

K2 INC
Form DEF 14A
April 21, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant: /X/

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Check the appropriate box:

/ / Preliminary Proxy Statement

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/X/ Definitive Proxy Statement

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K2 Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

To our Shareholders:

I am pleased to invite you to attend the annual meeting of shareholders of K2 Inc. to be held at our main office, 5818 El Camino Real, Carlsbad, California 92008 on Thursday, May 12, 2005 at 8:00 a.m. (local time).

Details regarding the business to be conducted at the meeting are more fully described in the accompanying Notice of Annual Meeting and Proxy Statement.

Your vote is important. Whether or not you plan to attend the annual meeting, I hope you will vote as soon as possible. Please review the instructions on the proxy or voting instruction card.

Thank you for your ongoing support of, and continued interest in, K2.

Very truly yours,

RICHARD J. HECKMANN

Chairman and

Chief Executive Officer

Notice of Annual Meeting of Shareholders

May 12, 2005

To our Shareholders:

You are cordially invited to attend our Annual Meeting to be held at our main office, 5818 El Camino Real, Carlsbad, California 92008 on Thursday, May 12, 2005 at 8:00 a.m. (local time).

The *Annual Meeting* will be held for the following purposes:

1. To elect three directors, each for a term of three years;
2. To ratify the selection of Ernst & Young LLP as independent auditors for 2005; and
3. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof.

Only shareholders of record of K2 Inc. common stock (NYSE: KTO) at the close of business on March 24, 2005 are entitled to notice of the meeting and to vote at the meeting or any postponements or adjournments thereof.

We hope you will attend the meeting. We urge you to fill out the enclosed proxy card and return it to us in the envelope provided whether or not you plan to attend the meeting. No additional postage is required. If you attend the meeting and wish to do so, you may vote your shares in person even if you have signed and returned your proxy card.

By Order of the Board of Directors,

MONTE H. BAIER

Vice President, General Counsel & Secretary

Carlsbad, California

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April 21, 2005

**Please date and sign the accompanying Proxy Card
and mail it promptly in the enclosed return envelope.**

K2 INC.

5818 El Camino Real

Carlsbad, California 92008

Proxy Statement

The enclosed proxy is solicited by the Board of Directors (the Board) of K2 Inc. (K2) for use at our annual meeting of shareholders to be held at our main office, 5818 El Camino Real, Carlsbad, California 92008, on Thursday, May 12, 2005 at 8:00 a.m. (local time), and at any and all postponements and adjournments thereof. The proxy may be revoked at any time before it is exercised by delivering a written notice to the Corporate Secretary of K2 stating that the proxy is revoked, by executing a subsequent proxy and presenting it to the Corporate Secretary of K2 at our main office or by attending the annual meeting and voting in person. Only shareholders of record at the close of business on March 24, 2005 will be entitled to notice of and to vote at the annual meeting. As of March 24, 2005, K2 had 46,812,023 outstanding shares of Common Stock, each share entitled to one vote. It is anticipated that the mailing to shareholders of this Proxy Statement and the enclosed proxy will commence on or about April 21, 2005.

Both abstentions and broker non-votes are counted for purposes of determining the presence or absence at the annual meeting of a quorum for the transaction of business. However, shares represented by broker non-votes on a matter submitted to shareholders are not considered present and entitled to vote on that matter. Directors will be elected by plurality vote of the shares present and entitled to vote (i.e., the nominees receiving the greatest number of votes will be elected). Each of the other matters scheduled to come before will require the affirmative vote of a majority of the shares present and entitled to vote. Consequently, broker non-votes will have no effect, but abstentions will have the effect of a vote against such approval or ratification.

PROPOSAL 1

Election of Directors

Under the Certificate of Incorporation of K2, the Board is divided into three classes, each having a three-year term, with only one class being elected each year. The Board currently consists of eleven members. Three of the four directors whose term expires in 2005, Alfred E. Osborne, Dan Quayle and Edward F. Ryan, have been nominated for reelection for a new term of three years until their successors are duly elected and qualified and have agreed to serve if reelected. Pursuant to K2's retirement age requirement as described in K2's Principles of Corporate Governance attached to this proxy statement as Annex A, Jerry E. Goldress will not seek a nomination for reelection. While the Board has no reason to believe that any of those named will not be available as a candidate, should such a situation arise the proxy may be voted for the election of other nominees as directors in the discretion of the persons acting pursuant to the proxy.

