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ELY - Q2 2012 Callaway Golf Earnings Conference Call

EVENT DATE/TIME: JULY 26, 2012 / 9:00PM GMT

OVERVIEW:

ELY reported YTD pro forma sales of $566m. 2Q12 pro forma sales were $281m. 2012 net sales guidance is $835-865m. 2012 pro forma diluted loss per share guidance is $0.55-0.75.

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PRESENTATION

Operator

Good afternoon. My name is Ashley and I will be your conference operator today. At this time, I would like to welcome everyone to the Callaway Golf, second quarter 2012, earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question and answer session. (Operator Instructions) I would now like to turn today's conference over to Mr. Brad Holiday, Chief Financial Officer. Sir, you may begin your conference.

Brad Holiday - *Callaway Golf - CFO*

Thanks, Ashley and we'd like to welcome everybody to today's call. Joining me today is Chip Brewer, our President and CEO. During today's conference call Chip will provide some opening remarks, and I will provide an overview of the Company's financial results for the quarter. And we will then open the call for questions.

I would like to point out that any comments made about future performance, events, prospects, or circumstances including statements relating to estimated net sales, gross margins, operating expenses, and loss per share for 2012. The estimated amount of timing or timing of benefits and charges associated with the cost reduction initiatives. The estimated impact and benefits from the sale of the Top-Flite and Ben Hogan brands, and the licensing of the apparel and footwear businesses. The collectability of our accounts receivable as well as the Company's estimated capital expenditures and depreciation and amortization expenses, are forward-looking statements subject to Safe Harbor protection under the Federal Securities Laws.

Such statements reflect our best judgment today based on current market trends and conditions. Actual results could differ materially from those projected in the forward-looking statements. As a result of certain risks and uncertainties, applicable to the Company and its business. For details concerning these and other risks and uncertainties, you should consult our earnings release issued today as well as Part 1, Item 1A of our Form 10-K for the year ended December 31, 2011, filed with the SEC, together with the Company's other reports subsequently filed with the SEC from time to time.

In addition, during the call, in order to assist interested parties with period-over-period comparisons on a consistent and comparable basis, we will provide certain pro forma information as to the Company's performance excluding, charges associated with the Company's global operations strategy, non cash tax adjustment, including a deferred tax valuation allowance, restructuring charges, the gain on the sale of three buildings, the gain on the sale of the Top-Flite and Ben Hogan brands, non cash impairment charges, and charges related to the Company's cost reduction initiatives. We will also provide information on the Company sales, on a constant currency basis and earnings excluding interest, taxes, depreciation, amortization expenses and the asset impairment charges. This pro forma information may include non-GAAP financial measures within the meaning of regulation G.

The information provided on the call today, and the earnings release we issued today include a reconciliation of such non-GAAP financial measures, to the most directly comparable financial measures prepared in accordance with GAAP. The earnings release is available on the Investor Relations section of the Company's website at www.CallawayGolf.com. I would now like to turn the call over to Chip.

Chip Brewer - *Callaway Golf - CEO*

Thanks Brad. Good afternoon everybody. I'm glad to be with you today and have the opportunity to discuss our year-to-date results as well as the many changes happening here at Callaway Golf. Looking at our results, our Q2 and year-to-date results were improved relative to last year, and fell within the guidance we provided you last quarter. Furthermore, we are pleased with several recent product launches, and a few of our trends, especially the Odyssey Metal-X putter launch which delivered an impressive 10.2% dollar market share in June, and the fact that our US wood and iron market shares trended up during the quarter. We also continued to perform well on tour led by the European tour team who's delivered an impressive seven Callaway Golf Staff wins this year, including a fantastic win at the British Open Championship this last weekend where Callaway Golf staff professional Ernie Ells prevailed for his fourth major.

