GOLFSMITH INTERNATIONAL HOLDINGS INC
Form 10-Q
May 15, 2012
**Table of Contents**

# 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, 2012**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number 000-52041**

# GOLFSMITH INTERNATIONAL

# HOLDINGS, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Delaware** | **16-1634847** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **11000 N. IH-35, Austin, Texas** | **78753 3195** |
| **(Address of Principal Executive Offices)** | **(zip code)** |

**Registrant s Telephone Number, Including Area Code: (512) 837-8810**

**Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: Not Applicable**

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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 15, 2012, there were 15,927,536 shares outstanding of the registrant s common stock, par value $ .001.

**Table of Contents**

**GOLFSMITH INTERNATIONAL HOLDINGS, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2012**

**TABLE OF CONTENTS**

Table of Contents

## CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on our beliefs, assumptions and expectations of future events, taking into account the information currently available to us. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of future store openings, store remodels and capital expenditures, the likelihood of our success in expanding our business, financing plans, working capital needs and sources of liquidity. The words believe, may, should, anticipate, estimate, expect, intend, potential, project, plan, and similar statements are intended to identify forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause our actual results, performance, or financial condition to differ materially from the expectations of future results, performance, or financial condition we express or imply in any forward-looking statements. We note these factors pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These risks and uncertainties include, but are not limited to:*

- *the state of the economy;*
- *the level of discretionary consumer spending;*
- *changes in consumer preferences and demographic trends;*
- *the number of golf participants and spectators, and general demand for golf;*
- *our ability to successfully execute our multi-channel strategy;*
- *expansion into new markets;*
- *the intense competition in the sporting goods industry and actions by our competitors;*
- *the cost of our products;*
- *adverse or unseasonal weather conditions;*
- *inadequate protection of our intellectual property;*
- *our ability to protect our proprietary brands and reputation;*
- *credit and equity markets, availability of credit and other financing, and financial markets in general;*

*the timing, amount and composition of future capital expenditures;*

*the timing and number of new store openings and our expectations as to the costs associated with new store openings;*

*assumptions regarding demand for our products and the introduction of new product offerings;*

*the timing and completion of the remodeling of our existing stores;*

*the fact that a majority of our shares are currently beneficially owned by a single stockholder who can control the election of our directors and approval of significant corporate transactions;*

*the float and the market price of our shares could be affected by a distribution of shares by our majority shareholder to its investors and*

*other factors that we may not have currently identified or quantified.*

*Forward-looking statements are not guarantees of performance. Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. Many of these factors are beyond our ability to control or predict. Our forward-looking statements speak only as of the date of this report. Other than as required by law, we undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.*

Table of Contents

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**Golfsmith International Holdings, Inc.**

**Condensed Consolidated Balance Sheets**

| | March 31, 2012 (unaudited) | April 2, 2011 (unaudited) | December 31, 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 8,694,616 | $ 547,119 | $ 2,647,478 |
| Receivables, net of allowances of $377,805, $94,749, and $881,035 as of March 31, 2012, April 2, 2011 and December 31, 2011, respectively | 3,699,140 | 2,663,238 | 5,955,683 |
| Inventories | 123,551,231 | 98,926,130 | 90,375,824 |
| Prepaid expenses and other current assets | 14,954,197 | 9,172,696 | 8,717,141 |
| Total current assets | 150,899,184 | 111,309,183 | 107,696,126 |
| Property and equipment, net | 66,806,279 | 60,754,413 | 59,451,248 |
| Intangible assets, net | 27,022,251 | 25,426,094 | 25,276,751 |
| Other long-term assets | 964,160 | 2,520,635 | 2,487,402 |
| **Total assets** | **$ 245,691,874** | **$ 200,010,325** | **$ 194,911,527** |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 91,465,513 | $ 60,590,238 | $ 49,682,063 |
| Accrued expenses and other current liabilities | 20,215,788 | 19,221,776 | 22,315,818 |
| Total current liabilities | 111,681,301 | 79,812,014 | 71,997,881 |
| Deferred rent and other long-term liabilities | 18,640,692 | 16,804,339 | 16,632,995 |
| Long-term debt | 54,316,126 | 42,861,830 | 41,905,144 |
| Total liabilities | 184,638,119 | 139,478,183 | 130,536,020 |
| Stockholders Equity: | | | |
| Common stock $.001 par value; 25,000,000 shares authorized at March 31, 2012, April 2, 2011 and December 31, 2011; and 15,815,235 shares issued and outstanding at March 31, 2012 and December 31, 2011, 15,806,035 shares issued and outstanding at April 2, 2011 | 15,816 | 15,807 | 15,816 |
| Preferred stock $.001 par value; 10,000,000 shares authorized at March 31, 2012, April 2, 2011 and December 31, 2011; no shares issued and outstanding | | | |
| Deferred stock units $.001 par value; 487,322 shares outstanding at March 31, 2012, and December 31, 2011; 454,998 shares outstanding at April 2, 2011 | 487 | 455 | 487 |
| Additional paid-in capital | 126,860,233 | 125,534,974 | 126,595,381 |
| Accumulated other comprehensive loss | (280,353) | (103,330) | (341,376) |
| Accumulated deficit | (65,542,428) | (64,915,764) | (61,894,801) |
| Total stockholders equity | 61,053,755 | 60,532,142 | 64,375,507 |

| | | | |
|---|---|---|---|
| **Total liabilities and stockholders equity** | **$ 245,691,874** | **$ 200,010,325** | **$ 194,911,527** |

