COASTCAST CORP
Form 10-K
March 26, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF1934 [NO FEE REQUIRED]
COMMISSION FILE NUMBER 1-12676

---

COASTCAST CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| CALIFORNIA | 95-3454926 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3025 EAST VICTORIA STREET RANCHO DOMINGUEZ, CALIFORNIA | 90221 (ZIP CODE) |
| (Address of principal executive offices) | |

Registrant's telephone number, including area code: (310) 638-0595

---

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| RIGHTS TO PURCHASE SERIES A PREFERRED STOCK, NO PAR VALUE | NEW YORK STOCK EXCHANGE |
| COMMON STOCK, NO PAR VALUE | NEW YORK STOCK EXCHANGE |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE.

---

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of the Registrant's voting stock held by non-affiliates, based upon the closing price of said stock on the New York Stock Exchange on March 21, 2001 ($10.57 per share): $67,877,000.

As of March 21, 2001, 7,676,042 shares of the Common Stock, no par value, of the Registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held June 20, 2001, are incorporated by reference into Part III of this Report.



COASTCAST CORPORATION

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

2

PART I

ITEM 1. BUSINESS.

GENERAL

Coastcast Corporation is one of the largest manufacturers in the world of investment-cast titanium and stainless steel golf clubheads for high-quality, premium-priced metal woods, irons and putters. The Company believes it is one of the largest producers of metal wood clubheads for high-quality, premium-priced golf clubs. Over the past two decades, golf clubs with perimeter-weighted heads have become much more popular among golfers because such clubs are more forgiving to off-center hits than other types of clubs. The investment-casting process has become the principal method for manufacturing clubheads because it facilitates the use of perimeter weighting designs and modern alloys and enhances manufacturing precision and uniformity. Manufacturing precision is particularly important in the manufacture of an oversized, thin-walled metal wood which can involve a significant number of separate manufacturing steps to produce a clubhead that meets strict standards for size, weight, strength and finish.

The Company also manufactures a variety of investment-cast orthopedic implants and surgical tools (used principally in replacement of hip and knee joints in humans and small animals) and other specialty products, and aluminum compressor wheels using the reusable investment pattern process, which products accounted for approximately 9% of the Company's total sales for the year ended December 31, 2000.

In the past several years, golf clubs with titanium alloy heads have become popular. The Company developed the capability of manufacturing titanium clubheads and began shipping titanium clubheads at the end of 1995. Titanium clubheads accounted for approximately 42% and 45% of the Company's total sales in 1999 and 2000, respectively.

The Company was incorporated as a California corporation in 1980.

BUSINESS STRATEGY - GOLF

The Company recognizes that golf club companies are critical to its success and, accordingly, has designed its business strategy to engender customer satisfaction in order to maintain its industry leadership position. The Company's strategy consists of the following principal elements:

- MAINTAIN RELIABLE, HIGH-QUALITY MANUFACTURING. The Company believes its manufacturing expertise, quality control, scheduling flexibility, substantial production capacity and its ability to manufacture golf clubheads using stainless steel or titanium alloys differentiate it from others in the industry. The Company endeavors to respond quickly to customers' orders and deliver high-quality clubheads on a timely basis. This capability is particularly important to golf club companies which can experience rapid growth from the increasing popularity of a particular club or set of clubs.

- INTEGRATE OPERATIONS. The Company's operations are integrated, from the computer-aided manufacture of some of the tooling used to produce clubheads through foundry operations and finishing processes, including painting.

- FOSTER CLOSE CUSTOMER RELATIONSHIPS. The Company believes that its responsive service has been a significant element of its success. The Company endeavors to be a value-added supplier by offering consistently high levels of customer service and support.

The Company has a staff of 14 employees dedicated to sales and customer service. The Company maintains its own internal laboratory for testing of customers' products during the production process. The Company typically delivers finished products to its customers within 10 weeks from receipt of the customer's order during peak



production periods, within 6 to 8 weeks during other periods and within several weeks or even several days if necessary to accommodate a customer's need for more rapid delivery. With new products, depending on their complexity, a longer turnaround period may be expected.

GOLF PRODUCTS

The Company's golf products are generally used in golf clubs targeted at the high end of the market. These clubs must satisfy the requirements of highly-skilled amateur and professional golfers, including touring professionals. As such, golf clubs which incorporate clubheads manufactured by the Company are sometimes referred to in the industry as "tour-driven" golf clubs.

The Company's clubheads are included in a variety of leading metal woods, irons and putters, some of which are listed below:

CALLAWAY
--------
BIG BERTHA HAWKEYE VFT TITANIUM METAL WOODS
BIG BERTHA STEELHEAD PLUS METAL WOODS
GREAT BIG BERTHA HAWKEYE TITANIUM IRONS
X14 STEELHEAD IRONS
ODYSSEY DUAL FORCE BLADE PUTTERS
ODYSSEY DF ROSSIE MALLET PUTTERS

CLEVELAND
---------
RTG WEDGES
588 WEDGES

691 WEDGES
485 WEDGES

COBRA

CXI IRONS
CXI IRONS SILVER FOX

TITLEIST

975J TITANIUM METAL WOODS
975D/976R TITANIUM METAL WOODS
975F TITANIUM METAL WOODS
PRO TRAJECTORY METAL WOODS
DCI 990 & 990B IRONS
DCI 981 & 981 SL IRONS
DCI 962 IRONS
BOB VOKEY WEDGES

PING

ISI TITANIUM METAL WOODS
I3 STEEL METAL WOODS

GOLF PRODUCT CUSTOMERS

For over twenty years, the Company has supplied investment-cast clubheads for metal woods, irons and putters to many of the top golf companies which produce high-quality, premium-priced golf clubs. Most golf club companies source the three principal components of a golf club--the clubhead, shaft, and grip--from independent suppliers which manufacture these components based on the golf club companies' designs and specifications. The Company currently is a major supplier of stainless steel and titanium clubheads to Callaway Golf Company, which is the producer of the Big Bertha line of steel and titanium metal woods and irons and Odyssey putters and wedges. In addition, the Company is a supplier of investment-cast steel and titanium clubheads for companies which market the Titleist, Cleveland, Cobra and Ping brands of golf clubs.

Substantially all of the clubheads manufactured by the Company are used in high-quality, premium-priced golf clubs. The Company believes that a substantial portion of the clubheads manufactured by it are incorporated in clubs sold in North America, although many of the Company's clubheads are incorporated in clubs sold in parts of Asia, Europe and other parts of the world. Historically, a limited number of golf club companies have held a very substantial portion of the total market share for high-quality, premium-priced golf clubs in North America. Currently, some of the more popular high-quality, premium-priced clubs are Callaway metal woods and irons; Titleist metal woods, irons and putters; Odyssey putters; and Wilson metal woods, irons and putters. Several of these golf



clubheads are marketed by customers of the Company. Callaway (including Odyssey) accounted for 50%, 47% and 49% of the Company's total sales in 2000, 1999 and 1998, respectively. Fortune Brands (formerly American Brands, owner of Titleist and Cobra) accounted for 26%, 25% and 22% of the Company's total sales in 2000, 1999 and 1998, respectively. Taylor Made accounted for 12% and 14% of the Company's total sales in 1999 and 1998, respectively.

A close working relationship typically exists between the Company and its principal golf club customers, and sales and marketing activities are conducted by a limited number of direct sales employees and senior executives of the Company.

MANUFACTURING - GOLF

INVESTMENT-CASTING PROCESS. Investment-casting is a highly specialized method of making metal products. It has become the principal method for the manufacture of golf clubheads. Previously, woods were made of wood and irons were produced by forging and machining. Greater flexibility in the shape and weight distribution of clubheads is possible with the investment-casting process. Investment-casting facilitates perimeter weighting and the use of modern alloys. It also enhances manufacturing precision and uniformity. The enhanced precision inherent in investment-casting is particularly important in the manufacture of metal woods which can involve a significant number of separate manufacturing steps.

The basic steps of investment-casting, in its simplest form, are as follows:

- Produce a metal die (sometimes called a wax mold) based on specifications provided by the customer.
- Inject wax into the die, producing a pattern the exact shape of the final casting.
- Surround (or "invest") the pattern with a ceramic material which is allowed to dry to form a ceramic shell.
- Remove the wax by heat, leaving a cavity in the ceramic shell in the shape of the desired casting.
- Pour molten metal into the cavity in the ceramic shell and allow it to solidify.
- Remove the ceramic material by mechanical and chemical action after the metal solidifies and clean the casting.
- Finish and inspect the casting.

METAL ALLOYS. Most clubheads manufactured by the Company are made of titanium or stainless steel alloys. Titanium clubheads have similar tensile strength as stainless steel with approximately one-half the weight of steel. Therefore, a larger oversized clubhead can be manufactured using titanium without increasing clubhead weight. The Company's Gardena facility is devoted to titanium operations.

POLISHING AND FINISHING. The Company conducts golf clubhead polishing and finishing operations in its facilities in Mexicali, Mexico. In addition, certain iron clubheads were finished in the Company's Tijuana facility during the last quarter of fiscal year 2000. Finishing of the head for an iron or putter can require numerous separate steps and finishing of a head for a metal wood can involve many more separate steps. Most of the clubheads and substantially all of the metal woods manufactured by the Company are finished by it to customer specifications, although some of such clubheads--principally irons--are delivered to customers in an unfinished state. The Company, to assist its customers, at times also polishes and finishes limited quantities of investment-cast clubheads manufactured by other companies.

QUALITY CONTROL. The Company believes that its success as a leading supplier of golf clubheads is largely attributable to its quality control measures. The Company attempts to monitor every aspect of the engineering and manufacturing process to assure the quality of the clubheads manufactured by the Company. Particular attention is paid to the quality of raw materials (principally wax, ceramic and metal alloys), gating techniques employed in channeling the flow of molten metal in the ceramic shell in the casting process, and rigorous inspection standards to assure compliance with the customers' product specifications throughout the manufacturing process.