However, it's also clear that the pace of improvement has not been sufficient. Thus, earlier this month as we had to revise downward our full year guidance, and over the last several months we have made substantive strategic and tactical changes throughout our business. Including the recently announced cost reduction effort and many key organizational changes. Let me now add some more color and clarity to these changes and the future direction of Callaway Golf. Since I joined Callaway in March of this year, the team and I have been focused on how best to orchestrate the turnaround of this great Company. I have been through this before at Adams Golf and wish I could tell you that a turnaround in this space is quick and easy.

Unfortunately, this has not been my experience and I do not believe it will be the case here. Our turnaround will be based on assembling the right team and having the team refocus our business on basic fundamentals. To this end, and fortunately, I believe we have made significant progress in a short period of time, and there is valid reason for optimism. Let me walk you through some specifics of what we are doing, and what's different from possible previous approaches. One big difference is the extent and commitment to focusing our business and our resources. This is a significant strategic shift for the Company.

We intend to be really good at a few things and to focus our resources on golf clubs and golf balls, and the Callaway and Odyssey brands. Accordingly, as previously announced, we sold the Top-Flite and Ben Hogan brands earlier this year and licensed our US apparel business. During Q2, we also signed a license for our US footwear business and significantly reduced our ongoing operating costs in new electronics business. With these changes, our entire organization from senior management through front line personnel, are now able to more fully focus and commit to our core businesses, golf clubs and golf balls and brands Callaway and Odyssey. I am convinced that the clarity and direction focus and commitment will pay dividends.

Turning to product, we all know that product is king in this industry. We also know that Callaway has a tradition of making great performing product. However, it is my opinion that as of late, we have not consistently been on trend or differentiated enough to create adequate excitement in the marketplace. At the same time, I have been very impressed with the product development team here and the resources at Callaway. The quality capabilities of this team is certainly one of our blessings and I intend to use it accordingly. Here's what's changed or is changing.

One layer of management has been removed and under the leadership of Doctor Alan Hocknell, the product development team now reports directly to me. Thanks to the combined efforts of many people here in what amounts to record time, we have almost completely redesigned the 2013 club lines, to be both more aggressive in look and performance. The team is both more energized and has a renewed direction. They are once again approaching their jobs in a manner that is consistent with the roots of the Company and the reason why most of them joined Callaway in the first place. With a commitment to delighting consumers by delivering superior product that stands out in the marketplace. By delivering product that will get, they themselves will get excited about and be proud of.

Great product requires effective marketing to reach its potential. We have had substantive room for improvement in this area too, and thus we are making significant changes in our marketing strategy and approach. While we spend additional dollars against demand creation this year, it is clear to me and I daresay evident in our financials, that it was not as effective as we would have liked it to be. To drive change and improve performance in this area during Q2 we hired Harry Arnett, a thoroughly vetted and proven industry talent, to lead our global marketing efforts. Harry is working quickly with his team to develop an improved marketing message that will both drive sell through of our product and further enhance our brand. For competitive reasons I cannot reveal specifics of our new marketing strategy at this time. But, I can tell you that we will be doing things differently than in the recent past.

We are committed to, first of all, continuing to cut through but also give the consumer clear reason why they should buy our products. And secondly, both build on the strengths of our brand and at the same time strive to make the brand even more authentic, young, and contemporary. As industry insiders would expect, part of our strategy will include changes in investments on the tour side of the business. Looking at the supply side of the business and the supply chain, this has been an area where there's been a lot of activity and discussion at Callaway over the last several years. And it is certainly true that there were some very good decisions and progress has been made. Still, our costs and our customer service results year-to-date indicate that there is more to be done.

As mentioned in the last call, one of my first actions as CEO was to hire Mark Leposky to lead this area. Mark has industry specific expertise and a proven track record in functional the area. Just as importantly his energy level and commitment cannot be matched. Mark and his team have already made multiple changes aimed at improving both profitability and customer service. The team is responding well and we are already experiencing improved performance with a clear runway for further optimization. Lastly, but perhaps most importantly of all, are our people and our culture. Having a motivated team that approaches the business in the right way with the right attitude will be the most important determinant of our future success. I'm glad to report that I've been very impressed with the Callaway Golf team. They are passionate, they are hard working, and they are committed to winning.

