ELITE PHARMACEUTICALS INC /NV/
Form 424B3
August 09, 2016

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-212266

PROSPECTUS SUPPLEMENT

Number 3

to

Prospectus dated July 13, 2016

of

ELITE PHARMACEUTICALS, INC.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus Supplement No. 3 supplements the information provided in our Prospectus dated July 13, 2016, Prospectus Supplement No 1 dated July 15, 2016 and Prospectus Supplement No. 2 dated July 21, 2016. This Prospectus Supplement should be read in conjunction with that Prospectus and Prospectus Supplements No. 1 and No. 2, which are to be delivered with this Prospectus Supplement.

This Prospectus Supplement includes our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 9, 2016.

The date of this Prospectus Supplement is August 9, 2016.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

OR

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

FOR THE TRANSITION PERIOD FROM __________________ TO ______________________

COMMISSION FILE NUMBER: 001-15697

ELITE PHARMACEUTICALS, INC.
(Exact Name of Registrant as Specified in Its Charter)

NEVADA	**22-3542636**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

165 LUDLOW AVENUE
07647
NORTHVALE, NEW JERSEY
(Address of principal executive offices) (Zip Code)

(201) 750-2646
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 733,715,855 shares of common stock were issued and outstanding as of August 3, 2016.

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PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	March 31, 2016 (Audited and Revised)
ASSETS		
Current assets:		
Cash	$ 12,814,951	$ 11,512,179
Accounts receivable	1,220,245	1,530,296
Inventory	3,735,294	3,293,729
Prepaid expenses and other current assets	216,407	377,752
Total current assets	17,986,897	16,713,956
Property and equipment, net of accumulated depreciation of $6,898,916 and $6,726,401, respectively	8,222,527	8,110,721
Intangible assets, net of accumulated amortization of $-0-	6,411,974	6,411,799
Other assets		
Restricted cash – debt service for NJEDA bonds	388,959	388,959
Security deposits	48,714	48,714
Total other assets	437,673	437,673
Total assets	$ 33,059,071	$ 31,674,149

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	March 31, 2016 (Audited and Revised)
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 1,457,761	$ 1,804,429
Accrued expenses	1,397,470	555,352
Deferred revenue, current portion	1,013,333	1,013,333
Bonds payable, current portion (net of bond issuance costs)	205,822	205,822
Line of credit, related party	-	718,309
Loans payable, current portion	304,756	342,944
Total current liabilities	4,379,142	4,640,189
Long-term liabilities:		
Deferred revenue, net of current portion	3,025,557	3,278,887
Bonds payable, net of current portion (net of bond issuance costs)	1,658,322	1,654,777
Loans payable, net current portion	450,001	520,829
Derivative financial instruments - warrants	7,968,646	10,368,567
Other long term liabilities	41,331	47,422
Total long term liabilities	13,143,857	15,870,482
Total liabilities	17,522,999	20,510,671
Mezzanine Equity		
Series I convertible preferred stock; par value $0.01; 500 shares authorized; 100 shares issued and outstanding as of June 30, 2016 and March 31, 2016	46,428,572	44,285,715
Stockholders' deficit:		
Common stock; par value $0.001; 995,000,000 shares authorized; 730,971,084 shares issued and 730,871,084 outstanding as of June 30, 2016; 711,544,352 shares issued and 711,444,352 outstanding as of March 31, 2016	730,974	711,546
Additional paid-in capital	110,254,090	109,137,805
Treasury stock; 100,000 shares as of June 30, 2016 and March 31, 2016; at cost	(306,841)	(306,841)
Accumulated deficit	(141,570,723)	(142,664,747)
Total stockholders' deficit	(30,892,500)	(33,122,237)
Total liabilities, mezzanine equity and stockholders' deficit	$ 33,059,071	$ 31,674,149

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

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended June 30,	
	2016	2015 (As Restated)
Manufacturing fees	$2,551,858	$1,675,773
Licensing fees	719,288	487,332
Total revenue	3,271,146	2,163,105
Cost of revenue	2,147,552	1,196,968
Gross profit	1,123,594	966,137
Operating expenses:		
Research and development	1,550,370	2,366,262
General and administrative	699,011	754,444
Non-cash compensation through issuance of stock options	89,384	90,479
Depreciation and amortization	22,392	157,915
Total operating expenses	2,361,157	3,369,100
Loss from operations	(1,237,563)	(2,402,963)
Other income (expense):		
Interest expense and amortization of debt issuance costs	(68,943)	(76,228)
Change in fair value of derivative instruments	2,399,921	7,214,261
Interest Income	3,109	—
Other income (expense), net	2,334,087	7,138,033
Income from operations before income taxes	1,096,524	4,735,070
Income tax Provision	2,500	2,750
Net income	1,094,024	4,732,320
Change in carrying value of convertible preferred share mezzanine equity	(2,142,857)	6,428,571
Net (loss) income attributable to common stockholders	$(1,048,833)	$11,160,891
Basic (loss) income per share attributable to common stockholders	$(0.00)	$0.02

Diluted (loss) income per share attributable to common stockholders	$(0.00)	$(0.00)
Basic weighted average common shares outstanding	722,783,442	646,851,543
Diluted weighted average common shares outstanding	722,783,442	812,605,460

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

(UNAUDITED)