REGULATIONS. The Company uses hazardous substances and generates hazardous waste in the ordinary course of its business. The Company is subject to various federal, state, local and foreign environmental laws and regulations, including those governing the use, discharge and disposal of hazardous materials. Although the Company has not to date incurred any material liabilities under environmental laws and regulations and believes that its operations are in substantial compliance with applicable laws and regulations, environmental liabilities could arise in the future that may adversely affect the Company's business. See "Discontinued Operations" below.

COMPETITION - GOLF

The Company operates in a highly competitive environment. The Company competes against a number of manufacturers of investment-cast titanium clubheads for high-quality, premium-priced golf clubs, including but not limited to: Sturm Ruger, Inc., Cast Alloys, Inc. and Worldmark Services Ltd. The Company competes principally against two significant U.S.-based manufacturers (Hitchner Manufacturing Co., Inc. and Cast Alloys, Inc.) of investment-cast steel clubheads. The Company also competes with several foreign manufacturers of investment-cast steel clubheads, including Worldmark Services Ltd. (formerly Fu-Sheng Industrial Co. Ltd.), O-ta Precision Casting Co. Ltd., Dynamic Precision Casting MFG. Co. Ltd. and Advanced Group International Co. Ltd.

The Company believes that its position as a leading manufacturer of titanium and steel clubheads for high-quality, premium-priced golf clubs is due to its ability to produce quality clubheads in quantities sufficient to meet rapidly growing demand for popular golf clubs, its experience and expertise in manufacturing investment-cast golf clubheads, and its integrated manufacturing operations.

Price is increasingly becoming a factor but the Company does not compete solely on price. Quality and service are key success factors in the premium-price golf clubhead market. The Company seeks to provide better products and service to its customers than its competitors in order to increase or retain market share.

Although the Company's foreign competitors (the principal ones of which are located in Asia) are typically able to offer prices below the Company's prices, the Company believes that it has some competitive advantages over foreign manufacturers, including its ability to deliver clubheads more quickly to its customers due to shorter shipping and lead times. Shipment of clubheads to the United States from Asia usually requires at least two weeks by ocean freight. Further, the Company believes that certain of its customers prefer products made in the United States.

The Company also competes against golf club companies that internally produce clubheads for their clubs. The Company believes that one of the larger golf club companies, Ping Inc., which produces its own brand of clubs, manufactures substantially all of the investment-cast steel iron clubheads for use in its own clubs. The Company believes that this golf club company produces clubheads for its own use only and does not currently compete with the Company for the business of other golf club companies. However, during the calendar year 2000, Ping Inc. purchased steel metal woods and titanium drivers from the Company.

The Company also faces potential competition from those golf club companies that currently purchase golf clubheads from outside suppliers but may, in the future, manufacture clubheads internally. If the Company's current customers begin manufacturing clubheads internally, the Company's sales would be adversely affected. The Company believes that as long as component suppliers, such as the Company, provide high-quality component golf club parts at competitive prices and reliably, it is unlikely that many golf club companies will commence their own manufacturing.



The Company experiences indirect competition from golf club companies that produce golf clubs with clubheads that are not investment-cast. For example, some clubheads for woods are made of forged faces and fabricated bodies or of wood alone, some clubheads for irons are forged, some clubheads for putters are machined, and some clubheads are made of graphite or other composites. The Company believes that the investment-cast, metal clubhead has a greater share of the market for clubheads for high-quality, premium priced golf clubs than these alternate types of clubheads. In particular, the metal wood has surpassed the wooden wood as the most popular wood and the investment-cast iron has surpassed the forged iron as the most popular type of iron. Graphite and other composite clubheads have been available for several years, but to date have not become nearly as popular as investment-cast clubheads.

EMPLOYEES

As of December 31, 2000, the Company employed 3,828 persons on a full-time basis. Of these employees, 2,549 and 571 were employed by Coastcast Corporation, S.A. and Coastcast Tijuana S. de R. L. de C. V., respectively, the Mexican subsidiaries of the Company. The Company considers its employee relations to be good.

The production and maintenance employees in the Gardena, California facility are represented by the United Steelworkers of America. There were 252 such employees as of December 31, 2000. The collective bargaining agreement for such employees was effective May 12, 2000, and will expire on June 11, 2003.

ORTHOPEDIC IMPLANTS, SPECIALTY PRODUCTS AND AUTOMOTIVE PRODUCTS

The Company also manufactures non golf products including orthopedic implants and surgical tools (used principally for replacement of hip and knee joints in humans and small animals). Other non golf products include titanium and other alloy specialty products, automotive titanium products and automotive aluminum compressor wheels. The Company believes that its engineering and manufacturing disciplines developed to manufacture these products has contributed to the Company's ability to attract new non golf business and to its ability to manufacture golf products.

The Company is endeavoring to expand its titanium and other alloy investment casting business to potential customers in other commercial and industrial businesses outside of the golf business. At this stage, the Company cannot predict which product opportunities will result in profitable sales, and whether volumes will be significant.

The Company believes that its principal investment casting competitors in this business are Precision Castparts Corporation, Sturm Ruger, Inc., and PED Manufacturing.

The Company also manufactures aluminum compressor wheels using the reusable investment pattern process. This process utilizes plaster molds and rubber patterns to produce complex, thin wall aluminum compressor wheels. The Company believes that its principal competitors in this business is Ross Aluminum Foundries.

DISCONTINUED OPERATIONS

In 1993, the Company announced its decision to discontinue its aerospace business. This business was substantially phased out in 1994. In connection with the offering for sale of the Wallingford, Connecticut property, the Company had an environmental assessment performed, which identified the presence of certain chemicals associated with chlorinated solvents in groundwater beneath a portion of the property. The Company conducted investigations to determine the source and extent of the contamination. In addition, the Company determined that certain of the contaminates were present prior to its ownership and entered into a remediation cost sharing agreement with the previous owner of the property. In August 1998, the Company sold the Wallingford, Connecticut property, under an agreement which stipulates that the Company and the previous owner bear the liability to remediate the property. The Company incurred a loss on the sale of the property. The loss on sale of the property plus the Company's share of the estimated remediation costs were not adequately covered by the original reserve. As a result,



for the year ended December 31, 1998, the Company reported a $157,000 loss from discontinued operations, net of income tax benefit, as shown on the Consolidated Statements of Income.

ITEM 2. PROPERTIES.

The Company's principal executive offices and one of two steel investment casting manufacturing facilities are located in a 120,000 square foot leased facility in Rancho Dominguez, California, a suburb of Los Angeles. Approximately 19,000 square feet of this facility has been allocated to the Company's new aluminum compressor wheels business. The lease expires in October 2003 and the Company has a five-year extension option.

The Company owns a complex of plants in Gardena, California (which is within approximately five miles of the Rancho Dominguez facilities), comprising an aggregate of approximately 110,000 square feet. These facilities are principally used for manufacturing titanium golf clubheads and tooling. In October 1994, the Company purchased approximately two acres of land contiguous to its Gardena facility. In April 1996, the Company purchased another approximately two acres of land next to the land purchased in October 1994. This land is available for future expansion if and when necessary.

The majority of clubhead polishing and finishing operations are conducted in facilities leased by the Company's subsidiary in Mexicali, Mexico under four lease agreements, comprising an aggregate of approximately 142,000 square feet. Three of the leases expire in December 2003, and the other lease expires in June 2006. All four leases have a five-year extension option.

The Company has moved most of its steel golf clubhead casting operations to a 186,000 square foot leased investment casting facility in Tijuana, Mexico. The lease expires in April 2008 and the Company has two five-year extension options. Also, the Company has exercised its option to lease land adjacent to the facility. The Company has another option to lease a second site contiguous to the property as needed for future growth.

ITEM 3. LEGAL PROCEEDINGS.

The Company is a party to legal actions arising in the ordinary course of business, none of which, individually or in the aggregate, in the opinion of management, after consultation with counsel, will have a material adverse effect on the business or financial condition of the Company.

8

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company are as follows:

| NAME | AGE | POSITION |
|---|---|---|
| Hans H. Buehler | 68 | Chairman of the Board and Chief Executive Of |
| Larry J. Cornelius | 59 | Vice President, Titanium Casting |
| Norman Fujitaki | 46 | Chief Financial Officer and Secretary |
| Ramon F. Ibarra | 48 | Vice President, Manufacturing |
| Bryan Rolfe | 48 | Vice President, Sales and Business Developme |
| Roberto Roman | 58 | Vice President, Human Resources |
| Todd L. Smith | 37 | Executive Vice President, Operations |
| Kathleen H. Wainwright | 36 | Senior Vice President, Sales |
| K. Michael Wellman | 56 | Senior Vice President - Foundries |

Mr. Buehler is one of the founders of the Company and has been Chairman of the Board since the Company's inception in 1980. Prior to founding the Company, he was President of the Rex Precision Products Division of Alco Standard Corporation, a competitor of the Company that was acquired by the Company in 1987. Mr. Buehler has more than 40 years of experience in the investment-casting business, including more than 30 years of experience in the manufacture of golf clubheads.

Mr. Cornelius joined the Company in March 1995. In July 1999, he was promoted to Vice President - Titanium Casting. From 1995 to 1999, he was the Director of the Titanium operations. From 1992 to 1995, he was the Engineering Manager for IMI Titanium Inc. Mr. Cornelius has over 23 years of experience in the titanium business.

Mr. Fujitaki joined the Company in 1994. He has served as Chief Financial Officer since April 1999. From 1994 to March 1999, he served as Corporate Controller. He previously was employed for eight years by Neutrogena Corporation, a manufacturer and marketer of skin and hair care products, for which he served as Corporate Controller from September 1988.

Mr. Ibarra joined the Company in 1981. Since 1989, he has served as Vice President, Manufacturing of the Company. Prior to such time, he served as the production manager for the Company with respect to all phases of its business and as the plant manager at the facility located in Rancho Dominguez, California.

Mr. Rolfe joined the Company in July 1998. From 1997 to June 1998, he was a consultant and President of Slotline Golf Company. From 1995 to 1997, he was the President and Chief Operating Officer of Cleveland Golf Company. Mr. Rolfe worked 20 years at Salomon North America in a variety of management positions, including Director of Operations and Finance from 1991 to 1995.

