

CALLAWAY GOLF CO
Form 10-Q
May 02, 2016
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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 March 31, 2016
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, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o Accelerated filer ý

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

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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, 2016, the number of shares outstanding of the Registrant's common stock outstanding was 93,941,287.

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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 expected term and timing of the Company's planned joint venture in Japan. 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 Reports on Form 8-K subsequently filed with the Securities and Exchange 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-Arm Lock-Backstryke-Big Bertha-Big Bertha Alpha-Big T-Black Series-Callaway-Callaway Golf- Callaway Media Productions-Callaway Supersoft-CF16-C Grind-Chev-Chev 18-Chevron Device-Chrome Soft-Comfort Tech-CXR-D.A.R.T.-Dawn Patrol-Divine-Dual Softfast Core-Eagle-Engage-ERC-FTiZ-FT Optiforce-Fast Tech Mantle-FT Performance-FT Tour-Fusion-Fusion RX-Gems-Gravity Core-Great Big Bertha-Heavenwood-Hex Aerodynamics-Hex Chrome-Hex Soft-Hex Solaire-HX-Hyper Lite-Hyper Speed Face-IMIX-Innovate or Die design-Ion X-Jailbird-Kings of Distance-Legacy-Longer From Everywhere-Mack Daddy-MarXman-MD3 Milled-MetalX-Number One Putter in Golf-Odyssey-Odyssey Works-OptiFit-Opti Flex-Opti Grip-Opti Shield-Opti Therm-ORG 14-ORG 15-ProType-R-Rossie-R Moto-S2H2-Sabertooth-SoftFast-Solaire-Speed Regime-Speed Step-SR1-SR2-SR3-Steelhead-Strata-Strata Jet-Stronomic-Superhot-Tank-Tank Cruiser-Teron-Tech Series-TiHot-Toe Up-Tour Authentic-Trade In! Trade Up!-Trionomer Cover-Tru Bore-udesign-Uptown-Versa-Warbird-Weather Series-Wedgeducation-W Grind-White Hot-White Hot Tour-White Hot Pro-White Hot Pro Havok-White Hot RX-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-X² Hot-XR16-XR design-XROS-X Series-XSPANN-Xtra Traction Technology-XTT-Xtra Width Technology-2Ball-2BallFang-3Deep.

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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 data)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$35,136	\$ 49,801
Accounts receivable, net	233,210	115,607
Inventories	186,149	208,883
Income taxes receivable	1,857	487
Other current assets	14,346	16,709
Total current assets	470,698	391,487
Property, plant and equipment, net	55,631	55,808
Intangible assets, net	88,769	88,782
Goodwill	26,777	26,500
Deferred taxes, net	6,942	6,962
Investment in golf-related ventures (Note 6)	54,575	53,315
Other assets	8,480	8,370
Total assets	\$711,872	\$ 631,224
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$110,268	\$ 122,620
Accrued employee compensation and benefits	22,025	33,518
Asset-based credit facilities	78,969	14,969
Accrued warranty expense	6,350	5,706
Income tax liability	2,741	1,823
Total current liabilities	220,353	178,636
Long-term liabilities:		
Income tax payable	3,224	3,476
Deferred taxes, net	34,866	35,093
Long-term incentive compensation and other	770	1,074
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, 2016 and December 31, 2015	—	—
Common stock, \$0.01 par value, 240,000,000 shares authorized, 94,214,295 and 93,769,199 shares issued at March 31, 2016 and December 31, 2015, respectively	942	938
Additional paid-in capital	324,922	322,793
Retained earnings	138,451	101,047
Accumulated other comprehensive loss	(9,248)	(11,813)
Less: Common stock held in treasury, at cost, 273,008 and 2,075 shares at March 31, 2016 and December 31, 2015, respectively	(2,408)	(20)
Total shareholders' equity	452,659	412,945
Total liabilities and shareholders' equity	\$711,872	\$ 631,224