See accompanying notes to unaudited condensed consolidated financial statements

4

Table of Contents

**Golfsmith International Holdings, Inc.**

**Condensed Consolidated Statements of**

**Comprehensive Loss**

**(Unaudited)**

| | Fiscal Quarter Ended | |
|---|---|---|
| | **March 31, 2012** | **April 2, 2011** |
| Net revenues | $ 90,456,068 | $ 81,515,037 |
| Cost of products sold | 60,135,314 | 54,097,281 |
| Gross profit | 30,320,754 | 27,417,756 |
| Selling, general and administrative | 33,639,844 | 30,451,510 |
| Store pre-opening expenses | 1,188,429 | 307,471 |
| Lease termination charges | 426,060 | |
| Total operating expenses | 35,254,333 | 30,758,981 |
| Operating loss | (4,933,579) | (3,341,225) |
| Interest expense | 461,258 | 444,968 |
| Other income (expense), net | 72,387 | 43,265 |
| Loss before income taxes | (5,322,450) | (3,742,928) |
| Income tax benefit | 1,674,823 | 629,762 |
| Net loss | $ (3,647,627) | $ (3,113,166) |
| Net loss per common share - basic | $ (0.22) | $ (0.19) |
| Net loss per common share - diluted | $ (0.22) | $ (0.19) |
| Basic weighted average common shares outstanding | 16,302,557 | 16,261,033 |
| Diluted weighted average common shares outstanding | 16,302,557 | 16,261,033 |
| **Other Comprehensive Loss** | | |
| Foreign currency translation gain | 61,023 | 149,044 |
| **Comprehensive Loss** | $ (3,586,604) | $ (2,964,122) |

See accompanying notes to unaudited condensed consolidated financial statements

**Table of Contents**

**Golfsmith International Holdings, Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | March 31, 2012 | April 2, 2011 |
| **Operating Activities** | | |
| Net loss | $ (3,647,627) | $ (3,113,166) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 3,115,425 | 2,619,906 |
| Amortization of intangible assets | 4,501 | 97,922 |
| Amortization of debt issue costs | 34,631 | 34,630 |
| Provision for bad debt expense | | (22,089) |
| Stock-based compensation | 264,851 | 287,818 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 2,314,373 | (599,153) |
| Inventories | (31,225,826) | (19,193,976) |
| Prepaids and other current assets | (376,390) | (1,722,636) |
| Other assets | (261,388) | (259,651) |
| Accounts payable | 40,084,329 | 27,032,024 |
| Accrued expenses and other current liabilities | (7,362,848) | (2,771,403) |
| Deferred rent | 785,103 | (74,315) |
| Net cash provided by operating activities | 3,729,134 | 2,315,911 |
| **Investing Activities** | | |
| Purchases of property and equipment | (10,103,199) | (4,447,422) |
| Net cash used in investing activities | (10,103,199) | (4,447,422) |
| **Financing Activities** | | |
| Principal payments on line of credit | (25,444,435) | (23,224,000) |
| Proceeds from line of credit | 37,855,417 | 25,695,796 |
| Net cash provided by financing activities | 12,410,982 | 2,471,796 |
| Effect of exchange rate changes on cash and cash equivalents | 10,221 | 2,494 |
| Change in cash and cash equivalents | 6,047,138 | 342,779 |
| **Cash and cash equivalents, beginning of period** | 2,647,478 | 204,340 |
| **Cash and cash equivalents, end of period** | $ 8,694,616 | $ 547,119 |
| **Supplemental cash flow information:** | | |
| Interest payments | $ 457,356 | $ 440,796 |
| Income tax payments | $ 37,800 | $ 28,150 |

See accompanying notes to unaudited condensed consolidated financial statements

6

**GOLFSMITH HOLDINGS INTERNATIONAL, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Principles**

***Basis of Presentation and Principles of Consolidation***

Golfsmith International Holdings, Inc. (the Company ) is a multi-channel, specialty retailer of golf equipment, apparel and related accessories. The Company offers golf equipment from top national brands as well as its own proprietary brands. In addition, the Company provides clubmaking services, including the sale of individual club components for customers to build clubs, custom fitting and repair services. The Company is also a retailer of tennis equipment and apparel. The Company markets its products through retail stores and through its direct-to-consumer channels, which have been aggregated into one reporting segment.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary Golfsmith International, Inc. ( Golfsmith ) and its subsidiaries. The Company has no operations nor does it have any assets or liabilities other than its investment in Golfsmith. Accordingly, these unaudited condensed consolidated financial statements represent the operations of Golfsmith and its subsidiaries. All inter-company account balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. As information in this report relates to interim financial information, certain footnote disclosures required by GAAP for complete audited financial statements have been condensed or omitted. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments consisting of normal and recurring accruals considered necessary for a fair presentation of the Company s financial position, results of operations and cash flows for the periods presented. Operating results for the three-month period ended March 31, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2012. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the year ended December 31, 2011, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2012.

***Revenue Subject to Seasonal Variations***

The Company s business is seasonal and its sales leading up to and during the warm weather golf season and the December holiday gift-giving season have historically contributed a significantly higher percentage of the Company s annual net revenues and annual net operating income than in other periods during its fiscal year.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

***Fiscal Year***

The Company s fiscal year ends on the Saturday closest to December 31. The three-month periods ended March 31, 2012 and April 2, 2011 both consisted of 13 weeks.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is computed as net income (loss) plus certain other items that are recorded directly to stockholders equity. In addition to net income (loss), the components of comprehensive income (loss) also include foreign currency translation adjustments. The difference between net loss and comprehensive loss for each of the three-month periods ended March 31, 2012 and April 2, 2011 resulted from the impact of foreign currency translation and revaluation gains of $0.1 million.