Mr. Roman joined the Company in 1986. In July 1999, he was promoted to Vice President - Human Resources. Prior to this time, he served the Company in various management capacities in the human resource area. Mr. Roman has over 30 years of human resources experience.

Mr. Smith joined the Company in 1981. In February 2000, he was promoted to Executive Vice President - Operations. From July 1999 to January 2000, he was the Vice President - Operations. Prior to this time, he served the



Company in various management capacities in both the manufacturing and administrative areas. Mr. Smith is the son of Hans H. Buehler.

Ms. Wainwright joined the Company in 1988. In February 2000, she was promoted to Senior Vice President - Sales. From November 1996 to January 2000, she served as Vice President, Sales. Prior to that time, she served the Company in various capacities, including plant manager at the facility located in Wallingford, Connecticut.

Mr. Wellman joined the Company in 2000. In February 2000, he became the Senior Vice President - Foundries. From 1993 to 1999, he was the President and owner of Commercial Titanium Casting, Inc. From 1989 to 1993, he was the Group Vice President of Sturm Ruger Inc. Mr. Wellman has over 27 years of foundry experience.

Each officer serves at the pleasure of the Board of Directors of the Company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

PRINCIPAL MARKET AND PRICES

The common stock of the Company is listed on the New York Stock Exchange under the symbol PAR. The following table sets forth the high and low sales prices per share for the common stock of the Company as reported by the New York Stock Exchange.

| FISCAL YEAR | HIGH | LOW |
|---|---|---|
| 2000 | | |
| First Quarter | $ 17 1/8 | $ 13 1/4 |

| | | | |
|---|---|---|---|
| | Second Quarter | 20 7/16 | 14 7/8 |
| | Third Quarter | 18 3/16 | 13 |
| | Fourth Quarter | 18 7/16 | 14 1/4 |
| 1999 | | | |
| | First Quarter | 9 7/8 | 6 15/16 |
| | Second Quarter | 12 3/4 | 8 7/8 |
| | Third Quarter | 12 7/8 | 10 1/2 |
| | Fourth Quarter | 16 13/16 | 10 11/16 |

The approximate number of record holders of common stock of the Company as of March 21, 2001 was 145.

DIVIDENDS

On October 27, 2000, the Board of Directors of the Company declared an extraordinary dividend of $5.00 per share payable on January 9, 2001 to shareholders of record on December 19, 2000. On January 9, 2001, the Company paid $38.2 million to shareholders of record on December 19, 2000. In addition, the Board of Directors approved the adoption of a dividend policy pursuant to which the Company intends to pay quarterly dividends. The amount of dividends will depend upon the Company's financial position, results of operations and the needs of the business. It is expected that the first quarterly dividend will be paid in May 2001 and that the initial quarterly dividend rate will be $0.26 per share.



STOCK REPURCHASE

In December 1999, the Board of Directors authorized the repurchase of an additional one million shares of Coastcast common stock from time to time in the open market or negotiated transactions. For the year ended December 31, 2000, the Company purchased 375,658 shares at a cost of $5.5 million dollars, completing the share repurchase under the original authorization, with 788,842 shares remaining to be purchased under the December 1999 authorization.

BUSINESS RISKS

CUSTOMER CONCENTRATION. The Company's sales have been and very likely will continue to be concentrated among a small number of customers. Sales to two customers accounted for 76% of sales during the year ended December 31, 2000 and sales to three customers accounted for 84% of sales during the years ended December 31, 1999 and 1998. Sales to the Company's top customer, Callaway Golf Company (including Odyssey Golf) accounted for 50% of sales for the year ended December 31, 2000.

The Company has no long-term contracts with, and is not the exclusive supplier to, any of its customers, which the Company believes is typical industry practice. Although the Company is now a principal supplier of steel and titanium clubheads to Callaway, there are other actual or potential sources of supply to Callaway and the level of future orders is not known at this time. In the event Callaway increases purchases from other suppliers, the Company could be adversely affected. Although the Company believes that its relationships with its customers are good and its prices are competitive, the loss of a significant customer or a substantial decrease in the sales of golf clubs by a significant customer could have a material adverse effect on the Company's business.

COMPETITION. The Company operates in a highly competitive market. All of the Company's products are manufactured according to customers' designs and specifications. Accordingly, the Company competes against other independent domestic and foreign manufacturers which have the capability to manufacture investment-cast clubheads. The Company also experiences indirect competition from golf club companies that manufacture their own clubheads or make golf clubs with clubheads that are not investment-cast or are made of materials the Company is not currently capable of producing. Potential competition also exists from those golf club companies that currently purchase clubheads from the Company but may, in the future, manufacture clubheads internally. The Company believes that it competes principally on the basis of its ability to produce consistently high-quality golf clubheads in quantities sufficient to meet rapidly growing demand for popular golf clubs. Some of the Company's current and potential competitors may have greater resources than the Company.

NEW PRODUCTS. The Company's historical success has been attributable, in part, to its ability to supply clubheads for companies whose new products rapidly attained a significant portion of the market for high-quality, premium-priced golf clubs. In the future, the Company's success will depend upon its continued ability to manufacture golf clubheads for such companies. There are no assurances, however, of the Company's ability to do so. If a golf club having a head not manufactured by the Company gains significant market share from customers of the Company, the Company's business would be adversely affected.

NEW MATERIALS AND PROCESSES. The Company's future success is also dependent on continuing popularity of investment-cast clubheads. A significant loss of market share to golf clubs with heads made by other processes would have a material adverse impact on the Company's business. Similarly, the Company's future success is also dependent on continuing popularity of clubheads made of titanium or stainless steel alloys or other metal alloys which the Company is capable of casting.

MANUFACTURING COST VARIATIONS. Consistent manufacture of high-quality products requires constant care in the manufacture and maintenance of tooling, monitoring of raw materials, and inspection for compliance with product specifications throughout the manufacturing process. Investment-casting is labor intensive, and numerous steps are



required to produce a finished product. Variations in manufacturing costs and yields occur from time to time, especially with new products during the "learning curve" phase of production and products which are more difficult to manufacture such as titanium or oversized metal wood and iron golf clubheads. The length and extent of these variations are difficult to predict.

DEPENDENCE ON MANUFACTURING PLANTS IN MEXICO. A substantial portion of the golf clubheads manufactured by the Company, including clubheads cast by the Tijuana plant, and some clubheads produced by other clubhead manufacturers, are polished and finished by the Company in its Mexicali facilities. The polishing and finishing processes used by the Company are highly labor intensive. The Company manufactures in Tijuana and Mexicali, Mexico pursuant to the "maquiladora" duty-free program established by the Mexican and U.S. governments. Such program enables the Company to take advantage of generally lower costs in Mexico, without paying duty on inventory shipped into or out of Mexico or paying certain Mexican taxes. The Company pays certain expenses of the Mexico facilities in Mexican currency and thus is subject to fluctuations in currency value. The Company does not have any exchange rate hedging arrangements to protect against fluctuations in currency value. The Company is also subject to other customary risks of doing business outside the United States. There can be no assurance that the Mexican government will continue the "maquiladora" program or that the Company will continue to be able to take advantage of the benefits of the program. The loss of these benefits could have an adverse effect on the Company's business. The Company believes that the North American Free Trade Agreement has not had any adverse effect on its Mexican operations.

HAZARDOUS WASTE. In the ordinary course of its manufacturing process, the Company uses hazardous substances and generates hazardous waste. The Company has no material liabilities as of December 31, 2000 under environmental laws and regulations, and believes that its operations are in substantial compliance with applicable laws and regulations. Nevertheless, no assurance can be given that the Company will not encounter environmental problems or incur environmental liabilities in the future which could adversely affect its business. See also Item 1. Business - Discontinued Operations.

DEPENDENCE ON DISCRETIONARY CONSUMER SPENDING. Sales of golf equipment are dependent on discretionary spending by consumers, which may be adversely affected by general economic conditions. A decrease in consumer spending on premium-priced golf clubs could have an adverse effect on the Company's business.

SEASONALITY; FLUCTUATIONS IN OPERATING RESULTS. The Company's customers have historically built inventory in anticipation of purchases by golfers in the spring and summer, the principal selling season for golf equipment. The Company's operating results have been impacted by seasonal demand for golf clubs, which generally results in higher sales during the six month period that include the second and third quarters. The timing of large new product orders from customers and fluctuations in demand due to a sudden increase or decrease in popularity of specific golf clubs have contributed to quarterly or other periodic fluctuations. No assurance can be given, however, that these factors will mitigate the impact of seasonality in the future.

RELIANCE ON KEY PERSONNEL. The success of the Company is dependent upon its senior management, and their ability to attract and retain qualified personnel. The Company does not have any non-competition agreements with any of its employees. There is no assurance that the Company will be able to retain its existing senior management personnel or be able to attract additional qualified personnel. In February 2001, the Company's Chairman and Chief Executive Officer had successful heart valve replacement surgery. Following a period of convalescence at home, the Chairman and Chief Executive Officer is expected to return full time to his responsibilities with the Company.

SHARES ELIGIBLE FOR FUTURE SALE. Sales of substantial amounts of common stock of the Company in the public market or the perception that such sales could occur may adversely affect prevailing market prices of such common stock.



FLUCTUATIONS IN CALLAWAY GOLF COMPANY SHARES. The Company's common stock value has from time to time fluctuated somewhat in relation to the share value of the Callaway Golf Company. The prevailing market price of the Company's common stock could be adversely impacted by a substantial fluctuation in the market price of Callaway common stock.

ADVERSE EFFECT OF INCREASED ENERGY COSTS. The Company has two facilities located in Southern California which are experiencing increased energy costs in electricity and natural gas. Depending on the severity of these increased costs, the length of time the increased costs persist and the ability of the Company to pass along these increased cost to its customers, the profits of the Company may be adversely impacted.

SHAREHOLDER RIGHTS PLAN COULD DISCOURAGE ACQUISITION PROPOSALS. The Company's shareholder rights plan could make it more difficult for a third party to acquire the Company, even if doing so would be beneficial to the Company's shareholders. The shareholders rights plan is intended to encourage potential acquirers to negotiate with the Company and allow the Company's board of directors the opportunity to consider alternative proposals in the interest of maximizing shareholder value. However, such provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm the price for the Company's common stock.

