

GOLFSMITH INTERNATIONAL HOLDINGS INC

Form DEFM14C

June 28, 2012

Table of Contents

## **SCHEDULE 14C INFORMATION**

**Information Statement Pursuant to Section 14(c) of the**

**Securities Exchange Act of 1934**

**(Amendment No.     )**

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

# **GOLFSMITH INTERNATIONAL HOLDINGS, INC.**

**(Name of Registrant As Specified In Its Charter)**

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

**11000 North IH-35**

**Austin, TX 78753**

**NOTICE OF ACTION BY WRITTEN CONSENT AND APPRAISAL RIGHTS**

**AND**

**INFORMATION STATEMENT**

**WE ARE NOT ASKING YOU FOR A PROXY AND**

**YOU ARE REQUESTED NOT TO SEND US A PROXY**

Fellow Stockholders:

This Notice of Action by Written Consent and Appraisal Rights and Information Statement is being furnished to the holders of common stock, par value \$0.001 per share ( Common Stock ), of Golfsmith International Holdings, Inc., which we refer to as Golfsmith, in connection with the Agreement and Plan of Merger (the Merger Agreement ), dated as of May 11, 2012, among Golfsmith, Golf Town USA Holdings Inc., a Delaware corporation ( Golf Town ) and Major Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Golf Town ( Merger Sub ). Pursuant to the Merger Agreement, Merger Sub will merge with and into Golfsmith and the separate corporate existence of Merger Sub will cease (the Merger ). At the effective time of the Merger, each share of Common Stock issued and outstanding immediately prior to the effective time of the Merger, other than shares owned by Golf Town or any of its direct or indirect subsidiaries, shares owned by Golfsmith or any of its direct or indirect wholly-owned subsidiaries and shares owned by any stockholder who has perfected and not withdrawn a demand for or lost appraisal rights under Section 262 of the General Corporation Law of the State of Delaware ( DGCL ), will be converted into the right to receive \$6.10 per share in cash, without interest (the Per Share Merger Consideration ), and the aggregate amount for all such shares, the Merger Consideration ). A copy of the Merger Agreement is attached as Annex A to the accompanying Information Statement.

The Transaction Committee (the Transaction Committee ) formed by Golfsmith s Board of Directors (the Golfsmith Board ) to consider and evaluate a potential sale of Golfsmith, unanimously adopted resolutions (i) approving and declaring advisable the Merger, the Merger Agreement and the other transactions contemplated by the Merger Agreement, on the terms and subject to the conditions set forth in the Merger Agreement and (ii) recommending the Golfsmith Board approve the Merger and the Merger Agreement and the other transactions contemplated by the Merger Agreement. The Golfsmith Board, having considered the recommendation of the Transaction Committee and having reviewed and evaluated the merits of the Merger, unanimously adopted resolutions (i) approving and declaring advisable the Merger, the Merger Agreement and the other transactions contemplated by the Merger Agreement, on the terms and subject to the conditions set forth in the Merger Agreement, (ii) resolving that the adoption of the Merger Agreement be submitted to Golfsmith s stockholders for a vote and (iii) resolving to recommend to Golfsmith s stockholders that they adopt the Merger Agreement.

The adoption of the Merger Agreement required the affirmative vote or written consent of the holders of a majority of our issued and outstanding shares of Common Stock. On May 11, 2012, Atlantic Equity Partners III, L.P. ( AEP ), Martin Hanaka, Chief Executive Officer and Chairman of Golfsmith, and Sue Gove, President, Chief Operating Officer and Chief Financial Officer of Golfsmith (collectively, the Supporting Stockholders ), together owning approximately 51.1% of our issued and outstanding shares of Common Stock on such date, each delivered a written consent, among other things, adopting the Merger Agreement and authorizing the transactions contemplated by the Merger Agreement, including the Merger. As a result, no further action by any other

## Table of Contents

Golfsmith stockholder is required to adopt the Merger Agreement or to authorize the transactions contemplated thereby. Additionally, on May 23, 2012, each of Carl Paul, Franklin Paul and trusts of, and certain members of, their family (collectively, the Paul Stockholders), and, collectively with the Supporting Stockholders, the Consenting Stockholders) executed and delivered a written consent, among other things, adopting the Merger Agreement and authorizing the transactions contemplated by the Merger Agreement, including the Merger. As of such date, the Consenting Stockholders together owned approximately 60.8% of our issued and outstanding shares of Common Stock. Golfsmith has not solicited and will not be soliciting your authorization and adoption of the Merger Agreement and does not intend to convene a stockholders meeting for the purposes of voting on the authorization and adoption of the Merger Agreement. Accordingly, your vote in favor of the adoption of the Merger Agreement is not required and is not being requested. **This notice and the accompanying Information Statement constitute notice to you from Golfsmith of the action by written consent taken by the Supporting Stockholders, as contemplated by Section 228 of the DGCL.**

Under Section 262 of the DGCL, if the Merger is completed, subject to compliance with the requirements of Section 262 of the DGCL, holders of shares of Common Stock, other than the Consenting Stockholders, will have the right to seek an appraisal for the fair value of their shares of Common Stock (as determined by the Court of Chancery of the State of Delaware) instead of receiving the Merger Consideration. To exercise your appraisal rights, you must demand in writing appraisal by July 19, 2012, which is the date that is 20 days following the date of mailing of the accompanying Information Statement and comply with the procedures set forth in Section 262 of the DGCL, which are summarized in the accompanying Information Statement. A copy of Section 262 of the DGCL is attached to the accompanying Information Statement as Annex C.

**This notice and the accompanying Information Statement constitute notice to you from Golfsmith of the availability of appraisal rights under Section 262 of the DGCL. In view of the complexity of the DGCL, stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors promptly.**

We urge you to read the entire Information Statement and its annexes carefully. Please do not send in your stock certificates at this time. If the Merger is completed, you will receive instructions regarding the surrender of your stock certificates and payment for your shares of Common Stock.

By Order of the Golfsmith Board.

Martin Hanaka

*Chief Executive Officer and Chairman of the Board*

**Neither the U.S. Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the Merger, passed upon the merits or fairness of the Merger or passed upon the adequacy or accuracy of the information contained in this notice or the accompanying Information Statement. Any representation to the contrary is a criminal offense.**

This Information Statement is dated June 28, 2012 and is first being mailed to our stockholders on June 29, 2012.

**Table of Contents**

**TABLE OF CONTENTS**

<u>SUMMARY</u>	1
<u>Parties to the Merger</u>	1
<u>The Merger</u>	2
<u>The Transaction Committee</u>	3
<u>Reasons for the Merger; Recommendation of the Transaction Committee and Golfsmith Board</u>	3
<u>Stockholder Action by Written Consent</u>	3
<u>Opinion of Lazard Middle Market LLC</u>	4
<u>Interests of Certain Persons in the Merger</u>	4
<u>Financing</u>	5
<u>Merger Agreement</u>	5
<u>Regulatory Filings Required in Connection with the Merger</u>	7
<u>Material U.S. Federal Income Tax Consequences of the Merger</u>	7
<u>Appraisal Rights of Existing Stockholders</u>	8
<u>Market Price of Our Common Stock</u>	8
<u>Litigation Related to the Merger</u>	8
<u>Delisting and Deregistration of Our Common Stock</u>	8
<u>QUESTIONS AND ANSWERS ABOUT THE MERGER</u>	9
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION</u>	12
<u>THE MERGER</u>	14
<u>Parties to the Merger</u>	14
<u>The Merger</u>	14
<u>The Transaction Committee</u>	14
<u>The Merger</u>	16
<u>The Per Share Merger Consideration</u>	16
<u>Background of the Merger</u>	16
<u>Reasons for the Merger; Recommendation of the Transaction Committee and Golfsmith Board</u>	33
<u>Opinion of Lazard Middle Market LLC</u>	40
<u>Projected Financial Information</u>	47
<u>Interests of Certain Persons in the Merger</u>	50
<u>Financing</u>	58
<u>Regulatory Filings Required in Connection with the Merger</u>	58
<u>Material U.S. Federal Income Tax Consequences of the Merger</u>	59
<u>Litigation Related to the Merger</u>	61
<u>THE MERGER AGREEMENT</u>	63
<u>Explanatory Note Regarding the Merger Agreement and the Summary of the Merger Agreement</u>	63
<u>Effects of the Merger; Directors and Executive Officers; Certificate of Incorporation; Bylaws</u>	63
<u>Closing and Effective Time</u>	64
<u>Treatment of Common Stock, Options and Awards</u>	64
<u>Exchange and Payment Procedures</u>	65
<u>Representations and Warranties</u>	65
<u>Conduct of Our Business Pending the Merger</u>	68
<u>Restrictions on Solicitation</u>	69
<u>Stockholder Action by Written Consent</u>	72
<u>Further Action; Efforts</u>	73
<u>Indemnification; Directors and Officers Insurance</u>	74
<u>Employment and Employee Benefit Matters</u>	74
<u>Conditions to the Merger</u>	75
<u>Termination</u>	76
<u>Termination Fees</u>	77
<u>VOTING AGREEMENT AND WRITTEN CONSENT</u>	78
<u>MARKET PRICE OF OUR COMMON STOCK AND DIVIDEND INFORMATION</u>	79

**Table of Contents**

<u>APPRAISAL RIGHTS</u>	80
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	84
<u>HOUSEHOLDING OF MATERIALS</u>	87
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	87

**Table of Contents**

**SUMMARY**

*The following summary highlights selected information from this information statement (this Information Statement ) and may not contain all of the information that is important to you. Accordingly, we encourage you to read this entire Information Statement and its annexes carefully, as well as those additional documents to which we refer you. Items in this summary include a page reference directing you to a more detailed description of that item in this Information Statement.*

*Unless we otherwise indicate or unless the context requires otherwise, all references in this Information Statement to Golfsmith, we, our and us refer to Golfsmith International Holdings, Inc. and, where appropriate, its subsidiaries; all references to Golf Town refer to Golf Town USA Holdings Inc.; all references to Merger Sub refer to Major Merger Sub, Inc.; all references to the Merger Agreement refer to the Agreement and Plan of Merger, dated as of May 11, 2012, among Golfsmith, Golf Town and Merger Sub, as it may be amended from time to time, a copy of which is attached as Annex A to this Information Statement; all references to the Merger refer to the merger of Merger Sub with and into Golfsmith, with Golfsmith as the surviving corporation, as contemplated by the Merger Agreement; all references to the Per Share Merger Consideration refer to the consideration of \$6.10 per share in cash, without interest and subject to any required withholding taxes, to be delivered to the holders of our Common Stock pursuant to the Merger Agreement; all references to the Golfsmith Board refer to Golfsmith's Board of Directors; all references to the Transaction Committee refer to the Transaction Committee of the Golfsmith Board as constituted as of the date of such reference; and all references to Common Stock refer to Golfsmith's common stock, par value \$0.001 per share.*

**Parties to the Merger (Page 14)**

*Golfsmith International Holdings, Inc.*

Golfsmith, a Delaware corporation, has been in business for 45 years and is a specialty retailer of golf equipment and related apparel and accessories. Golfsmith operates as an integrated multi-channel retailer, offering its customers the convenience of shopping in 88 retail locations across the United States, through its internet site and from its assortment of catalogs. Golfsmith offers an extensive product selection that features premier branded merchandise, as well as its proprietary products, clubmaking components and pre-owned clubs.

Our mailing address is 11000 North IH-35, Austin, Texas 78753, and our telephone number is (512) 837-8810.

*Golf Town USA Holdings Inc.*

Golf Town and its affiliates are a 13-year-old specialty golf equipment, apparel and accessories retailer. Golf Town and its affiliates are Canada's largest golf retailer and have 54 stores throughout the country. Golf Town and its affiliates expanded into the US market in 2011 and 2012 by opening 7 stores in the Greater Boston area. Golf Town and its affiliates offer a superior selection of brand names as well as proprietary brands. Golf Town and its affiliates were acquired by OMERS Private Equity Inc. ( OMERS ) in September 2007.

Golf Town's mailing address is 90 Allstate Parkway, Suite 800, Markham, Ontario, Canada, and its telephone number is (416) 864-3227.

*Major Merger Sub, Inc.*

Merger Sub is a wholly-owned subsidiary of Golf Town formed solely for the purpose of completing the Merger. Merger Sub has not carried on any activities to date, except for activities incidental to its incorporation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

## **Table of Contents**

Merger Sub's mailing address is c/o Golf Town, 90 Allstate Parkway, Suite 800, Markham, Ontario, Canada, and its telephone number is (416) 864-3227.

### **The Merger (Page 14)**

On May 11, 2012, Golfsmith entered into the Merger Agreement with Golf Town and Merger Sub. Upon the terms and subject to the conditions of the Merger Agreement, at the effective time of the Merger (the *Effective Time*), Merger Sub will merge with and into Golfsmith, with Golfsmith continuing as the surviving corporation of the Merger (the *Surviving Corporation*) and as a wholly-owned subsidiary of Golf Town. We expect to complete the Merger in the third quarter of 2012; however, because the Merger is subject to conditions which are beyond our control, the precise timing for completion of the Merger cannot be predicted with certainty. After the Merger is completed, each Golfsmith stockholder (other than as set forth below under the heading *Merger Consideration*) will have the right to receive the Per Share Merger Consideration for each share held by such stockholder, but will no longer have any rights as a Golfsmith stockholder or any ongoing interest in the continuing operations of Golfsmith. We urge you to read the entire Merger Agreement, which is attached to this Information Statement as Annex A.

### ***Merger Consideration***

At the Effective Time, each share of Common Stock issued and outstanding immediately prior to the Effective Time, other than shares owned by Golf Town or any of its direct or indirect subsidiaries, shares owned by Golfsmith or any of its direct or indirect wholly-owned subsidiaries and shares owned by any stockholder who has perfected and not withdrawn a demand for or lost appraisal rights under Section 262 of the General Corporation Law of the State of Delaware (*DGCL*), will be converted into the right to receive the Per Share Merger Consideration of \$6.10 in cash, without interest, less any applicable withholding taxes.

### ***Treatment of Company Options and Awards***

At the Effective Time:

each outstanding option to purchase shares granted under Golfsmith's 2006 Incentive Compensation Plan and Golfsmith's 2002 Incentive Plan (collectively, the *Stock Plan*), whether vested or unvested (each, a *Company Option*), will be cancelled and will only entitle the holder thereof to receive an amount in cash equal to the product of (x) the total number of shares subject to such Company Option multiplied by (y) the excess, if any, of the Per Share Merger Consideration over the exercise price per share under such Company Option, less applicable taxes required to be withheld with respect to such payment; and

each (i) outstanding deferred stock unit issued pursuant to a Deferred Stock Unit Award Agreement, (ii) performance share award issued pursuant to a Performance Share Award Agreement (a *Performance Share Award Agreement*) and (iii) outstanding restricted stock unit award issued pursuant to a Restricted Stock Award Agreement, in each case under the Stock Plan (each, a *Company Award* and collectively, the *Company Awards*), will be cancelled and will only entitle the holder thereof to receive an amount in cash equal to the product of (x) the number of shares subject to such Company Award immediately prior to the Effective Time multiplied by (y) the Per Share Merger Consideration (or, if such Company Award contemplates the payment of a specified exercise price, the excess, if any, of the Per Share Merger Consideration over such exercise price), less applicable taxes required to be withheld with respect to such payment.



## **Table of Contents**

### **The Transaction Committee (Page 14)**

The Transaction Committee was formed in June 2011 by the Golfsmith Board (i) to manage and supervise the process of soliciting and considering potential business combinations or similar transactions involving a sale of all or a substantial portion of the assets or equity securities of Golfsmith (a Sale Transaction ) on a day-to-day basis, with the advice and assistance of Golfsmith's counsel, (ii) to review and evaluate any proposals for Sale Transactions and, if the Transaction Committee deems advisable, to negotiate the terms and conditions of the best available Sale Transaction and (iii) to make recommendations to the Golfsmith Board with respect to any potential Sale Transaction arising from the conduct of the process described above. From the earliest stages of the process, the Transaction Committee included two members not affiliated with AEP or management (such two members, the Unaffiliated Members ) and the vote of both such Unaffiliated Members was required for the Transaction Committee to recommend a Sale Transaction to the Golfsmith Board. For further discussion of the Transaction Committee, see the section entitled The Merger The Transaction Committee beginning on page 14.

### **Reasons for the Merger; Recommendation of the Transaction Committee and Golfsmith Board (Page 33)**

After consideration of various factors described in the section entitled The Merger Reasons for the Merger; Recommendation of the Transaction Committee and Golfsmith Board, beginning on page 33, both the Transaction Committee (comprised at that time entirely of the Unaffiliated Members) and the Golfsmith Board unanimously determined that the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement are advisable and in the best interest of Golfsmith's stockholders. The Transaction Committee unanimously adopted resolutions (i) approving and declaring advisable the Merger, the Merger Agreement and the other transactions contemplated by the Merger Agreement, on the terms and subject to the conditions set forth in the Merger Agreement and (ii) recommending the Golfsmith Board approve the Merger and the Merger Agreement and the other transactions contemplated by the Merger Agreement. The Golfsmith Board, having considered the recommendation of the Transaction Committee and having reviewed and evaluated the merits of the Merger, unanimously adopted resolutions (i) approving and declaring advisable the Merger, the Merger Agreement and the other transactions contemplated by the Merger Agreement, on the terms and subject to the conditions set forth in the Merger Agreement, (ii) resolving that the adoption of the Merger Agreement be submitted to Golfsmith's stockholders for a vote and (iii) resolving to recommend to Golfsmith's stockholders that they adopt the Merger Agreement.

For a discussion of the material factors considered by the Transaction Committee and Golfsmith Board in reaching its conclusions, see the section entitled The Merger Reasons for the Merger; Recommendation of the Transaction Committee and Golfsmith Board beginning on page 33.

### **Stockholder Action by Written Consent (Page 72)**

The adoption of the Merger Agreement required the affirmative vote or written consent of the holders of a majority of our issued and outstanding shares of Common Stock. On May 11, 2012, Atlantic Equity Partners III, L.P. ( AEP ), Martin Hanaka, Chief Executive Officer and Chairman of Golfsmith, and Sue Gove, President, Chief Operating Officer and Chief Financial Officer of Golfsmith (collectively, the Supporting Stockholders ), together owning approximately 51.1% of the 15,927,536 shares of Common Stock issued and outstanding on such date, each delivered a written consent, among other things, adopting the Merger Agreement and authorizing the transactions contemplated by the Merger Agreement, including the Merger (such written consents collectively, the Written Consent ). As a result, no further action by any other Golfsmith stockholder is required to adopt the Merger Agreement or to authorize the transactions contemplated thereby. Additionally, on May 23, 2012, each of Carl Paul, Franklin Paul and trusts of, and certain members of, their family (collectively, the Paul Stockholders ), and, collectively with the Supporting Stockholders, the Consenting Stockholders ) executed and delivered a written consent, among other things, adopting the Merger Agreement and authorizing the transactions

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**Table of Contents**

contemplated by the Merger Agreement, including the Merger. As of such date, the Consenting Stockholders together owned approximately 60.8% of our issued and outstanding shares of Common Stock. Golfsmith has not solicited and will not be soliciting your adoption of the Merger Agreement and does not intend to convene a stockholders meeting for the purpose of voting on the adoption of the Merger Agreement.

**Opinion of Lazard Middle Market LLC (Page 40)**

On May 11, 2012, Lazard Middle Market LLC ( LMM ) delivered its oral opinion (subsequently confirmed in writing, dated May 11, 2012) to the Transaction Committee and the Golfsmith Board that, subject to and based upon the assumptions, qualifications and limitations set forth therein, as of May 11, 2012, the Per Share Merger Consideration to be paid to the holders of the shares of Common Stock in the Merger (other than shares of Common Stock held by (i) Golf Town or any of its subsidiaries, (ii) Golfsmith or any of its subsidiaries and, (iii) holders who are entitled to and properly demand an appraisal of their shares of Common Stock ((i) through (iii) collectively, the Excluded Shares ) is fair, from a financial point of view, to holders of Common Stock (other than holders of the Excluded Shares and the Supporting Stockholders (holders of Excluded Shares and the Supporting Stockholders are collectively referred to as the Excluded Holders )).