	COMMON STOCK			TREASURY STOCK			
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Stockholders' Deficit
Balance at March 31, 2016	711,544,352	$711,546	$109,137,805	100,000	$(306,841)	$(142,664,747)	$(33,122,237)
Net Income						1,094,024	1,094,024
Change in value of convertible preferred mezzanine equity			(2,142,857)				(2,142,857)
Issuance of common shares pursuant to the exercise of cash warrants	11,270,901	11,271	693,160				704,431
Issuance of common shares pursuant to the exercise of cash options	40,000	40	3,960				4,000
Common shares issued in payment of employee salaries	32,244	33	10,384				10,417
Common shares issued as commitment shares pursuant to the Lincoln Park purchase agreement	119,110	119	38,322				38,441

Costs associated with raising capital			(38,441)				(38,441)
Common shares sold pursuant to the Lincoln Park purchase agreement	7,964,477	7,965	2,462,373				2,470,338
Non-cash compensation through the issuance of employee stock options			89,384				89,384
Balance at June 30, 2016	730,971,084	$730,974	$110,254,090	100,000	$(306,841)	$(141,570,723)	$(30,892,500)

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

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended June 30,	
	2016	2015 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 1,094,024	$ 4,732,320
Adjustments to reconcile net (loss) income attributable to common stockholders to net cash used in operating activities:		
Depreciation and amortization	176,060	161,460
Change in fair value of derivative financial instruments - warrants	(2,399,921)	(7,214,261)
Non-cash compensation accrued	457,450	573,667
Non-cash compensation from the issuance of common stock and options	89,384	90,479
Non-cash rent expense and lease accretion	(6,087)	(5,099)
Change in operating assets and liabilities:		
Accounts receivable	310,051	397,822
Inventory	(441,565)	168,789
Prepaid expenses and other current assets	161,345	148,953
Accounts payable, accrued expenses and other current liabilities	48,417	(2,076,625)
Deferred revenue	(253,330)	4,913,333
Net cash (used in) provided by operating activities	(764,172)	1,890,838
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(284,323)	(709,706)
Intellectual property costs	(175)	(6,637)
Net cash used in investing activities	(284,498)	(716,343)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of stock	2,470,338	2,040,591
Proceeds from cash warrant and options exercises	708,431	1,199,671
Proceeds and repayments of line of credit, related party - net	(718,309)	(171,362)
Repayments of loans payable and other long term liabilities	(109,018)	(90,938)
Net cash provided by financing activities	2,351,442	2,977,962
Net change in cash	1,302,772	4,152,457
Cash, beginning of period	11,512,179	7,464,180
Cash, end of period	$ 12,814,951	$ 11,616,637

Supplemental disclosure of cash and non-cash transactions:		
Cash paid for interest	$ 31,422	$ 22,552
Commitment shares issued to Lincoln Park Capital	$ 38,441	$ 849,897
Change in carrying value of convertible preferred mezzanine equity	$ (2,142,857)	$ 6,428,571

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

Elite Pharmaceuticals, Inc. (the "Company" or "Elite") was incorporated on October 1, 1997 under the laws of the State of Delaware, and its wholly-owned subsidiary Elite Laboratories, Inc. ("Elite Labs") which was incorporated on August 23, 1990 under the laws of the State of Delaware. On January 5, 2012, Elite Pharmaceuticals was reincorporated under the laws of the State of Nevada. Elite Labs engages primarily in researching, developing and licensing proprietary orally administered, controlled-release drug delivery systems and products with abuse deterrent capabilities and the manufacture of generic, oral dose pharmaceuticals. The Company is equipped to manufacture controlled-release products on a contract basis for third parties and itself if and when the products are approved. These products include drugs that cover therapeutic areas for pain, allergy, bariatric and infection. Research and development activities are done so with an objective of developing products that will secure marketing approvals from the United States Food and Drug Administration ("US-FDA" or "FDA"), and thereafter, commercially exploiting such products.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and in conformity with the instructions on Form 10-Q and Rule 8-03 of Regulation S-X and the related rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Elite Laboratories, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of such statements. The results of operations for the three months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the entire year.

Restatement of Previously Issued Consolidated Financial Statements

As disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2016, the Company has restated the consolidated financial statements as of and for the years ended March 31, 2015 and 2014 and unaudited quarterly financial information for the first two quarters in the year ended March 31, 2016 and the first three quarters in the year ended March 31, 2015, to correct prior periods primarily related to (i) an error in accounting treatment for license agreement with Epic, in which the Company determined that revenue relating to a $5,000,000 non-refundable payment, which was originally recognized in full during the quarterly period ended June 30, 2015, should have been recognized, on a straight line basis, over the exclusivity period, coinciding with the five year term of the Epic Collaborative Agreement, as this payment is attributed to the exclusive license and other rights granted to Epic in the Epic Collaborative Agreement; and (ii) a determination that the Series I convertible preferred stock, which had originally been classified as a derivative liability prior to the quarter ended September 30, 2015, should have been recorded as mezzanine equity at the maximum redemption amount each reporting period with changes recorded in additional paid in capital.

This Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 includes the impact of the restatement on the comparative unaudited consolidated quarterly financial information for the quarter ended June 30, 2015. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the Company's unaudited condensed consolidated financial statements for the period ended June 30, 2015, included in the Company's amended Form 10-Q, for the period ended June 30, 2015, filed with the SEC on December 30, 2015; and the Company's audited consolidated financial statements for the year ended March 31, 2016 included in the Company's Fiscal 2016 Annual Report on Form 10-K, filed with the SEC on June 15, 2016. In addition, the Company's future Quarterly Reports on Form 10-Q for subsequent quarterly periods during the current fiscal year will reflect the impact of the restatement in the comparative prior quarter and year-to-date periods.

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current period financial statement presentation. These reclassifications had no effect on net earnings or cash flows as previously reported.

Segment Information

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer, who reviews the financial performance and the results of operations of the segments prepared in accordance with U.S. GAAP when making

decisions about allocating resources and assessing performance of the Company.