13

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere herein.

| | YEARS ENDED DECEMBER | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| | (IN THOUSANDS, EXCEPT SHAR | | |
| Consolidated Statement of Income Data: | | | |
| Sales | $ 141,371 | $ 120,383 | $ 144,560 |
| Gross profit | 18,621 | 21,773 | 22,365 |
| Income from operations | 11,969 | 14,355 | 11,971 |
| Income from Continuing Operations Data: | | | |
| Income before income taxes | 14,652 | 16,101 | 13,504 |
| Income taxes | 5,903 | 6,582 | 5,672 |
| Income from continuing operations | 8,749 | 9,519 | 7,832 |
| Income from Continuing Operations Per Share-- Basic | $ 1.15 | $ 1.21 | $ 0.91 |
| Income from Continuing Operations Per Share-- Diluted | $ 1.12 | $ 1.20 | $ 0.89 |
| Dividend Per Share | $5.00 | $0.00 | $0.00 |
| Weighted Average Shares Outstanding--Basic | 7,613 | 7,892 | 8,638 |
| Weighted Average Shares Outstanding--Diluted | 7,795 | 7,924 | 8,837 |

| | AS OF DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 19 |
| | (IN THOUSANDS) | | | |

| | | | | |
|---|---|---|---|---|
| Consolidated Balance Sheet Data: | | | | |
| Working Capital | $ 27,640 | $ 57,755 | $ 46,717 | $ 56 |
| Total Assets | 99,350 | 92,316 | 83,673 | 90 |
| Deferred compensation | 828 | 541 | 295 | 1 |
| Shareholders' equity | 52,739 | 83,290 | 77,142 | 78 |

14

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated operating results expressed in thousands of dollars and as a percentage of sales.

| | YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | | 1999 | | |
| | AMOUNT | PERCENT | AMOUNT | PERCENT | A |
| Sales | $ 141,371 | 100.0 | $ 120,383 | 100.0 | $ 1 |
| Cost of sales | 122,750 | 86.8 | 98,610 | 81.9 | 1 |
| Gross profit | 18,621 | 13.2 | 21,773 | 18.1 | |
| Selling, general and administrative | 6,652 | 4.7 | 7,418 | 6.2 | |
| Income from continuing operations | 11,969 | 8.5 | 14,355 | 11.9 | |
| Other income, net | 2,683 | 1.9 | 1,746 | 1.5 | |
| Income from continuing operations before income taxes | 14,652 | 10.4 | 16,101 | 13.4 | |

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Sales increased $21.0 million, or 17%, to $141.4 million for 2000 from $120.4 million for 1999. The increase in sales was mainly due to an 18% increase in sales volume of clubheads. Titanium clubhead sales represented 45% and 42% of total sales for 2000 and 1999, respectively. Sales to Callaway Golf Company, represented 50% of total sales for 2000 compared to 47% in 1999. There is no assurance that sales to Callaway will represent similar percentages of total sales in the future.

Gross profit decreased $3.2 million, or 15%, to $18.6 million for 2000 from $21.8 million for 1999. The gross profit margin decreased to 13% in 2000 from 18% in 1999. The decrease in gross margin was mainly due to a significant decrease in sales of steel clubheads during the last half of 2000 and increased costs. In addition, gross margins were impacted by new product start up problems and high scrap rates during the fourth quarter of 2000.

Selling, general and administrative expense decreased by $.7 million, or 9%, to $6.7 million for 2000 from $7.4 million for 1999. The decrease in selling, general and administrative expense was partially due to a decrease in bad debt expense.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Sales decreased $24.2 million, or 17%, to $120.4 million for 1999 from $144.6 million for 1998. The decline in sales was due to an over 34% decrease in sales volume of clubheads during the first half of 1999 partially offset by an increase in clubhead sales in the second half of 1999. Titanium clubhead sales represented approximately 42% and 41% of total sales for 1999 and 1998, respectively. Sales to Callaway Golf Company, including sales to Odyssey Golf after its acquisition by Callaway Golf Company in August 1997, represented 47% of total sales for 1999 compared to 49% in 1998.

Gross profit decreased $.6 million, or 3%, to $21.8 million for 1999 from $22.4 million for 1998. The gross profit margin increased to 18% in 1999 from 16% in 1998. The improvement in gross margin was due principally to



higher costs incurred in the last half of 1998 associated with inventory write-downs, new products and the start up of the Tijuana plant.

Selling, general and administrative expense decreased by $3.0 million, or 29%, to $7.4 million for 1999 from $10.4 million for 1998. The decrease in selling, general and administrative expense was due primarily to decreased payroll and related expenses, legal expenses and life insurance expense partially offset by an increase in deferred compensation expense principally because the prior year included the forfeiture and curtailment of these benefits which resulted in a large reduction in deferred compensation expense for the year ended December 31, 1998.

DISCONTINUED OPERATIONS

In 1993, the Company announced its decision to discontinue its aerospace business. This business was substantially phased out in 1994. In connection with the offering for sale of the Wallingford, Connecticut property, the Company had an environmental assessment performed, which identified the presence of certain chemicals associated with chlorinated solvents in groundwater beneath a portion of the property. The Company conducted investigations to determine the source and extent of the contamination. In addition, the Company determined that certain of the contaminates were present prior to its ownership and entered into a remediation cost sharing agreement with the previous owner of the property. In August 1998, the Company sold the Wallingford, Connecticut property, under an agreement which stipulates that the Company and the previous owner bear the liability to remediate the property. The Company incurred a loss on the sale of the property. The loss on sale of the property plus the Company's share of the estimated remediation costs were not adequately covered by the original reserve. As a result, the Company reported a $.2 million loss from discontinued operations, net of income tax benefit, as shown on the Consolidated Statements of Income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents position at December 31, 2000 was $52.2 million compared to $42.7 million on December 31, 1999, an increase of $9.5 million. Net cash provided by operating activities was $14.3 million for the year ended December 31, 2000. Net income of $8.7 million, depreciation and amortization of $4.4 million, and a decrease in accounts receivables and inventories of $1.9 million and $1.5 million, respectively, were partially offset by an increase in prepaid expenses and other current assets of $1.5 million. Cash used in investing activities of $3.8 million consists primarily of $3.7 million of capital expenditures. Net cash used in financing activities of $1.1 million consists of repurchase of common stock of $5.5 million offset by proceeds from stock option exercises net of related tax benefit of $4.4 million.

The Company maintains an unsecured revolving line of credit which allows the Company to borrow up to $5 million and which had no outstanding balance at December 31, 2000. This line of credit, which expires on May 31, 2001, bears interest at the bank's prime rate or LIBOR plus 2%.

On October 27, 2000, the Board of Directors of the Company declared an extraordinary dividend of $5.00 per share payable on January 9, 2001 to shareholders of record on December 19, 2000. On January 9, 2001, the Company paid $38.2 million to shareholders of record on December 19, 2000. In addition, the Board of Directors approved the adoption of a dividend policy pursuant to which the Company intends to pay quarterly dividends. The amount of dividends will depend upon the Company's financial position, results of operations and the needs of the business. It is expected that the first quarterly dividend will be paid in May 2001 and that the initial quarterly dividend rate will be $0.26 per share.

In December 1999, the Board of Directors authorized the repurchase of an additional one million shares of Coastcast common stock from time to time in the open market or negotiated transactions. For the year ended December 31, 2000, the Company purchased 375,658 shares at a cost of $5.5 million dollars, completing the share repurchase

16

under the original authorization, with 788,842 shares remaining to be purchased under the December 1999 authorization.

The Company believes that its current cash position, the working capital generated by future operations and the ability to borrow should be adequate to meet its financing requirements for current operations and the foreseeable future.

QUARTERLY INFORMATION AND SEASONALITY

Set forth below is certain unaudited quarterly financial information. The Company believes that all other necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly, and in accordance with accounting principles generally accepted in the United States of America, the selected quarterly information when read in conjunction with the consolidated financial statements included elsewhere herein.

| | YEAR ENDED DECEMBER 31, 2000 | | | | |
|---|---|---|---|---|---|
| | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER | 1ST QUARTER |
| | (IN THOUSANDS, EXCEPT PER SHARE | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Sales | $37,230 | $ 46,705 | $ 32,539 | $ 24,897 | $ 27,091 |
| Gross profit (loss) | 6,481 | 8,838 | 3,390 | (88) | 5,849 |
| Income (loss) before taxes | 5,075 | 7,052 | 2,751 | (226) | 3,976 |
| Provision for income taxes | 2,123 | 2,920 | 1,155 | (295) | 1,670 |
| Net income | 2,952 | 4,132 | 1,596 | 69 | 2,306 |
| Net income per share - basic | .38 | .54 | .21 | .01 | .29 |
| Net income per share-diluted | .38 | .52 | .21 | .01 | .29 |

The Company's customers have historically built inventory in anticipation of purchases by golfers in the spring and summer, the principal selling season for golf equipment. The Company's operating results have been impacted by seasonal demand for golf clubs, which generally results in higher sales during the six month period that include the second and third quarters. The timing of large new product orders from customers and fluctuations in demand due to a sudden increase or decrease in popularity of specific golf clubs have contributed to quarterly or other periodic fluctuations. No assurances can be given, however, that these factors will mitigate the impact of seasonality.

BACKLOG

As of December 31, 2000, the Company had a backlog of approximately $23.1 million as compared to a backlog of approximately $34.5 million as of December 31, 1999. The Company believes that its current backlog is scheduled to be shipped in the ensuing four months. Although many of the Company's customers release purchase orders months prior to the requested delivery date, these orders are generally cancelable without penalty provided that no production has commenced. If production has commenced, an order is cancelable upon payment of the cost of production. Historically, the Company's backlog generally has been the highest in the second and third quarters due principally to seasonal factors. Backlog is not necessarily indicative of future operating results.

