

THE



PLAYBOOK

2002 ANNUAL REPORT





*THE K2 GAME PLAN:
NOTHING LESS THAN THE BEST*

The mountain called K2 is perched atop a giant glacial field in the Annapurna region of Nepal. The second highest peak in the world, it has been called the most difficult and dangerous of all mountains. First surveyed in 1856, nearly a century elapsed before a team of Italian climbers succeeded in reaching its summit in 1954. In 1978, the first successful American expedition also earned the distinction of being the first to reach the summit without the aid of bottled oxygen. Not many people get to breathe the rarified air at the top of the world. But the spirit of adventure that drives explorers to bold new heights is within each of us, a part of the human condition.

The company called K2 has been dedicated to celebrating the human passion for sport and adventure since its inception. The acquisition of Rawlings this year adds another branch to a family tree with roots that can be traced back more than a century. The equipment and accessories we manufacture and market today have gained worldwide recognition and are embraced by everyone from novices to Olympic champions to professional athletes. As we look to the future, there can be only one course. Like so many of the people who use our products, K2 will accept nothing less than the best. All our efforts are focused on reaching the summit of our industry. We will create ever better products that raise the bar of performance and celebrate the human spirit. We will build value by growing and succeeding where others have failed. We will get to the top of our game. Not many people get to breathe that rarified air. But the people at K2 are determined to try.

*WE WILL WORK AS A TEAM TO
ACHIEVE OUR GOALS.*





RICHARD J. HECKMANN
Chairman and Chief Executive Officer

"WE ARE OWNERS OF A DEVELOPING SPORTS POWERHOUSE."

TO OUR SHAREHOLDERS:

Having been your Chief Executive for just a short while, my review of the year will be understandably limited to the broader issues impacting K2. I can assure you that there are no such limitations when it comes to looking forward and planning the future direction of this company. Together with the talented people who are responsible for running K2 on a day-to-day basis, the board of directors and management team are committed to building a truly world-class organization. K2 will become a powerhouse in the sports and leisure arena.

Enhancing our production capabilities

The past year was clearly one of transitions started and completed. The move of our ski and snowboard manufacturing facilities to China was completed and our customers and employees quickly saw the benefits. Delivery, cost and quality exceeded everyone's expectations. Our ability to develop, engineer and build innovative products in a low-cost environment is crucial to our future success. We are making significant progress in this area. We are going to do better.

Improving our financial performance

The past several years have been characterized by lack of growth and uneven financial results. Your management team is working hard to change that. While revenues were essentially flat this year, both net income and earnings per share improved by 257%. We materially improved our balance sheet by reducing our total debt by 40% and improving our Shareholders' Equity by 8%. We are making significant progress in this area. We are going to do better.

Building our leadership team

We are putting together a management team of exceptional individuals and we made several key additions as the year drew to a close. Nothing good happens in this or any company without talented people who are dedicated to pushing the enterprise into new and exciting areas. We are making significant progress in this area. We are going to do better.

Rising to the challenge

2003 will be the year that K2 begins its ascent through the ranks of the sporting goods industry. With the acquisition of the Rawlings organization, the leader by far in the world of baseball, we are moving into the arena of team sports with an American icon. Imagine the power being created in a company with THE leading brands in baseball, skiing, fishing, flotation devices and in-line skates. Add to that mix our developing strength in snowboards, skateboard shoes and outerwear, bikes, backpacks and other products and services. As shareholders in this company, we are owners of a developing sports powerhouse with a broad range of offerings covering all seasons.

Looking ahead

As we begin the integration of Rawlings into our fun and exciting enterprise, what I can promise you is the dedication and hard work of the K2 team. We know that our customers demand performance, quality, innovation and price in all that we make and sell... and that is what we are prepared to deliver. We are making significant progress in this area. We are going to do better.

