

CALLAWAY GOLF CO  
Form 10-Q  
November 07, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q  
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2018  
OR  
o 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 \_\_\_\_\_ 95-3797580  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
2180 Rutherford Road, Carlsbad, CA 92008  
(760) 931-1771  
(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 ý No o

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 ý No o

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

Large accelerated filer ý Accelerated filer \_\_\_\_\_ o  
Non-accelerated filer o Smaller reporting company o  
Emerging growth company o

Edgar Filing: CALLAWAY GOLF CO - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 September 30, 2018, the number of shares outstanding of the Registrant's common stock was 94,502,035.

---

Table of Contents

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, future income tax expense, the future impact of new accounting standards, the related financial impact of the future business and prospects of the Company, TravisMathew, LLC ("TravisMathew") and OGIO International, Inc. ("OGIO"), the expected continued financial impact of the Company's joint venture in Japan and the impact of the 2017 Tax Cuts and Jobs Act (the "Tax Act"), which includes a broad range of provisions that could have a material impact on the Company's tax provision in future periods. 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;
- a material impact on the Company's tax provision as a result of the Tax Act;
- 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;
- any unfavorable changes in U.S. trade, tax or other policies, including restrictions on imports or an increase in import tariffs;
- 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;
- significant fluctuations in foreign currency exchange rates and the degree of effectiveness of the Company's hedging programs;
- the ability of the Company to manage international business risks;
- 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.

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

Table of Contents

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. 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 reports on Form 8-K subsequently filed with the Securities and Exchange Commission from time to time.

Callaway Golf Company Trademarks: The following marks and phrases, among others, are trademarks of Callaway Golf Company: Apex, Apex Tour, APW, Aqua Dry, Arm Lock, Backstryke, Big Bertha, Big Bertha Alpha, Big T, Black Series, Bounty Hunter, C, C Grind, Callaway, Callaway Golf, Callaway Media Productions, Callaway Supersoft, Chev, Chev 18, Chevron Device, Chrome Soft, Cirrus, Comfort Tech, CUATER, Cup 360, CXR, 360 Face Cup, D.A.R.T., Dawn Patrol, Demonstrably Superior And Pleasingly Different, Divine, Eagle, Engage, Epic, ERC, Exo, Cage, Fast Tech Mantle, FT Optiforce, FT Performance, FT Tour, FTiZ, Fusion, GBB, GBB Epic, Gems, Gravity Core, Great Big Bertha, Great Big Bertha Epic, Griptac, Grom, Groove, In, Groove Technology, Heavenwood, Hex Aerodynamics, Hex Chrome, Hex Solaire, HX, Hyper Dry, Hyper, Lite, Hyper Speed Face, I, MIX, Innovate or Die, Ion-X, Jailbird, Jailbreak, Kings of Distance, Legacy, Longer From Everywhere, Mack Daddy, Majestic, MarXman, MD3 Milled, MD4 Tactical, MD5, Metal-X, Microhinge Face Insert, Number One Putter in Golf, O OGIO, O Works, Odyssey, Odyssey Works, Ogio, OGIO ALPHA, OGIO ARORA, OGIO CLUB, OGIO FORGE, OGIO ME, OGIO MY EXPRESSION, OGIO RENEGADE, OGIO SAVAGE, OGIO SHADOW, Opti Flex, Opti Grip, Opti Shield, Opti Therm, OptiFit, ORG 14, ORG 15, PRESTIGE 7, ProType, ·R·, R-Moto, Renegade, Rig 9800, Rossie, RSX, S2H2, Sabertooth, Shredder, SLED, SoftFast, Solaire, Speed Regime, Speed Step, SR1, SR2, SR3, Steelhead XR, Steelhead, Strata, Strata Jet, Stronomic, Sub Zero, Superhot, T M, Tank, Tank Cruiser, Tech Series, Teron, TI, HOT, TMCA, Toe Up, Toulon, Toulon Garage, Tour Authentic, Trade In! Trade Up!, TRAVISMATHEW, Trionomer Cover, Truvis, Truvis Pattern, Tyro, udesign, Uptown, Versa, VFT, W Grind, Warbird, Weather Series, Wedgeducation, White Hot, White Hot Pro, White Hot Pro Havok, White Hot Tour, White Ice, World's Friendliest, X-12, X-14, X-16, X-18, X-20, X-22, X-24, X-ACT, X Hot, X Hot Pro, X<sup>2</sup> Hot, X Series, XR, XR 16, XSPANN, Xtra Traction Technology, Xtra Width Technology, XTT, 2-Ball, 3 Deep.

Table of Contents

CALLAWAY GOLF COMPANY  
INDEX

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	<u>5</u>
	<u>Consolidated Condensed Balance Sheets as of September 30, 2018 and December 31, 2017</u>	<u>5</u>
	<u>Consolidated Condensed Statements of Operations for the three and nine months ended September 30, 2018 and 2017</u>	<u>6</u>
	<u>Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</u>	<u>7</u>
	<u>Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u>	<u>8</u>
	<u>Consolidated Condensed Statements of Shareholders' Equity for the three and nine months ended September 30, 2018 and 2017</u>	<u>9</u>
	<u>Notes to Consolidated Condensed Financial Statements</u>	<u>11</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>48</u>
Item 4.	<u>Controls and Procedures</u>	<u>48</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>49</u>
Item 1A.	<u>Risk Factors</u>	<u>49</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>49</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>49</u>
Item 5.	<u>Other Information</u>	<u>49</u>
Item 6.	<u>Exhibits</u>	<u>50</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## CALLAWAY GOLF COMPANY

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 70,821	\$ 85,674
Accounts receivable, net	130,033	94,725
Inventories	237,472	262,486
Income taxes receivable	13,762	542
Other current assets	21,028	22,557
Total current assets	473,116	465,984
Property, plant and equipment, net	82,074	70,227
Intangible assets, net	224,958	225,758
Goodwill	56,106	56,429
Deferred taxes, net	65,045	91,398
Investment in golf-related venture	70,777	70,495
Other assets	10,625	10,866
Total assets	\$ 982,701	\$ 991,157
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 142,661	\$ 176,127
Accrued employee compensation and benefits	38,425	40,173
Asset-based credit facilities	4,300	87,755
Accrued warranty expense	8,532	6,657
Equipment note, short-term	2,400	2,367
Income taxes payable	10,827	1,295
Total current liabilities	207,145	314,374
Long-term liabilities:		
Income tax liability	4,164	4,602
Deferred taxes, net	1,795	1,822
Long-term other	2,050	1,536
Equipment note, long-term	7,783	9,448
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized, none issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Common stock, \$0.01 par value, 240,000,000 shares authorized, 95,648,648 and 95,042,557 shares issued at September 30, 2018 and December 31, 2017, respectively	956	950
Additional paid-in capital	337,902	335,222
Retained earnings	443,247	324,081
Accumulated other comprehensive loss	(13,521)	(6,166)
Less: Common stock held in treasury, at cost, 1,146,613 and 411,013 shares at September 30, 2018 and December 31, 2017, respectively	(17,857)	(4,456)
Total Callaway Golf Company shareholders' equity	750,727	649,631

Edgar Filing: CALLAWAY GOLF CO - Form 10-Q

Non-controlling interest in consolidated entity (Note 8)	9,037	9,744
Total shareholders' equity	759,764	659,375
Total liabilities and shareholders' equity	\$ 982,701	\$ 991,157

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

Table of Contents

CALLAWAY GOLF COMPANY  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$262,654	\$243,604	\$1,062,156	\$857,079
Cost of sales	147,415	138,702	553,758	456,297
Gross profit				