The Company has determined that its reportable segments are products whose marketing approvals were secured via an Abbreviated New Drug Applications (“ANDA”) and products whose marketing approvals were secured via a New Drug Application (“NDA”). ANDA products are referred to as generic pharmaceuticals and NDA products are referred to as branded pharmaceuticals.

There are currently no intersegment revenues. Asset information by operating segment is not presented below since the chief operating decision maker does not review this information by segment. The reporting segments follow the same accounting policies used in the preparation of the Company’s condensed unaudited consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Revenue Recognition

The Company enters into licensing, manufacturing and development agreements, which may include multiple revenue generating activities, including, without limitation, milestones, licensing fees, product sales and services. These multiple elements are assessed in accordance with ASC 605-25, *Revenue Recognition – Multiple-Element Arrangements* in order to determine whether particular components of the arrangement represent separate units of accounting.

An arrangement component is considered to be a separate unit of accounting if the deliverable relating to the component has value to the customer on a standalone basis, and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in control of the Company.

The Company recognizes payments received pursuant to a multiple revenue agreement as revenue, only if the related delivered item(s) have stand-alone value, with the arrangement being accordingly accounted for as a separate unit of accounting. If such delivered item(s) are considered to either not have stand-alone value, the arrangement is accounted for as a single unit of accounting, and the payments received are recognized as revenue over the estimated period of when performance obligations relating to the item(s) will be performed.

Whenever the Company determines that an arrangement should be accounted for as a single unit of accounting, it determines the period over which the performance obligations will be performed and revenue will be recognized. If it cannot reasonably estimate the timing and the level of effort to complete its performance obligations under a multiple-element arrangement, revenues are then recognized on a straight-line basis over the period encompassing the expected completion of such obligations, with such period being reassessed at each subsequent reporting period.

Arrangement consideration is allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling

price of each deliverable is determined using vendor-specific objective evidence of selling price, if such exists; otherwise, third-part evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the Company uses its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether we can determine vendor-specific objective evidence or third-party evidence of selling price, the Company does not ignore information that is reasonably available without undue cost and effort.

When determining the selling price for significant deliverables under a multiple-element revenue arrangement, the Company considers any or all of the following, without limitation, depending on information available or information that could be reasonably available without undue cost and effort: vendor-specific objective evidence, third party evidence or best estimate of selling price. More specifically, factors considered can include, without limitation and as appropriate, size of market for specific a product, number of suppliers and other competitive market factors, forecast market shares and gross profits, barriers/time frames to market entry/launch, intellectual property rights and protections, exclusive or non-exclusive arrangements, costs of similar/identical deliverables from third parties, contractual terms, including, without limitation, length of contract, renewal rights, commercial terms, profit allocations, and other commercial, financial, tangible and intangible factors that may be relevant in the valuation of a specific deliverable.

Milestone payments are accounted for in accordance with ASC 605-28, *Revenue Recognition – Milestone Method* for any deliverables or units of accounting under which the Company must achieve a defined performance obligation which is contingent upon future events or circumstances that are uncertain as of the inception of the arrangement providing for such future milestone payment. Determination of the substantiveness of a milestone is a matter of subjective assessment performed at the inception of the arrangement, and with consideration earned from the achievement of a milestone meeting all of the following:

- It must be either commensurate with the Company's performance in achieving the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the Company's performance to achieve the milestone; and
- It relates solely to past performance; and
- It is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Collaborative Arrangements

Contracts are considered to be collaborative arrangements when they satisfy the following criteria defined in ASC 808, *Collaborative Arrangements*:

- The parties to the contract mist actively participate in the joint operating activity; and
- The joint operating activity must expose the parties to the possibility of significant risk and rewards, based on whether or not the activity is successful.

The Company entered into a sales and distribution licensing agreement with Epic Pharma LLC, dated June 4, 2015 (the "2015 Epic License Agreement"), which has been determined to satisfy the criteria for consideration as a collaborative agreement, and is accounted for accordingly, in accordance with GAAP.

Restricted Cash

As of June 30, 2016 and March 31, 2016, the Company had $388,959 of restricted cash, related to debt serve reserve in regards to the New Jersey Economic Development Authority ("NJEDA") bonds (see Note 6).

Inventory

Inventory is recorded at the lower of cost or market on a first-in first-out basis.

Intangible Assets

The Company capitalizes certain costs to acquire intangible assets, if such assets are determined to have a finite useful life they are amortized on a straight-line basis over the estimated useful life. Costs to acquire indefinite lived intangible assets, such as costs related to ANDAs are capitalized accordingly.

The Company tests its intangible assets for impairment at least annually (as of March 31st) and whenever events or circumstances change that indicate impairment may have occurred. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others and without limitation: a significant decline in the Company's expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate of the Company's segments; unanticipated competition; and slower growth rates.

As of June 30, 2016, the Company did not identify any indicators of impairment.

Contingencies

Occasionally, the Company may be involved in claims and legal proceedings arising from the ordinary course of its business. The Company records a provision for a liability when it believes that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. If these estimates and assumptions change or prove to be incorrect, it could have a material impact on the Company's condensed consolidated financial statements. Contingencies are inherently unpredictable and the assessments of the value can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC Topic 718, *Compensation-Stock Compensation* ("ASC Topic 718"). Under the fair value recognition provisions of this topic, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, based on the terms of the awards. The cost of the stock-based payments to nonemployees that are fully vested and non-forfeitable as at the grant date is measured and recognized at that date, unless there is a contractual term for services in which case such compensation would be amortized over the contractual term.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Earnings (Loss) Per Share Applicable to Common Stockholders

The Company follows ASC 260, *Earnings Per Share*, which requires presentation of basic and diluted earnings (loss) per share ("EPS") on the face of the income statement for all entities with complex capital structures, and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. In the accompanying financial statements, basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted EPS excluded all dilutive potential shares if their effect was anti-dilutive.