In the following pages you'll get an idea of the breadth and strength of our product line along with our financial information and management's discussion and analysis of those financials. We encourage you to get to know K2 in light of what we have set out to accomplish and we hope you get a chance to enjoy some of our products along the way.

Sincerely,

A handwritten signature in black ink that reads "Richard J. Heckmann".

RICHARD J. HECKMANN
Chairman and Chief Executive Officer



FINANCIAL HIGHLIGHTS

(THOUSANDS, EXCEPT PER SHARE FIGURES)	Year Ended December 31 ^(a)				
	2002	2001 ^(b)	2000	1999 ^(c)	1998 ^(d)
INCOME STATEMENT DATA:					
Net sales	\$582,159	\$589,519	\$665,562	\$640,461	\$579,139
Cost of products sold ^(e)	411,620	429,338	462,242	462,033	418,950
Gross profit	170,539	160,181	203,320	178,428	160,189
Selling expenses	86,394	103,688	108,274	101,130	92,018
General and administrative expenses ^(e)	48,393	43,028	42,952	40,341	39,030
Research and development expenses	8,469	12,184	13,271	12,113	12,391
Operating income	27,283	1,281	38,823	24,844	16,750
Interest expense	8,966	13,631	14,814	12,741	12,163
Other income, net	(253)	(375)	(191)	(413)	(236)
Income (loss) from continuing operations before provision (credit) for income taxes	18,570	(11,975)	24,200	12,516	4,823
Provision (credit) for income taxes	6,500	(4,271)	7,502	4,005	955
Income (loss) from continuing operations	12,070	(7,704)	16,698	8,511	3,868
Discontinued operations, net of taxes ^(f)	—	—	(119)	1,332	975
Net Income (loss)	\$ 12,070	\$ (7,704)	\$ 16,579	\$ 9,843	\$ 4,843
Basic earnings (loss) per share:					
Continuing operations	\$ 0.67	\$ (0.43)	\$ 0.93	\$ 0.50	\$ 0.23
Discontinued operations	—	—	(0.01)	0.08	0.05
Net income (loss)	\$ 0.67	\$ (0.43)	\$ 0.92	\$ 0.58	\$ 0.28
Diluted earnings (loss) per share:					
Continuing operations	\$ 0.67	\$ (0.43)	\$ 0.93	\$ 0.50	\$ 0.23
Discontinued operations	—	—	(0.01)	0.08	0.06
Net income (loss)	\$ 0.67	\$ (0.43)	\$ 0.92	\$ 0.58	\$ 0.29
Dividends:					
Cash — per share	\$ —	\$ —	\$ —	\$ 0.11	\$ 0.44
Basic shares	17,941	17,940	17,949	16,880	16,554
Diluted shares	17,994	17,940	18,040	16,883	16,637
BALANCE SHEET DATA:					
Total current assets	\$323,924	\$307,175	\$305,132	\$345,809	\$335,570
Total assets	438,410	423,400	424,110	491,442	456,454
Total current liabilities	127,855	99,422	121,742	162,187	130,597
Long-term debt	73,007	97,828	69,836	107,280	110,724
Total debt plus off-balance sheet financing facility	96,120	160,557	173,292	219,083	229,518
Shareholders' equity	231,296	214,657	227,248	218,520	202,119

(a) Certain income statement and balance sheet accounts have been restated to reflect the Simplex building products division as discontinued operations. See Note 2 to Notes to Consolidated Financial Statements. In addition, certain expenses for vendor incentives have been reclassified from selling expenses to net sales. See Note 1 to Notes to Consolidated Financial Statements.

(b) Operating income and net income include downsizing costs totaling \$18,000 (\$11,700 net of taxes) of which \$15,650 was charged to cost of products sold and \$2,350 was charged to general and administrative expenses. See Note 2 to Notes to Consolidated Financial Statements.

(c) Gross profit, operating income, income from continuing operations and net income include restructuring costs totaling \$6,500 (\$4,420 net of taxes) and downsizing costs totaling \$4,000 (\$2,720 net of taxes). See Note 2 to Notes to Consolidated Financial Statements.

