depreciation and amortization	317,358	216,194	166,137	221,088
Provision for losses on accounts receivable	27,000	--	47,100	--
Provision for inventory reserve	(48,717)	--	22,993	--
Change in appreciation on investments	--	(9,517)	--	(48,833)
Gain on sale of leased properties	--	(893)	--	--
Change in minority interest in subsidiaries	11,910	--	24,452	--
Net change in:				
Accounts receivable	1,412,856	--	812,716	--
Inventory	459,396	--	617,519	--
Interest receivable	--	(28,927)	--	193,729
Rent receivable	--	(66,666)	--	(55,054)
Other assets	(528,922)	53,196	(826,467)	128,223
Accounts payable	73,729	--	(422,152)	--
Other liabilities	(260,484)	26,980	(13,340)	(203,737)
Net Cash Flows from Operating Activities	1,176,060	1,238,927	508,973	1,141,683
Cash Flows from Investing Activities:				
Net loan repayments received	621,968	8,630,350	--	3,467,196
Purchase or construction of leased property	--	--	--	(1,356)
Capital expenditures	(232,794)	--	(414,311)	--
Net Cash Flows from Investing Activities	389,174	8,630,350	(414,311)	3,465,840
Cash Flows from Financing Activities:				
Net change in short term borrowings	(300,000)	--	300,000	--
Net change in commercial paper	--	(2,369,778)	--	(1,635,628)
Net change in lines of credit	--	(785,000)	--	350,000
Net payments on letter of credit	--	(90,000)	--	(135,000)
Repayment of SWIB notes	--	(333,334)	--	(333,333)
Repayment of loan participations with repurchase options	--	(5,626,422)	--	(2,137,818)
Net change in other notes payable	(2,053)	(1,542)	(1,702)	(1,454)
Preferred stock dividends paid	--	(359,428)	--	(359,428)
Common stock dividends paid	--	(609,982)	--	(609,982)
Net intercompany transactions	(645,004)	645,004	(338,450)	338,450
Net Cash Flows from Financing Activities	(947,057)	(9,530,482)	(40,152)	(4,524,193)
Net change in cash and cash equivalents	618,177	338,795	54,510	83,330
Cash and equivalents beginning of period	681,267	229,506	628,418	85,276
Cash and equivalents end of period	$ 1,299,444	$ 568,301	$ 682,928	$ 168,606
Supplemental Cash Flow Disclosures				
Cash paid for interest	$ 101,933	$ 1,147,431	$ 31,360	$ 2,228,217
Cash paid for income taxes	$ --	$ 64,970	$ 118,002	$ --

</TABLE>

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. NATURE OF BUSINESS

The consolidated financial statements of The Middleton Doll Company (the "Company") include two segments of business: financial services and consumer products. The consolidated financial statements as of and for the periods presented include the accounts of the Company and Bando McGlocklin Small Business Lending Corporation ("BMSBLC") as financial services companies and Lee Middleton Original Dolls, Inc. ("LMOD"), License Products, Inc. ("LPI") and Middleton (HK) Limited ("MHK") as consumer product companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management of the Company, all adjustments necessary to present fairly the financial position as of March 31, 2002 and December 31, 2001 and the results of operations for the three months ended March 31, 2002 and 2001 and cash flows for the three months ended March 31, 2002 and 2001 have been made. Such adjustments consisted only of normal recurring items. Operating results for the periods ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements contained in the Company's 2001 Annual Report on Form 10-K. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

The balance sheet for consumer products is classified due to its normal business cycle being less than twelve months. Financial services' balance sheet is not classified as its normal business cycle is greater than twelve months.

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for doubtful accounts, valuation of inventories and deferred tax assets.

NOTE 3. INTEREST RATE SWAPS

The Company has adopted FAS 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement 133", and FAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". These statements require the Company to designate all derivative instruments as either fair value hedges or cash flow hedges and to record the hedge on the balance sheet at its fair market value. The net gain/loss on instruments classified as cash flow hedges are reported as changes in other comprehensive income. The net gain/loss on instruments classified as fair value hedges are reported as increases/decreases in current year earnings.

