



## **K2 Plans Fifth Acquisition of Year With Brass Eagle Buy**

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LOS ANGELES -- K2 Inc. (KTO) reported its fifth acquisition of 2003 Wednesday, saying it plans to buy paintball equipment maker Brass Eagle Inc. (XTRM) as part of its ongoing plan to consolidate brands in the **sporting goods** industry.

K2 said it plans to buy Brass Eagle for \$78 million in stock. The purchase would follow four other acquisitions this year, which included baseball and softball equipment makers Rawlings and Worth, snowshoe manufacturer WinterQuest, and sunglasses and goggle maker V2 Optics.

K2 expects to complete the purchase by the end of 2003, pending approval.

Under terms of the deal, K2 will exchange 0.6 of a share of K2 common stock for each Brass Eagle common share. Based on K2's average closing price for the 30 days ending Oct. 20 - \$16.85 - that adds up to about \$78 million.

The deal would represent a 22.5% premium over Brass Eagle's closing share price of \$8.30 Wednesday. In after-hours trading Wednesday, shares of Brass Eagle, Bentonville, Ark., were up \$1.02, or 12%, at \$9.32.

News of the proposed acquisition came just before K2 reported third-quarter earnings of \$3.3 million, or 12 cents a share, on revenue of \$168 million. A year ago, K2 earned 5 cents a share on a pro forma basis taking into account the Rawlings acquisition. The company reported actual earnings of \$3.9 million, or 21 cents a share, in the 2002 third quarter, on revenue of \$149.8 million.

Like the Rawlings and Worth acquisitions, which marked K2's entry into baseball and softball, the purchase of Brass Eagle would be the company's first move into products used exclusively for paintball.

K2 Chief Executive Richard Heckman estimates that the market for paintball, a sport in which participants play war games using ammunition that brightly stains targets, is growing at more than 10% a year.

Mr. Heckman has said that his desire for consolidation in the **sporting goods** industry is a direct result of consolidation in the **sporting goods** retailing arena, typified by the completion in August of a merger between Gart Sports Co. (GRTS) and Sports Authority Inc. (TSA) into a 385-store chain.

Typically, K2 has moved manufacturing operations of its acquired companies to its 1.2 million-square-foot plant in China, and adds new products to its existing distribution channels.

Though paintball is a newer activity than some of K2's mainstays, such as skiing, in-line skating, fishing and baseball, market watchers say that it has moved beyond the stage of being a temporary fad. As a result, paintball products are being distributed to many of the same outlets that sell K2's other brands.

"Eight years ago, you could only find paintball equipment at specialty stores. Now it's a major category at outlets like Wal-Mart and Gander Mountain," said Jim D'Aquila, managing director of the **Mercanti Group**, a Minneapolis investment bank that helped complete the Brass Eagle transaction.

In 2002, Brass Eagle reported revenue of \$104.9 million, up from \$99.9 million in 2001.

Ahead of the earnings and acquisition announcements, shares of K2 closed Wednesday down 66 cents, or 3.8%, at \$16.75 on volume of 74,900, compared with average daily volume of 204,300.

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