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

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CALLAWAY GOLF COMPANY
 CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2016	2015
Net sales	\$274,053	\$284,179
Cost of sales	141,661	156,913
Gross profit	132,392	127,266
Operating expenses:		
Selling expense	63,286	66,319
General and administrative expense	15,544	16,099
Research and development expense	8,234	7,916
Total operating expenses	87,064	90,334
Income from operations	45,328	36,932
Interest income	162	71
Interest expense	(783)815,654 shares of Common Stock

12 CHECK
 IF THE
 AGGREGATE
 AMOUNT
 IN ROW (11)
 EXCLUDES
 CERTAIN
 SHARES
 PERCENT OF CLASS REPRESENTED BY
13 AMOUNT IN ROW (11) (see Item 5)

14 0.8%
 TYPE OF REPORTING PERSON
 CO

1 NAME OF REPORTING PERSONS

Sandell Investment Services, L.L.C.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF (b) A GROUP SEC USE ONLY

3 SOURCE OF FUNDS

AF CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e) CITIZENSHIP OR PLACE OF ORGANIZATION

4

5 Delaware

SOLE VOTING POWER

6

SHARED VOTING POWER

7 NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH **8** 815,654 shares of Common Stock **9** SOLE DISPOSITIVE POWER

0

SHARED
DISPOSITIVE
POWER

10

815,654 shares
of Common
Stock

AGGREGATE
AMOUNT
BENEFICIALLY
OWNED BY EACH
PERSON

11

815,654 shares of
Common Stock

CHECK IF THE
AGGREGATE
AMOUNT IN

12

ROW (11) ..

EXCLUDES
CERTAIN
SHARES

PERCENT OF CLASS
REPRESENTED BY
AMOUNT IN ROW (11)
(see Item 5)

13

0.8%

TYPE OF REPORTING
PERSON

14

CO; IA

1 NAME OF REPORTING PERSONS

Pulteney Street Partners,
L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF (b) A GROUP SEC USE ONLY

2
 3

4 SOURCE OF FUNDS

WC
CHECK BOX

5 IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e) CITIZENSHIP OR PLACE OF ORGANIZATION

6
 7

Delaware
SOLE VOTING POWER

8
 9

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH **8** 17,844 shares of Common Stock SOLE DISPOSITIVE POWER **9**

0

SHARED
DISPOSITIVE
POWER

10

17,844 shares
of Common
Stock

AGGREGATE
AMOUNT
BENEFICIALLY
OWNED BY EACH
PERSON

11

17,844 shares of
Common Stock

CHECK IF THE
AGGREGATE
AMOUNT IN

12

ROW (11) ..

EXCLUDES
CERTAIN
SHARES

PERCENT OF CLASS
REPRESENTED BY
AMOUNT IN ROW (11)
(see Item 5)

13

0.0%

TYPE OF REPORTING
PERSON

14

PN

		NAME OF REPORTING PERSONS
1		Sandell Asset Management Corp.
		CHECK THE APPROPRIATE BOX IF A MEMBER OF (b) A GROUP SEC USE ONLY
2		
3		
		SOURCE OF FUNDS
4		AF CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e) CITIZENSHIP OR PLACE OF ORGANIZATION
5		
6		Cayman Islands
	7	SOLE VOTING POWER
		0 SHARED VOTING POWER
	8	2,972,082 shares of Common Stock
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	9	SOLE DISPOSITIVE POWER
		0

SHARED
DISPOSITIVE
POWER

10

2,972,082
shares of
Common Stock

AGGREGATE
AMOUNT
BENEFICIALLY
OWNED BY EACH
PERSON

11

2,972,082 shares of
Common Stock

CHECK IF THE
AGGREGATE
AMOUNT IN

12

ROW (11) ..