(d) Operating income, income from continuing operations and net income include charges totaling \$14,500 (\$9,425 net of taxes) of which \$10,500 was charged to cost of products sold and \$4,000 and administrative expenses. See Note 2 to Notes to Consolidated Financial Statements.

(e) For 2001, cost of products sold includes a \$15,650 charge and general and administrative expenses includes a \$2,350 charge, both recorded in the third quarter. For 1999, cost of products sold includes a \$10,500 charge recorded in the fourth quarter. For 1998, cost of products sold includes a \$10,500 charge and general and administrative expenses includes a \$4,000 charge both recorded in the third quarter. See Note 2 to Notes to Consolidated Financial Statements.

(f) See Note 3 to Notes to Consolidated Financial Statements.

IT'S OFFICIAL.

*WE ARE LEADING THE FIELD
IN TEAM SPORTS EQUIPMENT
AND APPAREL.*

Rawlings for field and court

The latest addition to the K2 portfolio, Rawlings is the leading manufacturer of competitive team sports equipment and apparel for baseball, basketball and football. Since its founding in 1887, Rawlings has grown into one of the pre-eminent brands in the world of sports. Today the company is a major supplier to professional, collegiate, interscholastic and amateur organizations worldwide, including the Official Baseball Supplier to Major League Baseball, Minor League Baseball and the NCAA as well as the Official Basketball for NAIA and NJCAA Championships.

www.rawlings.com





WINNING UGLY.

*BUT BEING #1 IS
A BEAUTIFUL THING.*

#1 in fishing rods, reels and kits

Shakespeare fishing rods, reels and fishing line are sold in most of the world, with Ugly Stik being the best selling fishing rod in the United States over the past 20 years. Shakespeare also manufactures and markets the #1 brand of fishing tackle in the U.S. Among the most recent product innovations from this division is an expanded line of Pflueger fly rods and reels and Barbie™ licensed girls packaged kits, furniture and tackle boxes.

www.shakespeare-fishing.com

www.shakespeare-fishing.co.uk (England)

www.shakespeare.nl (Holland)

www.shakespeare.com.au (Australia)

#1 in monofilaments, composites and electronics

Shakespeare also makes a broad range of engineered monofilaments and specialty polymers manufactured to the most exacting customer performance requirements. Shakespeare is the #1 brand of monofilament trimmer line and paper machine clothing filaments. This K2 subsidiary also manufactures a line of fiberglass antennas for marine and military applications under the Shakespeare brand name. The company's marine product line is #1 in the U.S. and is highly regarded in overseas markets.

www.skplastics.com

www.monofilament.co.uk (England)

www.shakespeare-ce.com

Shakespeare®
SINCE 1897





EVERY SEASON IS FAIR GAME.

*AND K2 IS CALLING THE PLAYS
ALL YEAR ROUND.*

Stearns watersports, outdoor and safety products

The leading manufacturer of life jackets and personal flotation devices, Stearns products include wetsuits, raingear, inflatable towables, inflatable kayaks and other marine items for all watersports activities. With over 50 years of developing innovative, high quality products for the entire family, today's brands include Stearns Outdoors, which offers the latest in camping and hiking products; Mad Dog Gear, which outfits the avid hunter; Fly Tech, which features fly fishing waders and shoes; and Stearns Industrial Safety Products, which include work vests, flotation coveralls and immersion suits for a variety of industrial uses. Stearns flotation vests are the #1 brand in retail sales.