**The full text of the written opinion of LMM, dated May 11, 2012, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B. LMM provided its opinion for the information and assistance of the Transaction Committee and the Golfsmith Board in connection with its consideration of the Merger. LMM's opinion was not intended to, and does not, constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to the Merger or any matter relating thereto. For a further discussion of LMM's opinion, see The Merger Opinion of Lazard Middle Market LLC beginning on page 40.**

**Interests of Certain Persons in the Merger (Page 50)**

You should be aware that certain of our directors and officers may have interests in the Merger that may be different from, or in addition to, your interests as a holder of Common Stock. The Golfsmith Board and the Transaction Committee were aware of and considered these interests, among other matters, in evaluating and negotiating the Merger Agreement and the Merger, and in recommending that the Merger Agreement be adopted by the stockholders of Golfsmith. These interests include:

the vesting and cash-out of all Company Options and Company Awards held by our officers and directors resulting in aggregate payments of \$5,989,781;

potential payments pursuant to current employment agreements with Mr. Hanaka, Ms. Gove and Mr. Larkin of up to \$9,775,412, in the aggregate, payable to Mr. Hanaka, Ms. Gove and Mr. Larkin if they are terminated by Golfsmith after consummation of the Merger without cause, or by the executive (for any reason or for no reason, in the case of Mr. Hanaka, or for good reason, in the case of Ms. Gove);

non-binding offer letters between OMERS and Messrs. Hanaka, Larkin and Getson and Ms. Gove:

providing that such officers shall remain employed by the combined Golf Town and Golfsmith business after the closing of the Merger;

setting forth the salary, bonus, equity incentives and other terms of employment (each, as applicable); and

establishing terms by which certain officers will invest in, and participate in the potential increase in value of, the combined Golf Town and Golfsmith business following the Merger; and



## **Table of Contents**

continued indemnification, exculpation and officers and directors liability insurance coverage for our directors and executive officers following the Effective Time with respect to acts or omissions occurring at or prior to the Effective Time.

For a more detailed description of such interests, see *The Merger Interests of Certain Persons in the Merger* beginning on page 50.

## **Financing (Page 58)**

The merger is not conditioned on Golf Town obtaining financing. OMERS Administration Corporation ( OAC ) has provided an equity commitment letter in the amount of \$117,370,000 (the Equity Commitment Letter ) to fund all of the Merger Consideration, make payments with respect to Company Options and Company Awards and pay all transaction expenses of Golf Town and Golfsmith not previously paid prior to the Effective Time. The Equity Commitment Letter is conditioned only on the closing of the Merger. Golfsmith has obtained an amendment and waiver from General Electric Capital Corporation with respect to the existing credit facility by and among Golfsmith International, L.P., Golfsmith NU, L.L.C. and Golfsmith USA, L.L.C., as borrowers, Golfsmith and its subsidiaries identified as credit parties and General Electric Capital Corporation, as administrative agent and lender (the Revolving Credit Facility ) that consents to the Merger and waives any default that would otherwise result from the consummation of the Merger (the Waiver ). The Waiver is not subject to any conditions and became effective immediately upon execution of the Merger Agreement. OAC has provided to Golfsmith a limited guarantee (the Limited Guarantee ) guaranteeing payment of any termination fees payable by Golf Town, should such fees become payable under the Merger Agreement.

## **Merger Agreement (Page 63)**

### *Restrictions on Solicitation (Page 69)*

Golfsmith has agreed not to, and not to permit or authorize its directors, officers, employees or representatives to, solicit, initiate or take any action to knowingly facilitate or knowingly encourage the submission of any acquisition proposal, participate in any discussions or negotiations or furnish information with respect to any acquisition proposal or otherwise knowingly cooperate with any acquisition proposal, effect a change of recommendation, enter into an agreement with respect to an alternative transaction or amend or terminate confidentiality or standstill provisions with third parties. Golfsmith may however:

amend or terminate confidentiality or standstill provisions if the failure to do so could reasonably be expected to be inconsistent with the Golfsmith Board's fiduciary duties;

engage in discussions and provide information in response to an unsolicited acquisition proposal that constitutes or could reasonably be expected to lead to a superior proposal;

change its recommendation if it receives a superior proposal or becomes aware of any material fact or circumstance unrelated to an acquisition proposal and, in either case, the Golfsmith Board determines that failure to change its recommendation would reasonably be expected to be inconsistent with its fiduciary duties, subject to the payment of a termination fee of \$3,800,000 and provided Golfsmith provides Golf Town with notice and the opportunity to submit an offer at least as favorable to Golfsmith's stockholders as such superior proposal; and

terminate the Merger Agreement to enter into a transaction with respect to a superior proposal after following the procedures set forth in the Merger Agreement as described in more detail in *The Merger Agreement Termination* beginning on page 76 and payment of a termination fee of \$3,800,000.

**Table of Contents**

*Conditions to the Merger (Page 75)*

Each of Golfsmith's, Golf Town's and Merger Sub's obligations to complete the Merger is subject to the satisfaction or waiver of the following conditions, among other things:

the distribution of this Information Statement to our stockholders and the passage of at least 20 calendar days following such distribution;

the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act) and any required approvals thereunder having been obtained; and

no laws or injunctions restraining or otherwise prohibiting consummation of the Merger are in effect.

In addition, Golf Town's and Merger Sub's obligations to complete the Merger are subject to the satisfaction or waiver of the following additional conditions:

the representations and warranties of Golfsmith being true and correct in the manner described in the section entitled "The Merger Agreement - Conditions to the Merger" beginning on page 75; and

Golfsmith having performed, in all material respects, all of its obligations under the Merger Agreement.

In addition, Golfsmith's obligation to complete the Merger is subject to the satisfaction or waiver of the following additional conditions:

the representations and warranties of Golf Town and Merger Sub being true and correct in the manner described in the section entitled "The Merger Agreement - Conditions to the Merger" beginning on page 75; and

Golf Town and Merger Sub having performed, in all material respects, all of their obligations under the Merger Agreement.

The obligations of Golfsmith, Golf Town and Merger Sub are not subject to the approval of Golfsmith's stockholders because such stockholder approval has already been obtained from the Supporting Stockholders.

*Termination; Termination Fees (Page 76)*

The Merger Agreement may be terminated by Golfsmith or Golf Town and the Merger may be abandoned at any time prior to the Effective Time under the circumstances described in the section entitled "The Merger Agreement - Termination" beginning on page 76. Such termination may be subject to the payment of termination fees, which are summarized below.

Golfsmith must pay Golf Town a fee of \$3,800,000 (the Company Termination Fee) under the following circumstances:

Golf Town terminates the Merger Agreement because the Golfsmith Board has made a change of recommendation;

Golfsmith terminates the Merger Agreement because the Golfsmith Board, subject to complying with certain obligations (including its obligations described under "The Merger Agreement - Restrictions on Solicitation" beginning on page 69), authorizes Golfsmith to

enter into a written agreement to effectuate a superior proposal; or

Golf Town terminates the Merger Agreement because an intentional breach of the Merger Agreement by Golfsmith causes the failure of the conditions to Golf Town's or Merger Sub's obligations under the Merger Agreement, such breach is not curable or cured prior to the earlier of (i) 20 days after written

## **Table of Contents**

notice is given by Golf Town to Golfsmith or (ii) November 12, 2012 (the Outside Date ), and prior to the earlier of the date of such termination or the Effective Time, an acquisition proposal is publicly announced or communicated to Golfsmith's stockholders and within one year following such termination, Golfsmith enters into a definitive agreement with respect to or completes the acquisition proposal.

Golf Town must pay Golfsmith a fee of \$8,200,000 (the Purchaser Breach Termination Fee ) under the following circumstances:

The Merger Agreement is terminated by Golfsmith because either Golf Town or Merger Sub causes the failure of the conditions to Golfsmith's obligations under the Merger Agreement and such breach is not curable or cured prior to the earlier of (i) 20 days after written notice is given by Golfsmith to Golf Town or (ii) the Outside Date; or

Golfsmith is ready, willing and able to consummate the Merger and all applicable conditions under the Merger Agreement have been satisfied or waived, but Golfsmith terminates the Merger Agreement because (i) Golf Town and Merger Sub fail to consummate the Merger despite the fact that the Waiver is in full force and effect or alternative financing is available, or (ii) the Waiver is not in full force and effect, and alternative financing is unavailable, due to a breach by Golf Town or Merger Sub.

Golf Town must pay Golfsmith a fee of \$6,500,000 (the Purchaser Financing Termination Fee ) under the following circumstances:

Golfsmith is ready, willing and able to consummate the Merger and all applicable conditions under the Merger Agreement have been satisfied or waived, but Golfsmith terminates the Merger Agreement because Golf Town and Merger Sub fail to consummate the Merger and the Waiver is not in full force and effect.

### **Regulatory Filings Required in Connection with the Merger (Page 58)**

Completion of the Merger is conditioned on the expiration or termination of the applicable waiting period relating to the Merger under the HSR Act and any required approvals thereunder having been obtained.

Golfsmith and Golf Town each filed its required HSR notification and report form with respect to the Merger on May 18, 2012. Early termination of the waiting period under the HSR Act was granted on May 29, 2012.

### **Material U.S. Federal Income Tax Consequences of the Merger (Page 59)**

The exchange of shares of our Common Stock for cash pursuant to the Merger or due to the exercise of appraisal rights will be treated as a taxable sale for U.S. federal income tax purposes (and also may be taxed under applicable state, local and foreign tax laws), so that stockholders who are U.S. Holders (as defined in the section entitled The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 59) will generally recognize capital gain or loss in an amount equal to the difference, if any, between the cash payments made pursuant to the Merger or due to the exercise of appraisal rights and their adjusted tax basis in their shares of Common Stock. Any such gain will be long-term capital gain subject to tax at capital gain rates if you have held the Common Stock for more than one year or as short term capital gain subject to tax at ordinary income rates if you have held the Common Stock for one year or less.

You should read The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 59 for a more detailed discussion of the U.S. federal income tax consequences of the Merger. We urge you to consult your own tax advisor to determine the particular U.S. federal, state, local and foreign tax consequences to you of the receipt of the aggregate merger consideration in exchange for shares of our Common Stock pursuant to the Merger or pursuant to exercising appraisal rights in connection with the Merger.

## **Table of Contents**

### **Appraisal Rights of Existing Stockholders (Page 80)**

Under the DGCL, stockholders who do not wish to accept the Per Share Merger Consideration are entitled to appraisal rights in connection with the Merger, provided that such stockholders demand in writing appraisal by July 19, 2012, which is the date that is 20 days following the date of mailing of this Information Statement, and meet all of the other conditions set forth in Section 262 of the DGCL. This means that you are entitled to elect not to accept the Per Share Merger Consideration and instead seek the fair value of your shares of Common Stock, exclusive of any elements of value arising from the accomplishment or expectation of the Merger, as determined by the Court of Chancery of the State of Delaware (the Delaware Court ) and to receive payment for your shares based on that valuation. The ultimate amount that you receive in an appraisal proceeding may be less than, equal to or more than the amount that you would have received under the Merger Agreement.

To exercise your appraisal rights, you must demand in writing appraisal by July 19, 2012, which is the date that is 20 days following the date of mailing of this Information Statement. Your failure to follow exactly the procedures specified under the DGCL may result in the loss of your appraisal rights. See the section entitled Appraisal Rights beginning on page 80 and the text of the Delaware appraisal rights statute, which is reproduced in its entirety as Annex C to this Information Statement and incorporated by reference herein. If you hold your shares of Common Stock through a bank, brokerage firm or other nominee and you wish to exercise your appraisal rights, you should consult with your bank, brokerage firm or other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee. In view of the complexity of the DGCL, stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors promptly.

### **Market Price of Our Common Stock (Page 79)**

The closing price of our Common Stock on the NASDAQ Stock Market ( NASDAQ ), on May 11, 2012, the last trading day prior to public announcement of the execution of the Merger Agreement, was \$4.71 per share. On June 27, 2012, the most recent practicable date before this Information Statement was mailed to our stockholders, the closing price of our Common Stock on NASDAQ was \$6.06 per share. You are encouraged to obtain current market quotations for our Common Stock.

### **Litigation Related to the Merger (Page 60)**

Two putative stockholder class action lawsuits challenging the Merger have been filed in Texas, one in the District Court of Travis County, Texas and the other in the District Court Western District of Texas, Austin Division. Among other things, each lawsuit alleges that the Golfsmith Board breached its fiduciary duties to Golfsmith's stockholders. These lawsuits are described in more detail under The Merger Litigation Related to the Merger beginning on page 60.

### **Delisting and Deregistration of Our Common Stock**

If the Merger is completed, Golfsmith's Common Stock will be delisted from NASDAQ and deregistered under the Securities Exchange Act of 1934, as amended (the Exchange Act ). As such, we would no longer file periodic reports with the U.S. Securities and Exchange Commission (the SEC ) on account of our Common Stock or otherwise.



**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

The following questions and answers are intended to address briefly some commonly asked questions regarding the Merger Agreement and the Merger. These questions and answers may not address all questions that may be important to you as a Golfsmith stockholder. Please refer to the Summary beginning on page 1 and the more detailed information contained elsewhere in this Information Statement, and the annexes to this Information Statement, each of which you should read carefully.

**Q: What is the proposed transaction?**

A: The proposed transaction is the acquisition of Golfsmith by Golf Town pursuant to the Merger Agreement. Upon the terms and subject to the satisfaction or waiver of the conditions under the Merger Agreement, Merger Sub will merge with and into Golfsmith, with Golfsmith being the surviving corporation of the Merger and becoming a wholly-owned subsidiary of Golf Town.

**Q: What will I be entitled to receive if the Merger is completed?**

A: Upon completion of the Merger, you will be entitled to receive the Per Share Merger Consideration of \$6.10 in cash, without interest, less any applicable withholding taxes, for each share of Common Stock that you own, unless you have properly exercised and not withdrawn your appraisal rights under Section 262 of the DGCL, in which case you will be entitled to receive the fair value of your shares as determined by the Delaware Court. For example, if you own 100 shares of Common Stock, you will be entitled to receive \$610.00 in cash in exchange for your shares of Common Stock, without interest, less any applicable withholding taxes. Upon completion of the Merger, you will not own any shares of the capital stock in the Surviving Corporation.

**Q: When do you expect the Merger to be completed?**

A: We are working to complete the Merger as soon as practicable and expect it to close in the third quarter of 2012, assuming that all of the conditions set forth in the Merger Agreement have been satisfied or waived. However, because the Merger is subject to conditions which are beyond the control of Golf Town and Golfsmith, the precise timing for completion of the Merger cannot be predicted with certainty. See the section entitled The Merger Agreement Conditions to the Merger beginning on page 75.

**Q: When can I expect to receive the cash Merger Consideration for my shares?**

A: After the Merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging each of your shares of Common Stock for the Per Share Merger Consideration. When you properly complete and return the required documentation described in the written instructions, you will receive from the paying agent a payment of the aggregate merger consideration for your shares. If your shares are held in street name by a bank, brokerage firm or other nominee, you will receive instructions from your bank, brokerage firm or other nominee as to how to effect the surrender of your street name shares in exchange for the aggregate merger consideration for such shares.

**Q: Will the Merger be a taxable transaction to me?**

A: Yes. The exchange of shares of Common Stock for cash pursuant to the Merger or as a result of exercising appraisal rights in connection with the Merger generally will be a taxable transaction to U.S. Holders (as defined in the section entitled The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 59) for U.S. federal income tax purposes (and may also be taxable under applicable state, local and foreign tax laws). If you are a U.S. Holder and you exchange your shares of Common Stock in the Merger or as a result of exercising appraisal rights in connection with the Merger, you will generally recognize gain or loss in an

## **Table of Contents**

amount equal to the difference, if any, between the cash payments made pursuant to the Merger or pursuant to the exercise of appraisal rights and your adjusted tax basis in your shares of Common Stock. Backup withholding may also apply to such cash payments made unless the U.S. Holder or other payee complies with the backup withholding rules. You should read the section entitled "The Merger - Material U.S. Federal Income Tax Consequences of the Merger" beginning on page 59 for a more detailed discussion of certain material U.S. federal income tax consequences of the Merger. You should also consult your tax advisor for a complete analysis of the effect of the Merger on your U.S. federal, state, local and/or foreign taxes.

### **Q: Did the Golfsmith Board approve and recommend the Merger Agreement?**

A: Yes. The Golfsmith Board, at a meeting duly called and held, upon the recommendation of its Transaction Committee, unanimously adopted resolutions (i) approving and declaring advisable the Merger, the Merger Agreement and the other transactions contemplated by the Merger Agreement on the terms and subject to the conditions set forth therein, (ii) resolving that the adoption of the Merger Agreement be submitted to the stockholders of Golfsmith for a vote and (iii) resolving to recommend to the stockholders of Golfsmith that they adopt the Merger Agreement.

### **Q: Has stockholder approval and adoption of the Merger Agreement been obtained?**

A: Yes. Each of the Supporting Stockholders executed and delivered the Written Consent adopting the Merger Agreement and approving the transactions contemplated thereby, including the Merger. No further action by any Golfsmith stockholder is required to adopt the Merger Agreement. Additionally, on May 23, 2012, the Paul Stockholders executed and delivered a written consent, among other things, adopting the Merger Agreement and authorizing the transactions contemplated by the Merger Agreement, including the Merger. The Consenting Stockholders together owned approximately 60.8% of our issued and outstanding shares of Common Stock as of May 23, 2012. For more information, see "Voting Agreement and Written Consent" beginning on page 78.

### **Q: Do any of Golfsmith's directors or officers have interests in the Merger that may differ from those of Golfsmith's stockholders?**

A: Yes. You should be aware that Golfsmith's directors and officers may have interests in the Merger that are different from, or in addition to, the interests of Golfsmith's stockholders generally. The Transaction Committee and Golfsmith Board were aware of, and considered, these differing interests, to the extent such interests existed at the time, in evaluating and negotiating the Merger Agreement and the Merger, and in unanimously recommending that the Merger Agreement be adopted by the stockholders of Golfsmith. See "The Merger - Interests of Certain Persons in the Merger" beginning on page 50 for a more detailed discussion of these interests.

### **Q: What happens if the Merger is not completed?**

A: If the Merger is not completed for any reason, stockholders will not receive any payment for their shares in connection with the Merger. Instead, Golfsmith will remain a publicly-traded company and the Common Stock will continue to be listed and traded on NASDAQ. Under specified circumstances, in connection with the termination of the Merger Agreement, Golfsmith or Golf Town (or their designees) may be required to pay a termination fee, as described under "The Merger Agreement - Termination Fees" beginning on page 77.

### **Q: Why am I not being asked to vote on the Merger?**

A: Consummation of the Merger required the adoption of the Merger Agreement by the holders of a majority of our issued and outstanding shares of Common Stock. The requisite stockholder approval has been obtained because the Supporting Stockholders have executed and delivered the Written Consent adopting and approving in all respects the Merger Agreement and the transactions contemplated thereby, including the Merger. As a result, no further approval of the stockholders of Golfsmith is required to approve and adopt the Merger Agreement and the transactions contemplated thereby, including the Merger.

**Table of Contents**

**Q: Why am I receiving this Information Statement?**

A: You may be receiving this Information Statement because you owned shares of Common Stock on the close of business on May 11, 2012. As a result of entering into the Merger Agreement, applicable laws and securities regulations require us to provide you with notice that the Written Consent has been delivered by the Supporting Stockholders, as well as other information regarding the Merger, even though your vote or consent will neither be required nor requested to authorize and adopt the Merger Agreement or complete the Merger. You may also be receiving this Information Statement because you owned shares of Common Stock on the close of business on the date preceding the date this Information Statement is being sent to notify stockholders of their appraisal rights under Section 262 of the DGCL, which date is the record date for determining which of our stockholders are entitled to such notification. This Information Statement constitutes notice to you of the availability of such appraisal rights under Section 262 of the DGCL, a copy of which is attached to this Information Statement as Annex C.

**Q: What happens if I sell my shares before the completion of the Merger?**

A: If you transfer your shares before the Effective Time, you will have transferred the right to receive the merger consideration for your shares pursuant to the Merger. In order to receive such merger consideration, you must hold your shares through completion of the Merger.

**Q: Should I send in my stock certificates now?**

A: No. Promptly after the Merger is completed, you will be sent a letter of transmittal with related instructions describing how you may exchange each of your shares of Common Stock for the Per Share Merger Consideration. If your shares of Common Stock are held in street name by your bank, brokerage firm or other nominee, you will receive instructions from your bank, brokerage firm or other nominee as to how to effect the surrender of each of your street name shares of Common Stock in exchange for the Per Share Merger Consideration. **Please do NOT return your stock certificate(s) to Golfsmith.**

**Q: Am I entitled to exercise appraisal rights under the DGCL instead of receiving the Merger Consideration for my shares of Common Stock?**

A: Yes, provided that you comply with all applicable requirements and procedures. As a holder of Common Stock, you are entitled to appraisal rights under Section 262 of the DGCL in connection with the Merger if you take certain actions and meet certain conditions. See the section entitled Appraisal Rights beginning on page 80.

