

CALLAWAY GOLF CO
Form 10-Q
August 06, 2007
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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, 2007

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

2180 Rutherford Road, Carlsbad, CA 92008

95-3797580
(I.R.S. Employer
Identification No.)

(760) 931-1771

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

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

Indicate by check mark whether the registrant is 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

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, 2007 was 70,839,112.

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Important Notice to Investors: Statements made in this report that relate to future plans, events, liquidity, financial results or performance including statements relating to cash flows and liquidity, as well as estimated unrecognized compensation expense, projected capital expenditures, and future contractual obligations, 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 as a result of certain risks and uncertainties, including delays, difficulties, changed strategies, or unanticipated factors affecting the implementation of the Company's gross margin or restructuring initiatives, the re-launch of the Top-Flite brand 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 Passion For Excellence Apex Ben Hogan BH Big Bertha Black Series-Callaway Callaway Collection Callaway Golf Callaway Golf Drysport Chev Chevrons Device Complete Demonstrably Superior and Pleasingly Different Dual Force ERC Explosive Distance.Amazing Soft Feel Flying Lady Ft-i-FT-3 FT-5 Fusion Game Series-Gems Great Big Bertha Heavenwood Hogan HX HX Hot HX Pearl HX Tour Little Ben Marksman Molitor Number One Putter in Golf Odyssey OptiFit-ORG.14 Rossie S2H2 SRT SenSert Speed Slot-Steelhead Strata Stronomic Sure-Out T design Tech Series Top-Flite D2 Top-Flite XL Tour Authentic Tour Deep Trade In! Trade Up! TriBall Tru Bore Tunité VFT War Bird Warbird WarmSport-White Hot White Hot XG White Steel Windsport-World's Friendliest X-20 X460 XL 3000 XJ Series XL Extreme X-Forged X Hot X-Series X-Sole X-SPANN Xtra Technology X-Tour XTT Xtra Width Technology XWT.*

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	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 48,397	\$ 46,362
Accounts receivable, net	281,538	118,133
Inventories, net	225,835	265,110
Deferred taxes, net	37,047	32,813
Income taxes receivable		9,094
Other current assets	21,429	21,688
Total current assets	614,246	493,200
Property, plant and equipment, net	133,052	131,224
Intangible assets, net	142,654	144,326
Goodwill	31,435	30,833
Deferred taxes	25,866	18,821
Other assets	27,866	27,543
	\$ 975,119	\$ 845,947
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 141,358	\$ 111,360
Accrued employee compensation and benefits	31,960	18,731
Accrued warranty expense	14,365	13,364
Credit facilities	55,394	80,000
Income taxes payable	8,033	
Total current liabilities	251,110	223,455
Long-term liabilities:		
Deferred compensation	7,241	7,210
Energy derivative valuation account	19,922	19,922
Income taxes payable	14,042	
Deferred taxes	17,912	16,256
Minority interest in consolidated subsidiary	1,937	1,987
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 2007 and December 31, 2006		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 85,141,950 shares and 85,096,782 shares issued at June 30, 2007 and December 31, 2006, respectively	851	851

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Additional paid-in capital	418,532	402,628
Unearned compensation	(3,013)	(3,566)
Retained earnings	494,501	435,074
Accumulated other comprehensive income	14,633	11,135
Less: Grantor Stock Trust held at market value, 2,218,946 shares and 5,184,601 shares at June 30, 2007 and December 31, 2006, respectively	(39,519)	(74,710)
Less: Common Stock held in treasury, at cost, 13,730,027 shares and 11,957,968 shares at June 30, 2007 and December 31, 2006, respectively	(223,030)	(194,295)
Total shareholders' equity	662,955	577,117
	\$ 975,119	\$ 845,947

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

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CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007		2006		2007		2006	
Net sales	\$ 380,017	100%	\$ 341,815	100%	\$ 714,624	100%	\$ 644,260	100%
Cost of sales	204,892	54%	201,729	59%	378,778	53%	372,662	58%
Gross profit	175,125	46%	140,086	41%	335,846	47%	271,598	42%
Operating expenses:								
Selling expense	80,910	21%	77,045	23%	156,201	22%	145,173	23%
General and administrative expense	24,187	6%	18,101	5%	45,745	6%	38,325	6%
Research and development expense	7,907	2%	6,194	2%	15,923	2%	12,998	2%
Total operating expenses	113,004	30%	101,340	30%	217,869	30%	196,496	30%
Income from operations	62,121	16%	38,746	11%	117,977	17%	75,102	12%
Other expense, net	(1,891)		(1,273)		(3,229)		(971)	
Income before income taxes	60,230	16%	37,473	11%	114,748	16%	74,131	12%
Provision for income taxes	23,591		14,934		45,273		28,731	
Net income	\$ 36,639	10%	\$ 22,539	7%	\$ 69,475	10%	\$ 45,400	7%
Earnings per common share:								
Basic	\$ 0.54		\$ 0.33		\$ 1.03		\$ 0.66	
Diluted	\$ 0.53		\$ 0.33		\$ 1.01		\$ 0.65	
Weighted-average shares outstanding:								
Basic	67,970		67,799		67,623		68,479	
Diluted	69,274		68,577		68,798		69,356	
Dividends declared per share	\$ 0.07		\$ 0.07		\$ 0.14		\$ 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)**