www.stearnsinc.com



**ACHIEVE PEAK
PERFORMANCE.**

*K2 TECHNOLOGY AND
INNOVATION MAKES
IT POSSIBLE.*

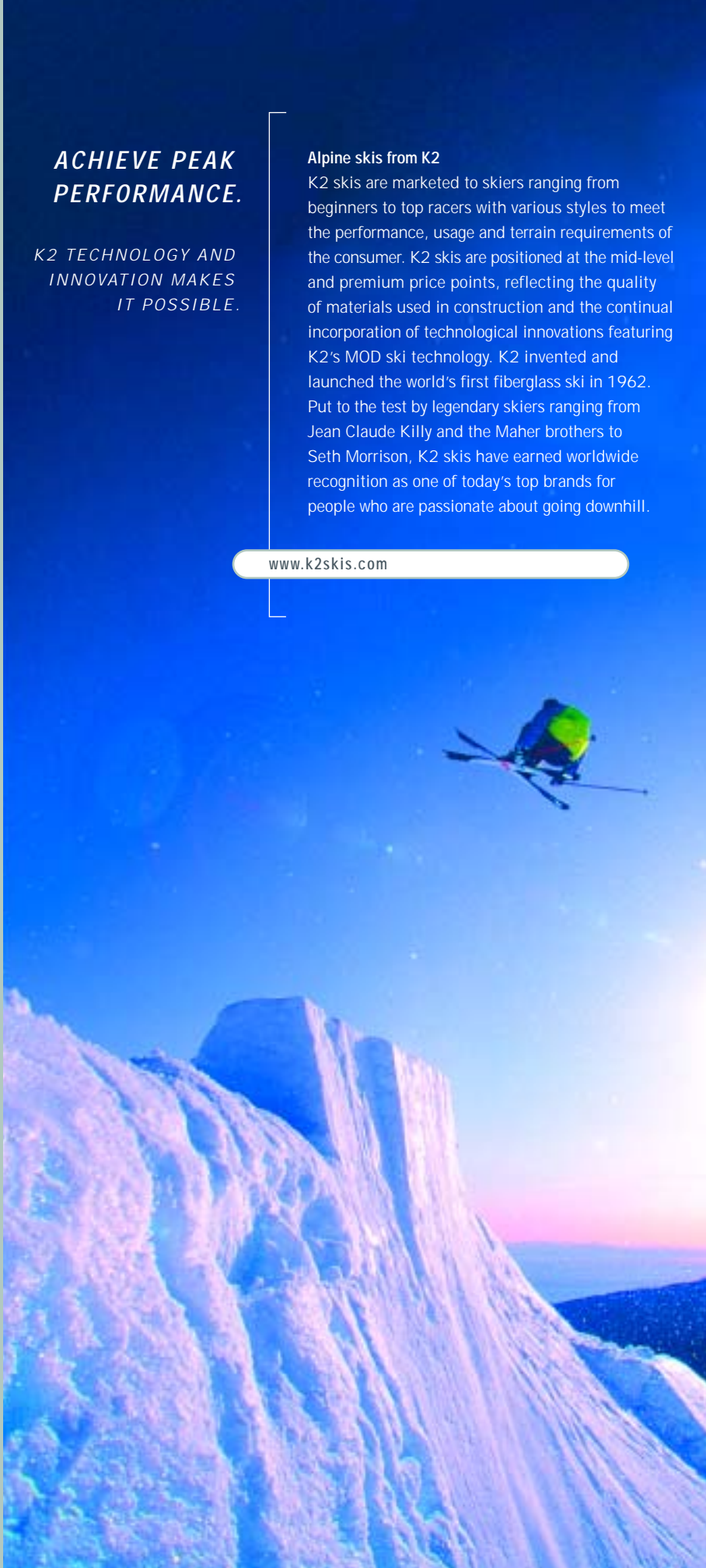
Alpine skis from K2

K2 skis are marketed to skiers ranging from beginners to top racers with various styles to meet the performance, usage and terrain requirements of the consumer. K2 skis are positioned at the mid-level and premium price points, reflecting the quality of materials used in construction and the continual incorporation of technological innovations featuring K2's MOD ski technology. K2 invented and launched the world's first fiberglass ski in 1962. Put to the test by legendary skiers ranging from Jean Claude Killy and the Maher brothers to Seth Morrison, K2 skis have earned worldwide recognition as one of today's top brands for people who are passionate about going downhill.

www.k2skis.com



K2
07





PLAY HARD.