Unfortunately, during the last month we had to make some difficult decisions and let a significant number of long term valued employees go. This was not easy or pleasant. However, now that it is over, I can tell you that there is a new level of energy within our Company. People recognize that we had to change and most are glad we took decisive action. We already are starting to see a change in how we do our jobs everyday and we are in process of re-energizing our culture and rebuilding morale. This change and development, is particularly energizing to me and I know it will be the key to our continued progress and our long term success.

As I sit here today, I am even more excited about the potential of the Company than the day I started almost five months ago. However, I also must bring up, this is a seasonal business and the turnaround is such it will take time to both drive the required changes and to show the desired results. As we make progress on these fronts, and we are making progress on these fronts, I am confident that shareholders will benefit in the long run. Thank you for your time today and I look forward to keeping you updated on our progress. Brad, over to you.

Brad Holiday - *Callaway Golf - CFO*

Thanks, Chip. We have a lot to cover today. So, let me quickly review at a high level the financial results for the second quarter and year-to-date. And then I will provide some additional details on our cost reduction initiatives and full year forecast. Because of the significant charges associated with the cost reduction initiatives, our supporting financials include GAAP results as well as supplemental details, on these and other charges to bridge to our pro forma or non-GAAP results. All of the detailed financials are attached to our press release issued today, but let me add some color on the operating results. These results will be on a pro forma basis, and in 2012 exclude the impact of the sale of Top-Flite and Ben Hogan brands, the recent cost reduction initiatives, and deferred tax valuation allowance.

2011 results exclude charges for our global operation strategy, the deferred tax valuation allowance, Top-Flite impairment, the gain on the sale of building and the 2011 restructuring initiatives. For the second quarter, sales totaled $281 million, an increase of 3% compared to last year. With 51% of sales coming from the US, and 49% from our international markets. Foreign currency rates adversely impacted sales by $3 million, so on a constant currency basis, sales would have increased by 4%. Sales in the US increased 3% to $142 million in the quarter, and international sales increased 3% to $139 million. Excluding the negative impact of currency rates, international sales would have increased 5%.

On a year-to-date basis, consolidated sales increased 1% to $566 million, with 52% coming from the US, and 48% from our international markets. Foreign currency rates adversely impacted sales by $3 million. On a constant currency basis, sales would have increased by 2%. Sales in the US were $292 million, an increase of 3% compared to the first half of last year, and international sales were $274 million, down less than 1% versus a year ago. Excluding the negative impact of currency rates, international sales would have increased just slightly less than 1%. Sales in our East Asia region increased 9% through the first six months, due to growth in Japan and China, partially offset by lower sales in Korea. Europe sales declined 3% due to unfavorable currency rates and a weak EURO zone economy, especially in southern Europe.

On a product category basis, through the first six months, wood sales were $149 million, an increase of 2% compared to last year. This increase was due to this successful launch of our Razor Fit Driver, partially offset by the planned shift in launch timing of that legacy products in Asia, to the second half of the year. Iron sales were $116 million through the first six months, a decrease of 11% compared to last year. Putter sales were $63 million, through the first six months, an increase of 20%, compared to last year, with second quarter sales increasing 63% due to the successful launch of our Metal-X line of putters. Golf ball sales were $92 million, a decrease of 7% compared to last year, due primarily to lower Top-Flite sales, partially offset by the launch of our HEX Black Tour and Chrome balls.

Accessory sales were $145 million, an increase of 12% compared to last year, due to higher sales of packaged sets, apparel, and GPS devices, offset partially by lower footwear sales. Pro forma gross margins were 40% for the quarter, and were flat compared to last year. On a year-to-date basis, pro forma gross margins were 42%, down 90 basis points due to higher product costs associated with our Razor Fit Driver, a lower retail price on our Razor Black Driver compared to the prior-year model, and increased closeout pricing on our older White Ice putter line, in preparation for the Metal-X launch. Pro forma operating expenses were $97 million for the quarter, compared to $102 million last year, due primarily to our 2011 cost reduction initiatives, partially offset by planned increases in marketing and advertising expense. Year-to-date operating expenses totaled $201 million, slightly favorable compared to $209 million last year for the same reasons.