	Six Months Ended	
	2007	June 30, 2006
Cash flows from operating activities:		
Net income	\$ 69,475	\$ 45,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,600	15,225
Non-cash share-based compensation	6,527	6,331
Deferred taxes	5,348	1,165
Loss on disposal of long-lived assets	61	324
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(159,505)	(152,881)
Inventories, net	41,514	15,255
Other assets	313	530
Accounts payable and accrued expenses	21,906	14,269
Accrued employee compensation and benefits	13,007	(4,856)
Accrued warranty expense	1,001	2,202
Income taxes payable	15,521	12,397
Other liabilities	35	(1,299)
Net cash provided by (used in) operating activities	32,803	(45,938)
Cash flows from investing activities:		
Capital expenditures	(18,439)	(20,463)
Acquisitions, net of cash required		(5,911)
Proceeds from sale of capital assets	9	120
Net cash used in investing activities	(18,430)	(26,254)
Cash flows from financing activities:		
Issuance of Common Stock	42,108	6,519
Dividends paid, net	(4,757)	(4,901)
Acquisition of Treasury Stock	(28,735)	(42,894)
Periods Ending June 30, 2005		

5 Year	Ranked 17 out of 181	Top 10%
10 Year	Ranked 3 out of 135	Top 3%

Officers and Key Employees of Karpus Management, Inc d/b/a Karpus Investment Management Inc.

SUMMARY BIOGRAPHIES - KARPUS INVESTMENT MANAGEMENT

Karpus Professional	Overall/Firm	Higher Education	Other Experience	
George W. Karpus * CEO & Chief Investment Officer		MS BS	Rensselaer Polytechnic Institute St. Lawrence University - Physics	Qualified Consulting, Inc., Bache & Co., Marine Midland, Shearson Hayden-Stone
Jo Ann Van Degrieff * Executive Vice President	36/19	BS	Elmira College - Economics	Marine Midland Bank - Trust Dept. Investment Services
Dana R. Consler * Senior Vice President	29/11	MBA BS	Boston University Rollins College - Economics	Marine Midland Bank - Trust Dept. Investment Services
Kathleen F. Crane * Chief Financial Officer	19/19	BS	St. Bonaventure University - Management Science	
Sharon L. Thornton * Senior Fixed Income Analyst/Portfolio Mgr.	31/15	BS	University of Rochester - Economics	Marine Midland, Cowen & Co., Sage Ruddy
Thomas M. Duffy, Client Support/Office Support Manager *	14/13	BA	SUNY Geneseo - Communications	Fleet Bank - Client Services - Mutual Fund Areas
Cody B. Bartlett, Jr., CFA Investment Strategist & Senior Fixed Income Analyst	7/7	CFA MS BA	Chartered Financial Analyst Rochester Inst. of Technology - Finance SUNY Fredonia - Psychology	

Shares of Salomon Brothers Municipal Partners Fund Inc. and Salomon Brothers Municipal Partners Fund II Inc. beneficially owned by Officers/ Employees/ and Directly Related Accounts of Such.

Shares Owned by KIM Employees

	MNP	MPT
JOANN VAN DEGRIF	-	1150
GEORGE W. KARPUS	9500	17900
KARPUS MANAGEMENT, INC.	300	100
URBANA PARTNERS	5300	12900

*Urbana Partners is a hedge fund managed by Karpus Investment Management, of which George Karpus Owns 5.51%

Other than as set forth in this Proxy Statement, there are no contracts, arrangements, or understandings entered into by any of the participants in the solicitation or, to the participants' knowledge, any of their respective associates within the past year with any person with respect to any of the Funds' securities, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division or losses or profits, of the giving or withholding of proxies.

Except as set forth in the Proxy Statement, none of the participants in the solicitation or, to the participants' knowledge, any of their respective associates has entered into any agreement or understanding with any person with respect to: (i) any future employment by the Funds or its affiliates; or (ii) any future transactions to which the Funds or any of its affiliates will or may be a party.

CERTAIN INFORMATION ABOUT THE FUND

Both of the Funds are Maryland Corporations with their principal executive offices located at: 125 Broad Street, 10th Floor, New York, New York 10004.