EXCLUDES
CERTAIN
SHARES
PERCENT OF CLASS

13

REPRESENTED BY
AMOUNT IN ROW (11)
(see Item 5)

3.0%
TYPE OF REPORTING
PERSON

14

CO; IA

1 NAME OF REPORTING PERSONS

Thomas E. Sandell

2 CHECK THE APPROPRIATE BOX IF A

MEMBER OF (b) "

A GROUP

SEC USE ONLY

3

SOURCE OF FUNDS

4 AF CHECK BOX

IF

DISCLOSURE

OF LEGAL

PROCEEDING

5 IS

REQUIRED

PURSUANT

TO ITEM

2(d) or 2(e)

CITIZENSHIP OR

PLACE OF

6 ORGANIZATION

Sweden

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7

SOLE VOTING POWER

0

SHARED VOTING POWER

8

3,787,736

shares of

Common Stock

SOLE

DISPOSITIVE

9 POWER

0

10

SHARED
DISPOSITIVE
POWER

3,787,736
shares of
Common Stock

11 AGGREGATE
AMOUNT
BENEFICIALLY
OWNED BY EACH
PERSON

3,787,736 shares of
Common Stock

12 CHECK IF THE
AGGREGATE
AMOUNT IN
ROW (11) ..

13 EXCLUDES
CERTAIN
SHARES
PERCENT OF CLASS
REPRESENTED BY
AMOUNT IN ROW (11)
(see Item 5)

14 3.9%
TYPE OF REPORTING
PERSON

IN

This Amendment No. 3 (“Amendment No. 3”) amends and supplements the statement on Schedule 13D filed with the Securities and Exchange Commission (the “SEC”) on June 9, 2014 (the “Original Schedule 13D”), Amendment No. 1 to the Original Schedule 13D, filed with the SEC on June 27, 2014 (“Amendment No. 1”) and Amendment No. 2 to the Original Schedule 13D, filed with the SEC on July 3, 2014 (“Amendment No. 2” and, together with the Original Schedule 13D, Amendment No. 1 and this Amendment No. 3, the “Schedule 13D”), with respect to the shares of common stock, par value \$1.00 per share (the “Common Stock”) of Meritor, Inc., an Indiana corporation (the “Issuer”). Capitalized terms used herein and not otherwise defined in this Amendment No. 3 have the meanings set forth in the Schedule 13D. This Amendment No. 3 amends Items 3 and 5 as set forth below. This Amendment No. 3 constitutes an “exit filing” with respect to the Reporting Persons.

Item 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

The first sentence of Item 3 of the Schedule 13D is hereby amended and restated in its entirety as follows:

The Reporting Persons used a total of approximately \$37,900,000 in the aggregate to acquire the shares of Common Stock reported in this Schedule 13D.

Item 5. INTEREST IN SECURITIES OF THE ISSUER

Paragraphs (a) – (c) and (e) of Item 5 of the Schedule 13D are hereby amended and restated in their entirety as follows:

(a) – (b) The aggregate number and percentage of Common Stock to which this Schedule 13D relates is 3,787,736 shares of Common Stock, constituting approximately 3.9% of the Issuer's currently outstanding shares of Common Stock. The percentages of Common Stock reported herein are based upon the 97,844,611 Common Stock outstanding as of June 29, 2014, as reported in the Issuer's Quarterly Report on Form 10-Q filed with the SEC on August 1, 2014.

The information required by Items 5(a) – (b) is set forth in rows 7 – 13 of the cover page for each of the Reporting Persons and is incorporated herein by reference.

By virtue of investment management agreements with Castlerigg Master Investment, CMAEE Master, CAI Master and Pulteney Partners, SAMC has the power to vote or direct the voting, and to dispose or direct the disposition, of all the shares of Common Stock beneficially owned by Castlerigg Master Investment, CMAEE Master, CAI Master and Pulteney Partners. By virtue of an investment management agreement with MLIS, SIS has the power to vote or direct the voting, and to dispose or direct the disposition, of all of the shares of Common Stock beneficially owned by MLIS. By virtue of his direct and indirect control of SAMC and SIS, Mr. Sandell is deemed to have shared voting power and shared dispositive power with respect to all Common Stock as to which

SAMC and SIS have voting power or dispositive power.

(c) Schedule B hereto (which is incorporated by reference in this Item 5 as if restated in full herein) sets forth all transactions with respect to the Common Stock effected during the past sixty days.

(e) September 19, 2014.

CUSIP No. 59001K100 SCHEDULE 13D/A Page 18 of 22 Pages

SIGNATURES

After reasonable inquiry and to the best of his or its knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

DATED: November 20, 2014

CASTLERIGG MASTER INVESTMENTS LTD.