In February 2003, K2 entered into an arrangement concerning the nomination for election of members to the Board. In connection with K2 issuing \$25 million of convertible subordinated debentures to k1 Ventures Limited, a Singapore-based investment company, K2 agreed that so long as \$12.5 million in aggregate principal amount of the debentures is outstanding, k1 Ventures Limited had the right to appoint one member to the Board, subject to approval of the Board. However, on November 10, 2004, k1 Ventures Limited transferred the debentures to Credit Suisse First Boston, but its right to appoint one member to the Board was terminated upon transfer.

Certain information concerning the nominees and each director whose term of office will continue after the 2005 annual meeting is set forth below:

The Board recommends that shareholders vote FOR each of the persons nominated by the Board.

Nominees for Election at the Annual Meeting

For Term of Office Expiring in 2008

ALFRED E. OSBORNE, JR.

Director since 1999

Dr. Osborne, 60, is the Senior Associate Dean in the UCLA Anderson School of Management, a position he assumed in July 2003. He has been employed as a professor since 1972 and has served the school in various capacities over the years. Currently, he also serves as the Faculty Director of the Harold Price Center for Entrepreneurial Studies at UCLA, which he founded 16 years ago. Dr. Osborne is a member of the Board of Directors of Nordstrom, Inc. and Equity Marketing, Inc. Dr. Osborne also serves as a trustee of the WM Group of Funds and is a director of First Pacific Advisors' Capital, Crescent and New Income Funds. Dr. Osborne was educated at Stanford University, where he earned a B.S. in Electrical Engineering, an MBA in Finance, an MA in Economics and a Ph.D. in Business Economics.

DAN QUAYLE

Director since 2001

Mr. Quayle, 58, was the 44th Vice President of the United States from 1989 to 1993. He was elected Vice President with George H. W. Bush. He served as Member of Congress from 1977 to 1981 and U.S. Senator from 1981 to 1989. Upon leaving office, he co-founded Circle Investors in 1993, which has been sold. Vice President Quayle has authored three books, including *Standing Firm*, which was on the NY Times bestseller list for 15 weeks. Currently, he is Chairman, Cerberus Global Investments, New York, where he has worked since 2000. In addition, Vice President Quayle is a member of the Board of Directors of Aozora Bank in Tokyo.

EDWARD F. RYAN

Director since 2003

Mr. Ryan, 48, has served as the President of Entrepreneurial Financial Resources, Inc., a collection of manufacturing companies since 1998 and was the Chief Executive Officer and President of Code 3/Public Safety Equipment Inc. from 1995 to 1998. Mr. Ryan is also a former member of the board of directors of Rawlings which K2 acquired in March 2003. Pursuant to the agreement and plan of merger to acquire Rawlings, K2 agreed that its Board of Directors would expand the class of Directors of K2 expiring in 2005 by one board member and that K2 would fill such vacancy by a nominee named by the board of directors of Rawlings.

Directors Continuing in Office

For Term of Office Expiring in 2007

WILFORD D. GODBOLD, JR.

Director since 1998

Mr. Godbold, 67, is a private investor. He retired as President and Chief Executive Officer of ZERO Corporation, which provides packaging and climate control products to the telecommunications, instrumentation and data processing markets, where he served in that position from 1984 to August 1998. For the two prior years, he served as chief operating officer of ZERO Corporation. From 1966 through 1982, he practiced law as an attorney with the law firm of Gibson, Dunn & Crutcher LLP in Los Angeles, serving as a Partner from 1973, where his focus was acquisitions, mergers and public financings. Mr. Godbold serves as a member of the board of directors of Sempra Energy, an energy company, the subsidiaries of which include Southern California Gas Company and San Diego Gas & Electric Co. He also serves as a director of Learning Tree International, an international provider of educational programs, and served as a Trustee of The Wellness Community, a provider of free psychological and social help to people with cancer, until March 2004.

LOU L. HOLTZ

Director since 2001

Mr. Holtz, 68, recently retired as the head football coach of the University of South Carolina. Prior to joining the University of South Carolina in 1999, Mr. Holtz held various coaching positions, including 11 seasons at the University of Notre Dame from 1986 to 1996, two seasons at the University of Minnesota from 1984 to 1985, seven seasons at the University of Arkansas from 1977 to 1983, four seasons at the University of North Carolina from 1972 to 1975 and three seasons at William and Mary from 1969 to 1971. Mr. Holtz spent 1976 as the head coach of the New York Jets of the National Football League. Mr. Holtz is a noted motivational speaker and is the author of the New York Times best-selling book, *The Fighting Spirit*.

