

CALLAWAY GOLF CO  
Form 10-Q  
April 30, 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 March 31, 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 March 31, 2010 was 64,391,104.

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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, 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 and the recovery of the Company's business in 2010 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 global operations strategy, 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 Better Game By Design A Passion For Excellence Anypoint Apex Backstryke Ben Hogan BH Big Bertha Big Bertha Diablo Black Series Black Series i-Callaway Callaway Collection Callaway Golf Callaway uPro GO C Grind-Chev Chev 18-Chevron Device Crimson Series Demonstrably Superior and Pleasingly Different Diablo Edge-Diablo Forged-Dimple-in-Dimple Divine Line Eagle-ERC Explosive Distance. Amazing Soft Feel Flying Lady FTi-brid FTiQ FTiZ FT Performance-FT Tour-FT-5 FT-9 Freak Fusion Game Series Gems Great Big Bertha Heavenwood Hogan HX H Hot Plus HX Hot Bite IMIX Legacy Legacy Aero Legend Marksman MiniT Never Lay Up Number One Putter in Golf Odyssey OptiFit-ORG.14 Rossie S2H2 Sabertooth SRT SenSert Solaire Squareway Steelhead Strata Stronomic Sure-Out Teron TF design Series Top-Flite Top-Flite D2 Top-Flite XL Tour Authentic Tour Deep Tour i Tour i(S) Tour iX Tour i(Z) Trade In! Trade Up! Tru Bore Tunite uPro VFT War Bird Warbird WarmSport White Hot White Hot Tour White Hot XG White Ice Windsport World's Friendliest X-20 Tour X-22 X-22 Tour XL5000 XJ Series XL Extreme X-Forged X Hot X Prototype X-Series X-Series Jaws-X-SPANN Xtra Traction Technology X-Tour XTT Xtra Width Technology XWT-2-Ball 2-Ball F7.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CALLAWAY GOLF COMPANY****CONSOLIDATED CONDENSED BALANCE SHEETS****(In thousands, except share and per share data)**

ASSETS	March 31, 2010 (Unaudited)	December 31, 2009
Current assets:		
Cash and cash equivalents	\$ 41,852	\$ 78,314
Accounts receivable, net	277,423	139,776
Inventories	230,769	219,178
Deferred taxes, net	22,578	21,276
Income taxes receivable	1,176	19,730
Other current assets	38,972	34,713
Total current assets	612,770	512,987
Property, plant and equipment, net	137,948	143,436
Intangible assets, net	141,853	142,904
Goodwill	30,498	31,113
Deferred taxes, net	10,771	10,463
Other assets	36,377	35,027
Total assets	\$ 970,217	\$ 875,930
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 145,352	\$ 118,294
Accrued employee compensation and benefits	31,291	22,219
Accrued warranty expense	9,361	9,449
Other liabilities	11,382	1,492
Credit facility	31,000	
Total current liabilities	228,386	151,454
Long-term liabilities:		
Income taxes payable	9,855	11,597
Deferred taxes, net	1,136	1,243
Deferred compensation and other	3,429	1,754
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, \$.01 par value, 3,000,000 shares authorized, 1,400,000 shares issued and outstanding at March 31, 2010 and December 31, 2009 (Note 2)	14	14
Common stock, \$.01 par value, 240,000,000 shares authorized, 66,295,961 shares issued at March 31, 2010 and December 31, 2009	663	663
Additional paid-in capital	258,655	257,486
Retained earnings	491,327	474,379
Accumulated other comprehensive income	4,047	6,240
	(5,202)	(7,414)

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Less: Grantor Stock Trust held at market value, 589,790 shares and 983,275 shares at March 31, 2010 and December 31, 2009, respectively

Less: Common Stock held in treasury, at cost, 1,904,857 shares and 1,823,367 shares at March 31, 2010 and December 31, 2009, respectively	(24,794)	(24,110)
Total Callaway Golf Company shareholders' equity	724,710	707,258
Non-controlling interest in consolidated entity (Note 7)	2,701	2,624
Total shareholders' equity	727,411	709,882
Total liabilities and shareholders' equity	\$ 970,217	\$ 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 March 31,	
	2010	2009
Net sales	\$ 302,875	\$ 271,864
Cost of sales	165,580	155,683
Gross profit	137,295	116,181
Operating expenses:		
Selling expense	74,628	74,650
General and administrative expense	24,976	19,987
Research and development expense	9,318	8,103
Total operating expenses	108,922	102,740
Income from operations	28,373	13,441
Other income (expense), net	1,571	(2,381)
Income before income taxes	29,944	11,060
Provision for income taxes	9,641	4,248
Net income	20,303	6,812
Dividends on convertible preferred stock	2,625	
Net income allocable to common shareholders	\$ 17,678	\$ 6,812
Earnings per common share:		
Basic	\$ 0.28	\$ 0.11
Diluted	\$ 0.24	\$ 0.11
Weighted-average common shares outstanding:		
Basic	63,653	62,914
Diluted	83,926	63,320

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)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 20,303	\$ 6,812
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization	9,949	9,944
Deferred taxes	(1,746)	(1,604)
Non-cash share-based compensation	2,519	1,667
Gain on disposal of long-lived assets	(14)	(150)
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	(139,961)	(123,217)
Inventories	(12,889)	(12,035)
Other assets	(6,983)	(370)
Accounts payable and accrued expenses	32,551	43,869
Accrued employee compensation and benefits	8,074	(3,439)
Accrued warranty expense	(88)	331
Income taxes payable	27,523	13,063
Deferred compensation	1,675	(558)
<b>Net cash used in operating activities</b>	<b>(59,087)</b>	<b>(65,687)</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(4,149)	(10,046)
Other investing activities	(1,936)	(89)
<b>Net cash used in investing activities</b>	<b>(6,085)</b>	<b>(10,135)</b>
<b>Cash flows from financing activities:</b>		
Issuance of Common Stock	1,301	1,500
Dividends paid, net	(3,266)	
Proceeds from credit facility, net	31,000	57,081
Other financing activities	(167)	(491)
<b>Net cash provided by financing activities</b>	<b>28,868</b>	<b>58,090</b>
Effect of exchange rate changes on cash and cash equivalents	(158)	(1,060)
<b>Net decrease in cash and cash equivalents</b>	<b>(36,462)</b>	<b>(18,792)</b>
Cash and cash equivalents at beginning of year	78,314	38,337
<b>Cash and cash equivalents at end of period</b>	<b>\$ 41,852</b>	<b>\$ 19,545</b>
<b>Supplemental disclosures:</b>		
Cash received for income taxes, net	\$ 15,931	\$ 7,625



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Cash paid for interest and fees	\$ (120)	\$ (474)
Dividends payable	\$ 438	\$
Common stock received in connection with the settlement of employee payroll taxes on restricted stock units	\$ 684	\$ 415

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

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**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**

(Unaudited)

(In thousands)

	Preferred Stock	Callaway Golf Shareholders					Treasury Stock Shares	Non-controlling Interest	Comprehensive Total Income				
		Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Grantor Stock Trust							
	Shares	Amount	Shares	Amount	Capital	Earnings	Income	Trust	Shares	Amount	Interest	Total	Income
Balance, December 31, 2009	1,400												