**Q: Who can help answer my other questions?**

A: If you have more questions about the Merger or need additional copies of this Information Statement, please contact Golfsmith's General Counsel at (512) 821-4140.

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This Information Statement, and the documents to which we refer you in this Information Statement, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934, including with respect to the expected completion of the transaction and expected growth of the combined business, benefits and synergies of the proposed transaction, future opportunities for the combined business, and any other statements about future expectations, beliefs, goals, plans or prospects. 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 may include, among others, expectations for completing the transaction, 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 may, should, believe, expect, anticipate, plan, estimate, project, target, project, intend, 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. 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 filing. 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.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the results referred to in the forward-looking statements contained in this Information Statement. Important factors that could cause our actual results to differ materially from the results referred to in the forward-looking statements we make in this Information Statement include, but are not limited to, the risks detailed in our filings with the SEC, including Golfsmith's Quarterly Report on Form 10-Q filed May 15, 2012, which is attached as Annex E to this Information Statement, which such Annex E is incorporated by reference herein, Golfsmith's 2011 Annual Report on Form 10-K filed March 30, 2012, which is attached as Annex F to this Information Statement, which such Annex F is incorporated by reference herein, and Amendment No. 1 to Golfsmith's 2011 Annual Report on Form 10-K/A filed April 26, 2012, which is attached as Annex G to this Information Statement, which such Annex G is incorporated by reference herein, factors and matters contained in this Information Statement, and the following factors:

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;

**Table of Contents**

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 occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement, including a termination under circumstances that could require us to pay the Company Termination Fee of \$3,800,000;

the failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory or other approvals in connection with the Merger;

the failure to close or delay in consummating the Merger for any other reason;

risks that the proposed Merger disrupts current plans and operations and the potential difficulties in employee retention as a result of the Merger;

the outcome of any legal proceedings that have been or may be instituted against Golfsmith and/or others relating to the Merger Agreement;

the diversion of our management's attention from our ongoing business concerns;

the effect of the announcement, pendency or anticipated consummation of the Merger on our business relationships, operating results and business generally;

the amount of the costs, fees, expenses and charges related to the Merger; and

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

Consequently, all of the forward-looking statements we make in this Information Statement are qualified by the information contained herein, including, but not limited to, (a) the information contained under this heading and (b) the information contained under the heading "Business" and in our consolidated financial statements and notes thereto included in Golfsmith's Quarterly Report on Form 10-Q filed May 15, 2012, which is attached as Annex E to this Information Statement, which such Annex E is incorporated by reference herein, Golfsmith's 2011 Annual Report on Form 10-K filed March 30, 2012, which is attached as Annex F to this Information Statement, which such Annex F is incorporated by reference herein, and Amendment No. 1 to Golfsmith's 2011 Annual Report on Form 10-K/A filed April 26, 2012, which is attached as Annex G to this Information Statement, which such Annex G is incorporated by reference herein. We undertake no obligation to publicly release any revision to any forward-looking statement contained herein to reflect any future events or occurrences.

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You should carefully consider the cautionary statements contained or referred to in this section in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf.

## **Table of Contents**

### **THE MERGER**

This discussion of the Merger is qualified in its entirety by reference to the Merger Agreement, which is attached to this Information Statement as Annex A. You should read the entire Merger Agreement carefully as it is the legal document that governs the Merger.

#### **Parties to the Merger**

##### **Golfsmith International Holdings, Inc.**

Golfsmith, a Delaware corporation, has been in business for 45 years and is a specialty retailer of golf equipment and related apparel and accessories. Golfsmith operates as an integrated multi-channel retailer, offering its customers the convenience of shopping in 88 retail locations across the United States, through its internet site and from its assortment of catalogs. Golfsmith offers an extensive product selection that features premier branded merchandise, as well as its proprietary products, clubmaking components and pre-owned clubs. For more information about Golfsmith, see [Where You Can Find More Information](#) beginning on page 87.

##### **Golf Town USA Holdings Inc.**

Golf Town and its affiliates are a 13-year-old specialty golf equipment, apparel and accessories retailer. Golf Town and its affiliates are Canada's largest golf retailer and have 54 stores throughout the country. Golf Town and its affiliates expanded into the US market in 2011 and 2012 by opening 7 stores in the Greater Boston area. Golf Town and its affiliates offer a superior selection of brand names as well as proprietary brands. Golf Town and its affiliates were acquired by OMERS Private Equity Inc. ( OMERS ) in September 2007.

#### **The Merger**

Merger Sub was formed by Golf Town solely for the purpose of completing the Merger. Merger Sub is a wholly-owned subsidiary of Golf Town and has not carried on any activities to date, except for activities incidental to its incorporation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

#### **The Transaction Committee**

The Golfsmith Board determined to form the Transaction Committee in June 2011 after discussing, together with White & Case LLP, the Golfsmith Board's outside legal counsel ( White & Case ), the potential benefits of forming a transaction committee to manage the Golfsmith Board's consideration of strategic alternatives and the solicitation of offers to acquire Golfsmith. The benefits considered by the Golfsmith Board included: the efficiency of having an active and experienced committee of directors facilitating decision making in a potentially fast-paced deal environment without the potentially cumbersome need for frequent meetings of the full Golfsmith Board; ensuring that directors with valuable transactional and financial experience were available on a day-to-day basis to our management and advisors; ensuring that directors who were independent of management comprised a majority of such a committee in light of the potential that management could be retained by a potential buyer who would request or require them to invest in the business (although there was no expectation at the time of formation of the Transaction Committee that management would participate in any transaction as investors); ensuring that directors who were independent of AEP comprised a majority of such a committee in light of the potential need for AEP to generate a liquidity event for its Golfsmith investment and the potential that AEP could be requested or required to invest in the business by a potential buyer (although Mr. Buaron, who is an affiliate of AEP, had informed the Golfsmith Board that he did not expect AEP would participate as an investor in any transaction); ensuring that the views of AEP (whose approval would be needed in light of AEP's significant shareholdings) with respect to any proposed transaction would be taken into account during negotiations; and the ability to obtain independent advice from legal, financial and other advisors that could be retained directly by such a committee. Initially, the Transaction Committee consisted of Mr. Martin



## Table of Contents

Hanaka (Chairman and Chief Executive Officer), Mr. Roberto Buaron and Mr. Robert Allen. Messrs. Hanaka and Allen are not affiliates of AEP and Messrs. Buaron and Allen are not members of Golfsmith's management. In July 2011, the Transaction Committee was expanded to include Ms. Glenda Flanagan because the Golfsmith Board considered Ms. Flanagan's financial and public company experience to be a valuable resource for the Transaction Committee. Ms. Flanagan is not affiliated with either Golfsmith's management or AEP. Coincident with Ms. Flanagan's appointment, the Golfsmith Board resolved that the Golfsmith Board could not approve a Sale Transaction unless first recommended by the Transaction Committee and the Transaction Committee could not approve or recommend a Sale Transaction except by action of a majority of its members, including both Mr. Allen and Ms. Flanagan. Therefore, from the earliest stages of the process, the Transaction Committee included two Unaffiliated Members and the vote of both such Unaffiliated Members was required for the Transaction Committee to recommend a Sale Transaction to the Golfsmith Board. The Unaffiliated Members had the opportunity to, and did, meet separately with the financial and legal advisors during the course of negotiations with Golf Town.

The purpose of the Transaction Committee was (i) to manage and supervise the process of soliciting and considering a potential business combination or Sale Transaction on a day-to-day basis, with the advice and assistance of Golfsmith's counsel, (ii) to review and evaluate any proposals for Sale Transactions and, if the Transaction Committee deems advisable, to negotiate the terms and conditions of the best available Sale Transaction and (iii) to make recommendations to the Golfsmith Board with respect to any potential Sale Transaction arising from the conduct of the process described above.

The Transaction Committee was granted all the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain and terminate outside legal, financial, accounting or other experts and advisors without seeking the approval of the Golfsmith Board or management, and was granted the full authority of the Golfsmith Board while acting within the scope of its purposes. Accordingly, the Transaction Committee engaged LMM and its parent, Lazard Frères & Co. LLC (LFC) and, together with LMM, Lazard, in July 2011 to serve as its financial advisor.

The size of the Transaction Committee was decreased by the Golfsmith Board from four members to three members on January 17, 2012, following Mr. Hanaka's resignation from the Transaction Committee on December 4, 2011, after Golf Town requested, and Mr. Hanaka agreed, that he would be part of Golfsmith's management post-closing of the Merger. Following his resignation on December 2011, Mr. Hanaka did not participate in the negotiations between the Transaction Committee and Golf Town, although he continued to attend Transaction Committee meetings at the invitation of the Transaction Committee to provide the Transaction Committee with important information concerning Golfsmith's business and operations.

As described in more detail under Background of the Merger beginning on page 16, in January 2012, Golf Town and Golfsmith had reached an impasse in negotiations regarding the amount of the Per Share Merger Consideration. In an effort to resolve the price difference, in late January, Golf Town first proposed to Mr. Buaron a possible transaction structure that would require AEP to forego cash consideration on a portion of its shareholdings in Golfsmith in order to roll over a portion of its investment in Golfsmith and make an investment in the combined Golf Town and Golfsmith business, thereby reducing the number of shares on which the Per Share Merger Consideration would be paid. Such reduction in the AEP shares participating in the Merger Consideration might have enabled Golf Town to offer an increase in the cash merger consideration that Golf Town was prepared to pay at such time. After several discussions between Golf Town and Golfsmith regarding such structure, Mr. Buaron indicated to the Transaction Committee at its meeting on February 4, 2012 that AEP would be willing to accept such a structure subject to negotiating specific terms. Consequently, Mr. Buaron immediately resigned from the Transaction Committee and thereafter did not participate in the negotiations between the Transaction Committee and Golf Town (although he did engage in discussions with OMERS on behalf of AEP in an attempt to negotiate the proposed alternative structure). Ultimately, the proposed alternative structure could not be agreed between Golfsmith, Golf Town and AEP. Mr. Buaron continued to attend Transaction Committee meetings at the invitation of the Transaction Committee to inform the Transaction

## **Table of Contents**

Committee about the progress of discussions on the alternative structure and to provide the Transaction Committee with his insights and experience as well as his deep knowledge of Golfsmith and its operations. Neither Mr. Hanaka nor Mr. Buaron participated in the Transaction Committee's decision to recommend the Merger to the Golfsmith Board. Thus, at the time it made its determination, the Transaction Committee was comprised only of the Unaffiliated Members.

### **The Merger**

If the Merger is consummated, the Merger Agreement provides that at the Effective Time, Merger Sub will merge with and into Golfsmith. Golfsmith will be the surviving corporation of the Merger and will continue as a wholly-owned subsidiary of Golf Town. Golfsmith will cease to be an independent publicly-traded company. You will not own any shares of the capital stock of the Surviving Corporation.

### **The Per Share Merger Consideration**

At or immediately prior to the Effective Time, each share of Common Stock issued and outstanding immediately prior to the Effective Time (other than shares owned by Golf Town or any of its direct or indirect subsidiaries, shares owned by Golfsmith or any of its direct or indirect wholly-owned subsidiaries and shares owned by any stockholder who has perfected and not withdrawn a demand for or lost appraisal rights under Section 262 of the DGCL) will be converted into the right to receive the Per Share Merger Consideration of \$6.10 in cash, without interest, less any applicable withholding taxes.

### **Background of the Merger**

As part of its normal strategic review process as well as in response to inquiries from interested third parties regarding a potential sale of the business, the Golfsmith Board together with Golfsmith's senior management assesses Golfsmith's competitive position and direction on an ongoing basis and, from time-to-time, has considered Golfsmith's financial and strategic alternatives, including a potential sale of Golfsmith.

During 2009 and 2010, Golfsmith engaged in various exploratory discussions and meetings with OMERS, Golf Town, and other parties interested in pursuing a potential transaction with Golfsmith, including a major competitor of Golfsmith.

In March 2009, Martin Hanaka, Golfsmith's Chief Executive Officer, met with the then-Chief Executive Officer of Golf Town, Stephen Bebis, in Naples, Florida for the purpose of discussing a potential licensing arrangement with respect to one of Golfsmith's proprietary brands. During the meeting, Mr. Bebis raised the possibility of considering a strategic combination transaction between the two companies. No terms were discussed and no commitments were made. The conversation between the parties was conceptual in nature. Subsequent communications between John Young of OMERS and James Grover, a director of Golfsmith and representative of AEP, resulted in a meeting on May 14, 2009 between Mr. Hanaka, Mr. Grover, Mr. Bebis and Mr. Young in Toronto, Ontario, at which meeting the parties had further conceptual discussions about a potential strategic business combination. Golf Town Canada Inc. and Golfsmith executed a mutual confidentiality and non-disclosure agreement on May 26, 2009 to facilitate an exchange of information. After initial information exchanges, the parties did not pursue further meaningful discussions until a telephone call in late December 2009 among Mr. Young and various representatives of Golfsmith during which the parties had further conceptual discussions regarding a potential strategic combination. It was clear from the information exchanges and discussion that OMERS and Golf Town valued Golfsmith at a level that was well below any price that Golfsmith would entertain and well below the Per Share Merger Consideration. Consequently, the parties did not engage in further exploration of a potential transaction in 2009 and most of 2010.

In the fall of 2010, a representative of OMERS contacted Mr. Grover seeking to determine if Golfsmith would be willing to resume discussions about a strategic business combination. This initial outreach resulted in a telephone call on December 7, 2010 during which representatives of Golfsmith, including Mr. Grover and

**Table of Contents**

Roberto Buaron, a director of Golfsmith and a representative of AEP, presented certain financial information to Benson Li and Don Morrison of OMERS that they believed would support a valuation of Golfsmith that was higher than that which OMERS had preliminarily discussed during the 2009 conversations. The discussion was exploratory in nature. Subsequently, Mr. Buaron received a request from Mr. Bebis of Golf Town for a meeting with Golfsmith to discuss a potential strategic business combination. Mr. Buaron informed the Golfsmith Board of the request, but the Golfsmith Board determined not to pursue the overture at that time.

In early 2011, Mr. Bebis contacted Mr. Hanaka to again propose that Golf Town and Golfsmith discuss a potential business combination. This initial contact resulted in further exploratory conversations between Mr. Buaron and Mr. Grover, on the one hand, and Mr. Morrison and Mr. Bebis, on the other hand. During these conversations Mr. Morrison indicated that OMERS would have to conduct a more comprehensive investigation of Golfsmith to determine if it could justify an increase in Golf Town's valuation of Golfsmith. Golf Town sought to arrange further meetings with Golfsmith's management to facilitate this exploration.

In February 2011, the Golfsmith Board met and discussed the contacts between representatives of Golf Town and Golfsmith and Golf Town's continuing interest in additional meetings and information. The Golfsmith Board determined that it would be appropriate to pursue further discussions with Golf Town and to facilitate Golf Town's investigation of Golfsmith to determine if there was a basis for pursuing a strategic transaction at a valuation that Golfsmith could support. Consequently, it was determined that Golfsmith should engage a financial advisor to assist in this effort and Mr. Buaron was asked to oversee that task.

On May 20, 2011, the Golfsmith Board met and discussed Golfsmith's progress with respect to evaluating and hiring a financial advisor to assist Golfsmith in its consideration of a potential sale of Golfsmith. The Golfsmith Board reviewed several potential advisors that had been contacted, and discussed the qualifications and potential interest of other financial advisors, including Lazard. The Golfsmith Board was focused on ensuring that any financial advisor Golfsmith might engage would devote sufficient resources to the assignment, in light of Golfsmith's market capitalization, in addition to being highly skilled and experienced in advising public company boards with respect to strategic alternatives. Additionally, the Golfsmith Board discussed and considered how to respond to Golf Town's outstanding request for a meeting with Golfsmith and the best means by which Golfsmith could encourage Golf Town to improve its valuation of Golfsmith. In light of these issues, the Golfsmith Board discussed and considered direct negotiations for a sale transaction with a very small number of potential buyers, a broad solicitation of indications of interest for a sale transaction and a more targeted solicitation process. The Golfsmith Board determined that a broad solicitation process would ensure maximum competition among potential bidders for Golfsmith (including Golf Town) and a comprehensive market check of all parties likely to have an interest in Golfsmith. The Golfsmith Board reviewed with its legal counsel, White & Case, the fiduciary duties and responsibilities of the Golfsmith Board in considering and pursuing a sale transaction, including the potential benefits of establishing a committee of the Golfsmith Board to oversee the consideration of potential transactions involving a sale of Golfsmith.

In light of the fact that the May 26, 2009 mutual confidentiality and non-disclosure agreement was expiring by its terms, on June 8, 2011, Golfsmith entered into a second mutual confidentiality and non-disclosure agreement with Golf Town Canada Inc., which included a customary mutual standstill provision. On that same day and on June 9, 2011, Mr. Hanaka, Sue E. Gove, Golfsmith's Chief Financial Officer and Chief Operating Officer at that time, Mr. Buaron and Mr. Grover met with Mr. Bebis and David Spence of Golf Town and Mr. Morrison, Benson Li and Michael Lank, of OMERS, in Atlanta, Georgia to discuss financial and operational matters related to Golfsmith. Mr. Bebis indicated that Golf Town expected to make a proposal for the acquisition of Golfsmith. The participants discussed additional information about Golfsmith that would be necessary to structure the proposal.

On June 14, 2011, Mr. Hanaka, Mr. Grover, Mr. Buaron, James Long, a director of Golfsmith, and for portions of the meetings, Thomas Hardy, a director of Golfsmith, reviewed presentations from five potential financial advisors, including Lazard.

**Table of Contents**

On June 17, 2011, the Golfsmith Board met and discussed the meetings with Golf Town on June 8 and June 9, 2011. The Golfsmith Board also discussed potential financial advisors. Additionally, the Golfsmith Board further discussed, together with White & Case, the benefit of forming a committee of the Golfsmith Board to oversee the consideration of potential transactions involving a sale of Golfsmith and resolved to form the Transaction Committee. The Golfsmith Board determined that Mr. Hanaka, Mr. Buaron and Robert Allen, a director of Golfsmith, would serve as the initial members of the Transaction Committee. Mr. Hanaka had informed the Golfsmith Board that he did not intend to continue to serve as an officer of Golfsmith following consummation of a sale transaction if one were to be completed and did not otherwise intend to remain as part of the combined business. For a more detailed discussion regarding the factors considered by the Golfsmith Board in its determination to form the Transaction Committee see *The Merger* *The Transaction Committee* beginning on page 14.

On June 20, 2011, Mr. Grover delivered to OMERS certain non-public financial and operating information about Golfsmith.

On June 25, 2011, the Transaction Committee met and determined to retain Lazard, subject to negotiation of a satisfactory engagement letter, to act as its financial advisor because of its qualifications, experience, reputation and familiarity with Golfsmith and its business. In particular, the Transaction Committee determined that Lazard would devote experienced and skilled resources to any potential transaction regardless of the size of the potential transaction.

On July 1 and July 5, 2011, the Transaction Committee met and reviewed the potential process for pursuing a sale of Golfsmith. In particular, the Transaction Committee discussed with Lazard and White & Case at the July 5, 2011 meeting the breadth of the market solicitation process and determined to seek indications of interest from a broad group of strategic and financial purchasers to maximize competition and to ensure a comprehensive market check. In light of this, the Transaction Committee and its advisors discussed the importance of maximizing confidentiality to mitigate the possibility that the uncertainty caused by a market solicitation process could result in employee departures and have a negative impact on others with commercial relationships with Golfsmith. Following the July 5, 2011 Transaction Committee meeting, Lazard contacted Messrs. Morrison and Li of OMERS to acknowledge Golf Town's previously expressed interest in Golfsmith and to inform OMERS of the market solicitation process being pursued by Golfsmith. In that meeting, a representative of OMERS inquired as to how OMERS could preempt the market solicitation process and instead pursue exclusive negotiations with Golfsmith. Lazard informed such representative that Golfsmith would pursue its market solicitation process and encouraged OMERS to be competitive in the process.