FORWARD LOOKING INFORMATION

This report and other reports of the Company contain or may contain certain forward-looking statements and information that are based on beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by the Company's management. When used, the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan" and similar expressions as they relate to the Company or the Company's management, are used to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions relating to the Company's



operations and results of operations, competitive factors and pricing pressures, shifts in market demand, the performance and needs of the industries served by the Company, the costs of product development and other risks and uncertainties, including, in addition to any uncertainties specifically identified in the text surrounding such statements, uncertainties with respect to changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including the Company's stockholders, customers, suppliers, business partners, competitors, and legislative, regulatory, judicial and other governmental authorities and officials. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may vary significantly from those anticipated, believed, estimated, expected, intended or planned.

ITEM 7A. QUANTITATIVE AND QUALITATIVE MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information, other than quarterly information, required by this item is incorporated herein by reference to the consolidated financial statements and supplementary data listed in Item 14 of Part IV of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this Item with respect to directors is incorporated herein by reference to the information contained under the caption "Nomination and Election of Directors" in the Proxy Statement relating to the Annual Meeting of Shareholders to be held on June 20, 2001, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 31, 2000. Information with respect to executive officers is included in Part I of this Report. The information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the information contained under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement relating to the Annual Meeting of Shareholders to be held on June 20, 2001, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 31, 2000.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated herein by reference to the information contained under the caption "Executive Compensation and Other Information" in the Proxy Statement relating to the Annual Meeting of Shareholders to be held on June 20, 2001, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 31, 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is incorporated herein by reference to the information contained under the captions "Voting Securities and Principal Shareholders" and "Stock Ownership of Management" in the Proxy Statement relating to the Annual Meeting of Shareholders to be held on June 20, 2001, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 31, 2000.



ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item is incorporated herein by reference to the information contained under the caption "Certain Transactions" in the Proxy Statement relating to the Annual Meeting of Shareholders to be held on June 20, 2001, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 31, 2000.

## PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K.

(a)(1) LIST OF FINANCIAL STATEMENTS

The consolidated financial statements listed in the accompanying Index to Financial Statements and Schedules are filed as part of this Report.

(a)(2) LIST OF FINANCIAL STATEMENT SCHEDULE

The financial statement schedule listed in the accompanying Index to Financial Statements and Schedule are filed as part of this Report.

(a)(3) LIST OF EXHIBITS

The exhibits listed in the accompanying Index to Exhibits are filed as part of this Report.

(b) REPORTS ON FORM 8-K

On October 27, 2000, the Company filed a report on Form 8-K reporting (a) the adoption of a shareholder rights plan by the Company, (b) the declaration of an extraordinary cash dividend with respect to the shares of common stock of the Company and (c) the adoption of a dividend policy by the Company.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 21, 2001 COASTCAST CORPORATION

By: /s/ HANS H. BUEHLER
-------------------------------
Hans H. Buehler,
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 21, 2001.

| SIGNATURE | TITLE |
| --- | --- |

| | |
|---|---|
| /s/ HANS H. BUEHLER<br>------------------------------<br>Hans H. Buehler | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) |
| /s/ NORMAN FUJITAKI<br>------------------------------<br>Norman Fujitaki | Chief Financial Officer and Secretary (Principal Financial and Accounting Officer) |
| /s/ ROBERT L. GATES<br>------------------------------<br>Robert L. Gates | Director |
| /s/ ROBERT H. GOON<br>------------------------------<br>Robert H. Goon | Director |
| /s/ EDWIN A. LEVY<br>------------------------------<br>Edwin A. Levy | Director |
| /s/ LEE E. MIKLES<br>------------------------------<br>Lee E. Mikles | Director |
| /s/ PAUL A. NOVELLY<br>------------------------------<br>Paul A. Novelly | Director |



INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Notes to Consolidated Financial Statements

SCHEDULES
---------

Independent Auditors' Report

Schedule II--Valuation and Qualifying Accounts for the years ended December 31, 1998, 1999 and 2000

21

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Coastcast Corporation:

We have audited the accompanying consolidated balance sheets of Coastcast Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Coastcast Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/  DELOITTE & TOUCHE LLP

Los Angeles, California
February 6, 2001

22

COASTCAST CORPORATION

CONSOLIDATED BALANCE SHEETS

| | 2000 |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $52,168,0 |
| Trade accounts receivable, net of allowance for doubtful accounts of $200,000 and $500,000 at December 31, 2000 and 1999, respectively (Note 13) | 7,298,0 |
| Inventories (Note 3) | 9,538,0 |
| Prepaid income taxes | 2,093,0 |
| Prepaid expenses and other current assets | 1,437,0 |
| Deferred income taxes (Note 8) | 889,0 |
| Total current assets | 73,423,0 |
| Property, plant and equipment, net (Note 4) | 23,434,0 |
| Deferred income taxes (Note 8) | 960,0 |
| Investments | 953,0 |
| Other assets, net | 580,0 |
| | $ 99,350,0 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | |
| Current liabilities: | |
| Accounts payable | $ 3,769,0 |
| Dividend payable | 38,209,0 |
| Accrued liabilities (Note 6) | 3,805,0 |
| Total current liabilities | 45,783,0 |
| Deferred compensation (Note 7) | 828,0 |
| Total liabilities | 46,611,0 |
| Commitments and contingencies (Notes 2 and 10) | |
| Shareholders' equity (Notes 9 and 11): | |
| Series A Preferred stock, no par value, 200,000 shares authorized; none issued and outstanding | |
| Preferred stock, no par value, 1,800,000 shares authorized; none issued and outstanding | |
| Common stock, no par value, 20,000,000 shares authorized; 7,641,769 and 7,701,571 shares issued and outstanding as of December 31, 2000 and 1999, respectively | 25,847,0 |
| Retained earnings | 26,892,0 |
| Accumulated other comprehensive income (loss) | |
| Total shareholders' equity | 52,739,0 |
| | $99,350,0 |

See accompanying notes to consolidated financial statements.

23

COASTCAST CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

| | YEARS ENDED DECEMBER | |
|---|---|---|
| | 2000 | 1999 |
| Sales (Note 13) | $ 141,371,000 | $ 120,383,000 |
| Cost of sales | 122,750,000 | 98,610,000 |
| Gross profit | 18,621,000 | 21,773,000 |
| Selling, general and administrative | 6,652,000 | 7,418,000 |
| Income from operations | 11,969,000 | 14,355,000 |
| Other income, net | 2,683,000 | 1,746,000 |
| Income before income taxes | 14,652,000 | 16,101,000 |
| Provision for income taxes (Note 8) | 5,903,000 | 6,582,000 |
| Income from continuing operations | 8,749,000 | 9,519,000 |
| Loss from discontinued operations (net of income tax benefit of $113,000 -Note 2) | - | - |
| Net income | $ 8,749,000 | $ 9,519,000 |
| NET INCOME PER SHARE (Note 12) | | |
| Income from continuing operations per share - basic | $ 1.15 | $ 1.21 |
| Discontinued operations per share - basic | - | - |
| Net income per share - basic | $ 1.15 | $ 1.21 |
| Weighted average shares outstanding | 7,613,357 | 7,892,360 |
| Income from continuing operations per share - diluted | $ 1.12 | $ 1.20 |
| Discontinued operations per share - diluted | - | - |
| Net income per share - diluted | $ 1.12 | $ 1.20 |
| Diluted weighted average shares outstanding | 7,794,854 | 7,923,957 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

| | COMMON STOCK | |
|---|---|---|
| | NUMBER OF SHARES | AMOUNT |
| BALANCE AT JANUARY 1, 1998 | 8,849,005 | $39,233,000 |
| Stock options exercised, including related income tax benefit (Note 11) | 205,199 | 3,184,000 |
| Director compensatory stock options | | 269,000 |
| Repurchase of common stock | (1,064,800) | (12,377,000) |
| Net income | | |
| BALANCE AT DECEMBER 31, 1998 | 7,989,404 | 30,309,000 |
| Stock options exercised, including related income tax benefit (Note 11) | 4,667 | 48,000 |
| Repurchase of common stock | (292,500) | (3,393,000) |
| Unrealized loss on investments, net of income tax benefit of $19,000 | | |
| Net income | | |
| BALANCE AT DECEMBER 31, 1999 | 7,701,571 | 26,964,000 |
| Stock options exercised, including related income tax benefit (Note 11) | 315,856 | 4,426,000 |
| Repurchase of common stock | (375,658) | (5,543,000) |
| Unrealized gain on investments, net of income tax expense of $19,000 | | |
| Cash dividend declared | | |
| Net income | | |
| BALANCE AT DECEMBER 31, 2000 | 7,641,769 | $25,847,000 |

| | RETAINED EARNINGS | OTHER COMPREHENSIVE INCOME | |
|---|---|---|---|
| BALANCE AT JANUARY 1, 1998 | $39,158,000 | - | $78 |
| Stock options exercised, including related income tax benefit (Note 11) | | | 3 |
| Director compensatory stock options | | | |
| Repurchase of common stock | | | (12 |
| Net income | 7,675,000 | | 7 |
| BALANCE AT DECEMBER 31, 1998 | 46,833,000 | - | 77 |
| Stock options exercised, including related income tax benefit (Note 11) | | | |
| Repurchase of common stock | | | (3 |
| Unrealized loss on investments, net of income tax benefit of $19,000 | | (26,000) | |
| Net income | 9,519,000 | | 9 |
| BALANCE AT DECEMBER 31, 1999 | 56,352,000 | (26,000) | 83 |

| | | | |
|---|---|---|---|
| Stock options exercised, including related income tax benefit (Note 11) | | | 4 |
| Repurchase of common stock | | | (5 |
| Unrealized gain on investments, net of income tax expense of $19,000 | | 26,000 | |
| Cash dividend declared | (38,209,000) | | (38 |
| Net income | 8,749,000 | | 8 |
| BALANCE AT DECEMBER 31, 2000 | $26,892,000 | $ - | $52 |

See accompanying notes to consolidated financial statements.