The Funds are subject to the informational requirements of the Exchange Act and the Investment Company Act of 1940, as amended, and in accordance therewith files reports, proxy statements, and other information with the SEC. Reports, registration statements, proxy statements, and other information filed by the Fund with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at the Public Reference Room, 450 Fifth Street, N.W. Room 1024, Washington, D.C. 20549. Documents filed electronically by the Funds are also available at the SEC's Web site: <http://www.sec.gov>.

OTHER MATTERS TO BE CONSIDERED AT THE MEETING

Except as set forth in the Proxy Statement, we are not aware of any matters affecting the Funds to be brought before the Meeting. Should other matters properly be brought before the Meeting that KIM is unaware of a reasonable time before this solicitation, the attached GREEN proxy card, when duly executed, will give the proxies named therein discretionary authority to vote on all such matters and on all matters incident to the conduct of the Meeting. Such discretionary authority will include the ability to vote shares on any proposal to adjourn the Meeting. Execution and delivery of a proxy by a record holder of shares of Common Stock or Preferred Stock (if applicable) will be presumed to be a proxy with respect to all shares held by such record holder unless the proxy specifies otherwise.

STOCKHOLDER PROPOSALS FOR THE FUNDS' ANNUAL MEETINGS

A shareholder proposal intended to be presented at the Funds' next annual meeting of shareholders must be (or must have been) received at the offices of that Fund, 125 Broad Street, 10th Floor, New York, New York 10004, not later than November 29, 2005 in the case of MNP, or May 6, 2005 in the case of MPT, to be included in the proxy statement and the form of proxy relating to the meeting. The submission by a shareholder of a proposal for inclusion in the proxy statement does not guarantee that it will be included in a proxy statement. Shareholder proposals are subject to certain regulations under the federal securities laws.

The persons named as proxies for a Fund's next annual meeting of the shareholders will have discretionary authority to vote on any matter presented by a shareholder for action at that meeting unless that Fund receives (or received) notice of the matter between January 28, 2006 and February 26, 2006 in the case of MNP, or between July 9, 2005 and August 9, 2005 in the case of MPT, in which case these persons will not have discretionary voting authority except as provided in the SEC's rules governing shareholders proposals.

ADDITIONAL INFORMATION

The information concerning the Funds contained in this Proxy Statement has been taken from, or is based upon, publicly available information. Although we do not have any information that would indicate that any information contained in this Proxy Statement concerning the Funds is inaccurate or incomplete, we do not take any responsibility for the accuracy or completeness of such information. We have omitted from this Proxy Statement certain disclosure required by applicable law that is already included in the Funds' Proxy Statement. This disclosure includes, among other things, information concerning the transaction between Citigroup and Legg Mason, a description of the existing Management Agreement, requirements for shareholder approval of agenda items at the Meeting and security ownership of management and persons who beneficially own more than 5% of the shares.

The address of Salomon Brothers Asset Management Inc. is: 125 Broad Street, 10th Floor, New York, New York 10004.

Questions, or requests for additional copies of the Proxy Statement, should be directed to:

Karpus Investment Management
Sharon L. Thornton Director of Investment Personnel and Senior Analyst
183 Sully's Trail
Pittsford, New York 14534
(585) 586-4680 (ext. 233)
e-mail: sharon@karpus.com

[NAME OF FUND]

PROXY FOR A SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD OCTOBER 21, 2005

THIS PROXY IS SOLICITED ON BEHALF OF KARPUS MANAGEMENT, INC. D/B/A KARPUS INVESTMENT MANAGEMENT.

THE RESPECTIVE BOARDS OF DIRECTORS OF THE FUNDS ARE NOT SOLICITING THIS PROXY.

The undersigned, revoking prior proxies, hereby appoints Sharon L. Thornton, and Cody B. Bartlett Jr. and each of them, Proxies with several powers of substitution, to vote all of the shares of stock of [NAME OF FUND] owned by the undersigned and entitled to vote at the Special Meeting of Shareholders of [NAME OF FUND] to be held at American Conference Centers, 780 Third Avenue , New York, New York 10017 at 9:00 a.m. (E.S.T.) on Friday, October 21, 2005, or at any postponement or adjournment thereof, upon the following matters as described in the Notice of Meeting and accompanying Joint Proxy Statement, which have been received by the undersigned.

When properly executed, this proxy will be voted in the manner directed herein by the undersigned shareholder. If no direction is given on these proposals, this proxy card will be voted "AGAINST" Item 1, and will be voted in accordance with the proxy's best judgment as to any other matters.

CONTROL NUMBER: [insert control #]

Please sign this proxy exactly as your name or names appears hereon. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If a corporation, this signature should be that of an authorized officer who should state his or her title.

Signature

Signature of joint owner, if any

Date _____

