

CALLAWAY GOLF CO  
Form 10-Q  
August 04, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period                      to

Commission file number 001-10962

**Callaway Golf Company**

(Exact name of registrant as specified in its charter)

Edgar Filing: CALLAWAY GOLF CO - Form 10-Q

**Delaware**  
(State or other jurisdiction of

**95-3797580**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**2180 Rutherford Road, Carlsbad, CA 92008**

**(760) 931-1771**

(Address, including zip code, and telephone number, including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the Registrant's Common Stock, \$.01 par value, as of July 31, 2009 was 64,477,314.

**Table of Contents**

**Important Notice to Investors:** Statements made in this report that relate to future plans, events, liquidity, financial results or performance including statements relating to future cash flows and liquidity, as well as estimated unrecognized stock compensation expense, projected capital expenditures, future contractual obligations, future global economic conditions, future growth or market share gains, the ability to manage costs or invest in future initiatives, as well as future changes in foreign currency rates are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated if the information on which those estimates was based ultimately proves to be incorrect or as a result of certain risks and uncertainties, including changes in economic conditions, credit markets, or foreign currency exchange rates, consumer acceptance and demand for the Company's products, future consumer discretionary purchasing activity (which can be significantly adversely affected by unfavorable economic or market conditions), delays, difficulties, changed strategies, or unanticipated factors including those affecting the implementation of the Company's gross margin initiatives, as well as the general risks and uncertainties applicable to the Company and its business. For details concerning these and other risks and uncertainties, see Part I, Item IA, "Risk Factors" of our most recent Form 10-K as well as the Company's other reports subsequently filed with the Securities and Exchange Commission from time to time. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Investors should also be aware that while the Company from time to time does communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Furthermore, the Company has a policy against distributing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report.

**Callaway Golf Company Trademarks:** The following marks and phrases, among others, are trademarks of Callaway Golf Company: A Better Game By Design A Passion For Excellence Anypoint Apex Ben Hogan BH Big Bertha Big Bertha Diablo Black Series Black Series i-Callaway Callaway Collection Callaway Golf Chev Chevron Device Crimson Series Demonstrably Superior and Pleasingly Different Dimple-in-Dimple Divine Line Drysport- Dual Force ERC Explosive Distance. Amazing Soft Feel Flying Lady Ft-i FTi-brid FTiQ FT-5 FT-9 Freak-Fusion Game Series Gems Great Big Bertha Heavenwood Hogan HX HX Hot Plus HX Hot Bite HX Tour Hyper X-IMIX Legacy Little Ben Marksman Never Lay Up Number One Putter in Golf Odyssey OptiFit-ORG.14 Rossie S2H2 Sabertooth SRT SenSert Speed Slot Squareway Steelhead Strata Stronomic Sure-Out Teron TF de Series Top-Flite Top-Flite D2 Top-Flite XL Tour Authentic Tour Deep Tour i Tour iX Trade In! Trade Up! Tru Bore Tunite uPro VFT War Bird Warbird WarmSport White Hot White Hot Tour White Hot XG White Steel Windsport World's Friendliest X-20 X-20 Tour X-22 X-22 Tour XL5000 XJ Series XL Extreme X-Forged X Hot X Prototype X-Series X-SPANN Xtra Traction Technology X-Tour XTT Xtra Width Technology XWT-2Ball.

**Table of Contents**

**CALLAWAY GOLF COMPANY**

**INDEX**

**PART I. FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements (Unaudited)</u>	4
	<u>Consolidated Condensed Balance Sheets as of June 30, 2009 and December 31, 2008</u>	4
	<u>Consolidated Condensed Statements of Operations for the three and six months ended June 30, 2009 and 2008</u>	5
	<u>Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u>	6
	<u>Consolidated Condensed Statement of Shareholders' Equity for the six months ended June 30, 2009</u>	7
	<u>Notes to Consolidated Condensed Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	42
Item 4.	<u>Controls and Procedures</u>	44

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	45
Item 1A.	<u>Risk Factors</u>	47
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 3.	<u>Defaults Upon Senior Securities</u>	57
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	58
Item 5.	<u>Other Information</u>	58
Item 6.	<u>Exhibits</u>	58

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

(In thousands, except share and per share data)