On July 7, 2011, upon completion of the negotiation of Lazard's engagement letter, the Transaction Committee met and officially engaged Lazard as its financial advisor. Additionally, the Golfsmith Board met and approved the engagement letter with Lazard. The Transaction Committee updated the Golfsmith Board on its deliberations regarding the manner and scope of the market solicitation process, the type of potential purchasers that would be approached and the potential timing of the process. The Golfsmith Board adopted a charter for the Transaction Committee to formalize its role and added Glenda Flanagan, a director of Golfsmith, to the Transaction Committee because the Golfsmith Board considered Ms. Flanagan's financial and public company experience to be a valuable resource for the Transaction Committee. Mr. Allen was appointed chairman of the Transaction Committee. Therefore, from the earliest stages of the process, the Transaction Committee included two Unaffiliated Members and, according to the Transaction Committee charter, the vote of both such Unaffiliated Members was required for the Transaction Committee to recommend a Sale Transaction to the Golfsmith Board. For a more detailed discussion regarding the Transaction Committee see *The Merger* *The Transaction Committee* beginning on page 14.

In early July 2011, Messrs. Morrison, Li and Bebis requested a meeting with representatives of Golfsmith at Golfsmith's headquarters in Austin, Texas, but such request was denied at that time.

**Table of Contents**

On July 10 and July 15, 2011, the Transaction Committee met to discuss and provide comments on drafts of a Confidential Information Memorandum to be used in the solicitation of indications of interest for a possible acquisition of Golfsmith. On July 11, 2011, at the direction of the Transaction Committee, Lazard sent to Golf Town a draft of the Confidential Information Memorandum. The Transaction Committee also authorized representatives of Golfsmith to attend a meeting requested by OMERS to discuss Golfsmith and a potential transaction so as to maintain Golf Town's interest in Golfsmith while allowing the market solicitation process to develop.

From July 13 through August 29, 2011, at the direction of the Transaction Committee, Lazard distributed preliminary solicitation materials, containing only public information with respect to Golfsmith (without identifying Golfsmith by name), to 62 potential bidders, including 25 strategic and 37 financial bidders, to determine if each such bidder would be interested in entering into a confidentiality and non-disclosure agreement and considering an initial indication of interest with respect to a potential purchase of Golfsmith. Golfsmith, together with its counsel, negotiated and executed confidentiality and non-disclosure agreements with 30 potential bidders (in addition to Golf Town). Each bidder who executed a confidentiality and non-disclosure agreement received from Golfsmith a copy of the Confidential Information Memorandum.

On July 26, 2011, representatives of Golfsmith, including Mr. Hanaka, Ms. Gove, Mr. Larkin, Senior Vice President, Direct, and Mr. Getson, Senior Vice President, General Merchandising Manager, together with representatives of Lazard, engaged in due diligence meetings with Messrs. Morrison and Li of OMERS as well as Mr. Bebis and other Golf Town executives and representatives of BMO Capital Markets, Golf Town's financial advisor, in New York. The meetings included management presentations and discussions regarding Golfsmith's operating and financial performance, strategic initiatives, competition and opportunities. During these meetings the representatives of OMERS did not have any individual meetings with Mr. Hanaka or Ms. Gove or any other member of Golfsmith's management.

Following these meetings, Mr. Li of OMERS and David Solomon, of Lazard, arranged for Golf Town and OMERS to tour Golfsmith's facilities and conduct additional due diligence with respect to Golfsmith in Austin, Texas on August 15, 2011.

From August 5 through August 22, 2011, at the direction of the Transaction Committee, Lazard distributed the Confidential Information Memorandum to the 30 potential bidders who had entered into confidentiality and non-disclosure agreements with Golfsmith at that time and also distributed it to OMERS. Additionally, Lazard delivered, together with the Confidential Information Memorandum, a letter asking the recipients of the Confidential Information Memorandum to submit to Lazard written, non-binding preliminary indications of interest in a possible transaction no later than August 23, 2011. On August 3 and August 12, 2011, the Transaction Committee met with Lazard and White & Case to discuss the status of the market solicitation process.

On August 15, 2011, Mr. Morrison, Mr. Lank and Mr. Li met with representatives of Golfsmith, including Mr. Hanaka and Ms. Gove, with representatives of Lazard present, and toured Golfsmith's headquarters in Austin, Texas to conduct due diligence. Following the tour and due diligence meeting, the representatives of OMERS, Golfsmith and Lazard engaged in further discussions over dinner, primarily with respect to the business, key personnel and the challenges of integrating the two companies.

On August 19, 2011, the Transaction Committee met to discuss with Lazard and White & Case the progress being made in negotiating confidentiality and non-disclosure agreements with potential bidders and to review the outcome of the tour recently completed by OMERS. The Transaction Committee also received an update from Lazard on the progress of the market solicitation process.

On August 22, 2011, Lazard had a review call with a representative of Bidder B, who indicated that Bidder B would participate in the first round bids. Lazard discussed valuation drivers and possible synergies with Bidder B and the expectation of other interest in the process.

## Table of Contents

On August 23, 2011, the initial deadline for submissions of preliminary indications of interest, three potential strategic bidders (Golf Town, Bidder B and Bidder C) submitted preliminary indications of interest. OMERS offered a range of \$6.00-\$6.50 per share, Bidder B offered \$5.50-\$7.00 per share and Bidder C did not indicate a price per share, but rather offered a multiple of 6.5-7.5 times Golfsmith's adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) over the preceding twelve months. The OMERS proposal included a request for a period of exclusive negotiations with Golfsmith. As of that date, two potential financial bidders had not yet completed negotiating an acceptable confidentiality agreement and ten potential financial bidders continued to review the Confidential Information Memorandum because they had only recently executed confidentiality and non-disclosure agreements. One potential strategic bidder who did not submit an initial indication of interest continued to discuss with Lazard a potential bid for Golfsmith.

On August 25, 2011, the Transaction Committee discussed, together with White & Case and Lazard, the three preliminary indications of interest that had been received and the status of discussions with other potential bidders. The Transaction Committee determined to continue discussions with all three bidders and compared various strategies to achieve that objective while also improving the prices offered. Additionally, the Transaction Committee determined to allow the potential bidders who had recently completed or were still negotiating confidentiality and non-disclosure agreements more time to submit an indication of interest. Ultimately, however, no other party submitted an indication of interest.

Following the Transaction Committee meeting, at the direction of the Transaction Committee, Mr. Solomon of Lazard called Messrs. Morrison and Li of OMERS to discuss OMERS's preliminary indication of interest and understand the basis and rationale for the pricing. Mr. Solomon informed Messrs. Morrison and Li that their proposed price was insufficient and that, as a result, Golfsmith would not move forward in the process with OMERS and requested that OMERS return all confidential information that Golfsmith had provided to OMERS (although, in light of subsequent discussions, this request was not pursued). Additionally, Mr. Solomon contacted each of Bidder B and Bidder C to discuss their respective preliminary indications of interest and understand the basis and rationale for their pricing. During those discussions, Mr. Solomon also informed Bidder B and Bidder C that their indicated value ranges were unsatisfactory and encouraged them to rethink their valuations. Later that day, Mr. Bebis called Mr. Hanaka and expressed Golf Town's interest in remaining in the bidding process and inquired as to what actions OMERS should take to preempt Golfsmith's market solicitation process and gain exclusivity of negotiations. Mr. Hanaka indicated to Mr. Bebis that he would advise the Transaction Committee of his request.

On August 26, 2011, at the direction of the Transaction Committee and in response to OMERS's inquiry of August 25th, Mr. Solomon of Lazard called Messrs. Morrison and Li of OMERS and informed them that the Transaction Committee would consider Golf Town's exclusivity request, but only at a price level significantly in excess of Golf Town's proposed range, premised on completing a definitive merger agreement within twenty business days.

On August 29, 2011, the Golfsmith Board met and received an update from the Transaction Committee, Lazard and White & Case regarding the progress of the market solicitation process. The Golfsmith Board discussed the preliminary indications of interest of the three bidders and the management presentations scheduled for these bidders. Additionally, Mr. Hanaka provided an update to the Golfsmith Board with respect to Golfsmith's recent financial and operating performance.

On August 30, 2011, OMERS responded to the August 26, 2011 proposal by indicating that they will not be willing to entertain such proposal and instead delivered to Lazard a revised indication of interest in the range of \$7.50-\$8.50 per share.

On August 31, 2011, Don Morrison and Benson Li of OMERS called Mr. Solomon of Lazard to discuss OMERS's revised bid and next steps. Mr. Solomon indicated that the Transaction Committee determined to allow OMERS to move forward at the higher value range. OMERS anticipated undertaking extensive due

## **Table of Contents**

diligence activities and in light of the lack of exclusivity, requested that Golfsmith reimburse OMERS for some or all of the expenses expected to be incurred by OMERS in connection with its consideration of a potential acquisition of Golfsmith.

On August 31, 2011 and September 8, 2011, the Transaction Committee met with Lazard to discuss the status of the market solicitation process, Lazard's communications with potential bidders regarding expectations for final bids and the ongoing due diligence activities of the active bidders.

Between September 13 and September 20, 2011, representatives of each of Golf Town, OMERS and Bidders B and C attended management presentations by Golfsmith's senior management, including Mr. Hanaka, Ms. Gove and Messrs. Larkin and Getson, as part of their due diligence investigation in preparation for submitting offers for the acquisition of Golfsmith. Lazard was present at all such meetings. Additionally, as part of their due diligence, each of OMERS, Bidder B and Bidder C reviewed additional information made available to them by Golfsmith.

On September 16, 2011, the Transaction Committee met with Lazard and discussed OMERS's request for expense reimbursement and determined not to accede to such request at that time. The Transaction Committee also discussed certain due diligence matters including how and when Golfsmith would make available to potential bidders certain commercially sensitive information such as vendor pricing data. Golf Town had indicated that this information was important for valuation purposes.

On September 22, 2011, the Transaction Committee met with Lazard and White & Case to discuss the status of discussions with the three potential bidders. The Transaction Committee decided to extend the date by which final bids were due until October 25, 2011 at the request of OMERS to allow time for final bids to be more completely developed. The Transaction Committee discussed the potential timing and structure of a transaction in the context of White & Case's discussion regarding a draft merger agreement. White & Case described for the Transaction Committee differences between proceeding with a transaction as a tender offer or a one-step merger so that the Transaction Committee could provide guidance on the proposed merger agreement that would be presented to the three potential bidders. The determination was made that the merger agreement would reflect a two-step tender offer followed by a merger on the expectation that this structure would potentially require less time to complete the acquisition of Golfsmith and any impact on one or more of the bidders' abilities to finance such a structure could be managed.

On September 23, 2011, Messrs. Morrison and Li of OMERS and senior executives of Golf Town, including Mr. Bebis, met with Mr. Hanaka, Ms. Gove and Ryan Hays of Lazard in New York, to discuss potential synergies that could be achieved by a combination of Golf Town and Golfsmith, as well as Golfsmith's potential opportunities in Korea. The participants also discussed means by which Golf Town and OMERS could access important commercial information as part of its due diligence process without compromising Golfsmith's competitive position with Golf Town. There was a suggestion to provide access to OMERS's consultant, Bain Consulting (Bain), on a confidential basis so that Bain could prepare a financial analysis that could be shared with OMERS and Golf Town that reflected, but did not disclose, such sensitive information.

On September 27, 2011, Golfsmith and Golf Town USA Inc. entered into an agreement with Bain, pursuant to which Bain would be provided access to certain competitively sensitive data of Golfsmith for the purpose of conducting various due diligence financial analyses, including with respect to store growth. The agreement provided that reports of Bain's analysis could be shared with OMERS only if approved by Golfsmith and if the data in the report was sufficiently aggregated so as not to be competitively sensitive. This agreement was a means by which Golfsmith could make competitively sensitive information available to OMERS so that OMERS could factor it into its valuation analysis without compromising Golfsmith's competitive position.

On September 28, 2011, at the direction of the Transaction Committee, Lazard delivered to each of OMERS, Bidder B and Bidder C an instruction letter requiring the potential bidders to submit their final offers for an acquisition of Golfsmith no later than October 25, 2011. The instruction letter indicated that Golfsmith

**Table of Contents**

would provide to the bidders a draft merger agreement and bidders were requested to propose any changes to the merger agreement that they would require by October 18, 2011. The draft merger agreement was made available to OMERS, Bidder B and Bidder C on September 30, 2011.

On September 30, October 7 and October 13, 2011, the Transaction Committee met with Lazard and Lazard provided updates on the due diligence activities of each of the remaining bidders and their perceived levels of interest arising from such activities.

On October 3, 2011, Lazard and senior management of Golfsmith met with senior management of Bidder B for an all-day due diligence session at Golfsmith's headquarters in Austin, Texas. Functional area teams from both Golfsmith and Bidder B were present, including human resources, distribution, information technology, finance/accounting and legal.

On October 11, 2011, a representative of Bidder B called Lazard and indicated that Bidder B did not intend to proceed in Golfsmith's market solicitation process, noting that its diligence suggested lower potential synergies, a longer post-merger integration timeframe and greater execution risk than previously believed.

On October 17, 2011, Mr. Solomon of Lazard and Mr. Hanaka met with Messrs. Morrison and Li of OMERS and Mr. Bebis of Golf Town for dinner in Toronto, Ontario. The participants at the dinner discussed the status of OMERS's due diligence activities and Mr. Morrison expressed OMERS's concern that Golfsmith would not meet its fourth quarter forecasted results. Mr. Solomon and Mr. Hanaka sought to reassure Messrs. Morrison and Li about certain factors that had contributed to recent weakness in Golfsmith's financial performance. Mr. Morrison signaled that the offer OMERS intended to submit might be below the range reflected in its preliminary indication of interest. Mr. Solomon engaged in a discussion with the other participants at the dinner regarding the basis for OMERS's views and highlighted information that would support a higher bid and reinforce the value of Golfsmith as presented in the market solicitation process.

On October 18, 2011, in accordance with Lazard's September 28, 2011 instruction letter, OMERS delivered to Lazard a draft merger agreement proposed by Weil, Gotshal & Manges LLP, Golf Town's counsel (Weil), reflecting changes to the draft merger agreement made available to all bidders, pursuant to which Golf Town would be prepared to acquire Golfsmith. Although Bidder C did not timely deliver mark-ups of the draft merger agreement, on October 20, 2011, a representative of Bidder C called Lazard and indicated that Bidder C would deliver a mark-up of the draft merger agreement together with Bidder C's final offer for an acquisition of Golfsmith on October 25, 2011.

On October 21, 2011, the Transaction Committee met with White & Case and Lazard to discuss the status of the market solicitation process, issues raised in Weil's mark-up of the proposed merger agreement and OMERS's expressed concerns about Golfsmith's recent financial performance. White & Case described and discussed with the Transaction Committee the material issues raised by the merger agreement proposed by OMERS, namely: OMERS's preference to proceed with the transaction as a one-step merger with a written consent to the transaction signed by AEP upon execution of the merger agreement; OMERS's requirements in the event the transaction were to be structured as a tender offer, including indefinite extensions to the tender offer and limitations on Golfsmith's ability to require Golf Town to extend in certain circumstances; the requirement to have additional significant stockholders execute a voting agreement in support of the transaction; the absence of acceptable debt commitment letters in support of OMERS's financing requirements and inadequacy of the equity commitment; the deletion of the Golfsmith Board's ability to change its recommendation in favor of the transaction if circumstances changed that would make Golfsmith more valuable; Golfsmith's obligation to reimburse OMERS's and Golf Town's expenses in certain circumstances; changes that sought to allocate some of the antitrust risk of the proposed transaction to Golfsmith; the level and circumstances of the termination fees and reverse termination fees and the limitation of Golfsmith's remedies; and the addition of a condition to Golf Town's obligations that AEP shall not have breached its voting agreement. The Transaction Committee authorized White & Case to discuss these and other issues with Weil in advance of the submission of OMERS's final offer.



## Table of Contents

On October 22, 2011, White & Case called Weil to express the Transaction Committee's concerns regarding Golf Town's proposed changes to the draft merger agreement and suggest improvements that needed to be made when OMERS submitted its final offer.

On October 25, 2011, the final offers were due from the remaining bidders. Golfsmith received two final bids; one from OMERS at \$6.50 per share and the second from Bidder C at a price that was not competitive with the offer from OMERS and included a suggested mark-up of the draft merger agreement that contained numerous suggested changes. OMERS's final offer included certain adjustments to their required merger agreement provisions, including: proposing a termination fee of 3.9% payable by Golfsmith and a reverse termination fee of 6.0% payable by OMERS in certain circumstances; removal of the condition to Golf Town's obligations that AEP shall not have breached its voting agreement; the reinsertion of the Golfsmith Board's ability to change its recommendation in favor of the transaction if circumstances changed that would make Golfsmith more valuable; and allocation of antitrust risk primarily to Golf Town.

On October 26, 2011, the Transaction Committee met with Lazard and White & Case to review the final offers. The Transaction Committee engaged in extensive discussions regarding the results of the solicitation process. It was agreed that Bidder C's offer was not competitive. The Transaction Committee discussed extensively the material elements of OMERS's offer, including the price, contingencies, structure and the timing of the transaction. The Transaction Committee also discussed whether determining not to sell Golfsmith and, instead, to pursue a strategy of independence was advisable in light of the price proposed by OMERS. The Transaction Committee discussed with Lazard and White & Case the numerous contingencies contained in OMERS's proposal, including: further due diligence that would require at least an additional twenty business days; a requirement that Golfsmith's senior management agree to reinvest 50% of their after-tax proceeds from the transaction and enter into employment agreements with Golf Town; additional internal approvals; and that further development of OMERS's financing commitments would be required. The Transaction Committee also discussed OMERS's request for a period of exclusive negotiations while it completed its due diligence and negotiated a definitive merger agreement. The Transaction Committee weighed these issues against the risk of losing the bid by OMERS if Golfsmith decided to terminate the auction at that time and the risks involved in continuing to operate the business and pursue a strategic transaction at some point in the future. The Transaction Committee discussed the competitive and operational risks faced by Golfsmith in continuing to pursue its business plan and the uncertainty that a strategic transaction would be available in the future at a more attractive price. Additionally, the Transaction Committee discussed the synergies to be achieved by Golf Town in a merger with Golfsmith and the possibility of convincing OMERS to increase its offer price. Mr. Allen and Ms. Flanagan, the Unaffiliated Members, then met separately with Lazard and White & Case and discussed Lazard's preliminary financial perspective with respect to the price proposed by OMERS. After extensive discussion, the Unaffiliated Members determined to recommend to the full Transaction Committee that the Transaction Committee revert to OMERS with a counterproposal.

On October 27, 2011, the Transaction Committee met with Lazard and White & Case and after further discussion and consideration of the bid by OMERS and the position of Bidder C, determined that Lazard should inform OMERS that the Transaction Committee was not prepared to recommend the bid by OMERS, but that it would be prepared to recommend a transaction at a price of \$7.50 per share (subsequently increased to \$7.75 per share following further discussions among Lazard and the members of the Transaction Committee following the meeting). Additionally, the Transaction Committee instructed Lazard to contact Bidder C and B and make the same proposal to each of them. The Transaction Committee also discussed OMERS's request for exclusivity and determined to decline that request in light of the valuation concerns with OMERS's bid.

On October 29, 2011, Mr. Solomon called Messrs. Morrison and Li of OMERS and relayed Golfsmith's counterproposal of \$7.75 per share. OMERS promptly rejected the counterproposal and indicated that OMERS would not increase its offer of \$6.50 per share. On that same day, Mr. Solomon called a representative of Bidder B and a representative of Bidder C and suggested that they should each consider submitting an offer at \$7.75 per share. Bidder C immediately rejected the \$7.75 proposal.

## Table of Contents

On October 31, 2011, a representative of Bidder B called Mr. Solomon and indicated that Bidder B was not going to change its position and was still not interested in making an offer.

On November 1, 2011, the Transaction Committee met with Lazard and White & Case to discuss OMERS' offer. The Transaction Committee discussed at length the execution risks and competition risks facing Golfsmith if it continued to pursue its business plan. This discussion included Golfsmith's prospects for the next several years in the absence of a transaction; how the stock price might reflect such prospects; risks to Golfsmith's financial plans (arising from both general economic circumstances and from anticipated competitive developments within Golfsmith's industry, including new store openings by a major competitor); valuations attributed to other public companies and other transactions, and the possibility of a follow-on offering of Golfsmith's stock. The Transaction Committee noted the significant uncertainties associated with these issues as compared to the certainty of OMERS' cash proposal. The Transaction Committee discussed with Lazard and White & Case certain terms of OMERS' offer and potential responses if Golfsmith were to continue negotiating with OMERS, including: (a) reducing the size of Golfsmith's termination fee to 3%; (b) increasing the reverse termination fee payable by OMERS to 10%; (c) the need to provide customary debt commitment letters with close alignment between the commitment conditions and the conditions contained in the merger agreement; (d) the scope of the definition of material adverse effect; (e) the request to reimburse OMERS' expenses; (f) limiting the officers with whom OMERS would be permitted to engage prior to signing a definitive merger agreement; and (g) granting a short exclusive negotiation period in light of the extensive market solicitation process undertaken and the absence of proposals competitive with OMERS' proposal. The Transaction Committee authorized Lazard and White & Case to negotiate these points to see if an acceptable transaction with OMERS could be reached on the valuation parameters proposed by OMERS. The Transaction Committee authorized Lazard to first make an additional counterproposal to each of OMERS, Bidder B and Bidder C for a transaction at \$7.00 per share in cash.