OUR SNOWBOARDS AND ACCESSORIES
ARE SERIOUS BUSINESS.

K2, Ride, Liquid, 5150 and Morrow snowboards
K2 sells snowboards, boots, bindings and snowboard outerwear under a variety of leading brand names including: K2, Ride, Morrow, 5150 and Liquid. K2 develops innovative products and features across all of its snowboard lines, including a revolutionary new internal 3D board construction; the K2 BOA boot lacing system; industry-leading Ride aluminum bindings and the next generation in weatherproofed outerwear technology. K2 snowboards have earned a growing customer base and are now the #2 ranked brand worldwide. From helmets to boots and board quivers to backpacks, K2 keeps its customers covered from head to toe with products suited for all conditions, styles and terrain choices whether on city rails or in nature's back country.

www.k2snowboards.com

www.ridesnowboards.com

www.morrowsnowboards.com





MAKE HISTORY.

*OR JUST SKATE BY WITH
PERFECT FIT K2 SKATES.*

World championship skates

At the 2002 Winter Olympics in Salt Lake City, K2 athletes Chris Witty and Casey FitzRandolph made speedskating history and earned gold medals wearing skates built upon the K2 MOD X design. K2's in-line skates target the enthusiast and are priced at the mid to upper end of the market. The patented product line is designed for performance, comfort and support. K2 in-line skates have innovative features such as a soft mesh and leather upper designed for improved comfort along with a rigid plastic cuff for support. The softboot technology is also incorporated into skates for children and a line of ice skates. K2's in-line skates are known as the #1 brand at performance price points worldwide.

www.k2skates.com

DO MORE WITH LESS.

*MORE AGILITY,
LESS WEIGHT.*



B I K E

Mountain and BMX bikes

K2 designs and distributes high quality full and front suspension mountain bikes, road bikes and BMX bikes under the K2 name in the United States and internationally. Known for their innovative design strategy, K2 bikes continue to deliver more agility and less weight and now come with Fox Shock units.

www.k2bikes.com



DO IT WITH STYLE

*FUNCTIONAL,
COOL BOARD PRODUCTS*

Planet Earth, Adio and Hawk

Adio and Hawk skateboard shoes are used and designed by the top skateboarders in the world, including the best-known professional skateboarder, Tony Hawk. K2 also brings a line of innovative and functional board and snow apparel to market under the Planet Earth brand.

www.earthproducts.com

www.adiofootwear.com

www.hawkshoes.com

www.planetearthskate.com



Rawlings

STEPHEN M. O'HARA

Chief Executive Officer

1859 Bowles Avenue

Fenton, MO 63026

(636) 349-3500

Shakespeare Fishing Tackle

SCOTT M. HOGSETT

President

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(803) 754-7540

Stearns

DAVID G. COOK

President

1100 Stearns Drive

Sauk Rapids, MN 56379

(320) 252-1642

Shakespeare Industrial Products Group

DAVID H. HERZBERG

*President***Shakespeare Monofilament**

BARRY D. JOHNS

Vice President & General Manager

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(803) 754-7011

Shakespeare Composites & Electronics

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Newberry, SC 29108

(803) 276-5504

Planet Earth

JEFF LARSEN

General Manager

CHRISTOPHER MILLER

Creative Director

1916 Palomar Oaks Way

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K2 Skis, Snowboards,**In-Line Skates, Bikes**

ROBERT MARCOVITCH

President

19215 Vashon Hwy S.W.

Vashon Island, WA 98070

(206) 463-3631

Shakespeare Hong Kong

ROBERT NI

General Manager

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6th Floor, Kwun Tong

Kowloon, Hong Kong

852-2727-8888

Shakespeare Fishing Tackle International

JOHN L. TOMSETT

Vice President and Managing Director

P.O. Box 1

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Worcestershire, England B98 8NQ