***Fair Value of Financial Instruments***

The carrying amounts of the Company s cash and cash equivalents, accounts receivable and accounts payable approximate fair values due to their short-term nature. The carrying value of the Company s credit facility at March 31, 2012 approximates fair value based on rates available for similar debt available to comparable companies in the marketplace.

Table of Contents

The fair values of our financial instruments are determined using a hierarchal disclosure framework based upon the level of subjectivity of the inputs used in measuring assets and liabilities as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs are unobservable for the asset or liability and are developed based on the best information available in the circumstances, which might include the Company s own data.

***Accounts Receivable***

Accounts receivable consists primarily of amounts due from credit card merchants who process the Company s credit card sales and remit the proceeds to the Company. The Company also maintains certain accounts receivable for individual customers for whom credit is provided. Allowances are made based on historical data for estimated unrecoverable amounts. As a result of credit card processing complexities arising from a system conversion in the fourth quarter of fiscal 2011, the Company increased its allowance for doubtful accounts to $0.9 million as of December 31, 2011. During the three months ended March 31, 2012, we reduced the recorded allowance to $0.4 million.

***Recently Issued Accounting Standards***

***Presentation of Comprehensive Income:*** In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for us in our first quarter of fiscal 2012 and should be applied retrospectively. The adoption of ASU 2011-05 has had no impact on our statements of financial position, operations or cash flows.

***Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements:*** In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. ASU 2011-04 became effective for us in our first quarter of fiscal 2012. The adoption of ASU 2011-04 has had no impact on our consolidated financial statements.

Table of Contents

**2. Basic and Diluted Net Loss Per Common Share**

Basic net loss per common share is computed based on the weighted-average number of shares of common stock outstanding, including outstanding deferred stock units ( DSUs ). Diluted net loss per common share is computed based on the weighted average number of shares of common stock outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued unless anti-dilutive.

The following table sets forth the computation of basic and diluted net loss per common share for the periods indicated:

| | Three Months Ended | |
|---|---|---|
| | March 31, 2012 | April 2, 2011 |
| **Net loss** | $ (3,647,627) | $ (3,113,166) |
| **Basic:** | | |
| Weighted-average shares of common stock outstanding | 15,815,235 | 15,806,035 |
| Weighted-average shares of deferred common stock units outstanding | 487,322 | 454,998 |
| Shares used in computing basic net loss per common share | 16,302,557 | 16,261,033 |
| **Effect of dilutive securities (1):** | | |
| Stock options | | |
| Shares used in computing diluted net loss per common share | 16,302,557 | 16,199,085 |
| Basic net loss per common share | $ (0.22) | $ (0.19) |
| Diluted net loss per common share | $ (0.22) | $ (0.19) |

(1) Potentially dilutive shares of common stock include 3,205,774 and 3,327,038 of outstanding stock options under the Company s stock option plans as of March 31, 2012 and April 2, 2011, respectively. The computation of dilutive shares excluded these options because such outstanding options would be anti-dilutive due to the Company s net loss in each period.

**3. Income Taxes**

During the three-month periods ended March 31, 2012 and April 2, 2011, the Company recorded income tax benefits of approximately $1.7 million and $0.6 million on pre-tax losses of approximately $5.3 million and $3.7 million, respectively. The Company s benefit for income taxes reflects an effective tax rate of approximately of 31.5% and 16.8% for the three months ended March 31, 2012 and April 2, 2011, respectively. The increase in the effective tax rate, year over year, was driven primarily by the estimated deferred tax expense from the amortization of our indefinite-lived intangible assets. The amortization of indefinite-lived assets results in deferred tax expense and a deferred tax liability without a corresponding reduction in our valuation allowance. Due to the utilization of net operating loss carryforwards, the Company does not anticipate paying any U.S. federal income taxes in fiscal 2012.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008. The tax years 2008 through 2011 remain open to examination by all the major taxing jurisdictions to which the Company is subject, though the Company is not currently under examination by any major taxing jurisdictions.

The Company had no liability for unrecognized tax benefits at year end 2011 or as of March 31, 2012.

**4. Debt**

***Credit Facility***

The Company has a credit facility (the Credit Facility ) by and among Golfsmith International, L.P., Golfsmith NU, L.L.C. and Golfsmith USA, L.L.C., as borrowers (the Borrowers ), the Company and the other subsidiaries of the Company identified therein as credit parties (the Credit Parties ), General Electric Capital Corporation, as administrative agent (the Agent ) and lender. The Credit Facility consists of a $90.0 million asset-based revolving credit facility (the Revolver ), including a $5.0 million letter of credit sub facility. On an ongoing basis, loans incurred under the Credit Facility will be used for working capital and capital expenditures of the Borrowers and their subsidiaries (the Loans ). The Credit Facility has a term of four years and expires on July 9, 2014.

*Interest Rate and Fees*. Loans outstanding under the Credit Facility currently bear interest per annum, at the Company s election, at a rate equal to either (1) LIBOR plus a margin equal to 2.75% (such margin, the Applicable Revolver LIBOR Margin ), or (2) the Base Rate plus a margin equal to 0.25%. The Base Rate is a rate equal to the highest of (i) the publicly quoted rate as published by *The Wall Street Journal* on corporate loans posted by at least 75% of the nation s 30 largest banks, (ii) the Federal Funds Rate plus 300 basis points per annum, and (iii) the sum of LIBOR plus the excess of the Applicable Revolver LIBOR Margin over 0.25%. Commencing on January 1, 2011, the applicable margins are subject to adjustment (up or down) prospectively on a quarterly basis on the first business day of each fiscal quarter as determined by average daily borrowing availability for the immediately preceding quarter. The fee in respect of the Borrowers non-use of available funds is 0.375% with no utilization-based decrease and is payable monthly. During the three months ended March 31, 2012 and April 2, 2011, the weighted average interest rate on the Company s outstanding borrowings was 3.01% and 3.09%, respectively.

