

CALLAWAY GOLF CO
Form 10-Q
October 30, 2012
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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, 2012

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, 2012 was 70,990,660.

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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, estimated unrecognized stock compensation expense, projected capital expenditures, projected amortization expense related to intangible assets, future contractual obligations, the realization of deferred tax assets, including loss and credit carry forwards, the reversal of the deferred tax valuation allowance in future periods, future income tax expense, the estimated savings and charges from the Cost Reduction Initiatives, the estimated savings and reinvestments related to the Company's Reorganization and Reinvestment Initiatives announced in 2011, the profitability of future products as well as implementing measures that will drive growth and profitability 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, or increased costs in implementing the Cost Reduction Initiatives 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 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" 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:*

Anypoint Backstryke Belly-Broomstick Big Bertha Black Series Tour Designs Callaway Callaway Golf C Grind Chev Chev Air Chev 18 Chevron Device C-Tech D.A.R.T. Demonstrably Superior and Pleasingly Different Divine Eagle ERC Flip Face Fusion Gems Great Big Bertha Heavenwood HX HX Diablo HX Diablo Tour Hex Aerodynamics Hex Black Tour Hex Chrome Hyper-Lite Ion X Legacy Legacy Aero Legend Metal-X Number One Putter in Golf Odyssey OptiFit ORG.14 ProType RAZR Fit RAZR Hawk RAZR X RAZR XF RAZR X Forged Muscleback RAZR X Tour Rossie S2H2 Sabertooth Solaire Steelhead Strata Stronomic Teron Tech Series Ti-Hot Tour Authentic Tour iX Tour In! Trade Up! Tru Bore uDesign uExplore uPro uPro MX VFT War Bird White Hot White Hot Tour White Hot XG White Ice World's Friendliest X-Act XJ Series X-SPANN Xtra Traction Technology XTT Xtra Width Technology XWT 2-Ball.

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CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,139	\$ 43,023
Accounts receivable, net	143,697	115,673
Inventories	189,066	233,070
Deferred taxes, net	3,970	4,029
Income taxes receivable	3,609	3,654
Assets held for sale	2,396	
Other current assets	20,895	19,880
Total current assets	422,772	419,329
Property, plant and equipment, net	94,919	117,147
Intangible assets, net	94,619	121,935
Goodwill	28,853	29,203
Deferred taxes, net	1,457	1,386
Income taxes receivable	2,846	4,027
Other assets	36,472	34,085
Total assets	\$ 681,938	\$ 727,112
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 99,166	\$ 129,193
Accrued employee compensation and benefits	21,343	23,785
Accrued warranty expense	8,133	8,140
Deferred taxes	4,108	4,108
Income tax liability	3,177	2,558
Total current liabilities	135,927	167,784
Long-term liabilities:		
Income taxes payable	6,199	8,115
Deferred taxes, net	29,968	31,429
Convertible debt, net (Note 3)	106,925	
Long-term other	7,050	6,970
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, \$.01 par value, 3,000,000 shares authorized, 417,639 and 1,400,000 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	4	14
Common stock, \$.01 par value, 240,000,000 shares authorized, 72,264,020 and 66,340,695 shares issued at September 30, 2012 and December 31, 2011, respectively	723	663
Additional paid-in capital	203,924	265,067
Retained earnings	186,074	247,941
Accumulated other comprehensive income	17,171	14,071

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Less: Common Stock held in treasury, at cost, 1,273,360 shares and 1,453,819 shares at September 30, 2012 and December 31, 2011, respectively	(14,930)	(17,800)
Total Callaway Golf Company shareholders' equity	392,966	509,956
Non-controlling interest in consolidated entity (Note 10)	2,903	2,858
Total shareholders' equity	395,869	512,814
Total liabilities and shareholders' equity	\$ 681,938	\$ 727,112

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		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net sales	\$ 147,906	\$ 173,243	\$ 714,127	\$ 732,656
Cost of sales (Note 2)	144,106	125,857	475,303	458,927
Gross profit	3,800	47,386	238,824	273,729
Operating expenses:				
Selling expense	60,273	62,273	212,822	211,688
General and administrative expense	18,238	20,775	48,918	67,186
Research and development expense	7,978	8,501	22,381	26,196
Total operating expenses (Note 2)	86,489	91,549	284,121	305,070
Loss from operations	(82,689)	(44,163)	(45,297)	(31,341)
Other expense, net	(3,359)	(3,570)	(4,246)	(8,377)
Loss before income taxes	(86,048)	(47,733)	(49,543)	(39,718)
Provision for income taxes	750	14,854	2,654	69,117
Net loss	(86,798)	(62,587)	(52,197)	(108,835)
Dividends on convertible preferred stock	2,414	2,625	7,664	7,875
Net loss allocable to common shareholders	\$ (89,212)	\$ (65,212)	\$ (59,861)	\$ (116,710)
Loss per common share:				
Basic	\$ (1.33)	\$ (1.01)	\$ (0.91)	\$ (1.81)
Diluted	\$ (1.33)	\$ (1.01)	\$ (0.91)	\$ (1.81)
Weighted-average common shares outstanding:				
Basic	67,162	64,781	65,740	64,505
Diluted	67,162	64,781	65,740	64,505

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

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CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss	\$ (86,798)	\$ (62,587)	\$ (52,197)	\$ (108,835)
Other comprehensive income (loss):				
Foreign currency translation adjustments	4,168	(6,161)	3,100	(832)
Other comprehensive income (loss):	4,168	(6,161)	3,100	(832)
Comprehensive loss	\$ (82,630)	\$ (68,748)	\$ (49,097)	\$ (109,667)

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,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (52,197)	\$ (108,835)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	26,576	28,438
Impairment charges	17,056	5,413