Turning to our balance sheet, we ended the quarter with cash of $28 million compared to $67 million last year. Our consolidated net receivables were $255 million, flat with last year. Days sales outstanding were 83 days, a slight improvement compared to 84 days last year, and the overall quality of our accounts receivables remain good. Net inventories were $216 million, flat with last year and a percentage of trailing 12 month sales, was 23% compared to 22% last year. We ended the quarter with $70 million outstanding on our credit facility, compared to $37 million last year. And continue to have no long term debt. And as of the end of the quarter, had $170 million of available credit.

Capital expenditures for the quarter were $5 million, and we estimate the full year CapEx to be approximately $25 million. Depreciation and amortization expense was $9 million for the quarter, and we estimate full year at $45 million to $50 million, which now includes approximately $10 million associated with the cost reduction initiatives. I would like to provide some additional details on the cost saving actions we took a couple of weeks ago. These actions are estimated to generate savings of $52 million on an annualized basis, of which approximately $15 million will affect gross margins, with $37 million affecting operating expenses. Of this $52 million, approximately $16 million should favorably impact 2012 results, with the balance of $36 million impacting 2013.

Approximately 50% of the savings is due to a 12% reduction in our workforce. The balance of the savings are the result of the business simplification actions we have taken by selling the Top-Flite and Ben Hogan brands, as well as the licensing of our apparel and footwear businesses. Actions we are taking to streamline our golf ball supply chain to improve margins in our golf ball category, continued consolidation of office buildings here in Carlsbad and other initiatives. Charges associated with these actions are estimated to range up to $36 million to $42 million, more than half of which is estimated to be non cash with a vast majority of these charges impacting 2012 results. We revised our full year guidance on a pro forma basis to the following. Net sales will range from $835 million to $865 million, compared to $887 million last year. The sale of the Top-Flite and Ben Hogan brand, accounts for approximately $25 million of this decline, most of which impacts the second half of the year.

To provide additional context, the 2011 annual sales for the business sold or changed to a licensed arrangement totaled approximately $80 million. Therefore, the potential impact on 2013 sales, without these businesses and excluding the $25 million in impact this year, would be approximately $55 million, a portion of which we plan to replace. Despite the lower sales, eliminating these businesses is expected to have a positive impact on our gross margin percent, and accretive to earnings. Additionally, our full year forecast includes a reduction in our balance of year sales forecast, taking into consideration softer sales in Europe, as well as to allow us to work through any excess inventory at retail, prior to the 2013 season. Full year 2012 pro forma gross margins are estimated to range from 36% to 37%, compared to 38% last year, due to the transition of our footwear and apparel business model changes and any potential actions we may take to work through excess inventory over the balance of the year.

Full year 2012 pro forma operating expense is estimated at approximately $365 million, which includes $14 million in operating expense savings this year. We anticipate the diluted loss per share to range from $0.55 to $0.75, on a share count of 65 million shares. We would now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dan Wewer, Raymond James.

Dan Wewer - *Raymond James & Associates - Analyst*

Chip, as you know, over the years, Callaway has changed the timing of the release of its new product line sometimes late in a fiscal year, other times in January. When you were at Adams, what was your strategy on the timing of product releases? What did you find was probably most appropriate nowadays?

Chip Brewer - *Callaway Golf - CEO*

You know, Dan, I think it -- it did vary at different times. You know, Callaway -- let me turn the question around a little bit. Callaway, in the recent past, has launched most of its products all in one wave. We certainly are doing that in the US this year. With all the product coming out in January. We do have the legacy launch in Asia, which will come out in the Fall. And I think that it makes sense to have a little bit more variety. In other words, to come out with product at different times and not all at one specific time. So, we are going to be evaluating that approach, going forward.