*Covenants and Events of Default*. The Credit Facility contains customary affirmative covenants regarding, among other things, the delivery of financial and other information to the lenders, maintenance of records, compliance with law, maintenance of property and insurance and conduct of the Company s existing business. The Credit Facility also contains certain customary negative covenants that limit the ability of the Credit Parties to, among other things, create liens, make investments, enter into transactions with affiliates, incur debt, acquire or dispose of assets, including merging with another entity, enter into sale-leaseback transactions and make certain restricted payments. The foregoing restrictions are subject to certain customary exceptions for facilities of this type. The Credit Facility includes events of default (and related remedies, including acceleration of the Loans made thereunder) usual for a facility of this type, including payment default, covenant default (including breaches of the covenants described above), cross-default to other indebtedness, material inaccuracy of representations and warranties, bankruptcy and involuntary proceedings, change of control and judgment default. Many of the defaults are subject to certain materiality thresholds and grace periods usual for a facility of this type. As of March 31, 2012, April 2, 2011 and December 31, 2011, the Company was in compliance with all applicable covenants.

*Borrowing Capacity*. Available amounts under the Credit Facility are calculated against a borrowing base. The borrowing base is limited to (i) 90% of the net amount of Borrowers eligible accounts, as defined in the Credit Facility, plus (ii) the lesser of (x) 70% of the Borrowers eligible inventory, as defined in the Credit Facility, or (y) up to 90% of the Borrowers net orderly liquidation value of eligible inventory, plus (iii) 63% of the fair market value of eligible real estate, as defined in the Credit Facility, minus (iv) any reserves, as defined in the Credit Facility (reserves associated with gift card liability are 25% and customer deposits are 50% of the Borrowers book value of each liability), and (v) letters of credit outstanding. The Agent has the right to establish, modify or eliminate reserves against eligible inventory and accounts from time to time in its reasonable credit judgment. The Credit Facility stipulates that borrowing availability at any given time cannot be less than $3.5 million. In addition, when the available amount of the Loans is less than 15% of the borrowing base, the Agent may request that amounts in the Borrowers accounts be forwarded to a deposit account designated by the Agent.

At March 31, 2012, the Company had $54.3 million of outstanding borrowings under its Credit Facility and $35.7 million of borrowing availability after giving effect to all reserves. At April 2, 2011, the Company had $42.9 million of outstanding borrowings under its Credit Facility and $34.7 million of borrowing availability after giving effect to all reserves. At December 31, 2011, the Company had $41.9 million of outstanding borrowings under its Credit Facility and $29.6 million of borrowing availability after giving effect to all reserves

Table of Contents

*Guarantees and Collateral*. Borrowings under the Credit Facility are jointly and severally guaranteed by the Credit Parties, and are secured by a security interest granted in favor of the Agent, for itself and for the benefit of the lenders, in substantially all of the personal and owned real property of the Credit Parties, including a lien on all of the equity securities of the Borrowers and each of the Borrower s current and future domestic subsidiaries.

The Company has no operations other than its investment in its wholly-owned subsidiary Golfsmith, and its liability under its Credit Facility. Golfsmith and its domestic subsidiaries comprise all of the Company s assets, liabilities and operations, including its liabilities under its Credit Facility. There are no restrictions in the Credit Facility on the transfer of funds in the ordinary course of business between the Company, Golfsmith and any of Golfsmith s domestic subsidiaries.

**5. Intangible Assets**

Identifiable intangible assets consisted of the following as of each of the periods presented:

| | March 31, 2012 | | April 2, 2011 | | December 31, 2011 | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization |
| Definite lived intangibles | | | | | | |
| Customer database | $ 3,448,963 | $ (3,448,963) | $ 3,448,963 | $ (3,253,120) | $ 3,448,963 | $ (3,448,963) |
| Patents | 180,000 | (38,000) | 100,000 | | 180,000 | (33,500) |
| | $ 3,628,963 | $ (3,486,963) | $ 3,548,963 | $ (3,253,120) | $ 3,628,963 | $ (3,482,463) |
| Indefinite lived intangibles | | | | | | |
| Trade names | $ 11,158,000 | $ | $ 11,158,000 | $ | $ 11,158,000 | $ |
| Trademarks | 15,722,251 | | 13,972,251 | | 13,972,251 | |
| | $ 26,880,251 | $ | $ 25,130,251 | $ | $ 25,130,251 | $ |
| Total | $ 30,509,214 | $ (3,486,963) | $ 28,679,214 | $ (3,253,120) | $ 28,759,214 | $ (3,482,463) |

*Definite lived intangibles*

Amortization expense related to the Company s definite lived intangibles was approximately $0.04 million and $0.1 million during the three month periods ended March 31, 2012 and April 1, 2011, respectively. Amortization expense is recorded in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations. The Company s definite lived intangibles include a customer database, which was fully amortized as of December 31, 2011, and patents for certain intellectual property, which are being amortized over an estimated useful life of 10 years through fiscal 2021.

*Indefinite lived intangibles*

On May 20, 2009, we entered into a license agreement with MacGregor Golf Company. Under the terms of the license agreement, we obtained an exclusive perpetual license and sub-license in and to certain MacGregor® trademarks throughout the United States, Canada, Europe, Africa, South America and Australia for a total of $1.75 million payable in eight quarterly installments beginning in May 2010. In conjunction with the Company s final installment in February 2012, our interest in the MacGregor trademarks was reclassified from other long-term assets to intangible assets.