25

COASTCAST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEARS ENDED DECEMBER | |
|---|---|---|
| | 2000 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 8,749,000 | $9,519,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,428,000 | 4,089,000 |
| Goodwill amortization | 28,000 | 18,000 |
| Loss on disposal of machinery and equipment | 21,000 | 91,000 |
| Loss on investments | 50,000 | 20,000 |
| Change in accrual for disposal of aerospace business | - | - |
| Deferred compensation | 287,000 | 246,000 |
| Deferred income taxes | (144,000) | (469,000) |
| Non-employee director compensatory stock options | - | - |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | 1,881,000 | (1,621,000) |
| Inventories | 1,521,000 | (728,000) |
| Prepaid expenses and other current assets | (1,573,000) | 4,331,000 |
| Accounts payable and accrued liabilities | (911,000) | 2,127,000 |
| Net cash provided by operating activities | 14,337,000 | 17,623,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (3,735,000) | (4,247,000) |
| Proceeds from disposal of machinery and equipment | 22,000 | 80,000 |
| Surrender (purchase) of life insurance policies | - | 6,215,000 |
| Purchase of investments | (794,000) | (1,107,000) |
| Sales/maturities of investments | 742,000 | 136,000 |
| Purchase of business, net of cash acquired | - | (233,000) |
| Other assets | (27,000) | 67,000 |
| Net cash (used in) provided by investing activities | (3,792,000) | 911,000 |

| | | |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock upon exercise of options net of related tax benefit | 4,426,000 | 48,000 |
| Repurchase of common stock | (5,543,000) | (3,393,000) |
| Net cash used in financing activities | (1,117,000) | (3,345,000) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 9,428,000 | 15,189,000 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 42,740,000 | 27,551,000 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $52,168,000 | $42,740,000 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during year for income taxes | $ 7,234,000 | $ 3,436,000 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Cash dividend declared | $38,209,000 | $ - |

See accompanying notes to consolidated financial statements.



COASTCAST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION--The accompanying consolidated financial statements include the accounts of Coastcast Corporation (the "Company") and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in consolidation.

ORGANIZATION AND OPERATIONS--Coastcast Corporation is incorporated under the laws of the State of California. The Company principal business is the production of investment-cast golf clubheads, and precision investment castings and related engineering for the medical industry. The Company sells its products to customers of varying strength and financial resources, principally located in the United States. The Company has three wholly-owned subsidiaries, two are incorporated under the laws of the Mexican maquiladora program and their principal activities are the production of golf clubheads, and the other is incorporated in the State of California and manufactures aluminum compressor wheels.

USE OF ESTIMATES--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DISCONTINUED OPERATIONS--The Company has historically manufactured investment-cast aerospace and other industrial products in addition to golf clubheads and orthopedic implant products. In October 1993, the Company announced its decision to discontinue its aerospace business, and as of June 1994, had essentially phased out this business (See Note 2).

REVENUE RECOGNITION--Revenue is recognized when goods are shipped to the customer.

CASH EQUIVALENTS--Cash equivalents consist of short-term investments with original maturities of three months or less.

CONCENTRATION OF CREDIT RISK--The Company's financial instruments that are exposed to credit risk consist primarily of accounts receivable. The Company grants credit to substantially all of its customers, performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for potential credit losses. See also Note 13.

INVENTORIES--Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

PROPERTY, PLANT AND EQUIPMENT--Property, plant and equipment are stated at cost. Depreciation and amortization are provided using primarily the straight-line method over the estimated useful lives of the related assets as follows:

| | |
|---|---|
| Building and improvements | 5-31 years |
| Machinery and equipment | 5-7 years |
| Transportation | 5-7 years |
| Furniture, fixtures and computers | 3-7 years |



IMPAIRMENT OF LONG-LIVED ASSETS--The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of an asset, an impairment loss is recognized.

INVESTMENTS-- Investments are included in an irrevocable rabbi trust and are considered available for sale and carried at fair value. Fair value for fixed-maturity investments and equity securities is based on quoted market prices. Unrealized appreciation or depreciation on fixed-maturity investments and equity securities is included in accumulated other comprehensive income (loss). Gains and losses on sales of investments are computed on the specific identification method and are reflected in other income, net.

INCOME TAXES--Deferred income taxes are recognized based on differences between the financial statement and tax basis of assets and liabilities using presently enacted tax rates (see Note 8).

EARNINGS PER SHARE--Basic net income per share is based on the weighted average number of shares of common stock outstanding. Diluted net income per share is based on the weighted average number of shares of common stock outstanding and dilutive potential common shares from stock options (using the treasury stock method).

FAIR VALUE OF FINANCIAL INSTRUMENTS--The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturities of these instruments.

RECLASSIFICATIONS --Certain prior year balances have been reclassified to reflect the current year presentation.

ACCOUNTING PRONOUNCEMENT - Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company will adopt SFAS 133 effective January 1, 2001. Management does not expect the adoption of SFAS 133 to have a significant impact on the financial position, results of operations, or cash flows of the Company.

2. DISCONTINUED OPERATIONS

The plan adopted in 1993 to phase out the aerospace business was substantially completed in 1994. In connection with the offering for sale of the Wallingford, Connecticut property, the Company had an environmental assessment performed, which identified the presence of certain chemicals associated with chlorinated solvents in groundwater beneath a portion of the property. The Company conducted investigations to determine the source and extent of the contamination. In addition, the Company determined that certain of the contaminates were present prior to its ownership and entered into a remediation cost sharing agreement with the previous owner of the property. In August 1998, the Company sold the Wallingford, Connecticut property, under an agreement which stipulates that the Company and the previous owner bear the liability to remediate the property. The Company incurred a loss on the sale of the property. The loss on sale of the property plus the Company's share of the estimated remediation costs were not adequately covered by the original reserve. As a result, the Company reported a $157,000 loss from discontinued operations, net of income tax benefit, as shown on the Consolidated Statements of Income.



3. INVENTORIES

Inventories consist of the following:

| | DEC |
|---|---|
| | 2000 |
| Raw materials and supplies | $ 3,854,000 |
| Tooling | 268,000 |
| Work-in-process | 5,038,000 |
| Finished goods | 378,000 |
| | $ 9,538,000 |

Included above are costs incurred for the production of tooling which is subsequently sold to customers upon acceptance of the first production unit.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | DE |
|---|---|
| | 2000 |
| Land | $ 2,186,00 |
| Buildings and improvements | 11,252,00 |
| Machinery and equipment | 31,560,00 |
| Transportation | 2,526,00 |
| Furniture, fixtures and computers | 3,972,00 |
| | 51,496,00 |
| Less accumulated depreciation and amortization | 28,062,00 |
| | $ 23,434,00 |

Depreciation and amortization expense for 2000, 1999 and 1998 was $4,428,000, $4,089,000 and $3,375,000, respectively.

5. SHORT-TERM BORROWINGS

The Company maintains an unsecured revolving line of credit which allows the Company to borrow up to $5,000,000 and which had no outstanding balance at December 31, 2000 and 1999. This line of credit, which expires on May 31, 2001, bears interest at the bank's prime rate or LIBOR plus 2%.



6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | D |
|---|---|
| | 2000 |
| Accrued payroll and related expenses | $ 1,460,0 |
| Accrued vacation | 1,077,0 |
| Accrued insurance | 717,0 |
| Other accrued expenses | 551,0 |
| | $ 3,805,0 |

7. RETIREMENT PLANS

The Company has a defined benefit plan which covers substantially all of its hourly union employees. The plan provides for a monthly benefit payable for the participant's lifetime commencing the first day of the month following the attainment of age sixty-five in an amount equal to $9.50 to $10.85 multiplied by the participant's credited service.

30

The following table sets forth the plan's change in benefit obligation, change in plan assets and components of net pension cost:

| | DECEMBER 31, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| CHANGE IN BENEFIT OBLIGATION: | | |
| Benefit obligation at beginning of year | $ 2,154,000 | $ 2,280,000 |
| Service cost | 55,000 | 48,000 |
| Interest cost | 146,000 | 140,000 |
| Actuarial loss (gain) from change in assumptions | 28,000 | (207,000) |
| Actuarial loss | - | 39,000 |
| Increase in plan benefits | 40,000 | - |
| Benefits paid | (136,000) | (146,000) |
| Benefit obligation at end of year | 2,287,000 | 2,154,000 |
| CHANGE IN PLAN ASSETS: | | |
| Fair value of plan assets at beginning of year | 2,207,000 | 2,239,000 |
| Actual return on plan assets | 85,000 | 114,000 |
| Benefits paid | (136,000) | (146,000) |
| Fair value of plan assets at end of year | 2,156,000 | 2,207,000 |
| Funded status | (131,000) | 53,000 |
| Unrecognized actuarial loss (gain) | 63,000 | (29,000) |
| Unrecognized prior service cost | 117,000 | 84,000 |
| Unrecognized transition obligation | (70,000) | (96,000) |
| (Accrued) prepaid benefit cost | $ (21,000) | $ 12,000 |
| COMPONENTS OF NET PENSION COST: | | |
| Service cost | $ 55,000 | $ 48,000 |
| Interest cost | 146,000 | 140,000 |
| Return on plan assets | (85,000) | (114,000) |
| Amortization and deferral | (83,000) | (56,000) |
| Net pension cost | $ 33,000 | $ 18,000 |

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 7% in both 2000 and 1999. The expected long-term rate of return on assets was 7% for both 2000 and 1999.

Effective January 1, 1996, the Company adopted a retirement savings plan (the "401(k) Plan") pursuant to which all U.S. employees who satisfy the age and service requirements under the plan and who are not covered by collective bargaining agreements may defer compensation for income tax purposes under section 401(k) of the Internal Revenue Code of 1986. Participants may contribute up to 15% of their compensation up to the maximum permitted under federal law. The Company is obligated to contribute annually an amount equal to 25% of each participant's contribution up to 6% of that participant's annual compensation. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $112,000, $93,000 and $108,000 during 2000, 1999 and 1998, respectively.

