



## Web Street Golf Report

VOLUME 12, NUMBER 23

Monday, June 15, 2009

[Subscribe](#)

**MONEY SWAP:** The economy has gotten a lot of press in the last year and half. Like it or not, its been a foe to just about every industry. Some people believed prior to the recession setting in that golf was immune to the influences of these kind of economic pressures. Some believed the demographics often associated with the affluent consumer involved with the game was above the financial hazards others couldn't avoid. Meanwhile, Bernie Madoff came along last December and added insult to injury for those who many believed couldn't be touched. Predicting consumer behavior is at best another form of speculation and in the investment world the spectrum often oscillates between fear and greed.

*“Clearly, we’re looking at the state of the economy and the expectations as far as consumers are concerned, and I think scaling our expectations appropriately,”* George Fellows, Callaway Golf CEO stated on July 30, 2008. *“I’m also a believer that we’re seeing far too much negative talk about the economy even beyond where it really happens to be and because of that, I think we’re somewhat optimistic that the recovery for ’09 is very much going to happen. Indeed, if that were to be the case, we’re looking forward to ’09 as being a nice year for us.”*

The playing field has been difficult, to put it nicely in 2009, despite the above referenced optimism by Callaway Golf’s President and CEO. Some challenges are apparent, while others are not quite so. Callaway Golf (ELY: NYSE) has exchanged some of the debt it has raked up recently in exchange for a potential equity stake in its business. The company originally announced it was shopping a \$110 million convertible preferred stock deal to institutional buyers. Terms, such as dividend rate, conversion price and among others will be determined by negotiations between Callaway and the initial purchaser.

*“I’m increasingly of the opinion that when the benefit of trash talking the economy and everything else that’s going on that currently exists on the part of all political parties, goes by the boards i.e., when the (November) election is over, I think that the tenor of the social discourse is going to begin to improvement and I think that will begin to have some effect on later in the year purchases and holiday,”* George Fellows, October 30, 2008, *“the economy in general I don’t think was nearly as bad; certainly not good, but nearly as bad as a lot of the talk would seem to indicate. We’re all facing a very uncertain period of time and I’m trying not to be Pollyanna about it, but I sincerely believe that again, as I mentioned earlier, the public tenure of conversations regarding the economy are going to take a shift when the election has*

*passed us and there is no real incentive to talk badly about the economy and none of that is to say that we think the economy is in great shape, or for that matter that there are a great number of difficulties out there.”*

Callaway’s private placement has come about as the company attempted to amend its line of credit facility that it has with eight banks. In its first quarter conference call to Wall Street analysts, Brad Holiday, Callaway Golf’s Senior Executive Vice President and Chief Financial Officer touched on the need for the amendment. “Our business is seasonal with our peak borrowing occurring during the second quarter of the year. Because of the decline in EBITDA (earnings before interest, taxes, depreciation and amortization) and the seasonal borrowings, we are in discussions with our banks to amend our credit facility to make sure we remain in compliance with the financial covenants under the facility. We believe we will have an amendment in place by the end of the quarter and will continue to proactively manage all spending and debt to preserve our liquidity,” Holiday told the street. The CFO sounds confident that the company would be successful at reaching appropriate terms that would be satisfactory. However, it appeared from an outsider looking in, that the cost of making the necessary changes were prohibitive and thus predicated a move back to the equity side of the balance sheet.

A check of Callaway’s debt at the end of June 2008, saw it had \$135 million outstanding. Its latest filing with the [Securities and Exchange Commission](#), indicate Callaway’s line of credit has accelerated to \$210 million (plus approximately \$8.5 million in outstanding letters of credit) as of May 31, 2009. In December 2008, [Callaway purchased a GPS company \(uPlay\)](#) and spent \$10 million doing so and assumed liabilities of approximately \$1.2 million. It has a \$10 million investment in Top Golf, a high end driving range company. Big Bertha loaned the company \$5.5 million in 2007 and in February 2008 provided collateral guaranteeing another \$5.5 million in loans. Callaway also has a [Manufacturing and Supply Agreement with Qingdao Suntech Sporting Goods Limited Company](#) (“Suntech”), where Suntech manufactures and supplies certain golf balls solely for and to the company. Callaway has a loan agreement with Mauritius, Suntech’s parent company, in order to provide working capital for Suntech. It has extended a total of \$3.2 million to its Chinese manufacturing partner. In the meantime the economy has worsened, consumer discretionary spending has contracted and the banking industry has been forced to tighten its lending practices.