**6. Commitments and Contingencies**

*Lease Commitments*

The Company leases all but one of its store locations under operating leases that provide for annual payments that, in some cases, increase over the life of the lease. The operating leases expire at various times through June 2028. The aggregate of the minimum annual payments is expensed on a straight-line basis over the term of the related lease. In addition, the Company has entered into certain sublease agreements with third parties to sublease retail space previously occupied by the Company. The sublease terms end at various times through June 2022. Rent expense, net of sublease rental income, was $7.25 million and $5.8 million for the three-month periods ended March 31, 2012 and April 2, 2011, respectively. Sublease rental income was $0.3 million for each of the three-month periods ended March 31, 2012 and April 2, 2011.

During the first quarter of 2012, the Company recorded a $0.4 million charge for estimated lease termination costs associated with a store relocation which occurred in March of the current year. (See Note 7 of the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). The lease has future minimum lease payments of $0.3 million, $0.4 million, $0.4 million and $0.3 million for fiscal years 2012, 2013, 2014 and 2015, respectively. In addition, the Company is liable for other expenses related to the above lease, such as property taxes and common area maintenance.

Table of Contents

*Legal Proceedings*

On June 3, 2010, Ed Leo, together with three other plaintiffs, filed a lawsuit against the Company in the California Superior Court of San Diego County in connection with a Women s Night promotional event held by the Company on March 25, 2010. The plaintiff s claim is based on alleged violations of the Unruh Act, California legislation which has been interpreted to prohibit promotional activities that discriminate on the basis of certain protected classes. While the plaintiffs in this action have alleged that the Company engaged in conduct that was discriminatory and actionable, the Company disputes these claims and intends to vigorously contest the lawsuit. At this time, it is not possible to estimate the amount of loss or range of possible loss, if any, that might result from an adverse resolution of this matter.

The Company is involved in various other legal proceedings arising in the ordinary course of conducting business. The Company believes that the ultimate outcome of such matters, in the aggregate, will not have a material adverse impact on our financial position, liquidity or results of operations. The Company believes the amounts provided in our audited consolidated financial statements are adequate in consideration of the probable and estimable liabilities.

**7. Lease Termination Charges**

During the first quarter of 2012, the Company recorded a $0.4 million charge for estimated lease termination costs associated with a store relocation which occurred in March of the current year. The fair value of this estimated charge was determined based on the Company s discounted cash obligation to the landlord of this property, net of estimated sublease reimbursements, and is therefore regarded as a Level 3 fair value measurement. (See Note 6 of the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q).

**8. Subsequent Events**

On May 14, 2012, Golf Town USA Holdings, Inc. ( Golf Town ) and Golfsmith announced that they entered into a definitive merger agreement, pursuant to which holders of the outstanding shares of the Golfsmith s common stock at the effective time of the merger will receive $6.10 per share in cash.

The boards of directors of both Golf Town and Golfsmith have approved the transaction, in our case, following the approval and recommendation of a transaction committee of independent directors. Atlantic Equity Partners III, L.P. and certain of our executive officers, holding collectively a majority of our outstanding shares of common stock, have executed a written consent approving the transaction and the transaction is not subject to further stockholder approval.

Golfsmith and Golf Town have made customary representations, warranties and covenants in the merger agreement.

The closing of the transaction, which is subject to limited closing conditions, including regulatory approvals, is expected to occur in the third quarter of 2012. The transaction is not subject to a financing condition. In the three-month period ended March 31, 2012, we incurred $0.2 million in legal and other expenses related to our merger as described above.

Table of Contents

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**Forward-Looking Statements**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. See the cautionary statement regarding forward-looking statements on page 3 of this Quarterly Report for a description of important factors that could cause actual results to differ from expected results.*

**Overview**

We are one of the nation s largest specialty retailers of golf equipment, apparel, footwear and accessories. We operate as an integrated multi-channel retailer, offering our customers the convenience of shopping in our retail locations across the nation and through our direct-to-consumer channel, which includes both our Internet site, *www.golfsmith.com*, and our direct mail catalogs. As of March 31, 2012, we operated 82 retail stores in 24 states and 38 markets. We were founded in 1967 as a golf clubmaking company offering custom-made clubs, clubmaking components and club repair services. In 1972, we opened our first retail store, in 1975, we mailed our first general golf products catalog, and in 1997, we launched our Internet site designed to expand our direct-to-consumer business.

During the three months ended March 31, 2012, we opened three new stores in three new markets and relocated our Walnut Creek location as part of our plan to open ten new stores and relocate four existing retail sites in 2012. On April 12th, we announced the relocation of our Park Meadows store in Denver, Colorado. On April 13th, we announced the grand opening of a new, extreme golf retail center in Atlanta, Georgia. On April 30th, we opened a new store in Cleveland, Ohio, and on May 10th, we opened another new store in Wilmington, Delaware. In the future, we will continue to explore strategic opportunities to open additional stores in existing and new geographic markets, as well as evaluate our effectiveness in existing markets.

As a specialty retailer, we are subject to changes in consumer confidence and economic conditions that impact our customers. The demand for our products is affected by the financial health of our customers, which may be adversely influenced by macroeconomic factors such as unemployment, fuel and energy costs, weakness in the housing market and unavailability of consumer credit. The demand for our products was adversely impacted by the recent economic downturn. In response to this downturn, beginning in fiscal 2008 and continuing into fiscal 2012, we took significant steps to reduce our cost structure and introduce increased operational efficiencies. We expect to leverage this reduced cost structure to improve profitability in the future.

In addition to future new store openings, a significant part of our growth strategy continues to be enhancing the non-clubmaking and Internet portions of our direct-to-consumer channel. Our plan also entails the ongoing development of our own brand portfolio, as we continue to grow our proprietary business.