ANN MEYERS

Director since 2005

Ms. Meyers, 50, was a four-time All-American in women's basketball at the University of California at Los Angeles, and led the team to the 1978 Championship of the Association of Intercollegiate Athletics for Women, which later merged into the National Collegiate Athletic Association. Ms. Meyers was a member of the 1976 United States Olympic team, and in 1978 was the first player drafted in the Women's Professional Basketball League and was Most Valuable Player of the league in 1979 and 1980. In 1979, Meyers became the only woman to sign as a free agent to a team in the National Basketball Association, the Indiana Pacers. Ms. Meyers is a member of the National Basketball Hall of Fame, the Women's Sports Hall of Fame, and the first woman to be inducted into the UCLA Hall of Fame. Ms. Meyers began a broadcasting career in 1979 and since 1983, Ms. Meyers has been a television sports analyst for ESPN for various events, including collegiate basketball, volleyball and softball games. Ms. Meyers worked as a broadcaster for the Olympic Games held in 1984, 2000 and 2004. Since 1997, Ms. Meyers has also been a sports announcer and analyst for the Women's National Basketball Association for ESPN, ABC Sports and NBC.

Directors Continuing in Office

For Term of Office Expiring in 2006

RICHARD J. HECKMANN

Director since 1997

Mr. Heckmann, 61, has been Chief Executive Officer of K2 since October 2002 and Chairman of the Board since April 2000. Mr. Heckmann has been a director of MPS Group, Inc. since April 2003, and served as a director of Philadelphia Suburban Corporation from August 2000 through February 2002, United Rentals, Inc. from October 1997 through May 2002, Waste Management Inc. from January 1994 through January 1999 and Station Casinos, Inc. from April 1999 through March 2001. Mr. Heckmann retired as Chairman of Vivendi Water, an international water products group of Vivendi S.A., a worldwide utility and communications company with headquarters in France, in June 2001. Mr. Heckmann was Chairman, President and Chief Executive Officer of U.S. Filter Corporation, a worldwide provider of water and wastewater treatment systems and services, from 1990 to 1999. Vivendi acquired US Filter on April 29, 1999. He has served as the associate administrator for finance and investment of the Small Business Administration in Washington, DC and was the founder and Chairman of the board of Tower Scientific Corporation.

ROBIN E. HERNREICH

Director since 2000

Mr. Hernreich, 60, is an owner of the Sacramento Kings of the National Basketball Association. Mr. Hernreich has been President of Remonov Capital, Inc., since August 1992, and Vice-President of Remonov & Company, Inc., since November 1996. Both are private investment firms. From November 1989 through June 1996, Mr. Hernreich was Chairman and Chief Executive Officer of Sigma Broadcasting Company, formerly Arkansas' largest television and radio operator, and from January 1988 through September 1990, Mr. Hernreich was Chairman of U.S. Repeating Arms, maker of Winchester sporting firearms. Mr. Hernreich is a member of the board of directors of The Eagle Valley Land Trust, the Snowboard Outreach Society, The Youth Foundation of Vail, and a member of the board of trustees of Washington University in St. Louis, Missouri. Mr. Hernreich is also a former member of the board of directors of Ride, Inc.

STEWART M. KASEN

Director since 1997

Mr. Kasen, 65, has been the President of S&K Famous Brands, Inc., since April 2002, and served as a director of S&K Famous Brands, Inc., since March 2002. He served as President of Schwarzschild Jewelers from September 2001 to April 2002. He retired as Chairman of the Board, President and Chief Executive Officer of Factory Card Outlet Corp. where he served in that position from May 1998 to October 1999, and prior to that he served as its Chairman from 1997. In April 1996, he retired as Chairman, President and Chief Executive Officer of Best Products Co., Inc., a catalog showroom chain of retail stores and nationwide mail order services. He was also its president and chief executive officer from 1991 to 1996 and its president and chief operating officer from 1989 to 1991. Prior to joining Best Products, Co., Inc., Mr. Kasen served in various capacities in two divisions of Carter Hawley Hale Stores over a 24-year period, including President and Chief Executive Officer of Emporium, from 1987 to 1989, and Thalhimers, from 1984 to 1987. Mr. Kasen is a member of the board of directors of Markel Corporation, a specialty insurance underwriter, the Singer Company, a retailer of consumer durables primarily in Asia, and Department 56, a marketer of collectibles and specialty giftware.

