

CALLAWAY GOLF CO
Form 10-Q
April 25, 2014
Table of Contents

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, 2014

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 (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, 2014, the number of shares outstanding of the Registrant's common stock outstanding was 77,528,976.

Table of Contents

Important Notice to Investors Regarding Forward-Looking Statements: Statements made in this report that relate to future plans, events, liquidity, financial results or performance including, but not limited to, statements relating to future cash flows and liquidity, compliance with debt covenants, estimated unrecognized stock compensation expense, projected capital expenditures and depreciation and amortization expense, 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 continued success of the Company's turnaround plan and the Company's recovery, as well as improved financial results during 2014, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated if the information on which those estimates was based ultimately proves to be incorrect or as a result of certain risks and uncertainties, including delays, difficulties, changed strategies, or increased costs in implementing the Company's turnaround plans; consumer acceptance of and demand for the Company's products; 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; 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; 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; a decrease in participation levels in golf; and 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; as well as 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 Form 10-K, as well as the Company's other reports on Forms 10-Q and 8-K subsequently filed with the Commission from time to time. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect 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.

Callaway Golf Company Trademarks: The following marks and phrases, among others, are trademarks of Callaway Golf Company: Anypoint-Apex- Apex Pro-Backstryke-Big Bertha-Big Bertha Alpha-Black Series Tour Designs-Callaway-Callaway Golf-C Grind-Chev-Chev 18-Chevron Device-CXR-D.A.R.T.-Demonstrably Superior and Pleasingly Different-Divine-Eagle-ERC-FTiZ-FT Optiforce-FT Performance-FT Tour-Fusion-Gems-Great Big Bertha-Heavenwood-HX-HX Bite-HX Diablo-Hex Aerodynamics-Hex Black Tour-Hex Control-Hex Chrome-Hex Hot-Hex Diablo-Hex Pro-Hex Solaire-Hex Warbird-IMIX-Legacy-Legacy Aero-Legend-Mack Daddy 2-Marksman-Metal-X-Number One Putter in Golf-Odyssey-OptiFit-ORG.14-ProType-ProType Black-Razr Fit-Razr Fit Xtreme-Razr Hawk-Razr X-Razr XF-Razr X HL-Razr X Muscleback-Razr X Tour-Rossie-S2H2-Sabertooth-Solaire-SR1-SR2-SR3-Speed Regime-Steelhead-Strata-Stronomic-Sure-Out-Tank-Teron-Tech Series-Ti-Hot-Tour Authentic-Tour i-Tour i(S)-Tour iX-Tour i(Z)-Trade In! Trade Up!-Tru Bore-uDesign-uPro-Versa-VFT-Warbird-White Hot-White Hot Tour-White Hot Pro-White Ice-World's Friendliest-X-Act-X Forged-X Hot-X Hot- X² Hot-X² Hot Pro-XJ Series-X-SPANN-Xtra Traction Technology-X Utility-XTT-Xtra Width Technology-XWT-2-Ball-3 Deep

Table of Contents

CALLAWAY GOLF COMPANY
INDEX

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	<u>4</u>
	<u>Consolidated Condensed Balance Sheets as of March 31, 2014 and December 31, 2013</u>	<u>4</u>
	<u>Consolidated Condensed Statements of Operations for the three months ended March 31, 2014 and 2013</u>	<u>5</u>
	<u>Consolidated Condensed Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013</u>	<u>6</u>
	<u>Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2014 and 2013</u>	<u>7</u>
	<u>Consolidated Condensed Statement of Shareholders' Equity for the three months ended March 31, 2014</u>	<u>8</u>
	<u>Notes to Consolidated Condensed Financial Statements</u>	<u>9</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>23</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>31</u>
Item 4.	<u>Controls and Procedures</u>	<u>32</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>33</u>
Item 1A.	<u>Risk Factors</u>	<u>33</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>33</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>33</u>
Item 5.	<u>Other Information</u>	<u>33</u>
Item 6.	<u>Exhibits</u>	<u>34</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 and per share data)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$23,557	\$ 36,793
Accounts receivable, net	289,222	92,203
Inventories	246,197	263,492
Deferred taxes, net	6,459	6,419
Other current assets	23,212	22,696
Total current assets	588,647	421,603
Property, plant and equipment, net	68,735	71,341
Intangible assets, net	88,883	88,901
Goodwill	29,147	29,212
Deferred taxes, net	2,291	2,299
Other assets	49,826	50,507
Total assets	\$827,529	\$ 663,863
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$153,600	\$ 157,120
Accrued employee compensation and benefits	29,633	31,585
Asset-based credit facility	140,587	25,660
Accrued warranty expense	7,945	6,406
Income tax liability	3,639	5,425
Total current liabilities	335,404	226,196
Long-term liabilities:		
Income tax payable	3,985	4,387
Deferred taxes, net	35,275	35,271
Convertible notes, net (Note 3)	108,017	107,835
Long-term incentive compensation and other	2,759	5,555
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized, none issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Common stock, \$0.01 par value, 240,000,000 shares authorized, 78,314,902 shares issued at both March 31, 2014 and December 31, 2013	783	783
Additional paid-in capital	206,393	205,712
Retained earnings	131,576	77,038
Accumulated other comprehensive income	12,350	12,177
Less: Common stock held in treasury, at cost, 785,926 and 967,089 shares at March 31, 2014 and December 31, 2013, respectively	(9,013)	(11,091)
Total shareholders' equity	342,089	284,619
Total liabilities and shareholders' equity	\$827,529	\$ 663,863

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

Table of ContentsCALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
Net sales	\$351,874	\$287,756
Cost of sales	186,977	157,320
Gross profit	164,897	130,436
Operating expenses:		
Selling expense	77,311	68,308
General and administrative expense	17,996	14,587
Research and development expense	7,913	7,413
Total operating expenses	103,220	90,308
Income from operations	61,677	40,128
Other (expense) income, net	(4,891)	4,001
Income before income taxes	56,786	44,129
Income tax provision	1,474	2,469
Net income	55,312	41,660
Dividends on convertible preferred stock	—	783
Net income allocable to common shareholders	\$55,312	\$40,877
Earnings per common share:		
Basic	\$0.71	\$0.58
Diluted		