44-1527-510-570

K2 Japan

KOJI MATSUNAGA

Vice President and General Manager

Nishisando Yamaki Building

3-28-6 Yoyogi, Shibuya-ku

Tokyo 151-0053, Japan

81-3-3320-7822

K2 Ski Sport + Mode GmbH

URS TANNO

Managing Director

Seeshaupter Strasse 60

D-82377 Penzberg, Germany

49 8856-901-3670

K2www.K2sports.comwww.k2skates.comwww.K2bikes.comwww.k2skis.comwww.olinskis.comwww.k2snowboards.comwww.ridesnowboards.comwww.morrowsnowboards.com**Rawlings**www.rawlings.com**Shakespeare Fishing Tackle**www.shakespeare-fishing.comwww.shakespeare-fishing.co.uk (England)www.shakespeare.nl (Holland)www.shakespeare.com.au (Australia)**Stearns**www.stearnsinc.com**Hilton Corporate Casuals**www.hiltoncasuals.com**Planet Earth**www.earthproducts.comwww.adiofootwear.comwww.planetearthskate.comwww.hawkshoes.com**Shakespeare Composites & Electronics**www.shakespeare-ce.com**Shakespeare Monofilament**www.skpplastics.comwww.monofilament.co.uk (England)

BOARD OF DIRECTORS

WILFORD D. GODBOLD, JR.
*Private Investor
Retired Chairman and
Chief Executive Officer, Zero Corporation*

JERRY E. GOLDRESS
*Chairman and Chief Executive Officer
Grisanti, Galef, & Goldress*

THE HONORABLE
STEVEN J. GREEN
*Former United States Ambassador
to the Republic of Singapore*

RICHARD J. HECKMANN
*Chairman of the Board and
Chief Executive Officer
K2 Inc.
Retired Chairman, Vivendi Water
Retired Chairman and Chief Executive Officer,
US Filter*

ROBIN E. HERNREICH
*President, Remonov Capital, Inc.
Owner, Sacramento Kings*

LOU HOLTZ
*Head Football Coach
University of South Carolina*

STEWART M. KASEN
*President,
S&K Famous Brands, Inc.*

ALFRED E. OSBORNE, JR.
*Associate Professor of
Business Economics
Director – Harold Price Center for
Entrepreneurial Studies
Anderson Graduate School
of Management, UCLA*

DAN QUAYLE
*President, Quayle and Associates
44th Vice President of the United States*

EDWARD M. RYAN
*Founder and Chairman
Entrepreneurial Financial Resources, Inc.*

CORPORATE OFFICERS

RICHARD J. HECKMANN
Chairman and Chief Executive Officer

J. WAYNE MERCK
*Executive Vice President and
Chief Operating Officer*

JOHN J. RANGEL
*Senior Vice President and
Chief Financial Officer*

DUDLEY W. MENDENHALL
*Senior Vice President
Finance*

MONTE H. BAIER
*Vice President and
General Counsel*

DAVID Y. SATODA
Vice President

DIANA CRAWFORD
Secretary

Audit Committee

MR. GODBOLD
(Chairman)
MR. KASEN
DR. OSBORNE

Executive Committee

MR. HECKMANN
(Chairman)
MR. GODBOLD
MR. GOLDRESS

Compensation Committee

MR. GOLDRESS
(Chairman)
MR. KASEN
DR. OSBORNE
MR. QUAYLE

Governance and Nominating Committee

DR. OSBORNE
(Chairman)
MR. HERNREICH
MR. HOLTZ

CORPORATE INFORMATION

Stock Exchange Listing

*Common Stock (Symbol KTO)
New York and Pacific Stock Exchanges*

Transfer Agent, Registrar, Dividend Disbursing Agent

*Computershare Trust Co., Inc.
12039 West Alameda Parkway, Suite z-2
Lakewood, CO 80228*

Independent Auditors

*Ernst & Young LLP
Los Angeles, California*

Investor Relations Contacts

DUDLEY W. MENDENHALL
*Senior Vice President
Finance
(760) 494-1000*

CECILIA A. WILKINSON

*Pondel Wilkinson Group
(323) 866-6060*

Investor Relations Website

www.K2inc.net
Questions regarding address changes should
be directed to Computershare Trust Co., Inc.