The following is the computation of earnings (loss) per share applicable to common stockholders for the periods indicated:

	For the Three Months Ended June 30,	
	2016	2015 (As Restated)
Numerator		
Net income (loss) attributable to common shareholders – basic	$(1,048,833)	$11,160,891
Effect of dilutive instruments on net income	n/a	(13,642,832)
Net loss attributable to common stockholders - diluted	$(1,048,833)	$(2,481,941)
Denominator		
Weighted average shares of common stock outstanding - basic	722,783,442	646,851,543
Dilutive effect of stock options, warrants and convertible securities	n/a	165,753,917
Weighted average shares of common stock outstanding – diluted	722,783,442	812,605,460
Net income (loss) per share		
Basic	$(0.00)	$0.02
Diluted	$(0.00)	$(0.00)

Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC Topic 820") provides a framework for measuring fair value in accordance with generally accepted accounting principles.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table present information about our liabilities measured at fair value on a recurring basis as of June 30, 2016 and March 31, 2016, aggregated by the level in the fair value hierarchy within which those measurements fell:

		Amount at Fair Value		Fair Value Measurement Using		
				Level 1	Level 2	Level 3
(4,828,982)	$	(5,126,313)				
Basic:						
Weighted-average shares of common stock outstanding		15,777,185		15,777,185		
Weighted-average shares of deferred common stock units outstanding		314,998		254,998		
Shares used in computing basic net loss per common share		16,092,183		16,032,183		
Effect of dilutive securities:						
Stock options						
Shares used in computing diluted net loss per common share		16,092,183		16,032,183		
Basic net loss per common share	$	(0.30)	$	(0.32)		
Diluted net loss per common share	$	(0.30)	$	(0.32)		

On May 4, 2010, the Company s stockholders approved an amendment to the Company s Second Amended and Restated Certificate of Incorporation to decrease the number of authorized shares of common stock from 100 million to 25 million. This change will result in total authorized shares of capital stock of 35 million (25 million shares of common stock and 10 million shares of preferred stock) as set forth in Article IV of the Second Amended and Restated Certificate of Incorporation, as amended. The change in authorized shares will become effective when the amendment is filed with the Delaware Secretary of State in May 2010.

3. Income Taxes

For each of the three-month periods ended April 3, 2010 and April 4, 2009, the Company s provision for income taxes reflects an effective tax rate of approximately 11.9%. For each of the three-month periods ended April 3, 2010 and April 4, 2009, the Company s effective tax rate was lower than the U.S. federal statutory rate primarily due to changes to its valuation allowances. Due to the utilization of deferred tax assets relating to net operating losses, the Company does not anticipate paying any U.S. federal income taxes in fiscal 2010, however, actual results could accelerate or defer the utilization of its deferred tax assets.

In each of the three-month periods ended April 3, 2010 and April 4, 2009, the Company recorded approximately $0.7 million of income tax benefit, on pre-tax losses of approximately $5.5 million and $5.8 million, respectively.

The Company had $0.09 million in unrecognized tax benefits as of April 3, 2010 and expects to recognize the entire amount in the next twelve months due to closing of open tax years. Unrecognized income tax benefits relate to the uncertainty regarding deductions taken on returns that have not been examined by the applicable tax authority. The tax years 2006 through 2009 remain open to examination by the major taxing jurisdictions to which the Company is subject.

4. Debt

Credit Facility

The Company s has a credit facility by and among Golfsmith International, L.P., Golfsmith NU, L.L.C., and Golfsmith USA, L.L.C., as borrowers (the Borrowers), the Company and the other subsidiaries of the Company identified therein as credit parties (the Credit Parties), General Electric Capital Corporation, as Administrative Agent, Swing Line Lender and L/C Issuer (the Administrative Agent), GE Capital Markets, Inc., as Sole Lead Arranger and Bookrunner, and the financial institutions from time to time parties thereto (the Credit Facility). The Credit Facility consists of a $90.0 million asset-based revolving credit facility (the Revolver), including a $5.0 million letter of credit sub facility, and a $10.0 million swing line sub facility. On an ongoing basis, loans incurred under the Credit Facility will be used for working capital and capital expenditures of the Borrowers and their subsidiaries (the Loans). The Credit Facility has a term of five years and expires in June 2011.

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Interest Rate and Fees. Loans outstanding under the Credit Facility bear interest per annum, at the Company s election, at a rate equal to either (1) LIBOR plus two percent (2.0%), or (2) the Base Rate, which is equal to the higher of (i) the Federal Funds Rate plus 50 basis points and (ii) the publicly quoted rate as published by *The Wall Street Journal* on corporate loans posted by at least 75% of the nation s largest 30 banks. The Company pays annual fees ranging from 0.25% to 0.35% of the unused portion of its Credit Facility, depending on the balance of its outstanding borrowings.

