

CALLAWAY GOLF CO /CA

Form 10-Q

August 01, 2006

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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, 2006

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

(760) 931-1771

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

(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 June 30, 2006 was 73,920,920.

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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 gross margins, cash flows and liquidity, as well as estimated unrecognized compensation, estimated integration and restructuring benefits, savings and charges, 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 restructuring initiatives, 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" 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: Apex Baby Ben Ben Hogan BH BH-5 Big Ben Big Bertha C455 CS-3 Callaway Callaway Golf Chev Chevron Device Complete Demonstrably Superior and Pleasingly Different Dual Force ERC Explosive Distance.Amazing Soft Feel Flying Lady FT-3 FTX Fusion Game Series-Gems Great Big Bertha Heavenwood Hogan Hybrid 45 HX I-Trax Little Ben Molitor Number One Putter in Golf Odyssey ORG.14 Pencil Rossie S2H2 SRT Se Slot-Steelhead Strata Stronomic Sure-Out T design Tech Series The Hawk Top-Flite Top Flite Quartz Top-Flite XL Tour Authentic Tri-Ball-Tour Deep Trade In! Trade Up! TriBall Tru Bore Tunit VFT War Bird Warbird White Hot White Hot XG White Steel World's Friendliest X-16 X-18 X460 XL 3000 XL Extreme X-Series X-Sole X-SPANN Xtra Traction Technology X-Tour XTT XWT.

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CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	June 30,	December 31,
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 48,113	\$ 49,481
Accounts receivable, net	257,782	98,082
Inventories, net	232,236	241,577
Deferred taxes	30,849	30,064
Income taxes receivable		2,026
Other current assets	19,259	17,360
Total current assets	588,239	438,590
Property, plant and equipment, net	136,024	127,739
Intangible assets, net	146,001	146,123
Goodwill	30,097	29,068
Deferred taxes	4,657	6,516
Other assets	15,072	16,462
	\$ 920,090	\$ 764,498
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 128,930	\$ 102,134
Accrued employee compensation and benefits	20,176	24,783
Accrued warranty expense	15,469	13,267
Bank line of credit	110,300	
Income taxes payable	10,590	
Capital leases, current portion		21
Total current liabilities	285,465	140,205
Long-term liabilities:		
Deferred compensation	7,024	8,323
Energy derivative valuation account	19,922	19,922
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 2006 and December 31, 2005		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 85,104,614 shares and 84,950,694 shares issued at June 30, 2006 and December 31, 2005, respectively	851	850

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Additional paid-in capital	390,980	393,676
Unearned compensation	(4,557)	(9,014)
Retained earnings	466,699	430,996
Accumulated other comprehensive income	8,868	3,377
Less: Grantor Stock Trust held at market value, 5,453,798 shares and 5,954,747 shares at June 30, 2006 and December 31, 2005, respectively	(70,845)	(82,414)
Less: Common Stock held in treasury, at cost, 11,183,694 shares and 8,500,811 shares at June 30, 2006 and December 31, 2005, respectively	(184,317)	(141,423)
Total shareholders' equity	607,679	596,048
	\$ 920,090	\$ 764,498

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				Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005	2006	2005
Net sales	\$ 341,815	100%	\$ 323,132	100%	\$ 644,260	100%	\$ 622,989	100%
Cost of sales	201,729	59%	176,399	55%	372,662	58%	343,650	55%
Gross profit	140,086	41%	146,733	45%	271,598	42%	279,339	45%
Operating expenses:								
Selling expense	77,045	23%	90,640	28%	145,173	23%	166,385	27%
General and administrative expense	18,101	5%	21,239	7%	38,325	6%	40,324	6%
Research and development expense	6,194	2%	7,083	2%	12,998	2%	13,323	2%
Total operating expenses	101,340	30%	118,962	37%	196,496	30%	220,032	35%
Income from operations	38,746	11%	27,771	9%	75,102	12%	59,307	10%
Other expense, net	(1,273)		(1,806)		(971)		(2,987)	
Income before income taxes	37,473	11%	25,965	8%	74,131	12%	56,320	9%
Provision for income taxes	14,934		7,573		28,731		19,568	
Net income	\$ 22,539	7%	\$ 18,392	6%	\$ 45,400	7%	\$ 36,752	6%
Earnings per common share:								
Basic	\$ 0.33		\$ 0.27		\$ 0.66		\$ 0.54	
Diluted	\$ 0.33		\$ 0.27		\$ 0.65		\$ 0.54	
Weighted-average shares outstanding:								
Basic	67,799		68,270		68,479		68,226	
Diluted	68,577		68,660		69,356		68,643	
Dividends declared per share	\$ 0.07		\$ 0.07		\$ 0.14		\$ 0.14	

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

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	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 45,400	\$ 36,752
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	15,225	22,659
Non-cash compensation	6,331	3,957
Loss on disposal of long-lived assets	324	856
Deferred taxes	1,165	(1,184)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(152,881)	(137,015)
Inventories, net	15,255	(15,815)
Income tax receivable and payable	12,397	27,635
Other assets	530	183
Accounts payable and accrued expenses	14,269	48,495
Accrued employee compensation and benefits	(4,856)	8,864
Accrued warranty expense	2,202	1,189
Other liabilities	(1,299)	(914)
Net cash used in operating activities	(45,938)	(4,338)
Cash flows from investing activities:		
Capital expenditures	(20,463)	(19,046)
Acquisitions, net of cash acquired	(5,911)	
Proceeds from sale of capital assets	120	20
Net cash used in investing activities	(26,254)	(19,026)
Cash flows from financing activities:		
Issuance of Common Stock	6,519	3,560
Dividends paid, net	(4,901)	(4,853)
Acquisition of Treasury Stock	(42,894)	(39)
Tax benefit from exercise of stock options	481	269
Proceeds from line of credit, net	110,300	