After the Transaction Committee's meeting, the Golfsmith Board met to discuss the results of the market solicitation process and OMERS' proposal. The Transaction Committee reported to the Golfsmith Board that OMERS' proposal was within parameters that the Transaction Committee could ultimately recommend to the Golfsmith Board subject to negotiating certain important matters. Later that day, Lazard called Mr. Morrison of OMERS to convey the Transaction Committee's views and the counterproposal. Additionally, Lazard called representatives of each of Bidder B and Bidder C to propose to each of them a transaction at \$7.00 per share. Bidder B and Bidder C rejected the counterproposal that same day.

On November 3, 2011, Messrs. Morrison and Li of OMERS called Mr. Solomon to inform him that OMERS had rejected the counterproposal of \$7.00 per share. Mr. Morrison reiterated OMERS' proposal of \$6.50 per share and insisted OMERS had no flexibility to increase its offer price. Mr. Morrison stated that OMERS also proposed to reduce Golfsmith's termination fee to 3.5%, indicated its willingness to relent on its request for expense reimbursement in certain circumstances, agreed to the definition of material adverse effect proposed by Golfsmith and agreed to tighten the financing conditions in the debt financing commitment to track the conditions in the merger agreement as closely as possible. Additionally, Mr. Morrison proposed a two-tier reverse termination fee, pursuant to which the reverse termination fee in the event OMERS could not close the merger because financing was unavailable would be reduced to 5% while permitting a higher reverse termination fee of 7.5% if OMERS breached the merger agreement. OMERS continued to insist on twenty business days of exclusive negotiations.

On November 3, 2011, the Transaction Committee (other than Ms. Flanagan) met with Lazard and White & Case and discussed the revised terms proposed by OMERS. The Transaction Committee instructed Lazard to pursue a transaction with OMERS on such revised terms except that the reverse termination fee, if financing was unavailable, should be 6% and not 5%; this would include OMERS' preference for a one-step merger to be approved by a written consent executed by AEP. The Transaction Committee also discussed the possibility that OMERS might still try to negotiate a lower price at the end of the exclusivity period based on further due diligence. Consequently, the Transaction Committee believed it was important to withhold commercially

## Table of Contents

sensitive information about vendor pricing until such time as the Transaction Committee was convinced that OMERS was prepared to execute on its proposal. The Transaction Committee later confirmed with Ms. Flanagan that she was in agreement with the proposed course of action. Before contacting OMERS, as instructed by the Transaction Committee, Mr. Solomon of Lazard participated in a call with a representative of Bidder B to inquire again if Bidder B was interested in pursuing a transaction with Golfsmith at \$6.50 per share. Bidder B's representative indicated that he would discuss the matter internally and revert to Lazard. Subsequently, Bidder B informed Lazard that its position had not changed. On November 3, 2011, Lazard contacted Bidder C to inquire as to their interest in pursuing a transaction at \$6.50 per share. Bidder C indicated that the price would need to be below \$5.00 per share to re-engage.

On November 4, 2011, Mr. Solomon called Messrs. Morrison and Li of OMERS and informed them that the Transaction Committee had agreed to work with OMERS in an effort to reach a deal at \$6.50 per share and informed them of their acceptance of the revised terms that OMERS had proposed, except for the proposed reverse termination fee of 6% if financing was not available. Mr. Solomon also conveyed that Golfsmith would accept the single-step structure and exclusivity for 20 business days, starting November 7, 2011, with a fiduciary out that would allow Golfsmith to terminate to pursue a superior proposal.

Lazard and White & Case negotiated the terms of the exclusivity agreement with OMERS and Weil over the course of the succeeding week. On November 7 and November 11, 2011, the Transaction Committee met with Lazard and White & Case to discuss the negotiations. During the November 7, 2011 meeting, the Transaction Committee also discussed Golf Town's request to meet with Golfsmith's senior management to negotiate the terms of their participation in management of the combined company. The Transaction Committee weighed the risk that such discussions would cause a conflict and distraction for such officers against Golf Town's insistence that such discussions and agreements were a critical component of any final agreement. The Transaction Committee determined to allow the negotiations with management subject to oversight by Lazard. On November 14, 2011, Golfsmith entered into an exclusivity agreement providing for exclusive negotiations with OMERS through December 5, 2011 and expense reimbursement for OMERS up to \$1,000,000 if Golfsmith terminated the exclusivity agreement in certain limited circumstances to pursue an alternative transaction. The exclusivity agreement also permitted Golfsmith to terminate the exclusivity period if Golf Town changed any of the key deal terms.

During the next several weeks, representatives of OMERS and Golf Town continued OMERS's due diligence review of Golfsmith, including with respect to operational, financial and information technology matters.

On November 9 and 10, 2011, Ms. Gove, together with Lazard, met individually with Mr. Li and Mr. Bebis of OMERS in Naples, Florida to discuss existing roles and responsibilities of Ms. Gove and Mr. Larkin, the possible investment by Ms. Gove, Mr. Getson and Mr. Larkin in the combined company and potential future roles and responsibilities with the combined company.

On November 17, 2011, the Chief Executive Officer of a competitor of Golfsmith called Mr. Hanaka to explore Golfsmith's interest in acquiring that competitor. Mr. Hanaka indicated that Golfsmith was not in a position to entertain such an investment at that time.

On November 19, 2011, White & Case delivered to Weil a revised draft of the merger agreement, reflecting the revised structure of a one-step merger to be approved by written consent and other terms reflecting the negotiations with OMERS.

On November 21, 2011, OMERS met with Mr. Hanaka, Golfsmith's management team and Lazard to discuss the organizational structure of the combined company following the proposed merger and potential reinvestment by Golfsmith's management. OMERS did not provide Golfsmith's management with written proposals at that time. Following this meeting, representatives of OMERS continued to meet with Ms. Gove, Mr. Larkin and Mr. Getson to discuss the terms of their future employment and equity participation in the combined company.

## Table of Contents

Prior to the expiration of the initial exclusivity period, OMERS contacted Lazard to request an extension of the exclusivity period by two weeks to facilitate additional due diligence, including a review of sensitive vendor pricing data.

On November 25, 2011, White & Case engaged in negotiations with Weil regarding the terms of the merger agreement reflected in the November 19, 2011 draft previously delivered by White & Case, including: carve outs from the definition of material adverse effect and the requirement that the representation regarding the absence of a material adverse effect on Golfsmith be brought down to the closing of the merger; parameters around Golfsmith's year-end compensation and bonus award process; Golfsmith's obligation not to solicit alternative transactions; OMERS's financing plans, which no longer contemplated new debt financing, but instead entailed agreement from Golfsmith's existing lender to waive defaults under the Revolving Credit Facility related to a change of control of Golfsmith; OMERS's obligation to provide director and officer insurance and indemnification; and the termination provisions, termination fees and related remedies.

On November 28, 2011, the Transaction Committee met with Lazard and White & Case to consider OMERS's requests. The Transaction Committee determined that, because of the competitive sensitivity of the vendor pricing data and the continuing risk that a deal might not be reached, the vendor data should not be made available until OMERS reached agreements in principle with Golfsmith's management team with respect to employment and equity participation arrangements post-closing. In light of the progress made and the absence of alternative competitive offers, the Transaction Committee agreed to accept OMERS's request for a two-week extension of exclusivity. The Transaction Committee also discussed a request by OMERS to amend the confidentiality and non-disclosure agreement to allow OMERS to share Golfsmith's confidential information with potential high yield lenders who might provide financing to Golfsmith following the closing of a merger (not to finance the merger transaction itself). The Transaction Committee decided to allow such amendment, subject to the Transaction Committee's prior approval of the recipients of such confidential information and instructed White & Case to negotiate the terms of the extension. White & Case reviewed with the Transaction Committee the status of negotiations with respect to the merger agreement.

Between November 28 and December 2, 2011, White & Case negotiated the terms of the revised confidentiality and non-disclosure agreement with OMERS, including a six-month extension of the standstill provision in light of the time elapsed since the original confidentiality and non-disclosure agreement with OMERS was executed.

On December 2, 2011, the Transaction Committee met with Lazard and White & Case and discussed the status of OMERS's negotiations with management. On that day, Golfsmith entered into an amendment to the confidentiality and non-disclosure agreement between Golfsmith and Golf Town, for the purpose of allowing Golf Town to share confidential information with potential high yield lenders. The amendment further provided for a six-month extension of the standstill and non-solicitation provisions of such agreement.

On December 3, 2011, Mr. Morrison of OMERS called Mr. Hanaka and asked him to consider becoming the chief executive officer of the combined company on an interim basis so as to oversee the transition to a new chief executive officer post-merger. Mr. Morrison indicated to Mr. Hanaka that OMERS viewed Mr. Hanaka's involvement post-closing as critical to the transaction. On December 4, 2011, Mr. Hanaka informed Mr. Allen of such development and immediately resigned from the Transaction Committee because he indicated he would be willing to fulfill the requested role to facilitate the transaction. On December 4, 2011, Mr. Morrison of OMERS also spoke with Ms. Gove about this development.

On December 5, 2011, the Transaction Committee met to discuss this development. Mr. Hanaka informed the Transaction Committee that he was willing to continue as interim chief executive because of OMERS's view of the critical importance of his participation to the success of the merger. The Transaction Committee accepted his resignation but, because of Mr. Hanaka's knowledge of Golfsmith and the industry, the Transaction Committee agreed that he would continue to be invited as necessary to future Transaction Committee meetings. At this meeting, Mr. Buaron expressed a desire to contact OMERS, on behalf of AEP as a stockholder, to exert

## **Table of Contents**

pressure for a price increase in light of Golf Town's reliance on the Golfsmith management team and OMERS's high yield financing plans which suggested to AEP that OMERS may be willing to provide additional value to Golfsmith's stockholders. The Transaction Committee discussed this request with Mr. Buaron, White & Case and Lazard, at which point, Mr. Buaron, and two other directors who had been invited to the meeting, Mr. Long and Mr. Grover, excused themselves from the meeting. Mr. Allen and Ms. Flanagan then further discussed this request with White & Case and Lazard and determined that they would have no objection to Mr. Buaron's initiative so long as he kept the Transaction Committee fully informed, but instructed the legal and financial advisors to continue seeking resolution of an agreement with OMERS on the existing parameters despite the recent development. The Transaction Committee also agreed to allow further meetings between OMERS, Mr. Hanaka and Ms. Gove, subject to oversight by Lazard.

On December 6 and December 7, 2011, Mr. Hanaka and Ms. Gove met with representatives of OMERS in Toronto, Ontario. Mr. Hanaka and Ms. Gove delivered a management presentation to various OMERS representatives. The parties also discussed the post-merger management team. At the conclusion of such discussions, OMERS reached an agreement in principle with Ms. Gove regarding her employment arrangements and equity participation in the combined company. OMERS engaged in further discussions with Messrs. Larkin and Getson.

On December 7, 2011, Weil delivered to White & Case a revised draft of the merger agreement. During December 2011, White & Case and Weil had several telephone discussions to negotiate the merger agreement, the terms of OMERS's equity commitment and limited guaranty of Golf Town's obligations with respect to reverse termination fees and the terms of the waiver of the change of control provision in the Revolving Credit Facility. The primary issues were the scope and conditionality of the waiver, the ability to borrow under the Revolving Credit Facility in the period between signing and closing, the definition of "material adverse effect", the size of OMERS's equity commitment and certain provisions related to remedies in the event that Golf Town failed to close.

On December 7, 2011, the Transaction Committee met with White & Case, Lazard and Mr. Hanaka and discussed the status of ongoing discussions between OMERS and Golfsmith's management. Mr. Hanaka reported the agreement in principle with Ms. Gove but that discussions with Mr. Getson and Mr. Larkin were not yet complete. The Transaction Committee also discussed OMERS's high yield financing plans and the consequences of certain termination scenarios under the merger agreement.

Promptly following the public announcement by Golf Town of the departure of their Chief Executive Officer, a representative of Bidder B called Lazard seeking information about Golfsmith's market solicitation process. In light of the exclusivity agreement in place at the time between Golf Town and Golfsmith, but without making any reference to such agreement, Mr. Solomon of Lazard declined to provide any information to Bidder B at that time.

On December 12, 2011, Messrs. Morrison and Li and James Orlando of OMERS contacted Lazard and requested a further extension of exclusivity through January 6, 2012, indicating that the departure of Golf Town's Chief Executive Officer and additional internal issues had caused delays in their due diligence activities. On that day, the Transaction Committee met with Lazard and White & Case and discussed OMERS's request. The Transaction Committee decided to reject OMERS's request for the extension, but determined to continue to work with OMERS in good faith on a non-exclusive basis.

On December 13, 2011, White & Case delivered to Weil revised drafts of the merger agreement, voting agreement and equity commitment letter and on December 19, 2011, participated on a conference call with Weil to discuss the revised draft of the merger agreement and seek resolution of the remaining issues.

On December 14, 2011, Mr. Morrison of OMERS called Mr. Solomon of Lazard to discuss Golfsmith's recent underperformance as compared to forecasted EBITDA. This issue had been identified in connection with OMERS's due diligence investigation.

**Table of Contents**

On December 16, 2011, the Transaction Committee met with Lazard and White & Case to discuss, among other things, OMERS' concern with the identified EBITDA shortfall and the possible explanations as well as the potential impact on the negotiations with OMERS.

On December 21, 2011, Weil delivered to White & Case revised drafts of the merger agreement, the AEP voting agreement and the OMERS equity commitment letter.

On December 22, 2011, Mr. Morrison of OMERS called Mr. Solomon of Lazard and highlighted once more Golfsmith's potential EBITDA underperformance for 2011. Additionally, Mr. Morrison indicated that Golf Town would not be prepared to sign a definitive merger agreement by January 6, 2012. OMERS requested time to complete additional financial due diligence and indicated that it would need year-end financial information before Golf Town could reach an agreement. During this conversation, Mr. Solomon emphasized that Golfsmith would not entertain a price reduction based on additional financial due diligence.

On December 23, 2011, the Transaction Committee met with Lazard and White & Case and discussed the recent developments and the possibility that OMERS would seek a price reduction. The Transaction Committee discussed OMERS' position and its requests for extensions. The Transaction Committee also discussed strategies by which it could avert a price reduction (or perhaps increase the price) by focusing OMERS on the improvement in Golfsmith's trailing twelve months EBITDA since OMERS made its offer and the benefit of delivering a strong management team for the combined company in light of the recent departure of Golf Town's chief executive officer. The Transaction Committee authorized Lazard to argue for an increase in the price based on these factors. Additionally, the Transaction Committee determined that it would not permit management to be indefinitely distracted by continuous delays and determined to schedule a meeting of the Golfsmith Board for January 17, 2012, by which time OMERS must either be prepared to agree to a transaction that could be recommended to the Golfsmith Board or abandon discussions. The Golfsmith Board would decide whether or not to support a transaction with OMERS at that meeting.

On December 28, 2011, Mr. Solomon delivered an email to Mr. Morrison conveying the Transaction Committee's position including a request for an unspecified price increase.

Over the next week, OMERS continued its due diligence efforts and together with its accountants, KPMG, engaged in numerous telephonic meetings with Golfsmith's management with respect to Golfsmith's financial results through the end of November.

On January 6, 2012, the Transaction Committee met with Lazard and White & Case and Mr. Hanaka provided an update to the Transaction Committee regarding preliminary year-end financial performance. Mr. Hanaka indicated that management had informed OMERS that the December revenues and margins would be lower than the forecasted information upon which OMERS had based its offer. The Transaction Committee discussed the possibility that, based on the intensity of OMERS' due diligence investigation of such financial information, Golf Town might seek a price reduction and discussed strategies to avoid such a reduction. Mr. Buaron revisited an earlier suggestion that he contact OMERS, on behalf of AEP as a stockholder, to seek to exert pressure for a price increase. The Transaction Committee, following discussion regarding alternatives to increase the offered price or avert a price reduction, authorized Mr. Buaron to contact Mr. Morrison and exert pressure for a price increase.

During the weeks of January 2, 2011 and January 9, 2011, representatives of OMERS worked with their accounting consultants, Mr. Hanaka, Ms. Gove and Lazard to resolve open diligence items related to Golfsmith's December and year-end financial results.

On January 7, 2012, Mr. Buaron called Mr. Morrison and requested that OMERS consider a price increase based on Golfsmith's overall financial performance.

## **Table of Contents**

On January 9, 2012, White & Case delivered to Weil a revised draft of the merger agreement. At that point the most significant unresolved issues in the merger agreement and related documents related to the definition of "material adverse effect", the ability of Golfsmith to borrow under the Revolving Credit Facility between signing and closing, the size of OMERS' equity commitment and the scope of the waiver of the change of control default under the existing Revolving Credit Facility. Additionally, a price reduction remained a possibility.

On January 13, 2012, Messrs. Morrison and Li of OMERS called Mr. Solomon of Lazard and informed him that OMERS would seek final internal approval on January 16, 2012 to approve the transaction with the goal of meeting Golfsmith's deadline of January 17, 2012. Mr. Morrison indicated that OMERS would not increase the offer price despite Lazard's request and Mr. Morrison's conversation with Mr. Buaron and that OMERS had not yet determined its final offer price.

On January 13, 2012, the Transaction Committee met with Lazard and White & Case to discuss the status of OMERS' due diligence efforts, the timing of OMERS' internal approvals and the actions that would have to be taken if Golf Town and Golfsmith were to reach agreement on a transaction.

On the evening of January 16, 2012, Messrs. Morrison and Li of OMERS delivered to Lazard a revised offer, reflecting a reduction of the price per share from \$6.50 to \$5.75 in cash.

On January 17, 2012, the Transaction Committee met as planned. The other directors were invited to attend the initial portions of the meeting, at which Golfsmith's recent financial progress, the market solicitation process and discussions with OMERS were discussed. The Transaction Committee then met without other directors present and determined to reject OMERS' revised offer. The full Golfsmith Board then reconvened and Mr. Allen explained that the Transaction Committee had rejected the offer by OMERS and that, consequently, there was no transaction for the Golfsmith Board to consider. Ms. Gove and Mr. Hanaka presented Golfsmith's December and fourth quarter results.

Later that evening, at the direction of the Transaction Committee, White & Case sent a termination letter to OMERS, notifying OMERS of the termination of all discussions regarding the transaction and requesting that OMERS and Golf Town return to Golfsmith's possession all materials obtained in the negotiation process in accordance with the terms of the confidentiality and non-disclosure agreement.

On January 25, 2012, Ms. Gove and Ron Hornbaker of Golf Town coincidentally came across each other at an industry conference in Orlando, Florida. Mr. Hornbaker indicated to Ms. Gove that Golf Town's board had met earlier that day and that they remained very interested in reaching a deal with Golfsmith.

On January 26, 2012, Scott Humphrey of BMO Capital Markets called Mr. Buaron and indicated that OMERS remained interested in pursuing an acquisition of Golfsmith and was likely to be willing to increase the offer price, but not to \$6.50 per share. Mr. Humphrey further indicated that OMERS might consider a structure that included not only cash, but the opportunity for upside that could take the form of stock or an earn-out.

On January 27 and January 29, 2012, the Transaction Committee met with Lazard and White & Case and discussed the recent developments and considered alternative structures including a proposed merger in which Golfsmith stockholders could elect cash or a combination of cash and equity as the merger consideration.