**Recent Developments**

On May 14, 2012, Golf Town USA Holdings, Inc. ( Golf Town ) and Golfsmith announced that they entered into a definitive merger agreement, pursuant to which holders of the outstanding shares of the Golfsmith s common stock at the effective time of the merger will receive $6.10 per share in cash.

The boards of directors of both Golf Town and Golfsmith have approved the transaction, in our case, following the approval and recommendation of a transaction committee of independent directors. Atlantic Equity Partners III, L.P. and certain of our executive officers, holding collectively a majority of our outstanding shares of common stock, have executed a written consent approving the transaction and the transaction is not subject to further stockholder approval.

Golfsmith and Golf Town have made customary representations, warranties and covenants in the merger agreement.

The closing of the transaction, which is subject to limited closing conditions, including regulatory approvals, is expected to occur in the third quarter of 2012. The transaction is not subject to a financing condition. In the three month period ended March 31, 2012, we incurred $0.2 million in legal and other expenses related to our merger as described above.

**Fiscal Year**

Our fiscal year ends on the Saturday closest to December 31 and consists of either 52 weeks or 53 weeks. Each quarter of each fiscal year generally consists of 13 weeks. The three month periods ended March 31, 2012 and April 2, 2011 each consisted of 13 weeks.

Table of Contents

**Results of Operations**

The following table presents our unaudited condensed consolidated statements of operations and the related percentage of total net revenues for the three-month periods ended March 31, 2012 and April 2, 2011:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2012 | | April 2, 2011 | |
| Net revenues (1) | $ 90,456,068 | 100.0% | $ 81,515,037 | 100.0% |
| Cost of products sold (2) | 60,135,314 | 66.5% | 54,097,281 | 66.4% |
| Gross profit | 30,320,754 | 33.5% | 27,417,756 | 33.6% |
| Selling, general and administrative | 33,639,844 | 37.2% | 30,451,510 | 37.4% |
| Store pre-opening expenses (3) | 1,188,429 | 1.3% | 307,471 | 0.4% |
| Lease termination charges (4) | 426,060 | 0.5% | | 0.0% |
| Total operating expenses | 35,254,333 | 39.0% | 30,758,981 | 37.7% |
| Operating loss | (4,933,579) | -5.5% | (3,341,225) | -4.1% |
| Interest expense | 461,258 | 0.5% | 444,968 | 0.5% |
| Other income (expense), net | 72,387 | 0.1% | 43,265 | 0.1% |
| Loss before income taxes | (5,322,450) | -5.9% | (3,742,928) | -4.6% |
| Income tax benefit | 1,674,823 | 1.9% | 629,762 | 0.8% |
| Net loss | $ (3,647,627) | -4.0% | $ (3,113,166) | -3.8% |

(1) Net revenues consist of merchandise sales, net of actual and expected returns, from our stores and our direct-to-consumer business, as well as gift card breakage.

(2) Cost of products sold includes inbound freight, vendor discounts and rebates as well as cooperative promotional vendor income that does not pertain to incremental direct advertising costs. It also includes salary and facility expenses, such as depreciation and amortization, associated with our distribution and fulfillment center in Austin, Texas.

(3) Store pre-opening expenses consist primarily of rent, marketing, payroll and recruiting costs related to the opening of new retail stores that are incurred prior to a new store opening.

(4) During the first quarter of 2012, we recorded a $0.4 million charge for estimated lease termination costs associated with a store relocation which occurred in March of the current year. (See Notes 6 and 7 to our unaudited condensed consolidated financial statements).

**Table of Contents**

The following table presents consolidated net revenues by channel and comparable store sales percentage changes for the three-month periods ended March 31, 2012 and April 2, 2011:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2012 | April 2, 2011 | $ Change | % Change |
| Comparable stores (1) | $ 71,003,319 | $ 65,418,987 | $ 5,584,332 | 8.5% |
| Non-comparable stores | 5,320,700 | 1,252,165 | 4,068,535 | 324.9% |
| Total stores (2) | 76,324,019 | 66,671,152 | 9,652,867 | 14.5% |
| Direct-to-consumer | 12,152,121 | 12,752,769 | (600,648) | -4.7% |
| International distributors and other (3) | 1,979,928 | 2,091,116 | (111,188) | -5.3% |
| Net revenues | $ 90,456,068 | $ 81,515,037 | $ 8,941,031 | 11.0% |

(1) We consider sales by a new store to be comparable commencing in the fourteenth month after the store was opened or acquired. We consider sales by a relocated store to be comparable if the relocated store is expected to serve a comparable customer base and there is not more than a 30-day period during which neither the original store nor the relocated store is closed for business. We consider sales by retail stores with modified layouts to be comparable. We consider sales by stores that are closed to be comparable in the period leading up to closure if they meet the qualifications of a comparable store and do not meet the qualifications to be classified as discontinued operations.

(2) Included in total stores net revenues is $2.7 million and $4.5 million for the three months ended March 31, 2012 and April 2, 2011, respectively, related to sales transacted online and either picked up by the customer at our stores or shipped to the customer from one of our retail stores.

(3) Consists of sales made through our international distributors and our distribution and fulfillment center near London, England, gift card breakage revenue and other miscellaneous revenue.