In conjunction with its announcement of a preferred stock offering, Callaway also said that its Board of Directors elected to reduce its dividend on its common stock by \$0.06 per share. This move would allow Callaway to retain an additional \$15.2 million in cash on an annualized basis. It said it would save \$11.4 million over the balance of 2009 with the decision.

Meanwhile, with the company reshuffling its capital structure, it made some brief statements regarding its current business. The company expects second quarter earnings will be similar to what it achieved in the 2009 first quarter, when it had sales of \$271.9 million and net income of \$6.8 million or \$0.11 per share. A year ago in the second quarter, Callaway reported second quarter sales of \$366 million and net income of \$37.1 million or \$0.58 earnings per diluted share.

*“But whatever your view may be on the broader economic issues, golf as an industry will recover as the economy does and those players who position themselves properly and focus on the longer term will benefit from the shakeout. We are quite confident Callaway will be one of those clear beneficiaries. I really believe that the golf*

*industry has gone through or is going through a fairly short-term hiccup because of the economy,”* Fellows, April 30, 2009.

History will show this has been unprecedented times in the United States, if not throughout the world. Economies have plunged into recession before but never when the banking industry has been under the microscope. For example, in 2009 37 US banks have already been taken over by the FDIC. Capital preservation has been a redundant theme on Wall Street ever since the onset of the recession largely considered to have hit its full stride last September. It appears Callaway Golf is just now getting the message, largely prompted by its inability to renegotiate its credit facility on favorable terms. It's worth noting per [Callaway's SEC filings](#) that its weighted average interest rate is approximately 2.13% on its line of credit facility. Wall Street wasn't impressed by the company's announcements. Callaway Golf shares fell \$1.36, or 19%, to close at \$5.92 in trading on the NYSE the day after the news surfaced. For the week it ended at \$6 per share.

*“I believe that we may very well be bouncing along the bottom a bit now and when the election is over, I think we will begin perhaps a slow, but nevertheless, recovery period. If that in fact happens and the fact that we have about five months or so before most of the golf industry reopens, we're not unhopeful about the quality of '09. We add that together with the fact that our product line has finally gotten to the point where we are comfortable, that we will have a strong offering each and every year going forward, with particular emphasis on the strength of our '09 program. We're somewhat hopeful for '09. We're feeling quite a bit better about it than we were perhaps just a month or so earlier,”* George Fellows, October 30, 2008.

Following up the day after its announced intentions, Callaway said it has priced and increased by \$15 million its previously announced private offering of preferred stock. Callaway will issue \$125 million principal amount of 7.50% Series B Cumulative Perpetual Convertible Preferred Stock. The Company also granted the initial purchasers a 30-day option to purchase up to an additional \$15 million of the preferred stock, which could push the aggregate amount up to \$140 million. The preferred stock will be resold to a group of qualified institutional buyers pursuant to the Rule 144A exemption from registration under the Securities Act of 1933, as amended. The sale of the preferred stock is expected to close today, June 15, 2009. The devil is in the details, as the old saying goes. Callaway will pay cumulative dividends on the preferred stock from the date of original issue at a rate of 7.50% per annum. So the anticipated annual savings by cutting its common stock dividend will essentially go towards the new class of shares. Based on \$125 million at 7.5%, the annual expense is \$9.375 million and if the deal reaches \$140 million then the new dividend will cost Callaway \$10.5 million annually. Therefore, the anticipated \$15.2 million it outlined by cutting its dividend is somewhat immaterial as a major portion of it has largely been repositioned elsewhere.