As part of the Company's asset/liability management, the Company uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Derivatives that are used as part of the asset/liability management process are linked to specific assets or liabilities and have high

correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period. Under the terms of the swap agreements, the parties exchange interest payment streams calculated on the notional principal amount. The swap agreements are accounted for on the "accrual" method. Under that method, the interest component associated with the contract is recognized over the life of the contract in net interest income. Although these swaps reduce interest rate risk, the potential for profit or loss on interest rate swaps still exists depending upon fluctuations in interest rates. The Company may be susceptible to risk with respect to interest rate swap agreements to the extent of nonperformance by the financial institutions participating in the interest rate swap agreements. However, the Company does not anticipate nonperformance by these institutions.

Contracts that do not meet the hedging criteria are classified as trading activities and are recorded at fair value with changes in fair value recorded in earnings.

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board Statement No. 107, "Disclosures About Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

NOTE 5. INVENTORY

Inventories of LMOD and LPI are valued at the lower of cost or market and utilize the first-in, first-out (FIFO) method to determine cost. The components of inventory are as follows:

	March 31, 2002	December 31, 2001
Raw materials	$ 2,195,507	$ 2,116,694
Work in process	156,622	113,163
Finished goods	4,242,580	4,147,305
	6,594,709	6,377,162
Less: reserve for obsolete inventory	(234,623)	(283,340)
	$ 6,360,086	$ 6,093,822

NOTE 6. INCOME TAXES

The Company and its qualified REIT subsidiary, BMSBLC, qualify as a real estate investment trust under the Internal Revenue Code. Accordingly, they are not subject to income tax on taxable income that is distributed to shareholders. The income tax expense (benefit) recorded by the Company is attributable to the Consumers Product segment and is calculated on net income before the elimination of intercompany expenses.

NOTE 7. EARNINGS PER SHARE

See Exhibit 11 for the computation of the net income per common share.

NOTE 8. COMMITMENTS

Undisbursed construction loan commitments and lines of credit totaled $2.13 million at March 31, 2002.

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

General

Amounts presented as of March 31, 2002 and December 31, 2001, and for the three months ended March 31, 2002 and March 31, 2001 include the consolidation of two segments. The financial services segment includes The Middleton Doll Company (the "Company") and Bando McGlocklin Small Business Lending Corporation ("BMSBLC"), a 100% owned subsidiary of the Company. The consumer products segment includes Lee Middleton Original Dolls, Inc. ("LMOD"), a 99% owned subsidiary of the Company, Middleton (HK) Limited ("MHK"), a 51% owned subsidiary of LMOD and License Products, Inc. ("LPI"), a 100% owned subsidiary of LMOD.

Results of Operations

For the three months ended March 31, 2002 and March 31, 2001

Overall, net income decreased when comparing the first quarter of 2002 to the first quarter of 2001. The Company's total net income available to common shareholders for the quarter ended March 31, 2002 was $0.40 million or $0.11 per share (diluted) as compared to $0.63 million or $0.17 per share (diluted) for the quarter ended March 31, 2001, a 37% decrease. The consumer products segment's net income decreased due to lower than expected sales as a result of the overall slowdown in the retail sector and the general economy. The financial services segment's net income increased due to the increase in the net interest margin as a result of lower interest rates.

Consumer Products

After income taxes and minority interest, the consumer products segment had a net loss of $0.08 million for the quarter ended March 31, 2002 compared to net income of $0.41 million for the quarter ended March 31, 2001. After giving effect to interest, rental and management fees paid to the Company, the consumer products segment's net loss was $0.29 million for the three months ended March 31, 2002, as compared to $0.08 million of net income for the three months ended March 31, 2001.