***Three Months ended March 31, 2012 compared to Three Months ended April 2, 2011***

*Net Revenues.* Net revenues increased 11.0% to $90.5 million for the three months ended March 31, 2012 from $81.5 million for the three months ended April 2, 2011. The increase was primarily due to a $9.7 million increase in our store revenues, partially offset by a $0.6 million decline in sales from our direct-to-consumer channel. Our comparable store revenues increased $5.6 million, or 8.5%, during fiscal 2012, as compared to fiscal 2011. In addition to an increase in sales among our existing retail locations, net revenues benefited from $4.1 million in sales associated with expansion of our store base. Retail revenue also benefited from an improvement in weather conditions and marketing initiatives targeted at our niche customer base. During the three months ended March 2012, golf rounds played, a leading indicator of golf participation tracked by Golf Datatech L.L.C., increased 22.0% compared to the same period in the previous year. The decline in revenue from our direct-to-consumer channel year-over-year is primarily attributable to sales decreases in clubmaking components and clubs. Internet sales also declined 3.5% due to a change in process for delivering clearance apparel from stores.

*Gross Profit*. Consolidated gross profit, as a percentage of net revenues, decreased to 33.5% for the three months ended March 31, 2012 from 33.6% for the three months ended April 2, 2011. Gross profits for the current period were primarily affected by a decline in merchandise margins of 0.8%, as percentage of net revenues, as compared to the first quarter of fiscal 2011. Margins during the first quarter of fiscal 2012 were also negatively impacted by clearance on apparel which was launched immediately following the holiday shopping season. This decrease in gross profits over the prior year was partially offset by an increase in the amount of vendor funding received in excess of direct advertising expenditures and a decrease in shipping and freight expense, as a percentage of net revenues.

Table of Contents

*Selling, general and administrative expenses*. Selling, general and administrative expenses increased to $33.6 million, or 10.5%, for the three months ended March 31, 2012 from $30.5 million for the three months ended April 2, 2011. As a percentage of net revenues, selling, general and administrative expenses decreased to 37.2% for fiscal 2012 from 37.4% for fiscal 2011. The increase in selling, general and administrative expenses over the previous year in absolute dollars primarily relates to five new stores, three of which opened in the current fiscal quarter, two store relocations and an increase in credit card fees of $0.5 million driven by an increase in sales over the previous year. The first quarter ended March 31, 2012, was also affected by an increase in chargebacks of approximately $0.4 million as a result of credit card processing complexities arising from our system conversion in the fourth quarter of fiscal 2011, partially offset by a $0.3 million reduction in our allowance of doubtful accounts that was recorded at as of December 31, 2011. In addition to these charges, selling, general and administrative expenses include $0.2 million in severance for a former executive and $0.2 million in expenses for legal and other professional services associated with the transaction as discussed under Recent Developments. (See also Note 8 to our unaudited condensed consolidated financial statements).

*Store pre-opening.* Store pre-opening expenses were $1.2 million and $0.3 million in each of the three-month periods ended March 31, 2012 and April 2, 2011, respectively. Fiscal 2012 reflects occupancy charges primarily related to ten new stores, three of which opened in the current quarter, one store relocation and two additional relocations which are scheduled to occur later in the year. The previous year consists primarily of occupancy charges related to three new store openings in fiscal 2011.

*Lease termination charges.* During the first quarter of 2012, we recorded a $0.4 million charge for estimated lease termination costs associated with a store relocation which occurred in March of the current year. (See Notes 6 and 7 to our unaudited condensed consolidated financial statements).

*Interest expense* . Interest expense consists primarily of interest incurred on borrowings under our Credit Facility. For the three months ended March 31, 2012, interest expense increased to $0.5 million from $0.4 million for the three months ended April 2, 2011. As a percentage of net revenues, interest expense remained constant year over year at 0.5%.

*Other income (expense), net* **.** There were minimal changes in other income (expense), net during the three months ended March 31, 2012 as compared to the three months ended April 2, 2011. Included in other income (expense), net are realized foreign currency exchange rate gains/losses and other miscellaneous income.

*Income tax benefit*. During the three-month periods ended March 31, 2012 and April 2, 2011, we recorded income tax benefits of approximately $1.7 million and $0.6 million on pre-tax losses of approximately $5.3 million and $3.7 million, respectively. Our benefit for income taxes reflects an effective tax rate of approximately of 31.5% and 16.8% for the three months ended March 31, 2012 and April 2, 2011, respectively. The increase in the effective tax rate, year over year, was driven primarily by the estimated deferred tax expense from the amortization of our indefinite-lived intangible assets. The amortization of indefinite-lived assets results in deferred tax expense and a deferred tax liability without a corresponding reduction in our valuation allowance. The income tax benefit for the periods differed from the amount which would have been recorded using the U.S. statutory tax rate of 34% primarily due to a change in our valuation allowances. See Note 3 of the notes to Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q for further discussion.

**Liquidity and Capital Resources**

As of March 31, 2012, our primary sources of liquidity consisted of cash and cash equivalents totaling $8.7 million and $35.7 million of available borrowings under our Credit Facility which is more fully described in Note 4 of the notes to our unaudited condensed consolidated financial statements, included in this Form 10-Q. As of March 31, 2012, we had outstanding debt obligations under our Credit Facility of $54.3 million.

Historically, cash flows generated from operations and our borrowing capacity under our Credit Facility have allowed us to meet our cash requirements, including capital expenditures and working capital needs. In addition, future cash outflows related to new store openings, advertising, store remodels, and other expenditures have been adjusted and may need to be further adjusted accordingly from time to time in the future. For the remainder of fiscal 2012, we anticipate incurring approximately $6.2 million in capital expenditures, excluding tenant improvement allowances, related primarily to our new store openings, various store remodels and investments in our information technology infrastructure.

Also, additional expenses are being incurred in 2012 for legal and other professional services associated with the transaction as discussed under Recent Developments. (See also Note 8 to our unaudited condensed consolidated financial statements).