The conversion rate into common stock was listed as \$7.05 per share. So the deal works like this, investors will be paid 7.5% rent on their money (a handsome rate compared to 30 year bonds/mortgages) while watching Callaway Golf's business to determine whether to take advantage of the conversion feature into common stock down the road. Callaway does have a clause that forces a mandatory conversion of some or all of the preferred stock. It can do so if on or prior to June 15, 2012, Callaway's common stock has exceeded 150% of the conversion price for at least 20 of the 30 consecutive trading days ending the day before the company sends the

notice of mandatory conversion. This would imply the stock is trading above \$17.63 a share for the time period described.

Callaway estimates that the net proceeds from this offering will be approximately \$119 million as the deal stand now. It intends to use it to pay down the Company's revolving line of credit, which Callaway believes will enable it to retain the credit facility's currently favorable terms and avoid the need for an amendment of such terms.

So the net effect is that Callaway pays down its credit line, which remains completely intact but added to its cost of money by agreeing to pay 7.5% versus the weighted average of 2.13% on its existing line of credit. Existing common stock shareholders have their dividend cut and face a potential dilution of their investment. In the event the preferred issue is converted into common stock, it increased the number of shares outstanding by more than 17 million, which will influence the earnings per share calculation off its current 64.5 million base.



**TAKING IT TO THE NEXT LEVEL:** Trends come and go. For that matter so do economic cycles. Sustaining those ups and downs are part and parcel of what it takes in business to stay in business. The Antigua Group, Inc.,-celebrating its 30th year in operation, has found a way to stay a step or two ahead of the pace. Its doing it again this time, with a feature on it's Golf Summer 2009 E-Catalog that makes the transition from paper to a more green delivery online with ease by including the PageFlip feature.

Suppliers can navigate to the company website at [www.antigua.com](http://www.antigua.com) and click on the "Golf Summer 2009 E-Catalog" icon at the bottom left of the front page graphic. An online catalog will open in the user's browser and from there it is possible to mimic the experience of a physical catalog while being in the online virtual world. Also, by using the online catalog there are product views and content available that would never be possible with a traditional, paper source. For example, a zoom feature increases the size of any portion of a page with significant clarity that enables viewing detail of the product. There are also live links embedded in the pages to enable visits to other related web content and video demos for product. Animation examples also make the virtual experience come to life in a way that is not possible with two-dimensional paper catalogs. These features came about as a result of the insistence of employees, which lead the company in 2008 to form the Antigua Green Team.

"Antigua as a company and its employees are committed to lessening their impact on the planet in many ways and the new catalog is part of that effort," said company president Ron McPherson.



**THE NAME GAME:** J.Lindeberg is offering the new "J.Lindeberg Art Polo / Camilo Villegas Collection" at this week's US Open. Villegas will be wearing the collection at the tournament that will be available at an exclusive list of launch partners starting in mid June. According to the company, collection centers around innovative technical shirts, with unique art-work screen-printed on the garments, which promises to be something completely new and unique to the golf world.

**ANOTHER ONE IN THE FOLD:** Nike Golf has added Amanda Blumenherst, a three-time national collegiate player of the year and winner of the 2008 U.S. Women's Amateur Championship, to its Tour staff. It's believed that she signed a multi-year agreement and will represent Nike Golf in clubs, balls, apparel, footwear, glove, bag, headwear and accessories.

"I'm very excited to be representing a company that focuses on the athlete in developing products that help them perform their very best." Blumenherst stated in a company press release. "I switched to Nike Golf clubs last year and I have been very pleased with them. Now, I'm looking forward to representing Nike from head to toe."

Blumenherst made her professional debut at the Michelob Ultra Duramed Futures Players Championship last week but has competed in five LPGA events in the last three years as an amateur including the U.S. Women's Open in 2006 and 2007 where she finished tied for 10th and 50th, respectively.

