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THE KING OF ACQUISITIONS

K2 chief executive clambers up the slippery slope of sporting goods manufacturing

By BRIE IATAROLA, The Daily Transcript
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A habit of reading the sports page every morning and a love for skiing and fishing are what make Richard Heckmann a self-proclaimed sports nut. More than 20 years of pursuing a career devoted to business is what affords him a living.

So it seemed like a logical, if not ideal, rescue mission when the **K2 Inc.** (NYSE: KTO) chairman jumped in as chief executive in October 2002 to resuscitate the sporting goods equipment manufacturer, which was drowning in debt and fighting to stay afloat in a pool ruled by behemoths like **Nike** (NYSE: NIK) and **Adidas-Reebok**.

K2 Inc Chief Executive Richard Heckmann. Photo: J. Kat Woronowicz for The Daily Transcript

"The company in '02 was a mess," Heckmann said during a recent interview from K2's center of operations in Carlsbad. "It was in default with its banks, and it was a little company with six people in headquarters, struggling to survive. But it's such a great legacy brand, ... and it just seemed to me that there was no excuse -- except bad management -- for it to be in the shape that it was in."

Although the 62-year-old had retired, Heckmann acknowledged that the opportunity to transform an industry underdog, perhaps best known in the United States for its ski and snowboarding gear, was too attractive to reject. When K2 investment bankers solicited help from Smith Goggles' former owner, who professed to know the ski industry "inside and out," he joined the board of directors as a nonexecutive chairman.

"I went on the board, and it was a bigger mess than I had been led to believe, but that's always the case," he said. "Nobody ever tells you how bad it is. They always embellish how good it is, and they never tell you the truth about how bad it is."

According to Heckmann, bad was tantamount to financial disaster. He said the company was so decentralized that when he took a tour to observe several of its divisions, they were branded in their own products, but there was no indication that K2 owned them.

"There was no teamwork at all between the divisions, and there was absolutely no strategic vision," he added.

That's when the former stockbroker for Prudential-Bach Securities and founder of US Filter realized the company needed a major makeover to survive. With the long-term goal of developing K2 -- whose total assets in 2004 were worth $1.5 billion -- into a $5 billion enterprise, the newly appointed CEO moved corporate headquarters from Los Angeles' industrialized City of Commerce to the serene, picturesque hills of Carlsbad and executed a series of acquisitions that sparked both interest and criticism on Wall Street.

He began by purchasing Rawlings, a popular baseball and softball equipment manufacturer, for $98 million, and later procured ski-equipment makers Volkl Sports Holding AG and the Marker Group for nearly $124 million, and apparel company Marmot Mountain for approximately $84 million.

"You can say it's 'acquisition-hungry,' but it's defensive," Heckmann contended. "If you don't do it, you're done. You're out. You're gone. Because the competition is all that's left.

"And we're not competing against guys in garages. We're competing against Nike, Wilson, Spaulding. ... We're competing against some pretty strong boys out there who are gonna kick our butts if we can't run the same weight with them, and size is what does that."

Indeed, expansion has occurred under Heckmann's guidance. In a matter of four years, K2 has acquired 22 companies and shelled out more than $560 million for them. Net sales also have nearly doubled, and though its total debt as of the third quarter of 2005 is listed at $437.9 million, the company reported a net income of $16.7 million, or 36 cents per share -- an increase of $3.5 million for the comparable quarter in 2004.

"We are No. 1 in eight categories in sports," Heckmann said. "I would say that, with the exception of a stumble in the paintball industry itself last year, the whole industry hit a wall."

And so did the CEO's assertion to CNBC in February 2004 that paintball products were the "fastest-growing segment in the sporting goods business." For the fiscal third and fourth quarters of 2004, K2 was expecting operating income from paintball to exceed $8.5 million, or 10 cents per share; however, after revising its forecast for 2005, the company anticipated virtually no contribution from the paintball sector.