Corporate Governance Principles and Board Matters

K2 is committed to having sound corporate governance principles. Having such principles is essential to running K2's business and to maintaining K2's integrity in the marketplace. K2's Principles of Corporate Governance and Code of Business Conduct and Ethics are available at <http://www.k2inc.net>.

Board Independence

To assist it in making independence determinations, the Board has adopted independence standards, which are set forth in K2's Principles of Corporate Governance and attached to this proxy statement as Annex A. These independence standards incorporate the director independence criteria included in the New York Stock Exchange (NYSE) listing standards and additional criteria established by the Board. The Board has determined that each of the directors on the Board, except for the Chairman of the Board and Chief Executive Officer, including each of the directors standing for re-election, is independent under the NYSE listing standards. The Board uses K2's independence standards to assess whether directors comply with the NYSE definition of independence. Furthermore, each member of its Audit, Compensation and Corporate Governance and Nominating Committees is independent and, in accordance with NYSE requirements and K2's independence standards, all members of the Audit Committee meet additional independence standards applicable to members of audit committees.

Board Structure and Committee Composition

As of the date of this proxy statement, the Board has 10 directors and the following four standing committees: (1) Audit, (2) Compensation, (3) Corporate Governance and Nominating and (4) Executive. The membership during the last year and the function of each of the committees are described below. Each of the committees operates under a written charter adopted by the Board. All of the committee charters are available on K2's website at <http://www.k2inc.net>. During 2004, the Board held seven meetings. Each director attended at least 75% of all Board and applicable committee meetings. Pursuant to K2's retirement age requirement as described in K2's Principles of Corporate Governance attached to this proxy statement as Annex A, Jerry E. Goldress will not seek a nomination for reelection. Directors are encouraged to attend annual meetings of K2 shareholders, and all then-serving directors attended the last annual meeting of shareholders.

<u>Name of Director</u>	<u>Audit</u>	<u>Compensation</u>	<u>Corporate Governance and Nominating</u>	<u>Executive</u>
Non-Employee Directors:				
Wilford D. Godbold, Jr.	X*			X
Jerry E. Goldress (1)		X*		X
Robin E. Hernreich			X	
Lou L. Holtz			X	
Stewart M. Kasen	X			
Ann Meyers (2)				
Alfred E. Osborne, Jr.	X	X	X*	
Dan Quayle		X		
Edward F. Ryan		X		
Employee Director				
Richard J. Heckmann				X*
Number of Committee Meetings in 2004	12	3	3	1

X = Committee member; * = Chair

- (1) Pursuant to K2's retirement age requirement as described in K2's Principles of Corporate Governance attached to this proxy statement as Annex A, Mr. Goldress will not seek a nomination for reelection.
- (2) Appointed by the Board on February 11, 2005.

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities relating to K2 management's conduct of K2's financial reporting process and the integrity of K2's financial statements, K2's compliance with legal and regulatory requirements, the independent auditors performance, qualifications and independence, and the performance of K2's internal audit function. Among other things, the Audit Committee does the following:

reviews and discusses K2's practices with respect to risk assessment and risk management;

reviews and discusses with management and the outside auditors the annual audited and quarterly financial statements;

prepares the report to be included in K2's annual proxy statement;

annually evaluates its performance, and reviews and assesses the adequacy of its charter;

appoints and retains, subject to shareholder ratification, evaluates and terminates, when appropriate, the outside auditors;

reviews and discusses with the outside auditors the scope of the audit, the results of the annual audit examination and any difficulties the auditors encountered in the course of their work;

approves in advance all audit and permissible non-audit services to be provided by the outside auditors; and

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discusses with K2's management, internal audit and the outside auditors the adequacy and effectiveness of K2's internal controls and disclosure controls.

The Audit Committee works closely with management as well as K2's independent auditors. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from K2 for, outside legal, accounting or other advisors as the Audit Committee deems necessary to assist it in the

performance of its functions. The charter of the Audit Committee is attached to this proxy statement as Annex B and is available on K2's website at <http://www.k2inc.net>. All of the members of the Audit Committee are independent under the independence standards of the NYSE for directors and audit committee members. The Board has determined that each of the members of the Audit Committee is qualified as an audit committee financial expert within the meaning of SEC regulations.

