

CALLAWAY GOLF CO /CA
Form 10-Q
May 04, 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 March 31, 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 April 30, 2007 was 72,156,271.

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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 Callaway Callaway Collection- Callaway Golf Callaway Golf Drysport- Callaway Golf X Series- Chev Chevron Device Complete Demonstrably Superior and Pleasingly Different Dual Force ERC Explosive Distance. Amazing Soft Feel Flying Lady Ft-i- FT-3 FT-5 -FTX Fusion Game Series-Gems Great Big Bertha Heavenwood Hogan Hybrid 45 HX HX Tour- I-Trax Little Ben Marksman Molitor Number One Putter in Golf Odyssey ORG.14 Pencil Rossie S2H2 SRT SenSert Speed Slot-Steelhead Strata Stronomic design Tech Series Top-Flite Top Flite D2 Top-Flite XL Tour Authentic -Tour Deep Trade In! Trade Up! TriBall Tru Bore Tunite VFT War Bird Warbird White Hot White Hot XG White Steel World's Friendliest X-18 X-20- X460 XL 3000 XL Extreme X Hot- X-Series X-Sole X-SPANI Traction Technology X-Tour XTT Xtra Width Technology- XWT.*

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	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,594	\$ 46,362
Accounts receivable, net	278,810	118,133
Inventories, net	270,646	265,110
Deferred taxes, net	34,601	32,813
Income taxes receivable		9,094
Other current assets	21,762	21,688
Total current assets	640,413	493,200
Property, plant and equipment, net	130,985	131,224
Intangible assets, net	143,490	144,326
Goodwill	30,985	30,833
Deferred taxes	33,006	18,821
Other assets	27,707	27,543
	\$ 1,006,586	\$ 845,947
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 130,865	\$ 111,360
Accrued employee compensation and benefits	27,012	18,731
Accrued warranty expense	14,156	13,364
Bank line of credit	155,000	80,000
Income taxes payable	5,098	
Total current liabilities	332,131	223,455
Long-term liabilities:		
Deferred compensation	6,839	7,210
Energy derivative valuation account	19,922	19,922
Income taxes payable	21,648	
Deferred taxes	17,084	16,256
Minority interest in consolidated subsidiary	1,768	1,987
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at March 31, 2007 and December 31, 2006		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 85,104,239 shares and 85,096,782 shares issued at March 31, 2007 and December 31, 2006, respectively	851	851

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Additional paid-in capital	410,774	402,628
Unearned compensation	(3,283)	(3,566)
Retained earnings	462,716	435,074
Accumulated other comprehensive income	11,869	11,135
Less: Grantor Stock Trust held at market value, 4,205,751 shares and 5,184,601 shares at March 31, 2007 and December 31, 2006, respectively	(66,283)	(74,710)
Less: Common Stock held in treasury, at cost, 12,957,968 shares and 11,957,968 shares at March 31, 2007 and December 31, 2006, respectively	(209,450)	(194,295)
Total shareholders' equity	607,194	577,117
	\$ 1,006,586	\$ 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 March 31,			
	2007		2006	
Net sales	\$ 334,607	100%	\$ 302,445	100%
Cost of sales	173,886	52%	170,933	57%
Gross profit	160,721	48%	131,512	43%
Operating expenses:				
Selling expenses	75,291	23%	68,128	23%
General and administrative expenses	21,558	6%	20,224	7%
Research and development expenses	8,016	2%	6,804	2%
Total operating expenses	104,865	31%	95,156	31%
Income from operations	55,856	17%	36,356	12%
Other (expense) income, net	(1,338)		302	
Income before income taxes	54,518	16%	36,658	12%
Provision for income taxes	21,682		13,797	
Net income	\$ 32,836	10%	\$ 22,861	8%
Earnings per common share:				
Basic	\$ 0.49		\$ 0.33	
Diluted	\$ 0.48		\$ 0.33	
Weighted-average shares outstanding:				
Basic	67,272		69,166	
Diluted	68,318		70,143	
Dividends declared per share	\$ 0.07		\$ 0.07	

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)**

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 32,836	\$ 22,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,009	7,290
Non-cash share-based compensation	3,127	4,401
Deferred taxes	(264)	(227)
Loss on disposal of long-lived assets	3	138
Changes in assets and liabilities:		
Accounts receivable, net	(160,039)	(147,484)
Inventories, net	(4,802)	(5,626)
Other assets	(45)	(5,562)
Accounts payable and accrued expenses	13,903	13,999
Accrued employee compensation and benefits	8,231	1,639
Accrued warranty expense	792	1,929
Income taxes payable	20,271	12,784
Deferred compensation	(368)	(1,239)
Net cash used in operating activities	(77,346)	(95,097)
Cash flows from investing activities:		
Capital expenditures	(7,987)	(6,844)
Proceeds from sale of capital assets		120
Net cash used in investing activities	(7,987)	(6,724)
Cash flows from financing activities:		
Issuance of Common Stock	12,833	5,761
Acquisition of Treasury Stock	(15,155)	(14,788)
Proceeds from line of credit, net	75,000	85,000
Minority interest in consolidated subsidiary	(219)	
Tax benefit from exercise of stock options	896	426
Other financing activities		(20)
Net cash provided by financing activities	73,355	76,379
Effect of exchange rate changes on cash and cash equivalents	210	375
Net decrease in cash and cash equivalents	(11,768)	(25,067)
Cash and cash equivalents at beginning of year	46,362	49,481
Cash and cash equivalents at end of year	\$ 34,594	\$ 24,414

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

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CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands)

	Common Stock		Additional			Accu- mulated	Grantor Stock Trust	Treasury Stock		Compre- hensive Income (Loss)
	Shares	Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	Other Compre- hensive Income (Loss)		Shares	Amount	
Balance, December 31, 2006	85,097	\$ 851	\$ 402,628	\$ (3,566)	\$ 435,074	\$ 11,135	\$ (74,710)	(11,958)	\$ (194,295)	\$ 577,117
Adoption of FIN 48					(437)					(437)
Exercise of stock options	9		(1,411)				12,963			11,552
Tax benefit from exercise of stock options										