

CALLAWAY GOLF CO  
Form 10-Q  
October 31, 2008  
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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, 2008

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 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, 2008 was 64,580,741.

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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 costs associated with the closure of the Gloversville, New York golf ball manufacturing plant, estimated unrecognized compensation expense, projected amortization expense, capital expenditures projected year-end inventory as a percentage of trailing twelve months net sales, 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. Accurately estimating the Company's future financial performance is based upon various unknowns including consumer acceptance and demand for the Company's products as well as future consumer discretionary purchasing activity, which can be significantly affected by unfavorable economic or market conditions. Actual results may differ materially from those estimated or anticipated as a result of these unknowns or other risks and uncertainties, including delays, difficulties, changed strategies, or unanticipated factors affecting the implementation of the Company's gross margin improvement 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 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 Better Game By Design A Passion For Excellence Apex Ben Hogan BH Big Bertha Callaway Callaway Collection Callaway Golf Callaway Golf X Series Chev Chevron Device Complete Demonstrably Superior and Pleasingly Different Dimple In Dimple Drysport Dual Force ERC Flying Lady FT-i FT-ibrid FT-iQ FT-3 FT-5 Fusion Game Series Gems Great Big Bertha Heavenwood Hogan Hyper X HX HX Hot HX Hot Bite HX Tour I-Mix Legacy Marksman Molitor Number One Putter in Golf Odyssey OptiFit Rainsport Rossie S2H2 Sabertooth SRT SenSert Speed Slot Squareway Steelhead Strata Stronomic Sure-Out TF Design Tech Series Top-Flite Top Flite D2 Top-Flite XL Tour Authentic Tour i Tour i In! Trade Up! TriBall Tru Bore Tunit VFT War Bird Warbird WarmSport White Hot White Hot XG White Steel Windsport World's Friendliest X-18 X-20 X-22 X460 XL 5000 XL Extreme X-Forged X Hot X-Series X-Sole X-SPANN Xtra Traction Technology X Tour XTT Xtra Technology XWT.

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

(Unaudited)

(In thousands, except share and per share data)

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 50,642	\$ 49,875
Accounts receivable, net	152,654	112,064
Inventories	220,306	253,001
Deferred taxes	39,544	42,219
Income taxes receivable		9,232
Other current assets	27,184	30,190
<b>Total current assets</b>	<b>490,330</b>	<b>496,581</b>
Property, plant and equipment, net	135,434	128,036
Intangible assets, net	138,616	140,985
Goodwill	30,873	32,060
Deferred taxes	28,724	18,885
Other assets	43,435	40,416
	<b>\$ 867,412</b>	<b>\$ 856,963</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 115,909	\$ 130,410
Accrued employee compensation and benefits	31,437	44,245
Accrued warranty expense	11,785	12,386
Income taxes payable	4,317	
Credit facilities	40,000	36,507
<b>Total current liabilities</b>	<b>203,448</b>	<b>223,548</b>
Long-term liabilities:		
Deferred taxes	23,266	21,252
Energy derivative valuation account	19,922	19,922
Income taxes payable	14,886	13,833
Deferred compensation and other	7,143	8,200
Minority interest in consolidated subsidiary	2,378	1,978
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at September 30, 2008 and December 31, 2007		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 66,276,236 shares and 66,281,693 shares issued at September 30, 2008 and December 31, 2007, respectively	663	663

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Additional paid-in capital	108,155	111,953
Unearned compensation	(563)	(2,158)
Retained earnings	526,426	470,469
Accumulated other comprehensive income	4,927	18,904
Less: Grantor Stock Trust held at market value, 1,440,570 shares and 1,813,010 shares at September 30, 2008 and December 31, 2007, respectively	(20,269)	(31,601)
Less: Common Stock held in treasury, at cost, 1,695,495 shares and 0 shares at September 30, 2008 and December 31, 2007, respectively	(22,970)	
Total shareholders' equity	596,369	568,230
	\$ 867,412	\$ 856,963

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 September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
Net sales	\$ 213,451	100%	\$ 235,549	100%	\$ 945,932	100%	\$ 950,173	100%
Cost of sales	133,320	62%	141,543	60%	519,187	55%	520,321	55%
Gross profit	80,131	38%	94,006	40%	426,745	45%	429,852	45%
Operating expenses:								
Selling expense	65,730	31%	65,808	28%	226,352	24%	222,009	23%
General and administrative expense	20,201	9%	19,394	8%	65,480	7%	65,139	7%
Research and development expense	6,650	3%	7,928	3%	22,112	2%	23,851	3%
Total operating expenses	92,581	43%	93,130	40%	313,944	33%	310,999	33%
Income (loss) from operations	(12,450)	(6)%	876	0%	112,801	12%	118,853	13%
Other income (expense), net	(1,669)		1,223		(3,574)		(2,006)	
Income (loss) before income taxes	(14,119)	(7)%	2,099	1%	109,227	12%	116,847	12%
Provision for (benefit from) income taxes	(6,676)		830		39,897		46,103	
Net income (loss)	\$ (7,443)	(3)%	\$ 1,269	1%	\$ 69,330	7%	\$ 70,744	7%
Earnings (loss) per common share:								
Basic	\$ (0.12)		\$ 0.02		\$ 1.10		\$ 1.05	
Diluted	\$ (0.12)		\$ 0.02		\$ 1.08		\$ 1.03	
Weighted-average shares outstanding:								
Basic	62,494		66,516		63,187		67,250	
Diluted	62,494		67,639		64,029		68,407	
Dividends declared per share	\$ 0.07		\$ 0.07		\$ 0.21		\$ 0.21	

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

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	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 69,330	\$ 70,744
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	28,747	27,464
Gain on disposal of long-lived assets	(435)	(3,425)
Deferred taxes	2,117	1,444
Non-cash share-based compensation	5,044	8,207
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	(49,724)	(39,978)
Inventories	24,743	57,187
Other assets	(6,471)	652
Accounts payable and accrued expenses	(6,250)	(6,904)
Accrued employee compensation and benefits	(12,311)	18,583
Accrued warranty expense	(601)	(297)
Income taxes payable	6,926	11,750
Deferred compensation	(773)	415
<b>Net cash provided by operating activities</b>	<b>60,342</b>	<b>145,842</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(33,506)	(24,130)
Proceeds from sales of property and equipment	42	5,491
Investment in golf related ventures		(1,310)
<b>Net cash used in investing activities</b>	<b>(33,464)</b>	<b>(19,949)</b>
<b>Cash flows from financing activities:</b>		
Issuance of Common Stock	4,708	47,672
Dividends paid, net	(8,951)	(14,241)
Acquisition of Treasury Stock	(22,970)	(101,387)
Proceeds from (payments on) credit facilities	3,493	(79,068)
Other financing activities	(223)	