Covenants and Events of Default. The Credit Facility contains customary affirmative covenants regarding, among other things, the delivery of financial and other information to the lenders, maintenance of records, compliance with law, maintenance of property and insurance and conduct of the Company s existing business. The Credit Facility also contains certain customary negative covenants that limit the ability of the Credit Parties to, among other things, create liens, make investments, enter into transactions with affiliates, incur debt, acquire or dispose of assets, including merging with another entity, enter into sale-leaseback transactions and make certain restricted payments. The foregoing restrictions are subject to certain customary exceptions for facilities of this type. The Credit Facility includes events of default (and related remedies, including acceleration of the Loans made thereunder) usual for a facility of this type, including payment default, covenant default (including breaches of the covenants described above), cross-default to other indebtedness, material inaccuracy of representations and warranties, bankruptcy and involuntary proceedings, change of control and judgment default. Many of the defaults are subject to certain materiality thresholds and grace periods usual for a facility of this type. As of April 3, 2010, April 4, 2009 and December 31, 2009 the Company was in compliance with all applicable covenants.

Borrowing Capacity. Available amounts under the Credit Facility are calculated against a borrowing base. The borrowing base is limited to (i) 85% of the net amount of eligible receivables, as defined in the Credit Facility, plus (ii) the lesser of (x) 70% of the value of eligible inventory or (y) up to 90% of the net orderly liquidation value of eligible inventory, plus (iii) the lesser of (x) $17,500,000 or (y) 70% of the fair market value of eligible real estate, and minus (iv) any reserves except to the extent already deducted there from. The Administrative Agent has the right to establish, modify or eliminate reserves against eligible inventory and receivables from time to time in its reasonable credit judgment. At April 3, 2010, the Company had $42.8 million of outstanding borrowings under the Credit Facility and $24.5 million of borrowing availability after giving effect to all reserves. At April 4, 2009, the Company had $45.2 million of outstanding borrowings under the Credit Facility and $16.4 million of borrowing availability after giving effect to all reserves. At January 2, 2010, the Company had $36.0 million of outstanding borrowings under the Credit Facility and $17.8 million of borrowing availability after giving effect to all reserves. During the three months ended April 3, 2010 and April 4, 2009, the weighted average interest rate on the Company s outstanding borrowings was 2.33% and 3.14%, respectively.

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

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

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5. Intangible Assets

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

	April 3, 2010	April 4, 2009	January 2, 2010
Amortizable intangible assets:			
Customer database - gross carrying amount	$ 3,454,205	$ 3,399,205	$ 3,454,205
Customer database - accumulated amortization	(2,839,949)	(2,454,981)	(2,738,757)
Total amortizable intangible assets	$ 614,256	$ 944,224	$ 715,448
Indefinite-lived intangible assets:			
Patents	$ 100,000	$	$ 100,000
Trade names	11,158,000	11,158,000	11,158,000
Trademarks	13,972,251	13,972,251	13,972,251
Total indefinite-lived intangible assets	$ 25,230,251	$ 25,130,251	$ 25,230,251
Intangibles assets, net	$ 25,844,507	$ 26,074,475	$ 25,945,699

Amortization expense related to the Company s customer database was approximately $0.1 million in each of the three-month periods ended April 3, 2010 and April 4, 2009, and is recorded in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations. The Company s customer database is being amortized over the estimated useful life of 9 years.

Future estimated amortization expense related to the Company s customer database is as follows:

Remaining 2010	$ 303,742
2011	310,514
Total	$ 614,256

6. Commitments and Contingencies

Lease Commitments

The Company leases all but one of its store locations under operating leases that provide for annual payments that, in some cases, increase over the life of the lease. The operating leases expire at various times through June 2022. The aggregate of the minimum annual payments is expensed on a straight-line basis over the term of the related lease without consideration of renewal option periods, rent holidays and escalating rents. In addition, the Company has entered into certain sublease agreements with third parties to sublease retail space previously occupied by

the Company. The sublease terms end at various times through June 2019. Rent expense, net of sublease rental income, was $5.7 million and $5.6 million for the three-month periods ended April 3, 2010 and April 4, 2009, respectively. Sublease rental income was $0.3 million for each of the three-month periods ended April 3, 2010 and April 4, 2009.

The Company previously entered into a guarantee agreement in conjunction with assigning one of its leases to a subtenant. The guarantee provides that the Company will assume responsibility for rental payments in the event the subtenant defaults. The amount of future rental payments as of April 3, 2010 are $0.3 million, $0.3 million and $0.2 million for 2010, 2011 and 2012, respectively. The Company believes the probability of loss on this guarantee is remote, and therefore it has not recorded an accrual related to these payments.

Legal Proceedings

On October 23, 2009, David O Flynn, on behalf of himself and all others similarly situated, filed a putative class action lawsuit in the California Superior Court in Orange County against the Company asserting denial of meal and rest breaks, failure to timely pay final wages or commissions and failure to provide itemized employee wage statements in violation of the California Labor Code. The relief sought includes an award of monetary damages and injunctive relief. The Company plans to vigorously defend all allegations. It is not possible to estimate the amount of loss, or range of possible loss, if any, that might result from an adverse resolution of this matter.

The Company is involved in various other legal proceedings arising in the ordinary course of conducting business. The Company believes that the ultimate outcome of such matters, individually or in the aggregate, will not have a material adverse impact on its

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financial position, liquidity or results of operations. The Company believes the amounts reserved in its consolidated financial statements are adequate in consideration of the probable and estimable liabilities.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, project, intend and similar expressi include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of future store openings, store retrofits and capital expenditures, the likelihood of our success in expanding our business, financing plans, working capital needs and sources of liquidity.

Forward-looking statements are not guarantees of performance. These statements are based on management s beliefs and assumptions, which in turn are based in part on currently available information and in part on management s estimates and projections of future events and conditions. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the introduction of new product offerings, store opening costs, our ability to lease new sites on a timely basis, expected pricing levels, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve risks and uncertainties, which could cause actual results that differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict.