On February 2, 2012, Mr. Buaron and Mr. Solomon met with Mr. Humphrey and Mr. Morrison in Toronto, Ontario to discuss possible transaction structures. Mr. Buaron and Mr. Solomon explained the Transaction Committee's view that any proposed structure should enable each stockholder of Golfsmith to elect between all cash and a combination of cash and equity as the merger consideration. OMERS rejected any structure that would result in the surviving corporation remaining publicly traded and, therefore, rejected such cash and stock election for all stockholders. OMERS indicated that it would consider a structure pursuant to which stockholders other than AEP would receive cash while AEP, and possibly certain other major stockholders, could receive

## **Table of Contents**

equity in the combined company, or a combination of cash and equity. The discussions focused on exploring a structure in which there was sufficient rollover equity such that OMERS' s blended acquisition price was acceptable to OMERS while ensuring an acceptable level of cash consideration for the non- rollover stockholders.

On February 4, February 5, and February 7, 2012, the Transaction Committee met with Lazard and White & Case to discuss the status of the discussions with OMERS arising out of the February 2, 2012 meeting and alternative transaction scenarios. Lazard updated the Transaction Committee regarding the ongoing discussions and Mr. Buaron and Lazard presented various transaction structures and discussed with the Transaction Committee the complexity of structuring a transaction providing an equity investment acceptable to AEP, acceptable cash consideration for the non-AEP stockholders and a blended acquisition price acceptable to Golf Town. At the February 4, 2012 meeting the Transaction Committee discussed with White & Case the legal considerations of the proposed structure. In light of the discussions regarding a potential equity investment by AEP in the combined company, Mr. Buaron resigned from the Transaction Committee. The Transaction Committee also established guidelines at the February 4, 2012 meeting for the participation of representatives of AEP in discussions with OMERS regarding a new structure, including: Lazard must monitor all conversations between OMERS and AEP; White & Case and Lazard were to represent only the interests of Golfsmith and not AEP; AEP would not disclose any new non-public information to OMERS or divulge any internal Golfsmith discussions and would keep such information confidential; and Golfsmith' s management would be available to assist in the discussions with OMERS, but AEP would not have any discussions with management about management' s ongoing role.

Between February 5, 2012 and February 13, 2012, representatives of AEP, together with Lazard, continued discussions with OMERS to determine if there was a transaction structure that was acceptable to AEP and OMERS. These discussions were conducted in accordance with the guidelines established by the Transaction Committee. Mr. Buaron engaged in ongoing discussions with Mr. Allen, the Chairman of the Transaction Committee, to update him on these discussions and to discuss the impact of potential transaction structures on the cash consideration to non-AEP stockholders.

On February 10, 2011, a representative of Bidder B called Mr. Solomon and inquired about the current state of Golfsmith' s sale process. In particular, Bidder B inquired about price parameters. Bidder B also asked about the intentions of Mr. Hanaka with respect to his position. Mr. Solomon refused to comment on the current state of a transaction with OMERS or price parameters but noted Golfsmith could entertain further discussions. On that same day, Mr. Hanaka called the chief executive officer of Bidder B to explore Bidder B' s interest in acquiring Golfsmith at a cash price of \$6.50 per share. The chief executive officer of Bidder B inquired about how long Mr. Hanaka would be willing to remain in the chief executive officer role at Golfsmith, and indicated that Bidder B would discuss the opportunity internally, but noted that Bidder B generally lacked enthusiasm for investing further in the golf industry because it had doubts about the industry' s health.

On February 13, 2012, the Transaction Committee met with Lazard, White & Case, Mr. Buaron and Mr. Grover. Messrs. Buaron and Grover reported on the progress of AEP' s discussions with OMERS. Mr. Buaron indicated that he had sought, without success, to obtain a transaction structure that AEP could support and that would require OMERS to pay a blended price in excess of \$6.00 per share. Mr. Buaron and Mr. Grover then were excused from the meeting. The Transaction Committee discussed with Lazard, White & Case and Mr. Hanaka the limited sale options available to Golfsmith and the challenges posed to Golfsmith if it were to continue as a standalone company. The Transaction Committee determined to encourage AEP to continue seeking an acceptable transaction structure that would provide a level of cash consideration for the non-AEP stockholders acceptable to the Transaction Committee.

On February 15, 2012, the Golfsmith Board met and formally reduced the size of the Transaction Committee to two members, to take into account Mr. Buaron' s resignation on February 4, 2012, requiring the unanimous approval of both Mr. Allen and Ms. Flanagan to take any action.



## **Table of Contents**

On February 16, 2012, the chief executive officer of Bidder B called Mr. Hanaka and indicated that Bidder B would not pursue a transaction with Golfsmith because Bidder B was not interested in further investing in the golf industry due to Bidder B's concerns about the industry's health. On that day, a representative of Bidder B also called Mr. Solomon and delivered the same message.

On February 16, February 17 and February 24, 2012, the Transaction Committee met with Lazard and White & Case to further discuss developments in the negotiation of the new transaction structure.

Between February 24 and March 2, 2012, OMERS and AEP, together with Lazard, continued to negotiate the terms of a transaction that would be acceptable to AEP as a stockholder of Golfsmith involving a rollover investment by AEP in the combined company. The open issues continued to relate to AEP's rollover investment including governance, tax equalization, valuation methodology with respect to AEP's investment, the form of AEP's investment (debt or equity) and exit opportunities for AEP. During these discussions, OMERS raised the possibility of an all-cash transaction for all Golfsmith stockholders at a price of \$6.00 per share as all parties involved had begun to conclude that the rollover investment presented a number of execution and valuation challenges.

Although AEP was not initially interested in a transaction at \$6.00 per share, as these discussions continued, OMERS again proposed the more simplified transaction structure whereby OMERS would offer an all-cash transaction for all Golfsmith stockholders, but at a price of \$6.10 per share. These developments were reported to the Transaction Committee at its meeting on March 2, 2012. At this meeting Mr. Buaron indicated that he would further consider the \$6.10 per share proposal internally with AEP to determine if such price could be supported by AEP as a stockholder of Golfsmith.

On March 4, 2012, in a conversation between Mr. Buaron and Mr. Humphrey, with Lazard present, OMERS again offered \$6.10 per share in cash for all stockholders. Mr. Buaron and Lazard indicated that the offer would be considered by the Transaction Committee. Mr. Solomon subsequently contacted Mr. Humphrey seeking a price higher than \$6.10 per share, but Mr. Humphrey indicated that no higher offer would be made. Following this meeting, AEP internally discussed the potential transaction structures that had been negotiated with OMERS and determined that AEP would be willing to support the simplified all-cash proposal for \$6.10 per share. This was reported to Mr. Solomon.

On March 6, 2012, the Transaction Committee met with Lazard and White & Case to review the developments in the negotiations between OMERS and AEP. Mr. Grover, a director and representative of AEP was also present. Mr. Solomon reported AEP's willingness to support the proposed \$6.10 cash consideration for all stockholders. The Transaction Committee determined to pursue the revised OMERS proposal of \$6.10 per share in cash for all Golfsmith stockholders. Later that day, Mr. Solomon called Mr. Humphrey and indicated that Golfsmith would proceed at \$6.10 per share in cash, with a target signing date of March 27, 2012. The parties discussed the outstanding items for completion of due diligence review and the timeline leading to a March 27, 2012 signing.

On March 12, 2012, representatives of OMERS called Mr. Hanaka and Ms. Gove and indicated that the terms of the offers of employment and, with respect to Ms. Gove, equity investment in the combined company previously communicated to each of them and to Mr. Larkin and Mr. Getson in late 2011, would not change. OMERS continued its financial due diligence with respect to Golfsmith's 2011 year-end results.

On March 16 and March 23, 2012, the Transaction Committee met with Lazard and White & Case and discussed a potential for further delay in the targeted signing because of OMERS's ongoing due diligence with respect to Golfsmith's January and February financial information and the schedule for completion of Golfsmith's audited financial statements. White & Case informed the Transaction Committee that there were limited issues remaining with respect to the merger agreement from the January 2012 discussions with OMERS's counsel and that those issues could be resolved swiftly. Consequently, the Transaction Committee determined that further negotiations with respect to the merger agreement would await further progress on OMERS's financial due diligence.

**Table of Contents**

On March 29, 2012, Ms. Gove and Mr. Getson met with Golf Town's management team and were provided with the opportunity to conduct due diligence regarding Golf Town in connection with their equity investments in the combined company. Ms. Gove reported to OMERS that Mr. Larkin decided that he would not be making an investment in the combined company.

On March 29, 2012, the Golfsmith Board met and among other things, the Transaction Committee provided the Golfsmith Board with an update of the status of matters related to the negotiations with OMERS. On March 30, 2012, the Transaction Committee met with Lazard and White & Case and Ms. Gove and Mr. Hanaka updated the Transaction Committee regarding OMERS's diligence efforts and outstanding financial due diligence matters.

Over the following month, OMERS continued its financial due diligence efforts and worked with KPMG, its accounting consultant, and Ernst & Young, Golfsmith's accountant, to answer questions and assist OMERS in completing its financial due diligence with respect to 2011 and the first quarter of 2012. On March 30, April 6, April 13 and April 20, 2012, the Transaction Committee was updated by Lazard and Golfsmith's management with respect to the efforts of OMERS and Golfsmith to complete OMERS's financial due diligence.

On April 27, 2012, the Transaction Committee met, and Ms. Gove and Mr. Solomon reported that there were no outstanding financial due diligence items subject to (i) KPMG's final confirmation following a meeting with Ernst & Young and (ii) OMERS's review of the vendor pricing data that continued to be withheld. The Transaction Committee discussed the timing for release of the vendor data in light of the challenges experienced to date with respect to completing due diligence and negotiations with OMERS, and again decided that such data would be released only after the Transaction Committee received OMERS's confirmation of price and terms of the transaction and confirmation that no other due diligence items were outstanding.

On May 1, 2012, White & Case and Weil discussed certain open issues with respect to the merger agreement including the definition of "material adverse effect", remedies upon OMERS's breach and the ability of Golfsmith to borrow under its Revolving Credit Facility between signing and closing. During this discussion, White & Case indicated to Weil that AEP's ownership had dipped slightly below a majority of the outstanding shares of Common Stock as a result of an increase in the number of outstanding shares of Common Stock and suggested that, in addition to AEP's execution of the stockholder written consent approving the transaction, Mr. Hanaka and Ms. Gove also execute a stockholder written consent to ensure approval by a majority of the outstanding shares of Common Stock. Additionally, on May 2, 2012, Golfsmith's and Golf Town's respective legal counsel participated in a confirmatory due diligence call.

On May 3, 2012, White & Case and Weil negotiated the remaining material issues in the merger agreement subject to consideration and approval by OMERS and Golfsmith. Additionally, Mr. Li of OMERS called Mr. Solomon to report that OMERS had completed its financial due diligence and had confirmed that it was going to recommend to its investment transaction committee to approve the transaction at a price of \$6.10 per share but that the process for obtaining such approval would take approximately one week. Following such confirmation, the Transaction Committee met with White & Case and Lazard and White & Case provided an update on the status of the merger agreement discussions and other legal documents, reporting that the merger agreement was very close to being finalized. The Transaction Committee approved the release of vendor data to OMERS.

On Friday, May 11, 2012, the Transaction Committee held a telephonic meeting. White & Case reviewed with the Transaction Committee members the terms of the transaction and the proposed post-closing management arrangements with Mr. Hanaka, Ms. Gove, Mr. Larkin and Mr. Getson. LMM reviewed with the Transaction Committee its financial analysis of the transaction and presented its oral opinion (subsequently confirmed in writing) that, subject to and based upon, the assumptions, qualifications and limitations set forth therein, as of May 11, 2012, the Per Share Merger Consideration of \$6.10 per share, in cash, to be paid to the holders of Common Stock (other than holders of Excluded Shares) pursuant to the Merger Agreement was fair,

## **Table of Contents**

from a financial point of view, to holders of Common Stock (other than the Excluded Holders). The Transaction Committee discussed the terms of the proposed transaction and following such discussion, the Transaction Committee determined to recommend that the Golfsmith Board approve the transaction. Following the Transaction Committee meeting, the Golfsmith Board met. White & Case reviewed the fiduciary duties and responsibilities of the Golfsmith Board and the terms of the transaction, as well as the proposed post-closing management arrangements with Mr. Hanaka, Ms. Gove, Mr. Larkin and Mr. Getson. LMM reviewed with the Golfsmith Board its financial analysis of the transaction and presented its oral opinion (subsequently confirmed in writing) that, subject to and based upon, the assumptions, qualifications and limitations set forth therein, as of May 11, 2012, the Per Share Merger Consideration of \$6.10 per share, in cash, to be paid to the holders of the shares of Common Stock (other than holders of Excluded Shares) in the Merger is fair, from a financial point of view, to holders of Common Stock (other than the Excluded Holders). This analysis and opinion are summarized below in the section entitled "Opinion of Lazard Middle Market LLC" beginning on page 40. The Golfsmith Board adopted resolutions approving and adopting the Merger Agreement and the other transactions contemplated by the Merger Agreement, including the Merger.

Later that evening, the Merger Agreement was executed by Golfsmith, Golf Town and Merger Sub. Golfsmith and Golf Town issued a press release before the market opened on Monday, May 14, 2012, announcing entry into the Merger Agreement.

Following the execution of the merger agreement, AEP, Mr. Hanaka and Ms. Gove, each in its capacity as a stockholder of Golfsmith, collectively holding 51.1% of the outstanding shares of Common Stock, executed written consents adopting the Merger Agreement and the transactions contemplated thereby, including the Merger. Additionally, on May 23, 2012, the Paul Stockholders executed and delivered written consents, among other things, adopting the Merger Agreement and authorizing the transactions contemplated by the Merger Agreement, including the Merger. As of such date, the Consenting Stockholders together owned approximately 60.8% of Golfsmith's issued and outstanding shares of Common Stock.

## **Reasons for the Merger; Recommendation of the Transaction Committee and Golfsmith Board**

### ***The Transaction Committee***

The Transaction Committee was formed by the Golfsmith Board to consider and evaluate potential Sale Transactions. The Transaction Committee, acting with the advice and assistance of its financial advisor, Lazard, and Golfsmith's outside legal counsel, White & Case, evaluated the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement. In recommending to the Golfsmith Board that it approve the Merger, the Merger Agreement and the other transactions contemplated thereby, on the terms and conditions contained therein, the Transaction Committee considered a number of factors, including, but not limited to, the following:

### **Financial Terms; Opinion of Financial Advisor; Certainty of Value**

Historical market prices, volatility and trading information with respect to Common Stock, including that the Per Share Merger Consideration of \$6.10 in cash:

was significantly higher than any of the other offers or indications of interest that Golfsmith had received in the solicitation process;

represented a premium of approximately 29.5% over the closing price of Common Stock on May 10, 2012, which was the last day of trading prior to the Transaction Committee's recommendation of the Merger Agreement to the Golfsmith Board;

represented a premium of approximately 34.3%, 38.8% and 48.2% over the thirty, sixty and ninety day, respectively, volume-weighted average closing prices of Common Stock based on the May 10, 2012 closing stock price; and

exceeded, by approximately 16.9%, the 52-week high closing price of Common Stock for the period ending May 10, 2012.



## Table of Contents

The uncertainty as to whether the trading price of Common Stock would reach and sustain a trading price at least equal to the Per Share Merger Consideration, particularly in light of the historically limited liquidity in the market for Common Stock.

The opinion of LMM. See The Merger Opinion of Lazard Middle Market LLC beginning on page 40.

The form of consideration to be paid in the Merger is cash, which provides certainty of value and immediate liquidity to Golfsmith's stockholders without brokerage costs typically associated with market sales.

### Transaction Consideration and Approval Process

The fact that the Transaction Committee, formed by the Golfsmith Board to consider and evaluate a potential sale of Golfsmith, included the Unaffiliated Members and at the time it made its determination and recommendation regarding the Merger to the Golfsmith Board, was comprised solely of such Unaffiliated Members.

The fact that the vote of both of the Unaffiliated Members was required for the Transaction Committee to recommend a Sale Transaction to the Golfsmith Board.

The fact that no member of the Transaction Committee, at the time it made its determination and recommendation, had an interest in the transaction different from that of Golfsmith's stockholders except that (i) each member of the Transaction Committee will receive customary director and officer insurance coverage, indemnification and exculpation and (ii) certain Company Options and Company Awards held by members of the Transaction Committee will automatically vest upon a change of control. For more information, see Interests of Certain Persons in the Merger beginning on page 50.

The fact that the Transaction Committee's recommendation was required for the Golfsmith Board to approve the Merger.

The fact that the Transaction Committee retained Lazard as its own financial advisor, was advised by White & Case, Golfsmith's legal counsel, and was empowered to engage its own legal and financial advisors.

The fact that the Transaction Committee sought offers to purchase from a broad group of potential bidders, including both financial and strategic investors, 31 of which entered into confidentiality agreements with Golfsmith.

The fact that the Transaction Committee met, together with its outside legal and financial advisors, on a weekly basis throughout the solicitation and negotiation process.

The fact that the Merger and Merger Agreement were supported by the Supporting Stockholders who indicated they were prepared to execute a written consent approving the Merger, the Merger Agreement and the other transactions contemplated thereby.

### Financial Condition; Prospects of Company

Golfsmith's current and historical financial condition, results of operations, competitive position, strategic options and prospects, as well as the financial plan and prospects if Golfsmith were to remain an independent public company, and the potential impact of those factors on the trading price of Common Stock (which cannot be quantified numerically).

The prospective risks to Golfsmith as a stand-alone public entity, including the risks and uncertainties with respect to:

achieving its growth plans in light of the current and foreseeable market conditions, including the risks and uncertainties in the U.S. and global economy generally and the specialty sporting goods retail industry specifically;

## **Table of Contents**

the potential risks facing Golfsmith in light of continuing negative trends in the golf industry, including declining rounds of golf played, declining number of golf players, greater number of golf course closures and lower expenditures on golf equipment and travel-related golf products, and the highly uncertain future growth potential in the golf industry in general; and

the risk factors set forth in Golfsmith's Form 10-K for the fiscal year ended January 1, 2012.

The potential competitive risks facing Golfsmith as its competitors expand in trade areas where Golfsmith operates, potentially impacting Golfsmith's sales in such locations.

Golfsmith's share price performance over the past three years, specifically that Golfsmith's earnings multiples did not fully reflect Golfsmith's operational performance.

The significant capital expenditures that are required to implement Golfsmith's plan to enhance existing stores and open 45 new stores in the next 4 years and the risks that are associated with executing such plan.

### **Results of the Solicitation Process and Consideration of Other Strategic Alternatives**

The results of the comprehensive market solicitation process conducted by the Transaction Committee, with the assistance of the Transaction Committee's financial advisor, in which 62 potential bidders, including 25 strategic bidders and 37 financial bidders were contacted regarding their interest in a transaction with Golfsmith, 31 parties entered into confidentiality agreements with Golfsmith, only two final bids were received, including the final offer from OMERS, which was the highest proposed price, and other potential bidders indicated they would not be in a position to provide a value in excess of that offered by OMERS.

The Transaction Committee also considered the possibility of Golfsmith continuing as an independent public company or pursuing a secondary offering of Common Stock at a later time. The Transaction Committee believed that such alternatives presented significant risks in light of global economic conditions, competitive risk, execution risk of Golfsmith's strategic plan and stock trading history. Consequently, the Transaction Committee determined that these alternatives were not reasonably expected to create superior opportunities for Golfsmith to create greater value for Golfsmith's stockholders than the Merger, particularly in light of the cash Merger Consideration which provides immediate and certain value.

### **Merger Agreement Terms**

#### **Financing-Related Terms**

Golfsmith has received the Waiver, which eliminates the need to refinance Golfsmith's outstanding indebtedness in connection with the Merger and the risk that such refinancing might not be completed.

OAC has provided the Equity Commitment Letter to fund the purchase price of the equity and transaction expenses of Golfsmith.

The equity commitment letter is conditioned only on the satisfaction of the conditions to the Merger contained in the Merger Agreement and there are no conditions to the continued effectiveness of the Waiver.

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The fact that (i) Golf Town will be required to pay to Golfsmith the Purchaser Breach Termination Fee of \$8,200,000 (equal to approximately 7.5% of the aggregate equity value of the Merger) if the Merger Agreement is terminated under certain circumstances because Golf Town has breached its obligations under the Merger Agreement or the Purchaser Financing Termination Fee of \$6,500,000 (equal to approximately 6.0% of the aggregate equity value of the Merger) if the Merger Agreement is terminated because Golf Town fails to complete the Merger and the Waiver is not in full force and effect and (ii) Golfsmith will not need to prove damages as a condition to receiving the Purchaser Breach Termination Fee or the Purchaser Financing Termination Fee (collectively, the Purchaser Termination Fees ).