**SIDENOTE:** During a recent Barclays Investor Conference Presentation, Don Blair, Nike's Chief Financial Officer revealed Nike Golf's annual sales. Nike (NKE: NYSE) doesn't regularly divulge its golf business sales within its reporting back to Wall Street, as it falls into its "Other" category that includes other businesses. "When we decided to enter the golf business, we could've bought one of our competitors or we could've built the business organically. We decided to build it organically and we've built a \$750 million golf business and we've been cash positive the whole way and we've made money," Blair said.

**FINDING A WAY TO GET A LITTLE MORE:** Graphite Design, maker of some of the most widely played premium shafts on the PGA Tour, announced the introduction of the Tour AD YSQ shaft. The initials stand for Accuracy and Distance. The company said it is the new updated version of Graphite Design's successful YS+ series of shafts, considered by some to be an icon in golf shafts within the golfing industry for the last ten years.

"During Trackman launch monitor testing, we have seen a considerable increase in ball speed of 3% to 5% equating to longer and more accurate drives," said Tim Gillis, vice president, sales & marketing, Graphite Design. "That means a 220 yard drive could now go 226 yards or more when using the Tour AD YSQ shaft in your driver, fairway and hybrid!!"

With new developments in driver technology and as shaft materials have evolved, Graphite Design said the Tour AD YSQ has taken all the tour-proven features of the YS+ and added the benefit of improved technology to enhance the performance of today's larger drivers.

**PULLING OUT THE STOPS:** Golf is making its last push for inclusion into the 2016 Olympic Games. Annika Sorenstam and 2010 European Ryder Cup captain Colin Montgomerie are joining representatives of the International Golf Federation in Lausanne, Switzerland today. Sorenstam, who serves as a Global Ambassador in support of the IGF's effort, and Montgomerie along with Tim Finchem, PGA Tour Commissioner, LPGA of Japan President and World Golf Hall of Fame member Hisako "Chako" Higuchi, IGF Co-Secretary Peter Dawson and IGF Executive Director Ty Votaw for the presentation. Dawson and Votaw have been coordinating golf's Olympic bid.

"We feel it is very important for the IOC Executive Board to be able to personally hear from two of the game's most highly respected players in Annika and Colin," Votaw said. "We will also be presenting a film featuring 16 of the game's most prominent players including current World # 1 ranked Lorena Ochoa and Tiger Woods, as well as IGF Global Ambassador Jack Nicklaus describing the compelling reasons why golf should be reinstated as an Olympic sport after an absence of more than a century."

Golf is one of seven sports being considered for inclusion starting with the 2016 Games. The IOC Executive Committee is expected to recommend two sports in August to the IOC membership to vote on for the 2016 Olympic Program. The IOC's final vote will take place in early October at the 121st IOC session in Copenhagen, Denmark. The host for the 2016 Games will also be determined during this session. The candidate cities are: Chicago, USA; Madrid, Spain; Rio de Janeiro, Brazil; and Tokyo, Japan.

In related news, the IGF was voted in as a member of SportAccord, formerly the General Association of International Sports Federations (GAISF), during the Sportaccord conference held this past March in Denver. SportAccord, which was launched in 2003 and is owned by the GAISF, the Association of Summer Olympic International Federations and the Association of International Olympic Winter Federations, is an annual gathering of 1,500 leading representatives from international sport federations from around the world. Dawson and Votaw attended the meetings in March.

**STOCK WATCH:** U.S. stocks eked out small gains for the week. The Dow Jones Industrial Average was higher by 0.4%. While the move may not sound like much, taking a broader look at it does offer a slightly different perspective. The gain last week pushed the blue chip index into positive ground for the year, up 0.3%. The broader Standard & Poor's 500 Index managed to post a 0.7% gain for the week and it is up 4.8% for the year. Meanwhile, technology has been the place to be. The Nasdaq Composite Index closed last week at 1,858.80, up 0.5% from the week before. However, the Nasdaq is up nearly 18% for the year so far. For now the rally may be stymied as crude prices trade above \$72 a barrel give investors reason to pause and perhaps lock in gains. Markets will have some

economic data coming in this week to digest. On Monday a manufacturing survey for the New York region, followed by the housing index from the National Association of Home Builders will offer some clues. Next up on Tuesday are May's producer prices, housing starts and industrial production numbers. All eyes will be on May's consumer-price index set to come out on Wednesday, which will be fuel towards an argument over whether to be wary of inflation. Jobless claims and latest read on leading economic indicators are out on Thursday, which will be further data points for economists and analysts to pour over to support their theories.