Although Heckmann blamed rapid advances in technology for stagnant sales in the industry, he maintained a positive outlook, claiming "business is up this year over the last for the first time in two years.

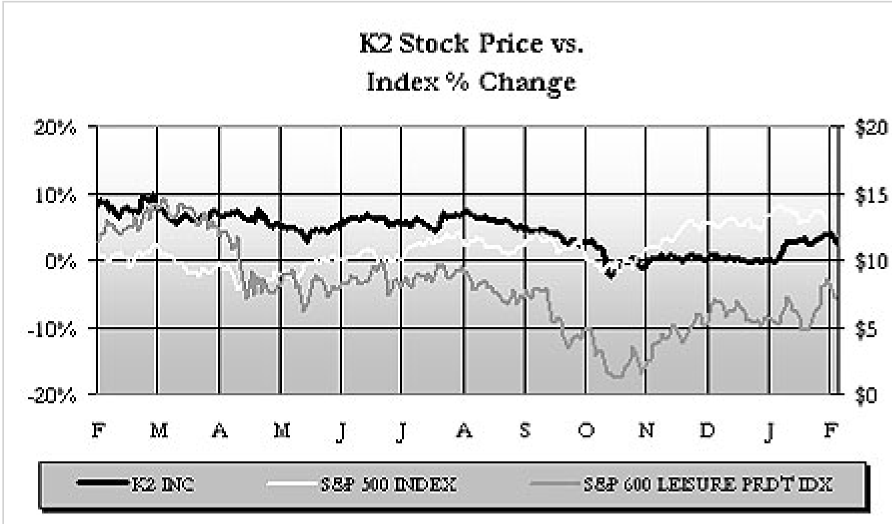
"So now you're in a obsolescence cycle," he continued. "(The paintball guns) just break, get used up, lost, stolen or whatever. One thing we watched closely last year was paintball sales didn't come down nearly anywhere close to what the rest of the equipment came down to, which led us to believe that participation stayed the same. It wasn't that people quit playing, because they kept buying paintballs. We sold 900 million paintballs last year.

"It wasn't participation that failed. Technology got to the point where you didn't have replacement issues that you had five years ago."

Along with these concerns, Heckmann noted K2 will have to cope with increased competition, fickle consumer interests and distribution concerns.

"All competition is well-financed and huge, so we have to be careful that we can stay with them," he said. "And we gotta figure out how to get more people skiing, more people playing baseball, more people fishing. ... And we gotta stay focused on our shipping issues -- being able to service these customers.

"They don't make it easy," he added. "The world out there is trying to make everything difficult. You know, you just don't snap your fingers and make it successful."



K2 Inc.

Company Description: K2 Inc. designs, manufactures, and markets sporting goods, as well as recreational and industrial products. The company's products include alpine skis, snowboards, boots, bindings, in-line skates, sports equipment, fishing tackle, bikes, backpacks, active apparel, extruded monofilaments, marine antennas, and fiberglass light poles.

Address: 5818 El Camino Real, Carlesbad, CA 92008

Phone: (760) 494 1000

Website: www.k2sports.com

Employees: 4,700

Position, Executive, Pay, Exercised

CEO/Chairman, Richard J. Heckmann, $1.10 million, $0

COO/President, Wayne Merck, $590,000, $0

CFO, Sr.VP Fin, Dudley W. Mendenhall, $405,000, $0

Pres of European operations, John J. Rangel, $405,000, $0

VP, Sec. and Gen. Counsel, Monte H. Baier, $360,000, $0

Compensation as of Dec. 31 2004

Symbol: KTO

Exchange: NYSE

2004 Revenue: $1.2 billion

2004 Net Income: $38.9 million

Common Shares Outstanding: 46.88 million

Price Per Share as of March 2, 2006 $11.55

52 Week High: $14.25

52 Week Low: $8.25

52 Week EPS: $0.60

Shareholder Equity: $682.87 million

Price/Earning Ratio: 19.25

Book Value per Share: $14.52

Market Value: $541.46 million
