

CALLAWAY GOLF CO  
Form 10-Q  
April 29, 2013  
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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 March 31, 2013

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  
incorporation or organization)

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

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

(Address of principal executive offices, including zip code)

**(760) 931-1771**

(Registrant's telephone number, including area code)

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

As of March 31, 2013, the number of shares outstanding of the Registrant's common stock and preferred stock outstanding was 71,088,443 and 417,639, respectively.

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**Important Notice to Investors Regarding Forward-Looking Statements:** Statements made in this report that relate to future plans, events, liquidity, financial results or performance including, but not limited to, statements relating to future cash flows and liquidity, compliance with debt covenants, estimated unrecognized stock compensation expense, projected capital expenditures and depreciation and amortization expense, future contractual obligations, the realization of deferred tax assets, including loss and credit carryforwards, the reversal of the deferred tax valuation allowance in future periods, future income tax expense, the estimated amount or timing of charges and savings related to the Company's various restructuring initiatives, the reinvestment of the savings and the benefits to be derived therefrom, as well as improved financial results during 2013, 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 delays, difficulties, changed strategies, or increased costs in implementing the Company's turnaround plans, including the 2012 cost-reduction initiatives; consumer acceptance of and demand for the Company's products; the level of promotional activity in the marketplace; future consumer discretionary purchasing activity, which can be significantly adversely affected by unfavorable economic or market conditions; future changes in foreign currency exchange rates and the degree of effectiveness of the Company's hedging programs; adverse changes in the credit markets or continued compliance with the terms of the Company's credit facilities; delays, difficulties or increased costs in the supply of components needed to manufacture the Company's products or in manufacturing the Company's products; adverse weather conditions and seasonality; any rule changes or other actions taken by the USGA or other golf association that could have an adverse impact upon demand or supply of the Company's products; a decrease in participation levels in golf; and the effect of terrorist activity, armed conflict, natural disasters or pandemic diseases on the economy generally, on the level of demand for the Company's products or on the Company's ability to manage its supply and delivery logistics in such an environment; 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 1A, "Risk Factors" contained in the Company's most recent Form 10-K, as well as the Company's other reports on Forms 10-Q and 8-K subsequently filed with the 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:*

*Anypoint Backstryke Big Bertha Black Series Tour Designs Callaway Callaway Golf C Grind Chev Chev 18 Chevron Device D.A.R.T. Demonstration Superior and Pleasingly Different Divine Eagle-ERC FTiZ FT Performance FT Tour Fusion Gems Great Big Bertha Heavenwood HX HX Diablo Aerodynamics Hex Black Tour Hex Chrome Hex Hot Hex Diablo Hex Solaire Hex Warbird IMIX Legacy Legacy Aero Legend Marksman Metal-X Number One Putter in Golf Odyssey OptiFit ORG.14 ProType ProType Black Razr Fit Razr Fit Xtreme Razr Hawk Razr X Razr XF Razr X HL Razr X Muscleback Razr X Tour Rossie S2H2 Sabertooth Solaire Steelhead Strata Stronomic Sure-Out Tank Series Ti-Hot Tour Authentic Tour i Tour i(S) Tour iX Tour i(Z) Trade In! Trade Up! Tru Bore uDesign uPro Versa VFT War Bird White Hot Tour White Hot Pro White Ice World's Friendliest X-Act X Forged X Hot X Hot Pro XJ Series X-SPANN Xtra Traction Technology XTT Xtra W Technology XWT-2-Ball 3 Deep.*

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

(Unaudited)