On September 1, 1996, the Company adopted a supplemental executive retirement plan (the "SERP") for certain key employees. Benefits generally accrued at a rate of 7% of final average salary per year of participation in the

31

plan, up to 10 years. In general, participants in the plan only become fully vested with respect to their accrued benefits upon completion of 5 years of plan participation. The benefits under this plan were frozen effective December 31, 1997, except for the Chairman and Chief Executive Officer who voluntarily relinquished all of his rights under this plan. An amended and restated supplemental executive retirement plan was approved effective January 1, 1998. The amended plan revises the benefit formula for participants and provides additional flexibility with respect to funding. Under the amended plan, benefits generally accrues ratably over 25 years of service at 2% per year (up to a maximum of 25 years of service) with the actual benefit being dependent on years of service with Company subject to the social security offset.

The following table sets forth the plan's change in benefit obligation, change in plan assets and components of net pension cost:

| | DECEMBER 31, | |
|---|---|---|
| | 2000 | 1999 |
| CHANGE IN BENEFIT OBLIGATION: | | |
| Benefit obligation at beginning of year | $1,351,000 | $1,459,000 |
| Service cost | 134,000 | 94,000 |
| Interest cost | 94,000 | 83,000 |
| Actuarial gain from change in assumptions | - | (162,000) |
| Amendment | - | 7,000 |
| Actuarial gain | (336,000) | (130,000) |
| Benefit obligation at end of year | 1,243,000 | 1,351,000 |
| CHANGE IN PLAN ASSETS: | - | - |
| Funded status | (1,243,000) | (1,351,000) |
| Unrecognized actuarial loss | (187,000) | 191,000 |
| Unrecognized prior service cost | 184,000 | 162,000 |
| Unrecognized transition obligation | 418,000 | 457,000 |

| | | |
|---|---|---|
| Accrued benefit cost | $(828,000) | $(541,000) |
| | | |
| COMPONENTS OF NET PENSION COST: | | |
| Service cost | $134,000 | $94,000 |
| Interest cost | 94,000 | 83,000 |
| Amortization and deferral | 59,000 | 69,000 |
| Curtailment/forfeitures | - | - |
| 1996 amortized expense | - | - |
| Net pension cost (income) | $287,000 | $246,000 |

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.0% for both 2000 and 1999. To fund this plan, the Company prior to December 31, 1998 purchased whole-life insurance contracts on certain participants. All the whole-life insurance contracts were surrendered for cash during 1999. A portion of the cash received from the surrender of the contracts is invested in marketable securities in an irrevocable rabbi trust and is presented as an asset of the Company in the accompanying consolidated balance sheets.

The Company does not provide any other post-retirement benefits to its employees.

32

8. INCOME TAXES

The provision for income taxes is as follows:

| | YEARS ENDED DECEMBER 31 | |
|---|---|---|
| | 2000 | 1999 |
| Current: | | |
| Federal | $ 4,159,000 | $ 5,553,000 |
| State | 949,000 | 1,173,000 |
| Foreign | 958,000 | 306,000 |
| | 6,066,000 | 7,032,000 |
| Deferred: | | |
| Federal | (74,000) | (377,000) |
| State | (29,000) | (73,000) |
| Foreign | (60,000) | - |
| | (163,000) | (450,000) |
| | $ 5,903,000 | $ 6,582,000 |

The actual provision on income before income taxes differs from the statutory federal income tax rate due to the following:

| | YEARS ENDED DECEMBER | |
|---|---|---|
| | 2000 | 1999 |
| Federal income taxes at the statutory rate | $ 5,128,000 | $ 5,635,000 |
| State income taxes, net of federal benefit | 650,000 | 735,000 |
| California investment tax credit | (95,000) | (18,000) |
| Other items | 220,000 | 230,000 |
| | $ 5,903,000 | $ 6,582,000 |

The tax effects of items comprising the Company's net deferred income tax asset are as follows:

| | DECEMBER 31, | |
|---|---|---|
| | 2000 | 1999 |
| Allowance for doubtful accounts | $ 84,000 | $ 210,000 |
| Deferred compensation | 346,000 | 227,000 |
| Accrued expenses | 505,000 | 562,000 |
| Inventory reserve | 437,000 | 575,000 |
| State income taxes | 199,000 | 309,000 |
| Depreciation | 445,000 | 23,000 |
| Other items | (167,000) | (201,000) |
| | $ 1,849,000 | $ 1,705,000 |



9. SHAREHOLDERS' RIGHTS PLAN

On October 27, 2000, the Board of Directors approved the adoption of a Shareholders' Rights Plan (the Plan). In connection with the Plan, preferred stock purchase rights were distributed as a dividend at the rate of one right for each share of common stock. In general, the rights will not be exercisable or transferable apart from the common stock, unless a person or group (i) acquires beneficial ownership of 15% or more of the outstanding common stock, or (ii) commences a tender offer or commences or files a registration statement with respect to an exchange offer, to acquire beneficial ownership of 15% or more of the outstanding stock. When exercisable, each right will entitle the holder to buy at a $75 exercise price (the "Exercise Price") 1/100th of a share of Series A Preferred Stock of the Company. Following an event described in (i) or (ii) above, each right will entitle the holder to purchase from the Company, at the Exercise Price, common stock (or under certain circumstances, other securities or assets of the Company) having a value of twice the Exercise Price. Further, if after the rights become exercisable the Company or a majority of its assets or earning power are acquired by merger or otherwise, each right will thereafter represent the right to purchase that number of shares of the surviving corporation or (in certain circumstances) its parent having a market value of twice the Exercise Price. In general, no acquiring person, nor the person or group whose purchase transaction or tender or exchange offer triggers the exercisability of the rights, nor any of that person or group's transferees may exercise rights held by them.

At any time prior to the 10th day following an event described in (i) or (ii) above, the Board of Directors may redeem all outstanding rights at a price of $.01 per right, and may amend the Plan and the rights in any and all respects. The rights will expire at the earlier date of their redemption or October 27, 2010.

10. COMMITMENTS

OPERATING LEASES--The Company leases certain facilities under various operating leases with terms ranging from five to ten years. The leases contain renewal options for additional five or ten year periods which have not been included in the rental commitment schedule below. In general, these leases provide for payment of property taxes, maintenance and insurance by the Company and include rental increases based on the Consumer Price Index.

The future minimum lease payments required under these leases as of December 31, 2000 are as follows:

| YEAR ENDING DECEMBER 31, | |
|---|---|
| 2001 | $ 1,806,000 |
| 2002 | 1,800,000 |
| 2003 | 1,675,000 |
| 2004 | 839,000 |
| 2005 | 839,000 |
| Thereafter | 1,738,000 |
| | $ 8,697,000 |

Rent expense for 2000, 1999 and 1998 was approximately $1,816,000, $1,710,000 and $1,669,000, respectively.

11. STOCK OPTION PLANS

Under the Company's 1996 Amended and Restated Employee Stock Option Plan ("1996 Employee Stock Option Plan"), a maximum of 1,950,000 shares of common stock may be issued pursuant to exercise of options granted to officers and key employees under the plan. Options may be granted under the plan at prices which are equal to or greater than the fair market value of the shares at the date of grant. The options become exercisable over a period of time as determined by the Board of Directors or a committee of directors and generally expire ten years from the date of grant or earlier following termination of employment. As of December 31, 2000, an aggregate of 858,549 shares had been purchased pursuant to the exercise of options granted under the plan, options to purchase an aggregate of 570,583 shares were outstanding (including options which were then exercisable to purchase 384,273 shares), and 520,868 shares were available for additional grants of options under the plan.

Under the Company's 1995 Amended and Restated Non-Employee Director Stock Option Plan ("1995 Director Stock Option Plan"), a maximum of 200,000 shares of common stock may be issued pursuant to exercise of options granted under the plan to certain non-employee directors. Options are granted under the plan at prices equal to the fair market value of the shares at the date of grant. The options generally become exercisable over a three-year period of time and expire at the earlier of one year after the optionee ceases to be a director or ten years from the date of grant. As of December 31, 2000, an aggregate of 86,666 shares had been purchased pursuant to the exercise of options granted under the plan and options to purchase an aggregate of 113,334 shares were outstanding (including options which were then exercisable to purchase 76,665 shares).

The following summarizes the Company's stock option activity under all arrangements for the three years ended December 31, 2000:

| | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| Balance, January 1, 1998 | 1,213,513 | $13.57 |
| Granted | 530,230 | 14.68 |
| Forfeited | (454,727) | 15.36 |
| Exercised | (205,199) | 11.57 |
| Balance, December 31, 1998 | 1,083,817 | $13.75 |
| Granted | 111,950 | 11.33 |
| Forfeited | (179,944) | 12.92 |
| Exercised | (4,667) | 10.25 |
| Balance, December 31, 1999 | 1,011,156 | $13.86 |
| Granted | 54,500 | 15.41 |
| Forfeited | (35,883) | 14.52 |
| Exercised | (315,856) | 12.13 |
| Balance, December 31, 2000 | 713,917 | $14.70 |

35

The following table summarizes information about stock options outstanding at December 31, 2000:

| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING AT 12/31/00 | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISAB AT 12/31/ |
|---|---|---|---|---|
| $7.31 - 10.00 | 62,041 | 7.5 | $ 8.04 | 3 |
| 10.38 - 13.63 | 181,460 | 6.8 | 13.05 | 11 |
| 14.13 | 324,452 | 5.5 | 14.13 | 26 |
| 14.50 - 22.25 | 105,964 | 7.7 | 18.27 | 3 |
| 27.00 - 30.00 | 40,000 | 4.9 | 27.75 | 4 |
| $7.31 - 30.00 | 713,917 | 6.3 | $ 14.70 | 49 |

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for options granted under its 1996 Employee Stock Option Plan or its 1995 Director Stock Option Plan, except for stock options granted to directors on December 13, 1995, which were subject to approval and subsequently approved by shareholders on June 12, 1996. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

| | | YEARS ENDED DEC | |
|---|---|---|---|
| | | 2000 | 1999 |
| Net income: | As reported | $ 8,749,000 | $ 9,5 |
| | Pro forma | 8,368,000 | 9,1 |
| Net income per share - basic: | As reported | $ 1 .15 | $ |
| | Pro forma | $ 1 .10 | $ |
| Net income per share - diluted: | As reported | $ 1.12 | $ |
| | Pro forma | $ 1.06 | $ |

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in 2000, 1999 and 1998, respectively: dividend yield of 6.8%, 0% and 0%, expected volatility of 64.0%, 67.0% and 71.8%, risk-free interest rate of 6.3%, 5.7% and 4.3%, and expected term of 4.0, 4.0 and 4.0 years. The weighted average fair value per share of options granted in 2000, 1999 and 1998 was $5.54, $5.86 and $8.33, respectively.

