

K2 INC  
Form 10-Q  
August 09, 2004

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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**Quarterly Report pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**

**For the quarterly period ended June 30, 2004**

**Commission File No. 1-4290**

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**K2 INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

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**DELAWARE**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**  
**2051 Palomar Airport Road**  
**Carlsbad, California**

**95-2077125**  
**(I.R.S. Employer**  
**Identification No.)**  
**92009**

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(Address of Principal Executive Offices)

(Zip Code)

**Registrant's Telephone Number, Including Area Code (760) 494-1000**

**Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report:**

**Not applicable**

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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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of July 31, 2004.

Common Stock, par value \$1.00

46,651,747 Shares

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## FORM 10-Q QUARTERLY REPORT

## PART - 1 FINANCIAL INFORMATION

## Item 1. Financial Statements

## STATEMENTS OF CONSOLIDATED CONDENSED INCOME

(Thousands, except per share figures)

	Three months		Six months	
	ended June 30		ended June 30	
	2004	2003	2004	2003
	(Unaudited)			
Net sales	\$ 250,987	\$ 199,671	\$ 528,351	\$ 356,791
Cost of products sold	173,622	139,454	364,353	249,430
Gross profit	77,365	60,217	163,998	107,361
Selling expenses	41,566	30,444	83,613	53,614
General and administrative expenses	23,354	19,679	48,418	34,899
Operating income	12,445	10,094	31,967	18,848
Interest expense	3,210	2,814	6,512	4,608
Debt extinguishment costs				6,745
Other income, net	(125)	(1,604)	(178)	(1,600)
Income before income taxes	9,360	8,884	25,633	9,095
Provision for income taxes	3,182	3,110	8,715	3,184
Net income	\$ 6,178	\$ 5,774	\$ 16,918	\$ 5,911
Basic earnings per share:				
Net income	\$ 0.18	\$ 0.22	\$ 0.48	\$ 0.27
Diluted earnings per share:				
Net income	\$ 0.16	\$ 0.19	\$ 0.43	\$ 0.26
Basic shares outstanding	35,273	26,832	34,894	21,954
Diluted shares outstanding	44,019	30,733	43,659	23,034

See notes to consolidated condensed financial statements.



**CONSOLIDATED CONDENSED BALANCE SHEETS**

(Thousands, except number of shares)

	<b>June 30</b>	<b>December 31</b>
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 18,173	\$ 21,256
Accounts receivable, net	217,741	224,818
Inventories, net	212,534	237,152
Deferred taxes and income taxes receivable	34,678	40,023
Prepaid expenses and other current assets	16,862	13,083
<b>Total current assets</b>	<b>499,988</b>	<b>536,332</b>
Property, plant and equipment	221,775	204,738
Less allowance for depreciation and amortization	125,224	113,716
	96,551	91,022
Goodwill	189,431	147,047
Intangible assets, net	82,409	81,800
Other	19,243	15,670
<b>Total Assets</b>	<b>\$ 887,622</b>	<b>\$ 871,871</b>
<b>Liabilities and Shareholders Equity</b>		
Current Liabilities		
Bank loans	\$ 7,225	\$ 10,751
Accounts payable	52,452	77,304
Accrued payroll and related	31,626	33,040
Other accrued liabilities	70,417	61,540
Current portion of long-term debt	36,215	72,126
<b>Total current liabilities</b>	<b>197,935</b>	<b>254,761</b>
Long-term pension liabilities	11,173	11,173
Long-term debt	59,034	35,194
Deferred taxes	38,636	38,636
Convertible subordinated debentures	98,301	98,067
Commitments and Contingencies		
<b>Shareholders Equity</b>		
Preferred Stock, \$1 par value, authorized 12,500,000 shares, none issued		
Common Stock, \$1 par value, authorized 110,000,000 shares in 2004 and 60,000,000 in 2003, issued and outstanding shares 36,327,121 in 2004 and 34,146,798 in 2003	36,327	34,147
Additional paid-in capital	342,123	313,142
Retained earnings	124,535	107,617
Employee Stock Ownership Plan and stock option loans	(1,160)	(1,214)
Treasury shares at cost, 747,234 shares in 2004 and 2003	(9,107)	(9,107)
Accumulated other comprehensive loss	(10,175)	(10,545)

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Total Shareholders' Equity	482,543	434,040
Total Liabilities and Shareholders' Equity	\$ 887,622	\$ 871,871

See notes to consolidated condensed financial statements.