We believe our forward-looking statements are based on reasonable assumptions; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Overview

We are one of the nation s largest specialty retailers of golf and tennis equipment, apparel, footwear and accessories. We operate as an integrated multi-channel retailer, offering our customers the convenience of shopping in our retail locations across the nation and through our direct-to-consumer channels, which include both our website, *www.golfsmith.com*, and our direct mail catalogs. As of April 3, 2010, we operated 74 retail stores in 19 states and 29 markets. We were founded in 1967 as a golf clubmaking company offering custom-made clubs, clubmaking components and club repair services. In 1972 we opened our first retail store, in 1975 we mailed our first general golf products catalog, and in 1997 we launched our Internet site designed to expand our direct-to-consumer business. Since April 3, 2010, we have opened new stores in Overland Park, Kansas and Brea, California.

As a specialty retailer, we are subject to changes in consumer confidence and economic conditions that impact our customers. The demand for our products is affected by the financial health of our customers, which may be adversely influenced by macroeconomic issues such as unemployment, fuel and energy costs, weakness in the housing market and unavailability of consumer credit. During the current economic

downturn, the demand for our products has been adversely impacted, as reflected in our results of operations for the last two years. In response to the lower demand, beginning in fiscal 2008 and continuing into fiscal 2010, we have taken significant steps to reduce our cost structure and introduce increased operational efficiencies. We expect to leverage this reduced cost structure to drive improved operating performance in future periods.

In addition to future new store openings, a major part of our strategy continues to be enhancing the non-clubmaking and Internet portions of our direct-to-consumer channel. We anticipate continuing to develop a number of our existing proprietary brands in the future, as we continue our efforts to grow our proprietary brand revenue.

Fiscal Year

Our fiscal year ends on the Saturday closest to December 31 and consists of either 52 weeks or 53 weeks. Each quarter of each fiscal year generally consists of 13 weeks. The three-month periods ended April 3, 2010 and April 4, 2009 each consisted of 13 weeks.

Results of Operations

The following table presents our unaudited condensed consolidated statements of operations and the related percentage of total net revenues for the three-month periods ended April 3, 2010 and April 4, 2009:

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	Three Months Ended					
		April 3, 2010			April 4, 2009	
Net revenues (1)	$	67,648,539	100.0%	$	68,792,904	100.0%
Cost of products sold (2)		44,884,055	66.3%		46,022,438	66.9%
Gross profit		22,764,484	33.7%		22,770,466	33.1%
Selling, general and administrative		27,852,926	41.2%		28,016,118	40.7%
Store pre-opening / closing expenses (3)		249,738	0.4%		150,037	0.2%
Total operating expenses		28,102,664	41.5%		28,166,155	40.9%
Operating loss		(5,338,180)	-7.9%		(5,395,689)	-7.8%
Interest expense		(169,285)	-0.3%		(477,679)	-0.7%
Interest income		1,354	0.0%		539	0.0%
Other income (expense), net		26,840	0.0%		56,750	0.1%
Loss before income taxes		(5,479,271)	-8.1%		(5,816,079)	-8.5%
Income tax benefit		650,289	1.0%		689,766	1.0%
Net loss	$	(4,828,982)	-7.1%	$	(5,126,313)	-7.5%

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

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

(3) Store pre-opening expenses consist primarily of rent, marketing, payroll and recruiting costs related to the opening of new retail stores that are incurred prior to a new store opening. Store closing expenses include future net lease obligations, to the extent not covered by future subrental income, and payroll expenses and other charges associated with a store that has been closed.

The following table presents consolidated net revenues by channel and comparable store sales percentage changes for the three-month periods ended April 3, 2010 and April 4, 2009:

	Three Months Ended						
		April 3, 2010		April 4, 2009		$ Change	% Change
Comparable stores (1)	$	52,995,351	$	53,537,269	$	(541,918)	-1.0%
Non-comparable stores		2,353,299	$	1,353,254		1,000,045	73.9%

Total stores (2)		55,348,650		54,890,523		458,127	0.8%
Direct-to-consumer		10,568,075	$	12,212,500		(1,644,425)	-13.5%
International distributors and other (3)		1,731,814	$	1,689,881		41,933	2.5%
Net revenues	$	67,648,539	$	68,792,904	$	(1,144,365)	-1.7%

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

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comparable in the period leading up to closure if they meet the qualifications of a comparable store and do not meet the qualifications to be classified as discontinued operations.

(2) Included in total stores net revenues is $3.9 million and $3.6 million for the three months ended April 3, 2010 and April 4, 2009, respectively, related to sales transacted online and either picked up by the customer at our stores or shipped to the customer from one of our retail stores.

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

Three Months ended April 3, 2010 compared to Three Months ended April 4, 2009

Net Revenues. Net revenues decreased 1.7% to $67.6 million for the three months ended April 3, 2010 from $68.8 million for the three months ended April 4, 2009. The decrease was primarily due to a $1.6 million decrease in our direct-to-consumer channel which was partially offset by a $0.5 million increase in our store revenues. Comparable store revenues decreased $0.5 million, or 1.0%, during the three months ended April 3, 2010 as compared to the three months ended April 4, 2009. The decrease in sales in our direct-to-consumer channel year-over-year is primarily attributable to sales decreases in clubmaking components and clubs.

We believe our sales were impacted by colder and wetter weather conditions in the continental United States in the first quarter of fiscal 2010 as compared to the first quarter of fiscal 2009. Additionally, we believe that golf rounds played in the United States, a leading indicator of golf participation tracked by Golf Datatech L.L.C., affects potential sales of our products. For the three months ended April 3, 2010, golf rounds played decreased 12.4% compared to the same period in fiscal 2009.

