

CALLAWAY GOLF CO
Form 10-Q
April 29, 2015
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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 March 31, 2015

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period _____ to _____
Commission file number 001-10962

Callaway Golf Company
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
2180 Rutherford Road, Carlsbad, CA 92008
(760) 931-1771

95-3797580
(I.R.S. Employer
Identification No.)

(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

Indicate by check mark whether the registrant 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of March 31, 2015, the number of shares outstanding of the Registrant's common stock outstanding was 78,060,321.

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Important Notice to Investors Regarding Forward-Looking Statements: This report contains "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "may," "should," "will," "could," "would," "anticipate," "plan," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "on track," and similar references to future periods.

Forward-looking statements include, among others, statements that relate to future plans, events, liquidity, financial results or performance including, but not limited to, statements relating to future stock repurchases, cash flows and liquidity, compliance with debt covenants, estimated unrecognized stock compensation expense, projected capital expenditures and depreciation and amortization expense, market conditions, future contractual obligations, the realization of deferred tax assets, including loss and credit carryforwards, the reversal of the deferred tax valuation allowance in future periods, future income tax expense, the future impact of new accounting standards and the continued success of the Company's turnaround plan and the Company's recovery, as well as improved financial results during 2015. These statements are based upon current information and the Company's current beliefs, expectations and assumptions regarding the future of the Company's business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. As a result of these uncertainties and because the information on which these forward-looking statements is based may ultimately prove to be incorrect, actual results may differ materially from those anticipated. Important factors that could cause actual results to differ include, among others, the following:

- certain risks and uncertainties, including changes in capital market or economic conditions;
- delays, difficulties, changed strategies, or increased costs in implementing the Company's turnaround plans;
- consumer acceptance of and demand for the Company's products;
- future retailer purchasing activity, which can be significantly affected by adverse industry conditions and overall retail inventory levels;
- the level of promotional activity in the marketplace;
- future consumer discretionary purchasing activity, which can be significantly adversely affected by unfavorable economic or market conditions;
- the ability of the Company to manage international business risks;
- future changes in foreign currency exchange rates and the degree of effectiveness of the Company's hedging programs;
- adverse changes in the credit markets or continued compliance with the terms of the Company's credit facilities;
- delays, difficulties or increased costs in the supply of components needed to manufacture the Company's products or in manufacturing the Company's products, including the Company's dependence on a limited number of suppliers for some of its products;
- adverse weather conditions and seasonality;
- any rule changes or other actions taken by the USGA or other golf association that could have an adverse impact upon demand or supply of the Company's products;
- the ability of the Company to protect its intellectual property rights;
- a decrease in participation levels in golf;
- the effect of terrorist activity, armed conflict, natural disasters or pandemic diseases on the economy generally, on the level of demand for the Company's products or on the Company's ability to manage its supply and delivery logistics in such an environment; and
- the general risks and uncertainties applicable to the Company and its business.

For details concerning these and other risks and uncertainties, see Part I, Item IA, "Risk Factors" contained in the Company's most recent Annual Report on Form 10-K, as well as the Company's Quarterly Reports on Form 10-Q and Current Report on Form 8-K subsequently filed with the Commission from time to time. Investors should not place undue reliance on these forward-looking statements, which are based on current information and speak only as of the date hereof. The Company undertakes no obligation to update any forward-looking statements to reflect new information or events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Investors should also be aware that while the Company from time to time does communicate with securities analysts,

it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Furthermore, the Company has a policy against distributing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report.

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Callaway Golf Company Trademarks: The following marks and phrases, among others, are trademarks of Callaway Golf Company: Apex-Apex Tour-APW-Aqua Dry-Backstryke-Big Bertha-Big Bertha Alpha-Black Series-Callaway-Callaway Golf- Callaway Media Productions-Callaway Supersoft-C Grind-Chev-Chev 18-Chevron Device-Chrome Soft-Comfort Tech-CXR-D.A.R.T.- Dawn Patrol-Divine-Eagle-ERC-FTiZ-FT Optiforce-FT Performance-FT Tour-Fusion-Fusion RX-Gems-Gravity Core-Great Big Bertha-Heavenwood-Hex Aerodynamics--Hex Chrome--Hex Solaire--HX-Hyper Speed Face-IMIX-Ion X-Jailbird-Kings of Distance-Legacy-Longer From Everywhere-Mack Daddy-Marksman-MetalX-Number One Putter in Golf-Odyssey-Odyssey Works-OptiFit-Opti Flex-Opti Grip-Opti Shield-Opti Therm-ORG.14-ProType--R--Rossie-R Moto-S2H2-Sabertooth--SoftFast-Solaire-Speed Regime-Speed Step-SR1-SR2-SR3-Steelhead-Strata-Strata Jet-Stromonic-Superhot-Tank-Tank Cruiser-Teron-Tech Series-TiHot-Tour Authentic-Trade In! Trade Up!-Trionomer Cover-Tru Bore-udesign-Uptown-Versa-Warbird-Weather Series-Wedgeducation-White Hot-White Hot Tour-White Hot Pro- White Hot Pro Havok-White Ice-World's Friendliest-X Act-X Hot-X Hot Pro-X² Hot-XR design-X Series-XSPANN-Xtra Traction Technology-XTT-Xtra Width Technology-2-Ball-3 Deep.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$23,236	\$ 37,635
Accounts receivable, net	261,888	109,848
Inventories	181,488	207,229
Deferred taxes, net	5,486	5,081
Income taxes receivable	491	928
Other current assets	23,955	23,312
Total current assets	496,544	384,033
Property, plant and equipment, net	55,588	58,093
Intangible assets, net	88,820	88,833
Goodwill	26,675	27,821
Deferred taxes, net	2,223	2,346
Investment in golf-related ventures (Note 6)	52,376	50,677
Other assets	10,918	13,008
Total assets	\$733,144	\$ 624,811
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$131,586	\$ 123,251
Accrued employee compensation and benefits	26,019	37,386
Asset-based credit facility	94,318	15,235
Accrued warranty expense	6,408	5,607
Income tax liability	1,984	2,623
Deferred taxes, net	26	26
Total current liabilities	260,341	184,128
Long-term liabilities:		
Income tax payable	3,586	3,867
Deferred taxes, net	35,322	35,043
Convertible notes, net (Note 2)	108,776	108,574
Long-term incentive compensation and other	1,005	1,665
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized, none issued and outstanding at March 31, 2015 and December 31, 2014	—	—
Common stock, \$0.01 par value, 240,000,000 shares authorized, 78,373,598 shares issued at both March 31, 2015 and December 31, 2014	784	784
Additional paid-in capital	207,466	210,057
Retained earnings	124,929	89,932
Accumulated other comprehensive loss	(5,918) (796)
Less: Common stock held in treasury, at cost, 313,277 and 779,681 shares at March 31, 2015 and December 31, 2014, respectively	(3,147) (8,443)