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)**

(Thousands)

	Six months ended	
	June 30	
	2004	2003
<b>Operating Activities</b>		
Net income	\$ 16,918	\$ 5,911
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of operating division		(1,504)
Depreciation and amortization	12,743	10,095
Deferred taxes	6,782	559
Changes in current assets and current liabilities	20,517	48,180
<b>Net cash provided by operating activities</b>	<b>56,960</b>	<b>63,241</b>
<b>Investing Activities</b>		
Property, plant & equipment expenditures	(14,258)	(7,948)
Disposals of property, plant & equipment	406	(11)
Purchase of businesses, net of cash acquired	(28,672)	(3,002)
Proceeds received from sale of operating division		19,000
Other items, net	(5,291)	(49)
<b>Net cash provided by (used in) investing activities</b>	<b>(47,815)</b>	<b>7,990</b>
<b>Financing Activities</b>		
Issuance of convertible subordinated debentures		100,000
Borrowings under long-term debt	379,149	338,007
Payments of long-term debt	(391,942)	(448,849)
Net payments on accounts receivable purchase facility		(25,702)
Net decrease in short-term bank loans	(3,526)	(137)
Debt issuance costs		(7,491)
Proceeds received from exercise of stock options	4,091	2,589
<b>Net cash used in financing activities</b>	<b>(12,228)</b>	<b>(41,583)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,083)</b>	<b>29,648</b>
Cash and cash equivalents at beginning of year	21,256	11,228
<b>Cash and cash equivalents at end of period</b>	<b>\$ 18,173</b>	<b>\$ 40,876</b>

**K2 INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**June 30, 2004**

**NOTE 1 - Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The consolidated condensed balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

K2 reports its financial statements using a 13 week quarter ending on the last Sunday of March, June, September and December. For purposes of the consolidated financial statements, the end of each quarter is stated as of March 31, June 30, September 30 and December 31, respectively.

The interim financial statements should be read in connection with the financial statements in K2 Inc. s ( K2 s ) Annual Report on Form 10-K for the year ended December 31, 2003.

**NOTE 2 - Summary of Significant Accounting Policies**

*Accounts Receivable and Allowances*

Accounts receivable are net of allowances for doubtful accounts of \$8,728,000 at June 30, 2004 and \$7,558,000 at December 31, 2003.

*Inventories*

The components of inventories consisted of the following:



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	<u>June 30,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
	(Thousands)	
Finished goods	\$ 147,480	\$ 180,379
Work in process	13,060	10,843
Raw materials	51,994	45,930
	<u>\$ 212,534</u>	<u>\$ 237,152</u>

## K2 INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

June 30, 2004

## NOTE 2 - Summary of Significant Accounting Policies (Continued)

*Warranty*

K2 records the estimated cost of product warranties at the time sales are recognized. K2 estimates warranty obligation by reference to historical product warranty return rates, material usage and service delivery costs incurred in correcting the product. Should actual product warranty return rates, material usage or service delivery costs differ from the historical rates, revisions to the estimated warranty liability would be required.

The following activity related to product warranty liabilities:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2004	2003	2004	2003
(Thousands)				
Beginning Balance	\$ 5,520	\$ 3,477	\$ 5,526	\$ 2,954
Charged to costs and expenses	1,586	1,066	3,117	2,109
Increase to reserve resulting from acquisitions	325		325	420
Amounts charged to reserve	(966)	(736)	(2,503)	(1,676)
Ending Balance	\$ 6,465			