Compensation Committee

The Compensation Committee has direct responsibility for the compensation of K2's Chief Executive Officer and other senior management personnel and for making recommendations to the Board with respect to non-CEO executive officer compensation and incentive compensation and equity-based plans that are subject to Board approval. Among other things, the Compensation Committee does the following:

oversees K2's overall compensation structure, policies and programs;

administers and makes recommendations to the Board with respect to K2's incentive compensation and equity-based plans for senior management;

reviews and approves K2's corporate goals and objectives relevant to the CEO's compensation, evaluates the CEO's compensation in light of those goals and objectives, and based on this evaluation, recommends the CEO's compensation level to the independent directors of the Board;

evaluates the performance of senior management personnel other than the CEO and consider and authorizes or makes recommendations to the Board concerning compensation arrangements for senior management;

reviews and recommends employment agreements and severance agreements for senior management; and

annually evaluates its performance, and reviews and assesses the adequacy of its charter.

The Compensation Committee has the authority to obtain advice and assistance from, and to receive appropriate funding from K2 for, outside legal, accounting or other advisors as the Compensation Committee deems necessary to assist it in the performance of its functions.

The charter of the Compensation Committee is available on K2's website at <http://www.k2inc.net>. All of the members of the Committee are independent within the meaning of the listing standards of the NYSE.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is responsible for developing and recommending to the Board a set of corporate governance principles, pursuant to which the Board adopted K2's Principles of Corporate Governance, and recommending changes to these principles as necessary. In addition, the Committee identifies individuals qualified to become members of the Board and makes recommendations to the Board concerning such candidates. The Committee also prepares and supervises the Board's annual review of director

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independence and the Board's performance and self-evaluation. The charter also provides that the Committee annually evaluates its performance and reviews and assesses the adequacy of the charter.

The Corporate Governance and Nominating Committee has the authority to obtain advice and assistance from, and receive appropriate funding from K2 for, outside legal, accounting or other advisors as the Corporate Governance and Nominating Committee deems necessary to assist it in the performance of its functions.

The charter of the Corporate Governance and Nominating Committee is available on K2's website at <http://www.k2inc.net>. All of the members of the Committee are independent under the listing standards of the NYSE.

Executive Committee

The Executive Committee possesses all of the powers of the Board, except to the extent such powers are reserved for the Board by Delaware law. The charter of the Executive Committee is available on K2's website at <http://www.k2inc.net>.

Consideration of Director Nominees

Shareholder Nominees

The policy of the Corporate Governance and Nominating Committee is to consider properly made shareholder nominations for candidates for membership on the Board as described below under Identifying and Evaluating Nominees for Directors. In evaluating such nominations, like all nominations, the Board's criteria will include business experience and skills, independence, judgment, integrity, the ability to commit sufficient time and attention to Board activities and the absence of potential conflicts with K2's interests. Any shareholder nominations proposed for consideration by the Corporate Governance and Nominating Committee should include the nominee's name and qualifications for Board membership and should be addressed to Corporate Governance and Nominating Committee c/o Corporate Secretary, K2 Inc., 5818 El Camino Real, Carlsbad, California 92008.

In addition, the by-laws of K2 permit shareholders to nominate directors for consideration at an annual meeting of shareholders for election by the shareholders of the meeting (in cases where the Board does not intend to nominate the candidate or where the Corporate Governance and Nominating Committee has not requested to consider his or her candidacy). Under K2's by-laws, nominations for election of directors may be made by the Board or by any shareholder entitled to vote in the election of directors provided that no shareholder may nominate a person for election as a director unless written notice of such nomination is presented to K2 not later than 90 days in advance of the meeting or the 10th day following public announcement of the date of this meeting. No notice has been given with respect to the election of directors. As a result, no other nominees for election as director will be considered at the annual meeting except nominations made by the Board in the event one of the nominees named in the proxy statement should unexpectedly be unavailable.