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell

Title: Chief Executive Officer

CASTLERIGG INTERNATIONAL LIMITED

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell

Title: Chief Executive Officer

CASTLERIGG INTERNATIONAL HOLDINGS LIMITED

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell

Title: Chief Executive Officer

CASTLERIGG OFFSHORE HOLDINGS, LTD.

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell

Title: Chief Executive Officer

**CASTLERIGG MERGER ARBITRAGE AND EQUITY
EVENT FUND, LTD.**

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell
Name: Thomas E. Sandell
Title: Chief Executive Officer

**CASTLERIGG MERGER ARBITRAGE AND EQUITY
EVENT INTERMEDIATE FUND, L.P.**

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell
Name: Thomas E. Sandell
Title: Chief Executive Officer

**CASTLERIGG MERGER ARBITRAGE AND EQUITY
EVENT MASTER FUND, LTD.**

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell
Name: Thomas E. Sandell
Title: Chief Executive Officer

CASTLERIGG ACTIVE INVESTMENT FUND, LTD.

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell
Name: Thomas E. Sandell
Title: Chief Executive Officer

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**CASTLERIGG ACTIVE INVESTMENT
INTERMEDIATE FUND, LTD.**

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell
Title: Chief Executive Officer

**CASTLERIGG ACTIVE INVESTMENT MASTER FUND,
LTD.**

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell
Title: Chief Executive Officer

**MERRILL LYNCH INVESTMENT SOLUTIONS SICAV, an
umbrella fund with segregated liability between sub-funds
acting for and on behalf of Merrill Lynch Investment Solutions –
Castlerigg Equity Event and Arbitrage UCITS Fund**

By: Sandell Investment Services, L.L.C., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell
Title: Chief Executive Officer

PULTENEY STREET PARTNERS, LP

By: Sandell Asset Management Corp., as Investment Manager

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell
Title: Chief Executive Officer

SANDELL ASSET MANAGEMENT CORP.

By: /s/ Thomas E. Sandell

Name: Thomas E. Sandell
Title: Chief Executive Officer

**SANDELL INVESTMENT
SERVICES, L.L.C.**

By: /s/ Thomas E. Sandell
Name: Thomas E. Sandell
Title: Managing Member

/s/
Thomas
E.
Sandell
Thomas
E.
Sandell

Schedule B**TRANSACTIONS IN THE ISSUER'S SHARES OF COMMON STOCK****BY THE REPORTING PERSONS**

This Schedule sets forth information with respect to each transaction in shares of Common Stock that were effectuated by the Reporting Persons in the last 60 days. Unless otherwise indicated, all transactions were effectuated in the open market through a broker and all prices include brokerage commissions.

CAIMaster

<u>Trade Date</u>	<u>Shares Purchased (Sold)</u>	<u>Price Per Share</u> <u>(\$)</u>
09/30/2014	(14,279)	10.88
11/18/2014	(30,795)	13.80

Castlerigg Master Investment

<u>Trade Date</u>	<u>Shares Purchased (Sold)</u>	<u>Price Per Share</u> <u>(\$)</u>
09/22/2014	(137,524)	12.26
09/30/2014	(156,517)	10.88
11/18/2014	(332,635)	13.81

CMAEE Master

<u>Trade Date</u>	<u>Shares Purchased (Sold)</u>	<u>Price Per Share</u> <u>(\$)</u>
9/30/2014	(28,877)	10.88

11/18/2014 (134,903) 13.81

MLIS

<u>Trade Date</u>	<u>Shares Purchased (Sold)</u>	<u>Price Per Share</u> <u>(\$)</u>
09/30/2014	(57,261)	10.88
10/02/2014	(25,000)	10.68
10/03/2014	(20,000)	10.97
10/15/2014	(38,500)	10.15
11/18/2014	(66,667)	13.81

Pulteney Partners

<u>Trade Date</u>	<u>Shares Purchased (Sold)</u>	<u>Price Per Share</u> <u>(\$)</u>
09/22/2014	(9,550)	12.20
09/23/2014	(2,100)	11.68
09/30/2014	(1,058)	10.88