Net sales from consumer products for the quarter ended March 31, 2002 decreased 17% to $5.58 million from $6.76 million in the corresponding prior year period. This was due to decreased sales of $1.25 million at LMOD offset by increased sales of $0.07 million at LPI. LMOD's decrease was mainly due to a $0.73 million decrease in the artist studio collection sold to dealers and a $0.31 million decrease due to the end of a Disney program. Cost of sales decreased 7% to $3.14 million for the quarter ended March 31, 2002 compared to $3.39 million for the prior year quarter. LMOD's cost of sales decreased to $2.41 million from $2.73 million while LPI's cost of sales increased to $0.73 million from $0.66 million. Total gross profit margin decreased to 44% from 50% in the prior year. LMOD's gross profit margin decreased to 46% from 53% and LPI's decreased to 32% from 34%. The decrease in the gross profit margin at LMOD was due to the liquidation at cost of slow moving inventory in the amount of $0.14 million and discounting of outdated inventory from the artist studio collection.

Total operating expenses of consumer products for the quarter ended March 31, 2002 were $2.52 million compared to $2.62 million for the quarter ended March 31, 2001, a 4% decrease. LMOD's total operating expenses decreased $0.21 million and LPI's operating expenses increased $0.11 million. Sales and marketing expense and new product development increased $0.02 million to $1.39 million for the quarter ended March 31, 2002 compared to $1.37 million for the quarter ended March 31, 2001. LMOD's sales and marketing expenses decreased $0.04 million while LPI's increased $0.06 million. General and administrative expenses increased $0.06 million at LPI and decreased $0.18 million at LMOD when comparing the prior year quarter to the quarter ended March 31, 2002.

Other expenses, net, remained the same when compared to the same period a year ago. The minority interest in earnings of subsidiaries decreased for the quarter ended March 31, 2002 due to a decrease in income at MHK. Consumer products recorded an income tax benefit of $0.12 million for the quarter ended March 31, 2002 as compared to an income tax expense of $0.10 million for the quarter ended March 31, 2001. Income tax benefit is composed of tax benefit on net loss before intercompany charges of $0.04 million and the tax benefit attributable to intercompany charges and other miscellaneous items of $0.08 million. Intercompany charges were $0.29 million for

the quarter ended March 31, 2002 and $0.51 million for the quarter ended March 31, 2001. The decrease in the intercompany expenses was due to a decrease in interest expense due to lower interest rates.

Financial Services

Net income from financial services for the quarter ended March 31, 2002 was $0.76 million compared to $0.39 million for the quarter ended March 31, 2001, a 95% increase. The increase resulted primarily from improved net interest margins as the Company's cost of funds decreased more rapidly than revenues decreased. The net interest margin for the quarter ended March 31, 2002 was 3.86% compared to 2.46% for the quarter ended March 31, 2001. Net interest margin is determined by dividing the total of interest income on loans and rental income less interest expense by the total of average loans and leased properties. The financial services segment net income was $1.05 million after including interest, rental and management fees received from the consumer products segment for the quarter ended March 31, 2002 and $0.91 million for the quarter ended March 31, 2001.

Total revenues were $2.48 million for the quarter ended March 31, 2002 compared to $3.41 million for the quarter ended March 31, 2001, a 27% decrease. Interest on loans decreased 41% to $1.37 million for the quarter ended March 31, 2002 from $2.32 million for the comparative quarter. The large decrease in interest income from loans was primarily due to the 45% decrease in the prime rate. The average prime rate was 4.75% for the quarter ended March 31, 2002 compared to 8.64% for the quarter ended March 31, 2001. Average loans under management decreased $15.09 million when comparing the first quarter of 2002 to the first quarter of 2001.

Rental income increased $0.02 million to $0.98 million for the quarter ended

March 31, 2002 as compared to $0.96 million for the quarter ended March 31, 2001 due to scheduled rent increases. At March 31, 2002 the Company had $34.68 million in leased properties, net of accumulated depreciation, compared to $35.22 million at March 31, 2001. One foreclosed property was resold for a gain of $893.

Other income at March 31, 2002 includes loan prepayment penalties of $0.11 million and $0.03 million of miscellaneous income. At March 31, 2001, other income included an unrealized gain on hedging activities of $0.08 million, $0.02 million of fees from letters of credit and $0.03 million of miscellaneous income.