(In thousands, except share data)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,072	\$ 52,003
Accounts receivable, net	255,703	91,072
Inventories	201,951	211,734
Deferred taxes, net	4,014	4,170
Income taxes receivable	3,850	1,810
Other current assets	26,683	23,811
Assets held for sale		2,396
Total current assets	520,273	386,996
Property, plant and equipment, net	83,894	89,093
Intangible assets, net	88,964	89,189
Goodwill	28,412	29,034
Deferred taxes, net	1,792	1,910
Other assets	40,973	41,414
Total assets	\$ 764,308	\$ 637,636
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 139,939	\$ 129,021
Accrued employee compensation and benefits	23,269	20,649
Accrued warranty expense	7,887	7,539
Deferred taxes, net	926	927
Income tax liability	4,663	3,430
Asset-based credit facility	79,489	
Total current liabilities	256,173	161,566
Long-term liabilities:		
Income tax payable	6,805	6,565
Deferred taxes, net	33,737	33,533
Convertible notes, net (Note 3)	107,302	107,133
Long-term incentive compensation and other	5,769	7,131
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, \$.01 par value, 3,000,000 shares authorized, 417,639 shares issued and outstanding at both March 31, 2013 and December 31, 2012	4	4
	723	723

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Common stock, \$.01 par value, 240,000,000 shares authorized, 72,273,413 and 72,264,020 shares issued at March 31, 2013 and December 31, 2012, respectively

Additional paid-in capital	203,673	204,510
Retained earnings	153,980	113,831
Accumulated other comprehensive income	6,638	14,770
Less: Common stock held in treasury, at cost, 1,184,970 and 1,267,436 shares at March 31, 2013 and December 31, 2012, respectively	(13,595)	(14,848)
<b>Total Callaway Golf Company shareholders' equity</b>	<b>351,423</b>	<b>318,990</b>
Non-controlling interest in consolidated entity (Note 10)	3,099	2,718
<b>Total shareholders' equity</b>	<b>354,522</b>	<b>321,708</b>
Total liabilities and shareholders' equity	\$ 764,308	\$ 637,636

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 March 31,	
	2013	2012
Net sales	\$ 287,756	\$ 285,098
Cost of sales	157,320	160,727
Gross profit	130,436	124,371
Operating expenses:		
Selling expense	68,308	76,838
General and administrative expense	14,587	12,234
Research and development expense	7,413	7,473
Total operating expenses	90,308	96,545
Income from operations	40,128	27,826
Other income, net	4,001	3,684
Income before income taxes	44,129	31,510
Income tax provision (benefit)	2,469	(292)
Net income	41,660	31,802
Dividends on convertible preferred stock	783	2,625
Net income allocable to common shareholders	\$ 40,877	\$ 29,177
Earnings per common share:		
Basic	\$ 0.58	\$ 0.45
Diluted	\$ 0.47	\$ 0.37
Weighted-average common shares outstanding:		
Basic	71,060	64,983
Diluted	92,197	84,930

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

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**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

**(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	\$ 41,660	\$ 31,802
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(8,132)	293
Comprehensive income	\$ 33,528	\$ 32,095

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

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	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 41,660	\$ 31,802
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization	6,956	8,745
Deferred taxes	332	(2,321)
Non-cash share-based compensation	757	788
Gain on disposal of long-lived assets	(247)	(559)
Gain on sale of intangible assets		(6,616)
Discount amortization on convertible notes	169	
<b>Change in assets and liabilities:</b>		
Accounts receivable, net	(166,914)	(140,786)
Inventories	3,602	(4,029)
Other assets	(5,948)	(2,010)
Accounts payable and accrued expenses	17,690	23,332
Accrued employee compensation and benefits	2,372	(977)
Accrued warranty expense	348	122
Income taxes receivable/payable	(381)	(13)
Other liabilities	(956)	116
<b>Net cash used in operating activities</b>	<b>(100,560)</b>	<b>(92,406)</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(3,145)	(8,687)
Proceeds from sales of property and equipment	3,651	50
Net proceeds from sales of intangible assets		26,861
<b>Net cash provided by investing activities</b>	<b>506</b>	<b>18,224</b>
<b>Cash flows from financing activities:</b>		
Issuance of common stock		1
Dividends paid	(1,495)	(3,279)
Proceeds from credit facilities, net		