Total shareholders' equity	324,114	291,534
Total liabilities and shareholders' equity	\$733,144	\$ 624,811

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

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CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2015	2014
Net sales	\$284,179	\$351,874
Cost of sales	156,913	186,977
Gross profit	127,266	164,897
Operating expenses:		
Selling expense	66,319	77,311
General and administrative expense	16,099	17,996
Research and development expense	7,916	7,913
Total operating expenses	90,334	103,220
Income from operations	36,932	61,677
Interest income	71	43
Interest expense	(2,092)	(2,691)
Other income (expense), net	2,546	(2,243)
Income before income taxes	37,457	56,786
Income tax provision	1,638	1,474
Net income	\$35,819	\$55,312
Earnings per common share:		
Basic	\$0.46	\$0.71
Diluted	\$0.39	\$0.61
Weighted-average common shares outstanding:		
Basic	77,753	77,370
Diluted	93,896	93,172
Dividends paid per common share	\$0.01	\$0.01

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

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CALLAWAY GOLF COMPANY
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)
 (In thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	\$35,819	\$55,312
Other comprehensive income (loss):		
Change in fair value of derivative instruments	1,856	—
Foreign currency translation adjustments	(6,978)	173
Comprehensive income	\$30,697	\$55,485

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

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CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$35,819	\$55,312
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,703	5,697
Deferred taxes	(15)	14
Share-based compensation	1,826	1,163
Gain on disposal of long-lived assets	(257)	(282)
Discount amortization on convertible notes	202	182
Change in assets and liabilities:		
Accounts receivable, net	(155,309)	(196,563)
Inventories	23,357	18,518
Other assets	1,129	53
Accounts payable and accrued expenses	9,274	(3,328)
Accrued employee compensation and benefits	(11,111)	(1,977)
Accrued warranty expense	801	1,539
Income taxes receivable/payable	(295)	(2,348)
Other liabilities	(472)	(2,778)
Net cash used in operating activities	(90,348)	(124,798)
Cash flows from investing activities:		
Capital expenditures	(2,393)	(4,048)
Proceeds from sales of property and equipment	1	44
Net cash used in investing activities	(2,392)	(4,004)
Cash flows from financing activities:		
Proceeds from asset-based credit facilities, net	79,083	114,927
Exercise of stock options	2,239	1,591
Dividends paid	(780)	(774)
Acquisition of treasury stock	(1,402)	—
Equity issuance costs	—	5
Net cash provided by financing activities	79,140	115,749
Effect of exchange rate changes on cash and cash equivalents	(799)	(183)
Net decrease in cash and cash equivalents	(14,399)	(13,236)
Cash and cash equivalents at beginning of period	37,635	36,793
Cash and cash equivalents at end of period	\$23,236	\$23,557
Supplemental disclosures:		
Cash paid for income taxes, net	\$(1,929)	\$(3,817)
Cash paid for interest and fees	\$(2,812)	\$(2,944)
Noncash investing and financing activities:		
Issuance of treasury stock for compensatory stock awards released from restriction	\$3,300	\$—
Accrued capital expenditures at period-end	\$656	\$435

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

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CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at December 31, 2014	78,374	\$784	\$210,057	\$89,932	\$ (796)	(780)	\$(8,443)	\$291,534
Acquisition of treasury stock	—	—	—	—	—	(159)	(1,402)	(1,402)
Exercise of stock options	—	—	(1,159)	—	—	321	3,398	2,239
Compensatory awards released from restriction	—	—	(3,300)	—	—	305	3,300	