Gross Profit. Consolidated gross profit, as a percentage of net revenues, increased to 33.7% for the three months ended April 3, 2010 from 33.1% for the three months ended April 4, 2009. The increase in gross profit, as a percentage of net revenues, of 0.6%, was due to (1) an increase of 0.4%, as a percentage of net revenues, due to lower excess and obsolete inventory reserves in the current year quarter resulting from price repositioning of used clubs that occurred in the prior year quarter, (2) an increase of 0.3%, as a percentage of net revenues, due to a decrease in shrink expense resulting from improvements in the current year quarter physical inventory results, and (3) an increase of 0.3%, as a percentage of net revenues, due to price reductions taken in the prior year quarter designed to drive sales on certain items. The increases were partially offset by a decrease of 0.4%, as a percentage of net revenues, in vendor allowances allocated as a reduction to cost of sales.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased to $27.9 million, or 0.6%, for the three months ended April 3, 2010 from $28.0 million for the three months ended April 4, 2009. Although we experienced a $0.4 million increase in selling, general and administrative expenses during the three-month period ended April 3, 2010 related primarily to our new stores, total selling, general and administrative expenses decreased by $0.1 million due to a non-recurring charge of $0.5 million for severance to our former Chief Financial Officer recorded in the prior year quarter.

Store pre-opening / closing expenses. Store pre-opening / closing expenses were $0.2 million in each of the three-month periods ended April 3, 2010 and April 4, 2009. Store pre-opening / closing expenses for the three months ended April 3, 2010 consists primarily of occupancy charges related to anticipated store openings in fiscal 2010. Store pre-opening / closing expenses in the three months ended April 4, 2009 consists of charges related to our retail store in Palm Desert, California, which opened in January 2009.

Interest expense. Interest expense consists primarily of interest expense incurred on borrowings under our Credit Facility. For the three months ended April 3, 2010, interest expense decreased by 64.6%, as a percentage of net revenues, to $0.2 million from $0.5 million for the three months ended April 4, 2009. The decrease in interest expense is primarily due to a decrease in interest rates and lower borrowings year-over-year as well as an adjustment in the current year quarter to account for bank overcharges in previous periods.

Other income (expense), net. There were minimal changes in other income (expense), net during the three months ended April 3, 2010 as compared to the three months ended April 4, 2009. Included in other income (expense), net are realized foreign currency exchange rate gains/losses, gains from the sale of assets and other miscellaneous income.

Income tax benefit. During each of the three-month periods ended April 3, 2010 and April 4, 2009, we recorded approximately $0.7 million of income tax benefit on pre-tax loss of approximately $5.5 million and $5.8 million, respectively. The income tax expense for the periods differed from the amount which would have been recorded using the U.S. statutory tax rate of 34% due to a change in our valuation allowances. See Note 3 of the notes to Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q for further discussion.

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Liquidity and Capital Resources

As of April 3, 2010, our primary sources of liquidity consisted of cash totaling $0.8 million and $24.5 million of available borrowings under our Credit Facility which is more fully described in Note 4 of the Notes to Condensed Consolidated Financial Statements, included in this Form 10-Q. As of April 3, 2010, we had outstanding debt obligations under our Credit Facility of $42.8 million.

Historically, cash flows generated from operations and our borrowing capacity under our Credit Facility have allowed us to meet our cash requirements, including capital expenditures and working capital needs. In addition, future cash outflows related to new store openings, advertising, store retrofits, and other expenditures have been adjusted and may need to be further adjusted accordingly from time to time in the future. For the remainder of fiscal 2010, we anticipate incurring approximately $6.8 million in capital expenditures, excluding tenant improvement allowances, related primarily to our new store openings, various store remodels and investments in our information technology infrastructure. However, our capital expenditures will depend on our ability to generate sufficient cash flows from operations as well as available borrowings under our credit facility.

If cash generated from operations and available borrowings under our Credit Facility are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or arrange additional debt financing. If cash from operations and cash available under our Credit Facility are not sufficient to meet our needs, we cannot assure you that we will be able to obtain additional financing in sufficient amounts and/or on acceptable terms in the near future or when our Credit Facility expires in June 2011.

Cash Flows

	Three Months Ended			
		April 3, 2010		April 4, 2009
Net cash provided by (used in) operating activities	$	(2,916,781)	$	9,746,298
Net cash used in investing activities		(3,786,351)		(2,197,687)
Net cash provided by (used in) financing activities		6,819,000		(6,519,222)
Effect of exchange rate changes on cash		(25,831)		(20,535)
Change in cash	$	90,037	$	1,008,854

Operating Activities

Our cash flows from operations are seasonal. Operating activities used $2.9 million of cash for the three months ended April 3, 2010 and provided $9.7 million of cash for the three months ended April 4, 2009. The decrease in cash provided by operating activities during the three months ended April 3, 2010, as compared to the three months ended April 4, 2009 is due to increased inventory stock purchases in the current year quarter as a result of two new store openings as well as the timing of other working capital activities.

Investing Activities

Cash used in investing activities primarily relates to building out new stores, remodeling or relocating existing stores, purchasing information technology as well as capital expenditures for our distribution facilities and corporate headquarters. Investing activities used $3.8 million of cash for the three months ended April 3, 2010 and $2.2 million of cash for the three months ended April 4, 2009. Cash was used during the current year quarter to build out our new stores, two of which opened in April 2010, and to remodel several of our existing stores. Cash was used during the prior year quarter to build out one new store and relocate two of our existing stores.

Financing Activities

Financing activities provided $6.8 million of cash for the three months ended April 3, 2010 and used $6.5 million of cash for the three months ended April 4, 2009. Cash used in financing activities primarily relates to net principal payments and borrowings under our Credit Facility.

