

CALLAWAY GOLF CO  
Form 10-Q  
October 29, 2010  
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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 September 30, 2010

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)

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**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 September 30, 2010, was 64,398,841.

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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 future cash flows and liquidity and future cost alignment actions, as well as estimated unrecognized stock compensation expense, computation of the annual estimated effective tax rate at each interim period, projected capital expenditures, future contractual obligations, the Company's business outlook for 2010, and estimated charges related to the Company's restructuring of its global operations 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, the level of promotional activity in the marketplace, 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 cost alignment initiatives or initiatives targeted at improving gross margins, 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. Except as required by law, 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 Anypoint Apex Backstryke Ben Hogan BH Big Bertha Big Bertha Diablo Black Series Callaway Callaway Collection Callaway Golf Callaway uPro GO C Grind Chev Chev 18-Chev Xtreme Chevron Device D.A.R.T. Demonstrably Superior and Pleasingly Different Diablo Edge Diablo Forged Diablo Octane Dimple-in-Dimple Divine Line ERC Forged Composite FTiZ FT Performance FT Tour- FT-9 Fusion Gems Hogan HX HX Bite HX Hot Plus HX Diablo IMIX Legacy Legacy Aero Marxman MiniT Never Lay Up Number One Golf Odyssey OptiFit ORG.14 RAZR Hawk RAZR X Rossie S2H2 Sabertooth Solaire Squareway Steelhead Strata Teron TF design Tech Series Top-Flite Top-Flite D2 Top-Flite XL Tour Authentic Tour i(S) Tour i(Z) Trade In! Trade Up! Tru Bore uPro VFT Warbird WarmSport V Hot White Hot XG White Ice Windsport X-22 X-22 Tour X-24 Hot XL7000 XJ Series X-Act X-Forged X-Series X-Series Jaws-X-SPANN Xtra Technology XTT Xtra Width Technology XWT-2-Ball.*

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	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 110,932	\$ 78,314
Accounts receivable, net	152,441	139,776
Inventories	229,861	219,178
Deferred taxes, net	32,043	21,276
Income taxes receivable	2,106	19,730
Other current assets	31,081	34,713
<b>Total current assets</b>	<b>558,464</b>	<b>512,987</b>
Property, plant and equipment, net	132,827	143,436
Intangible assets, net	139,922	142,904
Goodwill	30,694	31,113
Deferred taxes, net	10,649	10,463
Other assets	35,314	35,027
<b>Total assets</b>	<b>\$ 907,870</b>	<b>\$ 875,930</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 128,905	\$ 118,294
Accrued employee compensation and benefits	24,534	22,219
Accrued warranty expense	8,931	9,449
Income taxes payable	3,170	1,492
<b>Total current liabilities</b>	<b>165,540</b>	<b>151,454</b>
Long-term liabilities:		
Income taxes payable	7,871	11,597
Deferred taxes, net	1,145	1,243
Deferred compensation and other	6,514	1,754
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, \$.01 par value, 3,000,000 shares authorized, 1,400,000 shares issued and outstanding at September 30, 2010 and December 31, 2009 (Note 3)	14	14
Common stock, \$.01 par value, 240,000,000 shares authorized, 66,308,018 shares and 66,295,961 shares issued at September 30, 2010 and December 31, 2009, respectively	663	663

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Additional paid-in capital	261,501	257,486
Retained earnings	477,932	474,379
Accumulated other comprehensive income	11,001	6,240
Less: Grantor stock trust held at market value, 295,997 shares and 983,275 shares at September 30, 2010 and December 31, 2009, respectively	(2,072)	(7,414)
Less: Common stock held in treasury, at cost, 1,909,177 shares and 1,823,367 shares at September 30, 2010 and December 31, 2009, respectively	(24,824)	(24,110)
Total Callaway Golf Company shareholders' equity	724,215	707,258
Non-controlling interest in consolidated entity (Note 8)	2,585	2,624
Total shareholders' equity	726,800	709,882
Total liabilities and shareholders' equity	\$ 907,870	\$ 875,930

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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 175,644	\$ 190,864	\$ 782,128	\$ 764,947
Cost of sales	126,593	131,287	472,156	479,341
Gross profit	49,051	59,577	309,972	285,606
Operating expenses:				
Selling expense	56,307	56,972	201,665	204,016
General and administrative expense	21,447	20,452	65,570	59,797
Research and development expense	9,265	7,727	27,231	23,667
Total operating expenses	87,019	85,151	294,466	287,480
Income (loss) from operations	(37,968)	(25,574)	15,506	(1,874)
Other income (expense), net	(2,449)	837	(5,582)	(1,032)
Income (loss) before income taxes	(40,417)	(24,737)	9,924	(2,906)
Income tax benefit	(22,100)	(11,308)	(3,527)	(3,201)
Net income (loss)	(18,317)	(13,429)	13,451	295
Dividends on convertible preferred stock	2,625	2,625	7,875	3,063
Net income (loss) allocable to common shareholders	\$ (20,942)	\$ (16,054)	\$ 5,576	\$ (2,768)
Earnings (loss) per common share:				
Basic	\$ (0.33)	\$ (0.25)	\$ 0.09	\$ (0.04)
Diluted	\$ (0.33)	\$ (0.25)	\$ 0.09	\$ (0.04)
Weighted-average common shares outstanding:				
Basic	63,989	63,240	63,831	63,120
Diluted	63,989	63,240	64,319	63,120
Dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.09

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

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**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 13,451	\$ 295
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,242	30,244
Deferred taxes	(10,713)	(12,147)
Non-cash share-based compensation	7,547	6,653
Loss (gain) on disposal of long-lived assets	149	(574)
Changes in assets and liabilities:		
Accounts receivable, net	(11,462)	(26,201)
Inventories	(3,193)	67,633
Other assets	1,592	13,664
Accounts payable and accrued expenses	4,849	(31,665)
Accrued employee compensation and benefits	725	(6,062)
Accrued warranty expense	(518)	(1,577)
Income taxes receivable	18,911	16,383
Deferred compensation and other	4,303	730
<b>Net cash provided by operating activities</b>	<b>55,883</b>	<b>57,376</b>
Cash flows from investing activities:		
Capital expenditures	(15,355)	(29,782)
Other investing activities	(2,595)	103
<b>Net cash used in investing activities</b>	<b>(17,950)</b>	<b>(29,679)</b>
Cash flows from financing activities:		