Identifying and Evaluating Nominees for Directors

Pursuant to the policy set forth in the charter of the Corporate Governance and Nominating Committee, the Committee will utilize a variety of methods for identifying and evaluating nominees for director. The Corporate Governance and Nominating Committee's policy is to assess the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Corporate Governance and Nominating Committee will consider various potential candidates for director. Candidates may come to the attention of the Corporate Governance and Nominating Committee through current Board members, shareholders or other persons. These candidates will be evaluated at regular or special meetings of the Corporate Governance and Nominating Committee, and may be considered at any point during the year. As described above, the Corporate Governance and Nominating Committee will consider properly submitted shareholder nominations for candidates for the Board. Following verification of the

shareholder status of persons proposing candidates, recommendations will be aggregated and considered by the Corporate Governance and Nominating Committee at a regularly scheduled meeting. If any materials are provided by a shareholder in connection with the nomination of a director candidate, such materials will be forwarded to the Corporate Governance and Nominating Committee.

Lead Independent Director and Executive Sessions

The Board has created the position of lead independent director, whose responsibilities include presiding over and setting the agenda for executive sessions of the independent directors, in which management directors and other members of management do not participate. These executive sessions of the independent directors take place at least four times a year. The lead independent director also consults with the Chairman and Chief Executive Officer of K2 with respect to agendas, scheduling and information needs relating to Board and committee meetings, and acts as a liaison between the independent directors and management. The independent members of the Board of Directors have designated Mr. Goldress to serve in this position until K2's 2005 annual meeting of shareholders.

Communications with the Board

Individuals may communicate with the Board by writing to Board of Directors of K2 Inc. c/o Corporate Secretary, 5818 El Camino Real, Carlsbad, California 92008.

Communications that are intended specifically for non-management directors should be sent to the attention of the Lead Independent Director.

Code of Ethics

K2 has adopted Code of Business Conduct and Ethics, which is applicable to all K2 directors, executive officers and employees, including the principal executive officer and the principal financial and accounting officer. The Code of Business Conduct and Ethics is available on K2's website on <http://www.k2inc.net>. K2 intends to post amendments to or waivers under this Code at this location on its website.

Report of the Audit Committee

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other K2 filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent K2 specifically incorporates this Report by reference therein.

The Audit Committee assists the Board in fulfilling its oversight responsibilities relating to K2 management's conduct of K2's financial reporting process and the integrity of K2's financial statements, K2's compliance with legal and regulatory requirements, the outside auditors' performance qualifications and independence, and the performance of K2's internal audit function and outside auditors. The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties and to receive appropriate funding, as determined by the Audit Committee, from K2 for such advice and assistance.

K2's management has primary responsibility for preparing K2's financial statements and K2's financial reporting process. K2's independent auditors, Ernst & Young LLP, are responsible for expressing an opinion on the conformity of K2's audited financial statements with accounting principles generally accepted in the United States.

In this context, the Audit Committee hereby reports as follows:

1. The Audit Committee has reviewed and discussed the audited financial statements with K2's management and the independent auditors.
2. The Audit Committee has discussed with the independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standard, AU 380) and SAS 99 (Consideration of Fraud in a Financial Statement Audit) rules.
3. The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committee) and has discussed with the independent auditors the independent auditors' independence.
4. The Audit Committee reviewed key initiatives and programs aimed at strengthening the effectiveness of K2's internal and disclosure control structure. As part of this process, the Audit Committee continued to monitor the scope and adequacy of the K2's internal auditing program, reviewing steps taken to implement recommended improvements in internal procedures and controls.
5. Based on the review and discussion referred to in paragraphs (1) through (4) above and such other review as they deemed appropriate, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in K2's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, for filing with the Securities and Exchange Commission.

Members of the Audit Committee

Wilford D. Godbold, Jr., Chairman

Stewart M. Kasen

Alfred E. Osborne, Jr.

April 21, 2005

Stock Price Performance Graph

The graph below compares cumulative total return to shareholders, the Russell 2000 Index and a weighted index of a peer group of companies with market capitalizations and industry similar to that of K2. The peer group is comprised of Johnson Outdoor Inc., Head NV, Escalade, Inc., Oakley, Inc., Brunswick Corporation, Callaway Golf Company, Quiksilver, Inc., Russell Corporation and Nautilus, Inc. The graph assumes an investment of \$100 on December 31, 1999 in K2's Common Stock, the Russell 2000 Index and common stock of the peer group (except for Head, which became a public company in 2000). In 2004, Russell Corporation and Nautilus, Inc. replaced Huff Corporation due to its filing for protection under Chapter 11 of the U.S. Bankruptcy Code and Vans, Inc. due to its being acquired during 2004.