	June 30, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 50,471	\$ 38,337
Accounts receivable, net	263,239	120,067
Inventories	227,878	257,191
Deferred taxes, net	31,792	27,046
Income taxes receivable		15,549
Other current assets	25,581	31,813
<b>Total current assets</b>	<b>598,961</b>	<b>490,003</b>
Property, plant and equipment, net	144,541	142,145
Intangible assets, net	144,880	146,945
Goodwill	30,605	29,744
Other assets	49,369	46,501
<b>Total assets</b>	<b>\$ 968,356</b>	<b>\$ 855,338</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 170,036	\$ 126,167
Accrued employee compensation and benefits	22,080	25,630
Accrued warranty expense	12,422	11,614
Income tax payable	6,773	
Credit facilities		90,000
<b>Total current liabilities</b>	<b>211,311</b>	<b>253,411</b>
Long-term liabilities:		
Income taxes payable	14,787	14,993
Deferred compensation and other	7,399	6,566
Commitments and contingencies (Note 12)		
Preferred Stock at redemption value (Note 2)	34,674	
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, 1,400,000 shares and 0 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively (Note 2)	14	
Common Stock, \$.01 par value, 240,000,000 shares authorized, 66,295,961 shares and 66,276,236 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	663	663
Additional paid-in capital	195,892	102,329
Unearned compensation	(51)	(279)
Retained earnings	529,462	518,851
Accumulated other comprehensive income (loss)	1,411	(6,376)

Edgar Filing: CALLAWAY GOLF CO - Form 10-Q

Less: Grantor Stock Trust held at market value, 1,178,050 shares and 1,440,570 shares at June 30, 2009 and December 31, 2008, respectively	(5,973)	(13,383)
Less: Common Stock held in treasury, at cost, 1,816,425 shares and 1,768,695 shares at June 30, 2009 and December 31, 2008, respectively	(24,065)	(23,650)
<b>Total Callaway Golf Company shareholders equity</b>	<b>697,353</b>	<b>578,155</b>
Non-controlling interest (Note 9)	2,832	2,213
<b>Total shareholders equity</b>	<b>700,185</b>	<b>580,368</b>
Total liabilities and shareholders equity	\$ 968,356	\$ 855,338

The accompanying notes are an integral part of these financial statements.

**Table of Contents**

**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share data)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net sales	\$ 302,219	\$ 366,029	\$ 574,083	\$ 732,481
Cost of sales	192,371	194,949	348,054	385,867
Gross profit	109,848	171,080	226,029	346,614
Operating expenses:				
Selling expense	72,394	80,461	147,044	160,622
General and administrative expense	19,358	22,791	39,345	45,279
Research and development expense	7,837	7,538	15,940	15,462
Total operating expenses	99,589	110,790	202,329	221,363
Income from operations	10,259	60,290	23,700	125,251
Other income (expense), net	512	(2,600)	(1,869)	(1,905)
Income before income taxes	10,771	57,690	21,831	123,346
Provision for income taxes	3,859	20,583	8,107	46,573
Net income	6,912	37,107	13,724	76,773
Dividends accrued on convertible Preferred Stock	438		438	
Net income available to common shareholders	\$ 6,474	\$ 37,107	\$ 13,286	\$ 76,773
Earnings per common share:				
Basic	\$ 0.10	\$ 0.59	\$ 0.21	\$ 1.21
Diluted	\$ 0.10	\$ 0.58	\$ 0.21	\$ 1.19
Weighted-average common shares outstanding:				
Basic	63,121	63,180	63,060	63,538
Diluted	66,807	63,941	65,105	64,392
Dividends declared per common share	\$ 0.08	\$ 0.07	\$ 0.08	\$ 0.14

The accompanying notes are an integral part of these financial statements.

**Table of Contents****CALLAWAY GOLF COMPANY****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,724	\$ 76,773
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization	20,116	19,284
Deferred taxes	(5,509)	4,130
Non-cash share-based compensation	3,684	2,960
Gain on disposal of long-lived assets	(375)	(438)
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	(138,234)	(175,546)
Inventories	33,611	17,490
Other assets	12,698	(5,339)
Accounts payable and accrued expenses	34,044	3,441
Accrued employee compensation and benefits	(4,744)	(9,459)
Accrued warranty expense	808	956
Income taxes payable	21,100	18,002
Deferred compensation	9	(300)
<b>Net cash used in operating activities</b>	<b>(9,068)</b>	<b>(48,046)</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(19,448)	(24,213)
Other investing activities	(31)	15
<b>Net cash used in investing activities</b>	<b>(19,479)</b>	<b>(24,198)</b>
<b>Cash flows from financing activities:</b>		
Issuance of Preferred Stock	140,000	
Equity issuance costs	(5,871)	
Issuance of Common Stock	1,498	2,767
Dividends paid, net	(4,430)	(4,526)
Acquisition of treasury stock		(20,076)
Proceeds from (payments on) credit facilities, net	(90,000)	98,441
Other financing activities	54	(34)
<b>Net cash provided by financing activities</b>	<b>41,251</b>	<b>76,572</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(570)</b>	<b>771</b>
<b>Net increase in cash and cash equivalents</b>	<b>12,134</b>	<b>5,099</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>38,337</b>	<b>49,875</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 50,471</b>	<b>\$ 54,974</b>



Edgar Filing: CALLAWAY GOLF CO - Form 10-Q

Supplemental disclosures:

Cash received (paid) for income taxes	\$ 7,206	\$ (23,936)
---------------------------------------	----------	-------------