## Table of Contents

Golfsmith's right to seek specific performance of Golf Town's obligations under the Merger Agreement, including, under certain circumstances, specific performance of Golf Town's obligations to fund the cash equity contribution to Golf Town pursuant to the Equity Commitment Letter.

OAC has provided the Limited Guarantee in favor of Golfsmith guaranteeing the payment of the Purchaser Termination Fees.

### Company Stockholder Approval and Fiduciary Out

The fact that although adoption of the Merger Agreement by the holders of a majority of the shares entitled to vote on such matter at a stockholders meeting duly called and held for such purpose or acting by written consent in lieu of a stockholders meeting (the Company Stockholder Approval) is a condition to closing the Merger, the Supporting Stockholders, who collectively hold approximately 51.1% of our issued and outstanding shares of Common Stock, supported the Merger and indicated to the Transaction Committee their intention to execute and deliver the Written Consent (and ultimately did execute the Written Consent).

Notwithstanding the Written Consent, the terms of the Merger Agreement and the Voting Agreement, dated May 11, 2012, between Golf Town and AEP (the Voting Agreement) do not preclude third parties from making a superior proposal and the Golfsmith Board is not prohibited from considering and accepting such a superior proposal subject to compliance with the terms of the Merger Agreement.

The fact that the Voting Agreement automatically terminates if the Merger Agreement is terminated, including in the event that the Golfsmith Board determines to terminate the Merger Agreement to accept a superior proposal.

Prior to the Effective Time, the Golfsmith Board can furnish information or enter into discussions with respect to an acquisition proposal if, upon the recommendation of the Transaction Committee, it determines in good faith, after consultation with its outside legal and financial advisors, that such acquisition proposal constitutes, or could reasonably be expected to lead to, a superior proposal.

If, prior to the Effective Time, the Golfsmith Board receives an acquisition proposal that, upon the recommendation of the Transaction Committee, the Golfsmith Board determines in good faith, after consultation with its outside legal and financial advisors, constitutes a superior proposal, and the Golfsmith Board, upon the recommendation of the Transaction Committee, determines in good faith after consultation with its outside legal and financial advisors, that failure to take an action in connection with such proposal would reasonably be expected to be inconsistent with its fiduciary duties, the Golfsmith Board may change its recommendation or terminate the Merger Agreement to concurrently enter into an agreement with respect to the superior proposal, after giving Golf Town notice and opportunity to match the terms contained in the Merger Agreement to the terms of such proposal.

The Golfsmith Board may, upon the recommendation of the Transaction Committee, subject to the occurrence of certain intervening events, withdraw or modify its recommendation to Golfsmith's stockholders to adopt the Merger Agreement if it determines in good faith, after consultation with its outside legal and financial advisors, that failure to take such action would reasonably be expected to be inconsistent with the directors' fiduciary duties (whether or not in response to a takeover proposal).

The Merger Agreement requires Golfsmith to pay a termination fee of \$3,800,000 (equal to approximately 3.5% of the aggregate equity value of the Merger) if, prior to the Effective Time, (i) Golfsmith terminates the Merger Agreement to enter into an agreement with respect to a superior proposal or (ii) Golf Town terminates the Merger Agreement due to (a) an uncured intentional breach by Golfsmith, and, prior to the earlier of such termination and the Effective Time, an acquisition proposal is made by a third party and, within one year of such termination, Golfsmith enters into an agreement for such acquisition proposal or consummates that transaction or (b) a change of recommendation by the Golfsmith Board.



**Table of Contents**

The fact that the Supporting Stockholders will be receiving the same form and amount per share of Merger Consideration as Golfsmith's other stockholders.

The availability of statutory appraisal rights under Delaware law in the Merger for stockholders who do not execute the Written Consent and who comply with the requirements set forth in Section 262 of the DGCL.

The fact that the Merger Agreement contains customary terms and was the product of arm's-length negotiations.

**Likelihood of Consummation**

Although the Company Stockholder Approval is a condition to closing the Merger, the Supporting Stockholders' indication to the Transaction Committee that they would execute and deliver the Written Consent within one business day following the execution of the Merger Agreement made it highly likely that the Company Stockholder Approval would be obtained (and it subsequently was obtained).

The fact that the acquisition is not debt-financed by new lenders, the Waiver would be obtained simultaneously with the execution of the Merger Agreement and obtaining new financing or alternative financing is not a condition to the consummation of the Merger.

The Transaction Committee's belief that the equity financing required for the Merger would be obtained, because (i) Golf Town has obtained the customary commitment for the equity financing and (ii) the limited number and nature of the conditions to such equity financing.

The likelihood and anticipated timing of completing the Merger in light of the limited scope of the conditions to closing the Merger and the fact that they are not within the control or discretion of Golf Town, Merger Sub or OMERS and, in the Transaction Committee's judgment, are likely to be satisfied.

The fact that no significant antitrust or other regulatory issue exists that would be expected to prevent or delay the Merger.

The fact that there are no third party consents, the receipt of which are conditions to the transaction.

The likelihood, considering OMERS's reputation, proven experience in completing similar transactions, and financial and capital resources, that the Merger would be completed in a reasonably prompt timeframe.

The fact that the Merger is not conditioned on any member of Golfsmith's management entering into any employment, equity contribution, or other agreement, arrangement or understanding with Golf Town or Golfsmith.

The Transaction Committee also considered a number of uncertainties and risks in its deliberations concerning the Merger and the other transactions contemplated by the Merger Agreement, including the following:

Golfsmith's current stockholders would not have the opportunity to participate in any possible growth and profits of Golfsmith following the completion of the transaction, including the benefits of any synergies that might be gained by combining Golfsmith with Golf Town.

The risk that the proposed transaction might not be completed and the effect of the resulting public announcement of termination of the Merger Agreement on:

The market price of Common Stock, which could be affected by many factors, including (i) the reason for which the Merger Agreement was terminated and whether such termination results from factors adversely affecting Golfsmith, (ii) the possibility that the marketplace would consider Golfsmith to be an unattractive acquisition candidate, and (iii) the possible sale of shares of Common Stock by short-term investors following an announcement of termination of the Merger Agreement.

**Table of Contents**

Golfsmith's operating results, particularly in light of the costs incurred in connection with the transaction.

The ability to retain and attract key personnel.

Relationships with customers, suppliers and other business partners of Golfsmith.

The possible disruption to Golfsmith's business that may result from the announcement of the Merger and the resulting distraction of the attention of Golfsmith's management and employees and the impact of the Merger on customers, suppliers and other business partners of Golfsmith.

The terms of the Merger Agreement, including (i) the operational restrictions imposed on Golfsmith between signing and closing (which may delay or prevent Golfsmith from undertaking business opportunities that may arise pending the completion of the transaction), and (ii) the termination fee, that could become payable by Golfsmith under certain circumstances, including if Golfsmith terminates the Merger Agreement to accept a superior proposal.

The restriction on soliciting acquisition proposals.

The fact that Golfsmith's remedy in connection with a breach of the Merger Agreement by Golf Town, under certain circumstances, is limited to the applicable Purchaser Termination Fee, in accordance with the two-tier reverse termination fee structure and may not be sufficient to compensate Golfsmith for all losses suffered as a result of a breach of the Merger Agreement by Golf Town or Merger Sub.

The interests of certain members of Golfsmith's senior management in the Merger, including certain potential change of control payments, and the understandings with OMERS regarding employment with, or the right to invest or participate in the equity of, the combined Golf Town and Golfsmith business.

The fact that the gains from the transactions contemplated by the Merger Agreement would generally be taxable to Golfsmith's stockholders for U.S. federal income tax purposes, and any gains from any appraisal proceeding would generally be taxable for U.S. federal income tax purposes to stockholders who perfect their appraisal rights.

The fact that the Merger does not require approval of at least a majority of Golfsmith's stockholders unaffiliated with AEP. Nevertheless, the Transaction Committee believed that sufficient procedural safeguards were and are present to permit the Transaction Committee to represent effectively the interests of Golfsmith's unaffiliated stockholders, including:

The fact that, from the earliest stages of the market solicitation process, the Transaction Committee included the Unaffiliated Members, could not recommend a merger or acquisition of Golfsmith without the approval of the Unaffiliated Members, and, at the time it made its determination, was comprised only of the Unaffiliated Members and the vote of both such Unaffiliated Members was required to recommend the Merger to the Golfsmith Board. The Transaction Committee's recommendation was required for the Golfsmith Board to approve the Merger.

The fact that Mr. Hanaka, who originally was a member of the Transaction Committee, promptly resigned from the Transaction Committee after Golf Town requested, and Mr. Hanaka agreed, that he would be part of Golfsmith's management post-closing and thereafter did not participate in the negotiations between the Transaction Committee and OMERS.

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Additionally, Mr. Hanaka did not participate in the Transaction Committee's decision to recommend the Merger to the Golfsmith Board.

The fact that Mr. Buaron, who originally was a member of the Transaction Committee, resigned from the Transaction Committee upon engaging with Golf Town in discussions with respect to a potential alternative transaction structure that was ultimately not pursued. Additionally, Mr. Buaron did not participate in the Transaction Committee's decision to recommend the Merger to the Golfsmith Board.

## **Table of Contents**

The fact that each of the Unaffiliated Members of the Transaction Committee voted to approve and declare advisable the Merger, the Merger Agreement and the other transactions contemplated thereby.

The fact that the Transaction Committee was advised by its own financial advisors, was advised by Golfsmith's legal advisors and was empowered to engage its own legal and financial advisors.

The fact that the Unaffiliated Members at all times had the opportunity to meet separately, and did in fact meet separately with Lazard and White & Case during the course of negotiations with OMERS to review the proposal and Golfsmith's process for considering the proposed terms.

The fact that completion of the Merger would require antitrust clearance and the satisfaction of certain other closing conditions that are not within Golfsmith's control, including that Golfsmith has not experienced a material adverse effect.

The foregoing discussion of the information and factors considered by the Transaction Committee is not intended to be exhaustive, but includes the material factors considered by the Transaction Committee. In view of the variety of factors considered in connection with its evaluation of the Merger, the Transaction Committee did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determinations and recommendations. In addition, each of the members of the Transaction Committee applied his or her own personal business judgment to the process and may have given differing weights to different factors.

### ***The Board of Directors***

The Golfsmith Board, acting with the advice and assistance of Lazard and White & Case has approved and declared advisable the Merger and the Merger Agreement and recommended that Golfsmith's stockholders adopt the Merger Agreement. The Golfsmith Board expressly adopted the analyses and determinations of the Transaction Committee in its evaluation of the Merger and the Merger Agreement. In determining the reasonableness of the Transaction Committee's analysis, the Golfsmith Board considered and relied upon the following factors, among others:

The fact that the Transaction Committee, formed by the Golfsmith Board to consider and evaluate a potential sale of Golfsmith, included the Unaffiliated Members and, at the time it made its determination and recommendation regarding the Merger to the Golfsmith Board, was comprised solely of such Unaffiliated Members.

The fact that the vote of both of the Unaffiliated Members was required in order for the Transaction Committee to recommend a transaction to the Golfsmith Board.

The fact that the Transaction Committee's recommendation was required in order for the Golfsmith Board to approve the Merger.

The Transaction Committee's unanimous determination approving and declaring advisable the Merger Agreement, the Merger and the other transactions contemplated thereby and its unanimous recommendation that the Golfsmith Board approve the Merger, the Merger Agreement and the consummation of the transactions contemplated thereby, on the terms and conditions contained therein.

That no member of the Transaction Committee, at the time it made its determination and recommendation to the Golfsmith Board, had an interest in the transaction different from that of Golfsmith's stockholders except that (i) each member of the Transaction Committee will receive customary director and officer insurance coverage, indemnification and exculpation and (ii) certain Company Options and Company Awards held by the members of the Transaction Committee will automatically vest upon a change of control (for more information, see *Interests of Certain Persons in the Merger* beginning on page 50).





## Table of Contents

The process undertaken by the Transaction Committee and Golfsmith's advisors in connection with evaluating the transaction.

The oral opinion of LMM Board that, subject to and based upon the assumptions, qualifications and limitations set forth therein, as of May 11, 2012, the Per Share Merger Consideration to be paid to the holders of the shares of Common Stock in the Merger (other than holders of Excluded Shares) is fair, from a financial point of view, to holders of Common Stock (other than the Excluded Holders), which was confirmed in a written opinion dated May 11, 2012, as more fully described in The Merger Opinion of Lazard Middle Market LLC beginning on page 40.

The availability of appraisal rights under Delaware law for Golfsmith's stockholders who oppose the Merger.

The foregoing discussion of the information and factors considered by the Golfsmith Board is not intended to be exhaustive, but includes the material factors considered by the Golfsmith Board, including the substantive and procedural factors considered by the Transaction Committee discussed above. In view of the variety of factors considered in connection with its evaluation of the Merger, the Golfsmith Board did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its conclusion. In addition, each of the members of the Golfsmith Board applied his or her own personal business judgment to the process and may have given differing weights to different factors. The Golfsmith Board approved the Merger Agreement and unanimously recommended it to Golfsmith's stockholders based on the totality of the information presented to, and considered by, it. It should be noted that this explanation of the reasoning of the Golfsmith Board and certain information presented in this section is forward-looking in nature and should be read in light of the factors set forth in the section entitled Cautionary Statement Regarding Forward-Looking Information beginning on page 12 of this Information Statement.

### **Opinion of Lazard Middle Market LLC**

The Transaction Committee retained Lazard to act as its financial advisor with respect to a possible sale of Golfsmith, including in connection with the Merger as contemplated by the Merger Agreement. See Background of the Merger beginning on page 16 for a description of the process by which the Transaction Committee selected Lazard to act as its financial advisor. As part of the engagement, the Transaction Committee requested an opinion to the Transaction Committee and the Golfsmith Board with respect to the fairness, from a financial point of view, to the holders of shares of Common Stock (other than Excluded Holders) of the Per Share Merger Consideration. On May 11, 2012, LMM delivered its oral opinion to the members of the Transaction Committee and the Golfsmith Board, in their capacities as such, which opinion was subsequently confirmed by the delivery of a written opinion, dated May 11, 2012, to the effect that, as of that date and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth therein, the Per Share Merger Consideration to be paid to the holders of the shares of Common Stock (other than holders of the Excluded Shares) in the Merger was fair, from a financial point of view, to holders of Common Stock (other than the Excluded Holders).

**The full text of the written opinion of LMM, dated May 11, 2012, which sets forth the procedures followed, assumptions made, factors considered and limitations and qualifications on the review undertaken in connection with its opinion, is attached to this Information Statement as Annex B and is incorporated herein by reference. The description of LMM's opinion set forth in this Information Statement is qualified in its entirety by reference to the full text of LMM's opinion attached as Annex B to this Information Statement. LMM's opinion was not intended to, and does not, constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to the Merger or any matter relating thereto. Holders of shares of Common Stock are urged to read LMM's opinion carefully in its entirety for a description of the procedures followed, assumptions made, factors considered and limitations and qualifications on the review undertaken by LMM in connection with its opinion.**

**Table of Contents**

In connection with rendering its opinion described above and performing its related financial analysis, LMM:

Reviewed the financial terms and conditions of the Merger Agreement, dated May 11, 2012;

Reviewed certain publicly available historical business and financial information relating to Golfsmith;

Reviewed various financial Forecasts (as defined in The Merger Projected Financial Information beginning on page 47) and other data provided to LMM by Golfsmith relating to the business of Golfsmith and discussed with the Golfsmith Board certain sensitivities to such Forecasts and other data;

Held discussions with members of senior management of Golfsmith with respect to the business and prospects of Golfsmith;

Reviewed public information with respect to certain other companies in lines of business that LMM believed to be generally relevant in evaluating the business of Golfsmith;

Reviewed the financial terms of certain business combinations involving companies in lines of business LMM believed to be generally relevant in evaluating the business of Golfsmith;

Reviewed historical stock prices and trading volumes of the Common Stock; and

Conducted such other financial studies, analyses and investigations as LMM deemed appropriate.

LMM assumed and relied upon the accuracy and completeness of the foregoing information, without independent verification of such information. LMM did not conduct any independent valuation or appraisal of any of the assets or liabilities (contingent or otherwise) of Golfsmith or concerning the solvency or fair value of Golfsmith, and LMM was not furnished with any such valuation or appraisal. With respect to the financial Forecasts utilized in LMM's analyses, LMM assumed, with the consent of Golfsmith, that they were reasonably prepared on bases reflecting the best currently available estimates and judgments as to the future financial performance of Golfsmith. LMM assumed no responsibility for and expressed no view as to any such Forecasts or the assumptions on which they were based.

Further, LMM's opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to LMM as of, the date of its opinion. LMM assumed no responsibility for updating or revising its opinion based on circumstances or events occurring after the date of its opinion. LMM did not express any opinion as to the price at which shares of Common Stock may trade at any time subsequent to the announcement of the Merger. LMM's opinion did not address the relative merits of the Merger as compared to any other transaction or business strategy in which Golfsmith might engage or the merits of the underlying decision by Golfsmith to engage in the Merger.

In rendering its opinion, LMM assumed, with the consent of Golfsmith, that the Merger would be consummated on the terms described in the Merger Agreement, without any waiver or modification of any material terms or conditions. LMM also assumed, with the consent of Golfsmith, that obtaining the necessary governmental, regulatory or third party approvals and consents for the Merger would not have an adverse effect on Golfsmith or the Merger. LMM did not express any opinion as to any tax or other consequences that might result from the Merger, nor did LMM's opinion address any legal, tax, regulatory or accounting matters, as to which LMM understood that Golfsmith obtained such advice as it deemed necessary from qualified professionals. LMM expressed no view or opinion as to any terms or other aspects (other than the Per Share Merger Consideration to the extent expressly specified in LMM's opinion) of the Merger, including, without limitation, the form or structure of the Merger or any agreements or arrangements entered into in connection with, or contemplated by, the Merger. In addition, LMM expressed no view or opinion as to the fairness of the amount or nature of, or any other aspects relating to, the compensation to any officers, directors or employees of any parties to the Merger, or class of such persons, relative to the Merger Consideration or otherwise.



## **Table of Contents**

In preparing its opinion, LMM performed a variety of financial and comparative analyses. The following is a summary of the material financial and comparative analyses that LMM deemed to be appropriate for this type of transaction and that were reviewed with the Transaction Committee and the Golfsmith Board by LMM in connection with rendering its opinion. The summary of LMM's analyses described below is not a complete description of the analyses underlying LMM's opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to partial or summary description. In arriving at its opinion, LMM considered the results of all of the analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis considered by it. Rather, LMM made its determination as to fairness based on its experience and professional judgment after considering the results of all the analyses. Accordingly, LMM believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, LMM considered industry performance, regulatory, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Golfsmith. No company or transaction used in the below analyses as a comparison is directly comparable to Golfsmith or the Merger. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in LMM's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, LMM's analyses and estimates are inherently subject to substantial uncertainty.

LMM's opinion was one of many factors taken into consideration by the Transaction Committee and the Golfsmith Board in connection with their consideration of the Merger Agreement. Consequently, the analyses described below should not be viewed as determinative of the opinion of the Transaction Committee and the Golfsmith Board with respect to the Merger Consideration or of whether the Transaction Committee and the Golfsmith Board would have been willing to determine that a different Per Share Merger Consideration was fair. The Per Share Merger Consideration to be paid to the holders of shares of Common Stock pursuant to the Merger was determined through arm's-length negotiations between Golfsmith and representatives of OMERS and Golf Town, and was approved by the Golfsmith Board. LMM did not recommend any specific merger consideration to the Transaction Committee or the Golfsmith Board or that any given merger consideration constituted the only appropriate consideration for the Merger.

The following is a summary of the material financial and comparative analyses that were performed by LMM in connection with rendering its opinion. LMM prepared these analyses for the purpose of providing an opinion to the Transaction Committee and the Golfsmith Board as to the fairness, from a financial point of view, to the holders of shares of Common Stock (other than the Excluded Holders) of the Per Share Merger Consideration to be paid to such holders pursuant to the Merger. These analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon Forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, LMM does not assume any responsibility if future results are materially different from those Forecasts. The following summary does not purport to be a complete description of the financial analyses performed by LMM. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of LMM's financial

**Table of Contents**

analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before May 10, 2012, and is not necessarily indicative of current market conditions.

**Selected Public Companies Analysis**

LMM performed the following selected public companies analyses. Financial data of the selected companies was based on public filings, publicly available research and financial information.