Five-Year Cumulative Return

(Investment of \$100 on December 31, 1999)

Executive Compensation

The following table sets forth information concerning annual, long-term and other compensation of K2's Chairman and Chief Executive Officer and the other four most highly compensated executive officers of K2:

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards		
		Salary (\$)	Bonus (\$)	Restricted Stock Award (\$)	Securities Underlying Options (#)	All Other Compensation (\$)
Richard J. Heckmann(a) Chairman and Chief Executive Officer	2004	\$ 550,000	\$ 550,000	\$ 969,000(d)	250,000	\$ 6,100(f)
	2003	475,000			150,000	500(f)
	2002(a)	91,400				
J. Wayne Merck President and Chief Operating Officer	2004	360,000	230,000		75,000	4,500(f)
	2003	287,000	140,000		25,000	254,000(f)
	2002	235,000	140,000			3,700(f)
John J. Rangel President European Operations	2004	265,000	140,000	\$ 193,800(e)	70,000	6,000(f)
	2003	240,000	120,000		20,000	108,900(f)
	2002	240,000	80,000			7,300(f)
Dudley W. Mendenhall(b) Senior Vice President and Chief Financial Officer	2004	265,000	140,000		35,000	1,500(f)
	2003(b)	175,400	120,000		20,000	215,500(f)
	2002					
Monte H. Baier(c) Vice President, General Counsel and Secretary	2004	235,000	125,000		35,000	3,500(f)
	2003(c)	156,500	110,000		20,000	27,700(f)
	2002					

- (a) Effective October 11, 2002, the Board of Directors of K2 elected Richard J. Heckmann, Director and Chairman of the Board, as the new Chief Executive Officer of K2. The amounts paid to Mr. Heckmann in 2002 are based on an annualized salary of \$475,000.
- (b) Mr. Mendenhall joined K2 as Senior Vice President Finance on March 31, 2003. The amounts paid to Mr. Mendenhall in 2003 are based on an annualized salary of \$240,000. In addition, K2 paid Mr. Mendenhall \$58,700 in 2003 for consulting services rendered prior to his joining K2.
- (c) Mr. Baier joined K2 as Vice President, General Counsel and Secretary on April 1, 2003. The amounts paid to Mr. Baier in 2003 are based on an annualized salary of \$220,000.
- (d) Represents the grant of restricted stock awards under which the executive has the right to receive, subject to vesting, 75,000 shares of K2's Common Stock. The restricted stock awards vest over three years at one third per year beginning on the first anniversary of the grant. The value set forth above is based on the closing price on the date of grant, August 9, 2004, which was \$12.92

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- (e) Represents the grant of restricted stock awards under which the executive has the right to receive, subject to vesting, 15,000 shares of K2's Common Stock. The restricted stock awards vest over three years at one third per year beginning on the first anniversary of the grant. The value set forth above is based on the closing price on the date of grant, August 9, 2004, which was \$12.92

- (f) Other Compensation for the named executives includes the following: (i) relocation expenses for 2003 to Mr. Merck of \$200,400, Mr. Rangel of \$67,200, Mr. Mendenhall of \$135,200 and Mr. Baier of \$23,900; and (ii) reimbursement for payment of taxes for 2003 to Mr. Merck of \$48,900, Mr. Rangel of \$35,200, Mr. Mendenhall of \$80,300 and Mr. Baier of \$3,800; and (iii) dollar value of allocations to the accounts of the named individuals in K2's Employee Stock Ownership Plan: Mr. Heckmann (\$500 in 2003), Mr. Merck (\$500 in 2003 and \$1,700 in 2002), Mr. Rangel (\$500 in 2003 and \$1,800 in 2002); and (iv) K2's matching contribution to the accounts of the named individuals in K2's 401(k) Retirement Savings Plan: Mr. Heckmann (\$6,100 in 2004), Mr. Merck (\$4,500 in 2004, \$4,200 in 2003 and \$2,000 in 2002), Mr. Rangel (\$6,000 in 2004, \$6,000 in 2003 and \$5,500 in 2002), Mr. Mendenhall (\$1,500 in 2004) and Mr. Baier (\$3,500 in 2004)

The following table summarizes the number of shares and the terms and conditions of stock options granted to the named executive officers in 2004.

Option Grants in 2004

Name	Options Granted (a)	% of Total Options Granted Employees During 2004	Exercise Price Per Share	Expiration Date (d)	Potential Realizable
					Value at Assumed Annual Rates of Stock Price Appreciation for Option Term