Form 10-K And Other Information

The Company's Annual Report to the
Securities and Exchange Commission on
Form 10-K and other information concerning
the Company is available by contacting
Investor Relations.

K2 LOCATIONS

K2 Corporate Headquarters

2051 Palomar Airport Road
Carlsbad, CA 92009
(760) 494-1000

MAJOR MANUFACTURING
AND DISTRIBUTING FACILITIES
K2 PRODUCTS

Domestic

WASHINGTON*

19215 Vashon Hwy S.W.
Vashon Island, WA 98070
(206) 463-3631

International

CANADA

K2 Corporation of Canada
185 Carlingview Drive
Toronto
Ontario, M9W 5E8, Canada
888-249-7433

GERMANY

K2 Ski Sport & Mode, Gmbh
Seeshaupter Strasse 60
D-82377 Penzberg, Germany
49 8856-901-3670

JAPAN

K2 Japan Corporation
Nishisando-Yamaki Building
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Tokyo 151-0053, Japan
81-3-3320-7822

NORWAY*

Madshus (A/S)
Industriveien 29
N-2836 Biri, Norway
47-61-13-43-00

Rawlings

MAJOR MANUFACTURING AND
DISTRIBUTING FACILITIES

Domestic

MISSOURI

1859 Bowles Avenue
Fenton, Missouri 63026
(636) 349-3500

International

COSTA RICA*

Apartado 212-7150
Turrialba, Cartaga, Costa Rica
506-556-4455

Shakespeare Fishing Tackle

MAJOR MANUFACTURING
AND DISTRIBUTING FACILITIES

Domestic

SOUTH CAROLINA*

3801 Westmore Drive
Columbia, SC 29223
(803) 754-7540

International

AUSTRALIA

Shakespeare (Australia) Pty, Ltd.
15 Saggart Field Road
Minot, New South Wales 2566
Australia
612-9820-9600

HOLLAND

Shakespeare Hengelsport, B.V.
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Almere-Haven
The Netherlands
31-36-5474000

HONG KONG

Shakespeare (Hong Kong), Ltd.
175 Hoi Bun Road
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Kowloon, Hong Kong
852-2727-8888

UNITED KINGDOM*

Shakespeare Company (U.K.), Ltd.
Broad Ground Road
Lakeside, Redditch
Worcestershire, England B98 8NQ
44-1527-510-570

Stearns

MAJOR MANUFACTURING
AND DISTRIBUTING FACILITIES

MINNESOTA*

1100 Stearns Drive
Sauk Rapids, MN 56379
(320) 252-1642

Shakespeare Monofilament

MAJOR MANUFACTURING
AND DISTRIBUTING FACILITIES

Domestic

SOUTH CAROLINA*

6111 Shakespeare Road
Columbia, SC 29223
(803) 754-7011

International

UNITED KINGDOM*

Shakespeare Monofilament (U.K.), Ltd.
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Shakespeare Composites & Electronics

MANUFACTURING
AND DISTRIBUTING FACILITIES

SOUTH CAROLINA*

19845 US Highway 76
Newberry, SC 29108
(803) 276-5504

Planet Earth

MAJOR DISTRIBUTING FACILITY

Domestic

CALIFORNIA

1916 Palomar Oaks Way
Suite 150
Carlsbad, CA 92008
(760) 929-7333

*Includes manufacturing

This Annual Report contains “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, as amended. These represent K2’s beliefs concerning future events, including, but not limited to, the following: future sales and earnings, market trends for products sold by K2, retail inventory levels, product acceptance and demand, growth efforts, cost reduction efforts, margin enhancement efforts, product development efforts, success of new product introductions, dependence on foreign manufacturing, foreign exchange fluctuations, future acquisitions and dispositions, successful integration of acquired businesses, debt reduction and overall market trends. All such forward-looking statements involve substantial risks and uncertainties. Actual results could differ materially by reason of a number of factors, many of which are outside of K2’s control. Among such factors are the following:

K2’s strategic plan involving growth through the acquisition of other companies may not succeed. K2’s strategic plan involves rapid growth through the acquisition of other companies. Such growth involves a number of risks, including: difficulties related to combining previously separate businesses into a single unit; the substantial diversion of management’s attention from day-to-day operations; the assumption of liabilities of an acquired business (including unforeseen liabilities); the failure to realize anticipated benefits such as cost savings and revenue enhancements; the risks of either highly leveraging or engaging in dilutive issuances of equity securities in order to fund the acquisitions; the potentially substantial transaction costs associated with the acquisitions; and difficulties related to assimilating the products, personnel and systems of an acquired business.

Current and future financings may place a significant debt burden on K2. Draws on K2’s Facility to accommodate the additional working capital requirements of Rawlings and to fund future acquisitions, as well as potential future financings, may substantially increase K2’s current indebtedness. Among other things, such increased indebtedness could: adversely affect K2’s ability to expand its business, market its products and make investments in capital expenditures; adversely affect the cost and availability of funds from commercial lenders, debt financing transactions and other sources; adversely affect the ability of K2 to pursue its acquisition strategy; and create competitive disadvantages compared to other companies with lower debt levels.

Financial conditions of customers. A large portion of K2 sales are to sporting goods retailers. Many of K2’s smaller retailers and some larger retailers are not strongly capitalized. Adverse conditions in the sporting goods retail industry can adversely impact the ability of retailers to purchase K2 products, or could force retailers to insist upon credit terms that involve significant risks of nonpayment.

International operations may seriously harm K2’s financial condition because of weak foreign economies and the effect of foreign exchange rate fluctuations. K2’s revenue from international operations was approximately 32% of total revenue for fiscal 2002, and approximately 26% of K2’s sales are denominated in foreign currencies. K2 expects that revenues from its international operations will continue to account for a significant portion of its total revenues. K2’s international operations are subject to a variety of risks, including: recessions in foreign economies; currency conversion risks and currency fluctuations; limitations on repatriation of earnings; reduced protection of intellectual property rights in some countries; social, political and economic instability; the adoption and expansion of government trade restrictions; unfavorable political developments affecting international trade; and unexpected changes in regulatory requirements.

Reliance on overseas manufacturing. The majority of K2 products are manufactured in China. In the event of hostilities with Iraq or North Korea, disruptions of international trade or shipping could adversely affect the availability or cost of K2 products. In addition, any disruption of relations between the United States and China could negatively affect the cost and availability of products manufactured in China.

Acts of war or terrorism may have an adverse effect on K2’s business. Acts of war or terrorism may have an adverse effect on the economy generally, and more specifically on K2’s business. Among various other risks, such occurrences have the potential to significantly decrease consumer spending on leisure products and activities and/or could adversely impact K2’s ability to consummate future debt or equity financings.

Competitive developments and initiatives by K2’s competitors. New product introductions, financial incentives to retailers, the affects of excess industry capacity and other initiatives by K2 competitors could weaken the market position of K2 products.

Rapid changes in marketing strategies, product design, styles and tastes. Consumer demand for recreational products is strongly influenced by matters of taste and style. K2’s success is dependent, in significant part, on its ability to keep abreast of, and lead, such changes.

Weather. Sales of K2’s recreational products are strongly influenced by the weather. Poor snow conditions in the winter or summer conditions unfavorable to outdoor sports can adversely affect sales of important K2 products.