LMM reviewed certain financial and stock market information of Golfsmith and the following eight selected publicly-traded companies in the sporting goods retail industry:

Big 5 Sporting Goods

Cabela's

Dick's Sporting Goods

Dover Saddlery

The Finish Line

Foot Locker

Hibbett Sports

Sport Chalet

Although none of the selected companies are directly comparable to Golfsmith, the companies included are publicly-traded companies with operations, financial metrics, and/or other criteria, such as lines of business, markets, business risks or size or scale of business, which LMM considered similar to Golfsmith for purposes of analysis.

LMM calculated various multiples and ratios of the above referenced companies, including, among other things (i) the enterprise value of each company as a multiple of its earnings before interest, taxes, depreciation and amortization (EBITDA) for the last twelve months based on public information available as of May 10, 2012 (LTM), and its projected EBITDA for calendar year 2012 and (ii) the ratio of each company's May 10, 2012, closing share price to its LTM earnings per share (EPS), and its estimated EPS for calendar year 2012. The following table summarizes the results of this review:

	Enterprise Value (in millions)	Enterprise Value to LTM EBITDA <sup>(a)</sup>	Enterprise Value to 2012E EBITDA	Share Price to LTM EPS <sup>(a)</sup>	Share Price to 2012E EPS
Big 5 Sporting Goods	\$ 215.5	6.0x	5.1x	14.8x	12.8x
Cabela's	\$ 4,375.9	13.2x	11.9x	16.1x	14.0x

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Dick's Sporting Goods	\$ 5,709.1	10.4x	8.9x	23.7x	20.3x
Dover Saddlery <sup>(b)</sup>	\$ 34.0	7.1x	NM	13.6x	NM
The Finish Line	\$ 839.6	5.2x	5.1x	13.4x	13.5x
Foot Locker	\$ 3,786.6	6.9x	5.7x	16.0x	12.9x
Hibbett Sports	\$ 1,534.4	14.4x	12.8x	26.9x	23.6x
Sport Chalet <sup>(b)</sup>	\$ 45.0	4.6x	NA <sup>(c)</sup>	NM <sup>(d)</sup>	NM <sup>(d)</sup>
High	\$ 5,709.1	14.4x	12.8x	26.9x	23.6x
75th Percentile	\$ 3,933.9	12.5x	11.1x	21.8x	18.7x
Mean	\$ 2,067.5	9.3x	8.2x	18.5x	16.2x
Median	\$ 1,187.0	8.6x	7.3x	16.0x	13.8x
25th Percentile	\$ 172.9	6.2x	5.2x	15.1x	13.1x
Low	\$ 34.0	5.2x	5.1x	13.4x	12.8x

**Table of Contents**

- (a) Represents LTM results based on public information available as of May 10, 2012
- (b) Enterprise Value to LTM EBITDA and Share Price to LTM EPS for Dover Saddlery and Sport Chalet were not included in the aggregate multiples analysis due to low trading volume, small market capitalization, and lack of equity research analyst estimates for 2012E results.
- (c) NA denotes data not publicly available.
- (d) NM denotes data not meaningful.

Based on an analysis of the range of multiples summarized above and LMM's professional judgment, LMM selected a reference range of:

6.2x to 8.6x for enterprise value to LTM EBITDA;

5.2x to 7.3x for enterprise value to 2012 estimated EBITDA;

15.1x to 16.0x for share price to LTM EPS; and

13.1x to 13.8x for share price to 2012 estimated EPS.

LMM applied each such range of enterprise value to EBITDA multiples and share price to EPS multiples for the selected companies to LTM ended March 31, 2012, adjusted EBITDA, 2012 estimated adjusted EBITDA, LTM ended March 31, 2012, adjusted EPS, and 2012 estimated adjusted EPS of Golfsmith.

From this analysis, LMM estimated an implied price per share range for the shares of Common Stock as follows, as compared to the \$6.10 Per Share Merger Consideration provided in the Merger Agreement:

<b>Multiple</b>	<b>Implied Price Per Share Range</b>
Enterprise Value to LTM ended March 31, 2012, Adjusted EBITDA	\$ 2.40 to \$4.40
Enterprise Value to 2012 Estimated Adjusted EBITDA	\$ 3.91 to \$6.52
Share Price to LTM ended March 31, 2012, Adjusted EPS	\$ 0.50 to \$0.53
Share Price to 2012 Estimated Adjusted EPS	\$ 3.32 to \$3.49

***Precedent Transactions Analysis***

LMM reviewed certain publicly available financial information of target companies in selected precedent merger and acquisition transactions involving selected retail companies it viewed as relevant. In performing its analyses, LMM reviewed certain financial information and transaction multiples relating to the target companies involved in the selected transactions and compared such information to the corresponding information for Golfsmith.

Although none of the selected precedent transactions or the target companies party to such transactions are directly comparable to the Merger or to Golfsmith, all of the transactions were chosen because they involve transactions that, for purposes of analysis, may be considered similar to the Merger and/or involve targets that, for purposes of analysis, may be considered similar to Golfsmith.

**Table of Contents**

LMM reviewed the transactions set forth in the following table. For each of the transactions, LMM calculated and compared the implied enterprise value as a multiple of LTM EBITDA. The results of the analysis were as follows:

Announcement Date	Acquiror	Target Company	Implied Enterprise Value (in millions)	Implied Enterprise Value/LTM EBITDA
October 2011	Ares Management	99¢ Only Stores	\$ 1,356	9.1x
May 2011	Canadian Tire Corp.	Forzani Group	\$ 860	8.0x
December 2010	Leonard Green & Partners	Jo-Ann	\$ 1,450	6.9x
November 2010	Leonard Green & Partners, TPG Capital	J. Crew	\$ 2,679	8.4x
October 2010	Bain Capital Private Equity	Gymboree	\$ 1,630	7.5x
August 2009	Advent International Corporation	Charlotte Russe	\$ 311	6.6x
July 2009	Golden Gate Capital	Eddie Bauer	\$ 505	10.4x
September 2007	Amscan Holdings	Factory Card & Party Outlet	\$ 69	9.6x
September 2007	Redcats USA	United Retail Group	\$ 147	7.1x
August 2007	OMERS Private Equity (formerly OMERS Capital Partners)	Golf Town	\$ 238	9.3x
July 2007	Lee Equity Partners	Deb Shops	\$ 260	7.8x
June 2007	Bain Capital Private Equity	Guitar Center	\$ 2,121	12.5x
May 2007	Payless Shoesource	The Stride Rite Corp.	\$ 834	11.1x
March 2007	Apollo Global Management	Claire's Stores	\$ 2,739	8.7x
November 2006	Dick's Sporting Goods	Golf Galaxy	\$ 226	11.8x
January 2006	Leonard Green & Partners	The Sports Authority	\$ 1,223	6.8x
			High	12.5x
			75th Percentile	9.8x
			Mean	8.9x
			Median	8.6x
			25th Percentile	7.4x
			Low	6.6x

Based on the foregoing analyses and LMM's professional judgment and industry knowledge, LMM applied multiples of 7.4x to 8.6x to Golfsmith's LTM ended March 31, 2012, adjusted EBITDA to calculate an implied equity value per share range for Golfsmith of \$3.38 to \$4.37, compared to the \$6.10 Per Share Merger Consideration provided in the Merger Agreement.

**Discounted Cash Flow Analysis**

LMM performed a discounted cash flow analysis of Golfsmith, deriving free cash flows via customary accounting and financial analysis from the May 2012 Projections provided by Golfsmith, to calculate the estimated present value of the standalone unlevered, after-tax free cash flows for the period of June 1, 2012 to December 31, 2012 and the fiscal years ending December 31, 2013 through 2015 based on the May 2012 Projections provided to LMM by Golfsmith's management using an after-tax discount rate range of 17.2% to 19.2%, as determined by LMM, an assumed tax rate of 35%, and reflecting the estimated weighted average cost of capital of the selected companies listed above under *Opinion of Lazard Middle Market LLC Selected Public Companies Analysis*. Based upon management estimates, LMM calculated a total enterprise value reference range for Golfsmith, resulting in a range of implied equity values per share of \$4.06 to \$5.62 (calculated on a fully-diluted shares basis to take into account all outstanding Company Options and Company Awards that will be cancelled and converted into the right to receive a portion of the Merger Consideration in connection with the Merger).



**Table of Contents*****Additional Analyses of Golfsmith*****Premia Paid Analysis**

LMM also performed a premia paid analysis, which is designed to provide a valuation of Golfsmith based on the premia paid in all-cash acquisition transactions involving United States targets announced from January 1, 2010 to May 10, 2012 involving a total transaction value of \$50 million to \$500 million. LMM's analysis was not industry specific. The implied premia in this analysis were calculated comparing the per share acquisition prices to the relevant target companies' closing stock prices one day, thirty days, and sixty days prior to the announcement of the respective transaction. The results of these calculations are as follows:

	High	75th Percentile	Mean	Median	25th Percentile	Low
1-Day Premia	222.9%	55.6%	46.0%	36.3%	20.4%	(8.2%)
30-Day Premia	235.0%	64.8%	53.3%	39.4%	27.2%	(3.1%)
60-Day Premia	318.8%	68.1%	55.1%	46.4%	25.2%	(33.6%)

Using the thirty-day implied premia of the aforementioned transactions, LMM, based on its experience with merger and acquisition transactions, applied a range of premia based on these transactions of 27.2% to 64.8% of Golfsmith's closing stock price on May 10, 2012 and February 29, 2012 (the day prior to Golfsmith's announcement that it was pursuing strategic alternatives including a possible sale of Golfsmith) to derive reference ranges of \$5.99 to \$7.76 per share and \$5.20 to \$6.74 per share, respectively.

**52-Week Low to High Closing Stock Prices Analysis**

LMM reviewed the historical price performance of the closing stock price of the Common Stock for the 52-week period ending May 10, 2012. During this period, the closing prices of the Common Stock ranged from \$2.76 to \$5.22, as compared to the Per Share Merger Consideration of \$6.10 per share.

***Miscellaneous***

Pursuant to the terms of Lazard's engagement letter, dated July 7, 2011, Golfsmith has agreed to pay Lazard the following fees:

- (a) a consulting fee of \$80,000, to be offset against any fee subsequently payable pursuant to clause (c) below;
- (b) an additional fee of \$150,000 payable upon the rendering of the fairness opinion described above, to be offset against any fee subsequently payable pursuant to clause (c); and
- (c) a fee of approximately \$1.95 million, payable upon consummation of a transaction.

In addition, Golfsmith also agreed to reimburse Lazard for its reasonable expenses incurred in connection with the engagement. In a separate letter also dated July 7, 2011, Golfsmith also agreed to indemnify Lazard and certain related parties against certain liabilities under certain circumstances that may arise out of the rendering of its advice, including certain liabilities under U.S. federal securities laws.

LFC and its affiliates (including LMM), as part of their investment banking business, are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, leveraged buyouts, and valuations for estate, corporate and other purposes. LFC and its affiliates (including LMM) in the past (but not within the past two years) may have provided certain other investment banking services to Golfsmith, certain of Golfsmith's affiliates, OMERS, Golf Town and certain of Golf Town's affiliates, for which LFC and its affiliates have received compensation. In the ordinary course of their respective businesses, LFC, LFCM Holdings LLC (an entity indirectly owned in large part by managing directors of LFC) and certain of their



## **Table of Contents**

respective affiliates may actively trade in securities of Golfsmith, certain of Golfsmith's affiliates, OMERS, Golf Town and certain of Golf Town's affiliates for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities, and also may trade and hold securities on behalf of Golfsmith, certain of Golfsmith's affiliates, OMERS, Golf Town and certain of Golf Town's affiliates. As of the date of LMM's opinion, none of LFC, LFCM Holdings LLC or their respective affiliates had any proprietary holdings in Golfsmith, any of Golfsmith's affiliates, OMERS, Golf Town or any of Golf Town's affiliates.

Lazard is an internationally recognized investment banking firm providing a full range of financial advisory and securities services. Lazard was selected to act as financial advisor to the Transaction Committee because of its qualifications, experience, reputation and familiarity with Golfsmith and its business.

## **Projected Financial Information**

Golfsmith does not, as a matter of general practice, develop or publicly disclose detailed financial projections due to the unpredictability of the underlying assumptions and estimates inherent in preparing financial projections. In evaluating a possible transaction with Golf Town, management of Golfsmith provided certain financial forecasts to Golf Town and to the Transaction Committee, the Golfsmith Board and LMM prior to the execution of the Merger Agreement. A summary of the forecasts is included in this Information Statement. You should note that the two forecasts summarized below, the July 2011 Projections and the May 2012 Projections, constitute forward-looking statements. See Cautionary Statement Concerning Forward-Looking Information on page 12.

Golfsmith's management initially prepared financial forecasts in July 2011 for fiscal years 2011 through 2015 based on Golfsmith's long-range plan using estimated fiscal year 2011 results. These forecasts were prepared in contemplation of the market solicitation process and were provided to the Transaction Committee, Golf Town and the Golfsmith Board in July 2011 (the July 2011 Projections). In May 2012, in connection with the Transaction Committee's and the Golfsmith Board's consideration of the Merger and LMM's financial analysis with respect thereto, Golfsmith's management revised the July 2011 Projections for fiscal years 2012 through 2015 (the May 2012 Projections and, together with the July 2011 Projections, the Forecasts). The projections for fiscal year 2012 in the May 2012 Projections differed from the projections for 2012 in the July 2011 Projections in that the former incorporated the actual results for Golfsmith's first fiscal quarter of 2012 and reflected the last three fiscal quarters of 2012 based on the budget prepared by Golfsmith's management, which had been provided to Golf Town in March 2012 as part of Golf Town's financial due diligence. The May 2012 Projections were provided to LMM for use in its financial analysis of the Merger presented at the May 11, 2012 meeting of the Golfsmith Board and the Transaction Committee at which LMM orally delivered its opinion described in The Merger Opinion of Lazard Middle Market LLC beginning on page 40.

The Forecasts were not prepared for public disclosure. Nonetheless, a summary of the Forecasts is provided in this Information Statement only because the Forecasts were made available to the Transaction Committee, the Golfsmith Board and LMM in evaluating a potential transaction with Golf Town and the July 2011 Projections were made available to Golf Town and OMERS as part of their financial due diligence in evaluating a potential transaction with Golfsmith. The Forecasts are subjective in many respects. There can be no assurance that the Forecasts will be realized or that actual results will not be significantly higher or lower than projected. The Forecasts also cover multiple years and such information by its nature becomes subject to greater uncertainty with each successive year. Economic and business environments can and do change quickly, which adds an additional significant level of uncertainty as to whether the results portrayed in the Forecasts will be achieved. The inclusion of the Forecasts in this Information Statement does not constitute an admission or representation by Golfsmith that the information is material.

In addition, the Forecasts were not prepared with a view toward public disclosure or toward complying with generally accepted accounting principles in the United States (GAAP), the published guidelines of the SEC regarding projections and the use of non-GAAP financial measures, or the guidelines established by the

**Table of Contents**

American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither Golfsmith's independent registered public accounting firm, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the Forecasts, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

The Forecasts were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of Golfsmith. Golfsmith believes the assumptions that its management used as a basis for the Forecasts were reasonable at the time management prepared the Forecasts and reflected the best available estimates and judgments at the time, taking into account the relevant information available to management at the time and presented at the time, to the best of Golfsmith's knowledge and belief, a reasonable projection of future financial performance of Golfsmith. Important factors that may affect actual results and cause the Forecasts not to be achieved include, but are not limited to, risks and uncertainties relating to our business (including its ability to achieve strategic goals, objectives and targets over applicable periods), industry performance, general business and economic conditions and other factors described or referenced under Cautionary Statement Concerning Forward-Looking Information beginning on page 12. Accordingly, there can be no assurance that the Forecasts will be realized or that future financial results will not materially vary from the Forecasts, and the Forecasts should not be relied upon as being indicative of future results and you are cautioned not to rely on this forward-looking information.

In addition, the Forecasts also reflect assumptions that are subject to change and do not reflect revised prospects for Golfsmith's business, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur after the date the Forecasts were prepared and that was not anticipated at the time the Forecasts were prepared. Some or all of the assumptions that have been made regarding, among other things, the timing of certain occurrences or impacts, may have changed since the date the Forecasts were prepared, including decisions not to pursue certain courses of action in light of the pending Merger. Except as may be required by law, Golfsmith disclaims any obligation to update or otherwise revise the Forecasts to reflect circumstances, economic conditions or other developments existing or occurring after the date the Forecasts were prepared or to reflect the occurrence of future events, even if any or all of the assumptions on which the Forecasts were based are no longer appropriate. These considerations should be taken into account in reviewing the Forecasts, which were prepared as of an earlier date.

**Table of Contents**

The following is a summary of the Forecasts prepared by management of Golfsmith and given to the Golfsmith Board and LMM:

*May 2012 Projections*

	Fiscal Year Ending December 31, <sup>(a)</sup>				
	2011A	2012E <sup>(b)</sup>	2013P	2014P	2015P
<b>Net Revenue</b>	<b>\$ 387.3</b>	<b>\$ 448.1</b>	<b>\$ 528.6</b>	<b>\$ 613.1</b>	<b>\$ 712.6</b>
<i>% Growth</i>	10.1%	15.7%	18.0%	16.0%	16.2%
<b>Gross Profit</b>	<b>\$ 135.1</b>	<b>\$ 158.5</b>	<b>\$ 191.5</b>	<b>\$ 224.7</b>	<b>\$ 266.4</b>
<i>% Margin</i>	34.9%	35.4%	36.2%	36.7%	37.4%
Total Operating Expenses	\$ 133.2	\$ 150.8	\$ 173.6	\$ 197.1	\$ 223.4
<i>OpEx % of Net Revenue</i>	34.4%	33.6%	32.8%	32.1%	31.4%
<b>EBIT</b>	<b>\$ 1.9</b>	<b>\$ 7.8</b>	<b>\$ 17.9</b>	<b>\$ 27.7</b>	<b>\$ 43.0</b>
<i>% Margin</i>	0.5%	1.7%	3.4%	4.5%	6.0%
Depreciation & Amortization	\$ 11.9	\$ 14.2	\$ 12.8	\$ 13.3	\$ 14.0
<b>EBITDA</b>	<b>\$ 13.8</b>	<b>\$ 22.0</b>	<b>\$ 30.7</b>	<b>\$ 41.0</b>	<b>\$ 57.0</b>
<i>% Margin</i>	3.6%	4.9%	5.8%	6.7%	8.0%
Adjustments <sup>(c)</sup>	\$ 1.7	\$ 0.5	\$ 0.0	\$ 0.0	\$ 0.0
<b>Adjusted EBITDA</b>	<b>\$ 15.5</b>	<b>\$ 22.5</b>	<b>\$ 30.7</b>	<b>\$ 41.0</b>	<b>\$ 57.0</b>
<i>% Margin</i>	4.0%	5.0%	5.8%	6.7%	8.0%
Capital Expenditures	\$ 11.7	\$ 16.2	\$ 13.1	\$ 12.1	\$ 13.9
Change in Working Capital	\$ (0.5)	\$ (13.0)	\$ (6.9)	\$ (7.1)	\$ (7.9)

(a) Fiscal year ends on the Saturday closest to December 31 and consists of either 52 weeks or 53 weeks.

(b) Except Change in Working Capital and Capital Expenditures, calculated as first quarter 2012 actual results plus the last three quarters of the 2012E management budget; adjusted for one-time charges in first quarter 2012.

(c) Adjusted for one-time charges.

*July 2011 Projections*

	Fiscal Year Ending December 31, <sup>(a)</sup>				
	2011E <sup>(b)</sup>	2012P	2013P	2014P	2015P
<b>Net Revenue</b>	<b>\$ 386.4</b>	<b>\$ 450.3</b>	<b>\$ 525.0</b>	<b>\$ 608.6</b>	<b>\$ 708.0</b>
<i>%Growth</i>	9.8%	16.5%	16.6%	15.9%	16.3%
<b>Gross Profit</b>	<b>\$ 134.4</b>	<b>\$ 159.7</b>	<b>\$ 188.8</b>	<b>\$ 222.5</b>	<b>\$ 263.5</b>
<i>% of Margin</i>	34.8%	35.5%	36.0%	36.6%	37.2%
Total Operating Expenses	\$ 131.5	\$ 148.0	\$ 167.8	\$ 189.6	\$ 215.4
<i>OpEx % of Revenue</i>	34.0%	32.9%	32.0%	31.2%	30.4%
<b>EBIT</b>	<b>\$ 2.9</b>	<b>\$ 11.7</b>	<b>\$ 21.1</b>	<b>\$ 32.9</b>	<b>\$ 48.1</b>
<i>% Margin</i>					