Interest expense decreased 56% to $1.04 million for the quarter ended March 31, 2002 as compared to $2.36 million for the quarter ended March 31, 2001 primarily due to lower rates for the Company's cost of funds. The Company's debt cost is based primarily on variable interest rates which were significantly lower due to the decrease in interest rates by the Federal Reserve. The average prime rate decreased 389 basis points between the first quarter of 2002 and the first quarter of 2001. The average debt balance also decreased $15.69 million in the first quarter of 2002 compared to the first quarter of 2001, which was the result of the decrease in loans. As a result of interest rate swaps, the Company recognized a reduction in interest expense of $0.17 million for the quarter ended March 31, 2002 and $0.01 million for the quarter ended March 31, 2001.

Management fee expense increased $0.02 million for the first quarter of 2002 as compared to the first quarter of 2001 due to salary increases. Depreciation expense and other operating expenses remained the same for the comparative quarters.

The Company and its qualified REIT subsidiary, BMSBLC, qualify as a real estate investment trust under the Internal Revenue Code. Accordingly, they are not subject to income tax on taxable income that is distributed to shareholders.

Liquidity and Capital

Consumer Products

Total assets of consumer products were $17.76 million as of March 31, 2002 and $19.17 million as of December 31, 2001, a 7% decrease.

Cash increased to $1.30 million at March 31, 2002 from $0.68 million at December 31, 2001.

Accounts receivable, net of the allowance, decreased to $2.51 million at March 31, 2002 from $3.95 million at December 31, 2001. A decrease of $0.80 million is attributable to LMOD, and a decrease of $0.64 million is attributable to LPI. The decrease in accounts receivable is attributable to the slowdown in sales due to the economy.

Inventory was $6.36 million at March 31, 2002 compared to $6.09 million at December 31, 2001. LMOD's inventory increased $0.27 million while License Products' inventory remained the same. Inventories are valued at lower of cost or market using the first-in, first-out (FIFO) method.

Property and equipment, net of accumulated depreciation, increased by $0.04 million and prepaid inventory decreased $0.50 million. Loans decreased by $0.62 million due to a loan prepayment. Other assets and prepaid expenses increased by $0.35 million due to expected refunds of estimated income tax payments and due to a timing difference in tradeshow and catalog expenses. The licensing agreement decreased $0.13 million due to amortization.

Goodwill was recorded when the Company purchased the remaining interest in the stock from the estate of Lee Middleton, the founder of LMOD, on April 30, 1998. The purchase price exceeded book value by $0.62 million which was being amortized over 20 years. As of December 31, 2001, the balance of the goodwill, net of accumulated amortization was $0.51 million. The Financial Accounting Standards Board issued Statement 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001 (i.e., January 1, 2002 for calendar year companies). This statement provides that goodwill and indefinite lived intangible assets are no longer amortized against income but are reviewed at least annually for impairment. An impairment review is designed to determine whether the fair value, and the related recorded goodwill, of a reporting unit is below its carrying value. In the year of adoption, any impairment loss will be recorded as a cumulative effect of a change in accounting principle. Thereafter, goodwill impairment losses will be charged to operations. For the quarter ended March 31, 2002, no impairment loss was recorded.

LMOD decreased its short-term borrowings by $0.30 million under a line of credit with a related bank. Accounts payable and other liabilities decreased by $0.19

million as of March 31, 2002 compared to December 31, 2001.

Financial Services

Total assets of financial services were $129.48 million as of March 31, 2002 and $138.09 million as of December 31, 2001, a 6% decrease.

Cash increased to $0.57 million at March 31, 2002 from $0.23 million at December 31, 2001.

Interest and rent receivable increased to $0.66 million from $0.57 million. Interest income is accrued on the unpaid principal balance of loans. The accrual of interest income on impaired loans is discontinued when, in the opinion of management, there is reasonable doubt as to the borrower's ability to meet payments of interest or principal when they become due. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Rent is accrued on a monthly basis based on lease agreements. If it is determined by management that the lessee will not be able to make rent payments as required by the lease agreement, the accrual of rent is discontinued until management determines the rent to be collectible. The rent receivable is shown net of an allowance account of $150,000.