Indebtedness

As of April 3, 2010, we had approximately $42.8 million in aggregate indebtedness outstanding and $24.5 million in available borrowings under our Credit Facility, after giving effect to all reserves. At April 4, 2009, the Company had $45.2 million of

borrowings outstanding under the Credit Facility and $16.4 million of borrowing availability after giving effect to all reserves. As of January 2, 2010, we had $36.0 million of outstanding borrowings under our Credit Facility and $17.8 million of borrowing availability after giving effect to all reserves.

Our Credit Facility contains customary affirmative covenants regarding, among other things, the delivery of financial and other information to the lenders, maintenance of records, compliance with law, maintenance of property and insurance and conduct of our existing business. The Credit Facility also contains certain customary negative covenants that limit the ability of the Credit Parties (as defined in Note 4 of the notes to our Unaudited Condensed Consolidated Financial Statements) to, among other things, create liens, make investments, enter into transactions with affiliates, incur debt, acquire or dispose of assets, including merging with another entity, enter into sale-leaseback transactions, and make certain restricted payments. As of April 3, 2010, we were in compliance with all applicable covenants. See Note 4 of the notes to our Unaudited Condensed Consolidated Financial Statements for further discussion of the terms of our Credit Facility.

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

Off-Balance Sheet Arrangements

As of April 3, 2010, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 1 of our Audited Consolidated Financial Statements in our Annual Report on Form 10-K filed with the SEC on February 25, 2010. Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. Those estimates are based on our historical experience, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. These estimates are subject to an inherent degree of uncertainty. We have chosen accounting policies that we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a consistent manner. Our critical accounting policies have not changed significantly since the filing of our Annual Report.

Recent Accounting Pronouncements

In December 2009, the FASB issued additional authoritative guidance requiring new disclosures related to fair value measurements. The new guidance requires entities to separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements

and to describe the reasons for the transfers. The guidance also requires entities to present separately information about purchases, sales, issuances, and settlements within Level 3 fair value measurements. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements within Level 3 fair value measurements. Those disclosures will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the guidance did not have an impact on our consolidated results of operations or financial position.

In February 2010, the FASB amended the authoritative guidance it issued in May 2009 on subsequent events. The original guidance required SEC filers to evaluate subsequent events through the date of financial statement issuance and to disclose the date through which subsequent events have been evaluated. The guidance was amended so that SEC filers are no longer required to disclose the date through which subsequent events have been evaluated. The new guidance was effective immediately upon issuance of the amendment which was in February 2010. The adoption of the guidance did not have an impact on our consolidated results of operations or financial position.

In June 2009, the FASB issued guidance which amends previously issued guidance on variable interest entities. This new guidance prescribes a qualitative model for identifying whether a company has a controlling financial interest in a variable interest entity, or VIE, and eliminates the quantitative model previously prescribed. The new model identifies two primary characteristics of a controlling financial interest: (1) provides a company with the power to direct significant activities of the VIE; and (2) obligates a company to absorb losses of and/or provides rights to receive benefits from the VIE. The new guidance requires a company to reassess on an ongoing basis whether it holds a controlling financial interest in a VIE. A company that holds a controlling financial interest is

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deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. This statement is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. We believe the adoption of the guidance did not have an impact on our consolidated results of operations or financial position.

In October 2009, the FASB issued guidance on revenue recognition that provides clarification on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. An entity is required to allocate revenue in an arrangement using estimated selling prices of deliverables in the absence of vendor-specific objective evidence or third-party evidence of selling price. These amendments also eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. These amendments significantly expand the disclosure requirements for multiple-deliverable revenue arrangements. These provisions are to be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. We are currently evaluating the impact of these amendments on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company as defined by Item 10 of Regulation S-K, we are not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Such disclosure controls and procedures are designed to ensure that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of April 3, 2010.

Changes in Internal Control over Financial Reporting

During the three-month period ended April 3, 2010, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 23, 2009, David O Flynn, on behalf of himself and all others similarly situated, filed a putative class action lawsuit in the California Superior Court in Orange County against the Company asserting denial of meal and rest breaks, failure to timely pay final wages or commissions and failure to provide itemized employee wage statements in violation of the California Labor Code. The plaintiffs seek monetary damages and injunctive relief. The Company plans to vigorously defend all allegations. It is not possible to estimate the amount of loss, or range of possible loss, if any, that might result from an adverse resolution of this matter.

We are involved in various other legal proceedings arising in the ordinary course of conducting business. We are not aware of any such lawsuits, the ultimate outcome of which, individually or in the aggregate, would have a material adverse impact on our financial position or results of operations.

ITEM 1A. RISK FACTORS

As a smaller reporting company as defined by Item 10 of Regulation S-K, we are not required to provide the information required by this item.

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

None.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. [RESERVED]

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Rule 13a-14(a)/15d-14(a) Certification of Martin E. Hanaka (Filed herewith).

31.2 Rule 13a-14(a)/15d-14(a) Certification of Sue E. Gove (Filed herewith).

32.1 Certification of Martin E. Hanaka Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).

32.2 Certification of Sue E. Gove Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).

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SIGNATURES

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

GOLFSMITH INTERNATIONAL HOLDINGS, INC.

By: /s/ Martin E. Hanaka
Martin E. Hanaka
Chairman and Chief Executive Officer
(Principal Executive Officer and Authorized Signatory)
Date: May 5, 2010

By: /s/ Sue E. Gove
Sue E. Gove
Executive Vice President, Chief Operating Officer and Chief Financial Officer
(Principal Financial and Accounting Officer and Authorized Signatory)
Date: May 5, 2010