36

12. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| | 2000 | 19 |
|---|---|---|
| Numerator: | | |
| Net income | $8,749,000 | $9 |
| Numerator for basic and diluted earnings per share-- income available to common stockholders | 8,749,000 | 9 |
| Denominator: | | |
| Denominator for basic earnings per share-- weighted-average shares | 7,613,357 | 7 |
| Effect of dilutive securities: | | |
| Stock options | 181,497 | |
| Denominator for diluted earnings per share-- adjusted weighted-average shares and assumed conversions | 7,794,854 | 7 |
| Basic earnings per share | $1.15 | |
| Diluted earnings per share | $1.12 | |

The anti-dilutive options as of December 31, 2000, 1999 and 1998 were 95,930, 758,639 and 1,023,817, respectively.

13. BUSINESS SEGMENTS

The Company is engaged principally in the business of manufacturing precision investment-cast titanium and stainless steel golf clubheads, representing 91%, 91% and 93% of sales for the years ended December 31, 2000, 1999 and 1998, respectively. The Company has determined that it has one reportable business segment.

The Company derived 50% and 26% of sales from its two top customers in 2000, 47% and 25% and 12% of sales from its three top customers in 1999,and 49%, 22% and 14% of sales from its three top customers in 1998.

14. SUBSEQUENT EVENT

On October 27, 2000, the Board of Directors of the Company declared an extraordinary dividend of $5.00 per share payable on January 9, 2001. The ex-dividend date set by the New York Stock Exchange was January 10, 2001. In January 2001 and prior to the ex-dividend date of January 10, 2001, 34,273 stock options were exercised. The options exercised prior to the ex-dividend date were entitled to the $5.00 per share dividend equal to $171,365. The $171,365 was not reflected in the consolidated balance sheet as of December 31, 2000.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Coastcast Corporation:

We have audited the consolidated financial statements of Coastcast Corporation and subsidiaries as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, and have issued our report thereon dated February 6, 2001; such report is included elsewhere in this Annual Report on Form 10-K. Our audits also included the financial statement schedule of Coastcast Corporation, listed in Item 14(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
February 6, 2001

38

COASTCAST CORPORATION

SCHEDULE EVALUATION AND QUALIFYING ACCOUNTS

| CLASSIFICATION | BALANCE AT BEGINNING OF PERIOD | (CHARGED)/ CREDITED TO COST AND EXPENSES | CHARGED T OTHER ACCOUNTS |
|---|---|---|---|
| Allowance for doubtful accounts: | | | |
| Year ended December 31, 1998 | (500,000) | (100,000) | |
| Year ended December 31, 1999 | (600,000) | 100,000 | |
| Year ended December 31, 2000 | (500,000) | 300,000 | |

39

EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION | SEQUENTIALLY NUMBERED PAGE |
|---|---|---|
| 3.1.1 | Articles of Incorporation of the Company, as amended(1) | |
| 3.1.2 | Certificate of Amendment of Articles of Incorporation filed with the California Secretary of State on December 6, 1993(1) | |

| | |
|---|---|
| 3.2 | Bylaws of the Company(1) |
| 3.3 | Certificate of Determination Series A Preferred Stock(13) |
| 3.4 | Rights Agreement, dated October 27, 2000 between the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent(14) |
| 4 | Specimen Stock Certificate of the Company(1) |
| 10.1* | 1993 Amended and Restated Employee Stock Option Plan ("Employee Plan")(1) |
| 10.2* | 1996 Amended and Restated Employee Stock Option Plan ("Employee Plan")(4) |
| 10.3* | Non-Employee Director Stock Option Plan ("Director Plan"), together with form of notice of grant and grant summary(1) |
| 10.4* | 1995 Amended and Restated Non-Employee Director Stock Option Plan ("Director Plan"), together with form of notice of grant and grant summary(1) |
| 10.5 | Agreement, dated June 12, 2000, between the Company and United Steelworkers of America(12) |
| 10.6 | Lease Agreement, dated December 16, 1998, between Coastcast Corporation, S.A. and Parque Industrial Mexicali, S.A. de C.V. for the facilities known as Mercurio #70 in Mexicali, Mexico(7) |
| 10.7 | Lease Agreement, dated December 16, 1998, between Coastcast Corporation, S.A. and Parque Industrial Mexicali, S.A. de C.V. for the facilities known as Avenue Galaxia #50 in Mexicali, Mexico(7) |
| 10.8 | Lease Agreement, dated December 16, 1998, between Coastcast Corporation, S.A. and Parque Industrial Mexicali, S.A. de C.V. for the facilities known as Mercurio #30 in Mexicali, Mexico(7) |
| 10.9 | Lease Agreement, dated December 10, 1999, between Coastcast Corporation, S.A. and Parque Industrial Mexicali, S.A. de C.V. for the facilities known as Calle Marte #162 in Mexicali, Mexico(10) |
| 10.10 | Guaranty, dated January 26, 1999, by the Company for the lease of the Mexicali, Mexico facilities known as Mercurio #70(7) |



| | |
|---|---|
| 10.11 | Guaranty, dated January 26, 1999, by the Company for the lease of the Mexicali, Mexico facilities known as Avenue Galaxia #50(7) |
| 10.12 | Guaranty, dated January 26, 1999, by the Company for the lease of the Mexicali, Mexico facilities known as Mercurio #30(7) |

| | |
|---|---|
| 10.13 | Guaranty, dated December 10, 1999, by the Company for the lease, dated December 10, 1999(10) |
| 10.14 | Lease Agreement, dated September 1, 1997, between the Company and Watson Land Company for the facilities in Rancho Dominguez, California(5) |
| 10.15 | Lease Agreement, dated January 5, 1998, between Coastcast Tijuana, S. De R.L. De C.V. and Frederick Clarke Sanders, Jr., Frederick Sanders Flourie, Monique Sanders Flourie, Scott Michael Sanders Flourie and Carlo E. Muzquiz Davila for real estate in Tijuana, Baja California, Mexico(7) |
| 10.16 | Lease Guaranty Agreement, dated August 18, 1998, by the Company for the lease of the Tijuana facility(7) |
| 10.17 | Form of Indemnification Agreement(1) |
| 10.18 | Revolving Line of Credit Note, effective June 1, 2000, between the Company and Imperial Bank(11) |
| 10.19* | Amended and Restated Coastcast Corporation Selected Employees Pension Plan, dated October 1, 1987(1) |
| 10.20* | Amendment to the Coastcast Corporation Selected Employees Pension Plan, effective May 12, 1997(6) |
| 10.21* | Coastcast Corporation 401(k) Retirement Plan, effective January 1, 1996(2) |
| 10.22 | Coastcast Corporation S Corporation Termination, Tax Allocation and Indemnification Agreement dated December 1, 1993, between the Company and certain Shareholders(1) |
| 10.23* | Coastcast Corporation Supplemental Executive Retirement Plan, effective September 1, 1996(3) |
| 10.24* | First Amendment to Coastcast Corporation Supplemental Executive Retirement Plan, effective September 1, 1996(3) |
| 10.25* | Second Amendment to Coastcast Corporation Supplemental Executive Retirement Plan, dated February 18, 1997(4) |
| 10.26* | Coastcast Corporation Amended and Restated Supplemental Executive Retirement Plan, effective January 1, 1998(7) |
| 10.27* | Coastcast Corporation Amended and Restated Supplemental Executive Retirement Plan, effective January 1, 1999(10) |



| | |
|---|---|
| 10.28* | Amended and Restated Trust Agreement by and between Coastcast Corporation and Imperial Trust Company, dated December 18, 1998(7) |
| 10.29* | Second Amendment to the Coastcast Corporation Grantor Trust(9) |

| | | |
|---|---|---|
| 10.30 | Stock Purchase Agreement, dated April 22, 1999 between the Company and the selling shareholders of California Precision Aluminum Casting, Inc.(8) | |
| 21 | Subsidiaries of the Company | 43 |
| 23 | Consent of Independent Auditors | 44 |

----------

* Management contract or compensating plan or arrangement.

(1) Incorporated by reference to the exhibits to the Registration Statement on Form S-1 (Registration No. 33-71294) filed on November 4, 1993, as amended by Amendment No. 1 filed on November 17, 1993, Amendment No. 2 filed on December 1, 1993, and Amendment No. 3 filed on December 9, 1993.

(2) Incorporated by reference to the exhibits to Form 10-K for the fiscal year ended December 31, 1995.

(3) Incorporated by reference to the exhibits to Form 10-Q for the fiscal quarter ended September 30, 1996.

(4) Incorporated by reference to the exhibits to Form 10-K for the fiscal year ended December 31, 1996.

(5) Incorporated by reference to the exhibits to Form 10-Q for the fiscal quarter ended September 30, 1997.

(6) Incorporated by reference to the exhibits to Form 10-K for the fiscal year ended December 31, 1997.

(7) Incorporated by reference to the exhibits to Form 10-K for the fiscal year ended December 31, 1998.

(8) Incorporated by reference to the exhibits to Form 10-Q for the fiscal quarter ended June 30, 1999.

(9) Incorporated by reference to the exhibits to Form 10-Q for the fiscal quarter ended September 30, 1999.

(10) Incorporated by reference to the exhibits to Form 10-K for the year ended December 31, 1999.

(11) Incorporated by reference to the exhibits to Form 10-Q for the fiscal quarter ended June 30, 2000.

(12) Incorporated by reference to the exhibits to Form 10-Q for the fiscal quarter ended September 30, 2000.

(13) Incorporated by reference to the exhibits to Form 8-A filed on November 1, 2000.

(14) Incorporated by reference to the exhibits to Form 8-K filed on November 1, 2000.