Property and equipment and other assets decreased by $0.06 million.

The Company has adopted FAS 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement 133", and FAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". These statements require the Company to designate all derivative instruments as either fair value hedges or cash flow hedges and to record the hedge on the balance sheet at its fair market value. The net gain/loss on instruments classified as cash flow hedges are reported as changes in other comprehensive income. The net gain/loss on instruments classified as fair value hedges are reported as increases/decreases in current year earnings. All derivatives are marked to market on the balance sheet. The Company's interest rate swaps are cash flow hedges and had a marked to market value of $1.55 million at March 31, 2002 and $1.70 million at December 31, 2001.

Total loans decreased by $8.63 million, or 9%, to $90.59 million at March 31, 2002, from $99.22 million at December 31, 2001, with a corresponding decrease in liabilities. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the amount of unpaid principal, reduced by the allowance for loan losses. Management reviews the value of the collateral securing each loan to determine if an allowance for loan losses is necessary. In management's opinion no loan loss reserve was required at March 31, 2002 or at December 31, 2001.

Leased properties decreased $0.20 million due to depreciation. Leased properties are recorded at cost and are depreciated using the straight-line method. The costs of normal repairs and maintenance are charged to expense as incurred.

The financial services' total liabilities at March 31, 2002 decreased $9.18 million. At March 31, 2002, financial services has $42.39 million outstanding in long-term debt and $67.85 million outstanding in short-term borrowings compared to $48.44 million outstanding in long-term debt and $71.01 million outstanding in short-term borrowings as of December 31, 2001. BMSBLC's short-term debt facility consists of commercial paper and drawn letters of credit backed by a $75 million line of credit that matures on June 28, 2002. If commercial paper would become unavailable, BMSBLC would have to draw upon its back-up line of credit which would have higher interest rates and would result in a reduction of net income. BMSBLC expects that its line of credit will be renewed at its June 28, 2002 maturity. However, if the line of credit is not renewed, BMSBLC would have to seek other financing sources. There is no guarantee that any such alternative financing sources could be obtained. Accrued liabilities increased $0.03 million from December 31, 2001 to March 31, 2002.

Other significant accounting policies

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for doubtful accounts, valuation of inventories and deferred tax assets.

Financial Accounting Standards Board Statement No. 107, "Disclosures About Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company (See Note 21).

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "may", "will", "could", "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, including the condition of the local real estate market, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, competition, demand for financial services in the Company's market area, demand for the Company's consumer products, payment when due of principal and interest on loans made by the Company, payment of rent by lessees on Company properties and the necessity to make additions to the Company's loan loss reserve. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is not a defendant in any material pending legal proceeding and no such material proceedings are known to be contemplated.

Item 2. CHANGES IN SECURITIES

No material changes have occurred in the securities of the Registrant.

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) List of Exhibits

The Exhibits to this Quarterly Report on Form 10-Q are identified on the Exhibit Index hereto.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ended March 31, 2002.

SIGNATURE

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

THE MIDDLETON DOLL COMPANY
(Registrant)

Date: May 14, 2002

/s/ George R. Schonath

George R. Schonath
President and Chief Executive Officer

Date: May 14, 2002

/s/ Susan J. Hauke

Susan J. Hauke
Vice President Finance

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q

EXHIBIT INDEX

Exhibit Number	Exhibit
11	Statement Regarding Computation of Per Share Earnings

Exhibit 11

THE MIDDLETON DOLL COMPANY AND SUBSIDIARIES
COMPUTATION OF NET INCOME PER COMMON SHARE

	For the Three Months Ended March 31, 2002	For the Three Months Ended March 31, 2001
Net income available to common shareholders	$ 401,066	$ 626,854
Determination of shares:		
Weighted average common shares outstanding (basic)	3,727,589	3,727,589
Assumed conversion of stock options	--	--
Weighted average common shares outstanding (diluted)	3,727,589	3,727,589
Basic earnings per share	$ 0.11	$ 0.17
Diluted earnings per share	$ 0.11	$ 0.17