If cash generated from operations and available borrowings under our Credit Facility are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or arrange additional debt financing. If cash from operations and cash available under our Credit Facility are not sufficient to meet our needs, we cannot be certain that we will be able to obtain additional financing in sufficient amounts and/or on acceptable terms in the near future or when our facility expires in July 2014.

Table of Contents

**Cash Flows**

| | Three Months Ended | |
|---|---|---|
| | March 31, 2012 | April 2, 2011 |
| Net cash provided by operating activities | $ 3,729,134 | $ 2,315,911 |
| Net cash used in investing activities | (10,103,199) | (4,447,422) |
| Net cash provided by financing activities | 12,410,982 | 2,471,796 |
| Effect of exchange rate changes on cash | 10,221 | 2,494 |
| Change in cash and cash equivalents | $ 6,047,138 | $ 342,779 |

*Operating Activities*

Our cash flows from operations are seasonal. Operating activities provided $3.7 million and $2.3 million of cash for the three months ended March 31, 2012 and April 2, 2011, respectively. The increase in cash provided by operating activities during the three months ended March 31, 2012, as compared to the prior year, primarily reflects the timing of rent and other working capital requirements.

*Investing Activities*

Cash used in investing activities primarily relates to building out new stores, remodeling or relocating existing stores, purchasing information technology, as well as capital expenditures for our distribution facilities and corporate headquarters. Investing activities used $10.1 million and $4.5 million of cash for the three months ended March 31, 2012 and April 2, 2011, respectively. Cash was used during the current year quarter to build out ten new stores, three of which opened during the three months ended March 31, 2011, and to relocate two of our existing locations as part of our plan for fiscal 2012. Cash was used during the prior year quarter to build out two new stores and to remodel several of our existing locations.

*Financing Activities*

Financing activities provided $12.4 million and $2.5 million of cash for the three months ended March 31, 2012 and April 2, 2011, respectively. Cash flow from financing activities primarily relates to the net of borrowings and principal payments under our Credit Facility.

**Indebtedness**

As of March 31, 2012, we had approximately $54.3 million in aggregate indebtedness outstanding and $35.7 million in available borrowings under our Credit Facility, after giving effect to all reserves. At April 2, 2011, the Company had $42.9 million in aggregate indebtedness outstanding and $34.7 million in available borrowings under our Credit Facility, after giving effect to all reserves. As of December 31, 2011, we had approximately $41.9 million in aggregate indebtedness outstanding and $29.6 million in available borrowings under our credit facility, after giving effect to all reserves.

Our Credit Facility contains customary affirmative covenants regarding, among other things, the delivery of financial and other information to the lenders, maintenance of records, compliance with law, maintenance of property and insurance and conduct of our existing business. The Credit Facility also contains certain customary negative covenants that limit the ability of the Credit Parties (as defined in Note 4 of the notes to our Unaudited Condensed Consolidated Financial Statements) to, among other things, create liens, make investments, enter into transactions with affiliates, incur debt, acquire or dispose of assets, including merging with another entity, enter into sale-leaseback transactions, and make certain restricted payments. As of March 31, 2012, we were in compliance with all applicable covenants. See Note 4 of the notes to our Unaudited Condensed Consolidated Financial Statements for further discussion of the terms of our Credit Facility.

Borrowings under our Credit Facility typically increase as working capital requirements increase in anticipation of peak selling periods in late spring and in advance of the December holiday gift-giving season, and then decline following these periods. In the event sales results are less than anticipated and our working capital requirements remain constant, the amount available under our Credit Facility may not be adequate to satisfy our needs. If this were to occur, we may not succeed in obtaining additional financing in sufficient amounts, if at all, and/or on acceptable terms.

Table of Contents

**Off-Balance Sheet Arrangements**

As of March 31, 2012, we did not have any off-balance sheet arrangements as defined by the rules and regulations of the SEC.

**Critical Accounting Policies and Estimates**

Our significant accounting policies are more fully described in Note 1 of our Audited Consolidated Financial Statements in our Annual Report on Form 10-K filed with the SEC on March 30, 2012. Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. Those estimates are based on our historical experience, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. These estimates are subject to an inherent degree of uncertainty. We have chosen accounting policies that we believe are appropriate to report accurately and fairly (in accordance with Generally Accepted Accounting Principles), our operating results and financial position, and we apply those accounting policies in a consistent manner. Our critical accounting policies have not changed significantly since the filing of our Annual Report.

**Recent Accounting Pronouncements**

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for us in our first quarter of fiscal 2012. The adoption of ASU 2011-05 has had no impact on our statements of financial position, operations or cash flows.

May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. ASU 2011-04 became effective for us in our first quarter of fiscal 2012 and should be applied prospectively. The adoption of ASU 2011-04 has had no impact on our consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, we are not required to provide the information otherwise required by this Item.

**ITEM 4. CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based upon, and as of the date of this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

During the quarter ended March 31, 2012, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II: OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 6 of the Notes to the Unaudited Condensed Consolidated Financial Statements for a description of our legal proceedings.

### ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this Item.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

| | |
|---|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Martin E. Hanaka |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Sue E. Gove |
| 32.1 | Certification of Martin E. Hanaka Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith |
| 32.2 | Certification of Sue E. Gove Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema Document |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document |

** XBRL information is furnished, not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

GOLFSMITH INTERNATIONAL HOLDINGS, INC.

By: /s/ Martin E. Hanaka
Martin E. Hanaka
Chairman and Chief Executive Officer
(Principal Executive Officer and
Authorized Signatory)
Date: May 15, 2012

By: /s/ Sue E. Gove
Sue E. Gove
President, Chief Operating Officer and
Chief Financial Officer
(Principal Financial and Accounting
Officer and Authorized Signatory)
Date: May 15, 2012