## ***TRAVEL:***

**BACK TO SCHOOL!** Due to popular demand, those words haven't been used in quite some time it seems, but that is the reason being listed for the extension of the "Best Ever Golf School Package" at Pawleys Plantation in Pawleys Island, S.C. Perhaps the continuation is warranted through September 9, 2009, due to a recent write up in this month's edition of *The Costco Connection*. It features *Phil Ritson-Mel Sole Golf School* and directs readers to the school Web site at [www.ritson-sole.com](http://www.ritson-sole.com). The package is \$799 per person, based on double occupancy, taxes inclusive. It includes three nights accommodations in a one-bedroom suite, two rounds of golf with carts on Pawleys Plantation's signature Jack Nicklaus course, three breakfasts, and three-days of golf instruction at the aforementioned Ritson-Sole Golf School, known for offering top quality instruction at an affordable price.

"This package is one of the most popular ever offered by Pawleys Plantation," said Jann Walker, director of marketing at Pawleys Plantation. Golfers have really responded to the philosophy of our golf school (with emphasis on proven fundamentals) and Mel's commitment to offering top-notch instruction at reasonable rates. Mel's goal is to grow the game of golf. Game improvement equals player retention. People shouldn't have to pay high prices for top quality instruction because that makes learning the game and game improvement unaffordable for many middle-income people. So Mel breaks down this barrier by offering a first class golf experience at a price most people can afford."

Class size is limited to four students to ensure plenty of individual attention. Each class stays with its own instructor throughout all parts of the full swing and short game. "We are pleased to team up with the Ritson-Sole golf school to offer the 'Best Ever Golf School Package,'" said Walker. "Golf Magazine has consistently reported that the Ritson-Sole Golf School is one of the best values among America's top schools. This special package delivers an even greater value. At other top 25 schools, students would pay three to four times as much. Partner that with our award-winning Jack Nicklaus signature course and you have a golf package that truly lives up to its name."

Additional information is available at [www.pawleysplantation.com](http://www.pawleysplantation.com) or by calling Pawleys Plantation at (800) 367-9959. More information on the Phil Ritson-Mel Sole Golf School is available by calling (800) 624-4653 or online at [www.ritson-sole.com](http://www.ritson-sole.com).

*You are receiving this email after signing up for our newsletter at the*

[www.golfbiz.net](http://www.golfbiz.net) website. The Web Street Golf Report is delivered to those who voluntarily opt-in to receive this weekly newsletter. Please be sure to add this email address into your address book in order to have this mail accepted. If you feel there was an error was made and wish to remove your email address you may do so by sending a request to [TerryMcAndrew@golfbiz.net](mailto:TerryMcAndrew@golfbiz.net). Please type REMOVE ME in the subject line. All requests will be processed upon receipt. You may also call 602-485-3467 and speak to someone to handle this matter if your unable to send your instructions via email.

**THE INFORMATION CONTAINED IS BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED. THE OPINION EXPRESSED IS THAT OF TERRY MCANDREW AND SHOULD NOT BE CONSIDERED A SOLICITATION TO BUY OR SELL SECURITIES IN ANY OF THE COMPANIES DISCUSSED WITHIN THIS NEWSLETTER. CONTENTS OF THIS NEWSLETTER MAY NOT BE REPRINTED OR REBROADCAST WITHOUT THE EXPRESSED WRITTEN CONSENT OF TMAC GOLF**