Dan Wewer - *Raymond James & Associates - Analyst*

You had noted the strong product reviews for the 2012 product lineup. But at the same time, you're talking about changing 2013 to become more, to use your words, authentic, young, and contemporary. Is there a risk that the strength of the quality, of the reputation of the Callaway line, if we are not careful, could be jeopardized with this change?

Chip Brewer - *Callaway Golf - CEO*

I don't think so. But it's a very valid concern. My comments on the authentic, young, and contemporary were comments relative to the brand, not the product, but, I know, it does overlap to a degree. I think the product at Callaway has always been outstanding. It performs beautifully, and it is one of the items that we are most proud of. But, also, you know, we have lost market share in the field. So, we need to be very reflective of all of the issues that might have been causing that. And although our product performs beautifully at demo days in the hands of players, others that have been more aggressive in the both performance and taken more risks than us, recently, or the aesthetics, you know, have gained market share.

The key for us, from a brand perspective, as well as a product perspective, will be to hold onto and leverage our strength while also moving forward aggressively. Making sure we are both authentic, young, contemporary, but still, you know, hold on and appeal to our core player. And that sounds hard, I don't think that's that hard, quite frankly. Candidly, I am our core demographic, now. Our core demographic is, you know, 45 to 65 year old golfers who value the Callaway brand, the performance has delivered over the years. Those players recognize the value and the premium nature of the brand, but they also, you know, would value the features that we are talking about on authenticity, and a little more aggressive approach, if done in the right manner.

Dan Wewer - *Raymond James & Associates - Analyst*

The last question I have right now, the last time I counted, there were six different models of Razor irons?

Chip Brewer - *Callaway Golf - CEO*

Yes.

Dan Wewer - *Raymond James & Associates - Analyst*

And, when I talk with the retailers, you know, they tell me that the Callaway reps wants them to carry the entire product line, but they don't have the space or the working capital available to do so. I believe that you are looking to narrow your product line just on equipment. On the other hand, how do you determine, of those six models, which ones to keep and which ones to, not carry.

Chip Brewer - *Callaway Golf - CEO*

While, one of the pieces of feedback we got this year, Dan, is that the Razor line is somewhat confusing and perhaps too broad. Again, excellent performing product. When we launched it -- if you look at our results -- it shows it as well. The Razor-X irons were launched in first part of 2011. They performed well in the marketplace. We have extended that Razor line-up into six different sets of irons, you know, that all have different features and target segments.

But the differences are confusing, partly because they are all at least named Razor, and then some alphanumeric denominator after that. So, we are going to clean up that process going forward. We have heard the customers loud and clear. They clearly have a good point. We have some great product. We have a good franchise, there. We are going to be listening to them, going forward.

Dan Wewer - *Raymond James & Associates - Analyst*

Okay, great. Thank you.

Operator

Casey Alexander, Gilford Securities.

Casey Alexander - *Gilford Securities - Analyst*

In the short discussion about the marketing commitment, while I understand you don't want to open the barn door and give everything away, one of the things that you said was that it is centered around tour. Can we assume that there's going to be a greater tour commitment than there has been in the past?

Chip Brewer - *Callaway Golf - CEO*

While, I think what we want, Casey, is to have tour be a potent asset for us. So, one of our goals is to have the Callaway brand more visible on tour than it has been, at least in the US, recently.

Casey Alexander - *Gilford Securities - Analyst*

Okay.

Chip Brewer - *Callaway Golf - CEO*

So, we are working towards that end.

Casey Alexander - *Gilford Securities - Analyst*

While, if I understood the reconciliations right, in order to kind of get to an apples-to-apples revenue comparison year-to-year, we should take $55 million off of the 2011 total and then compare it to 2012? Is that right?

Brad Holiday - *Callaway Golf - CFO*

No. You would start at $866 million Casey and basically those businesses represented $80 million. Now, we are going to claw back some of that, but if you started with that as a base you would take off $80 million less some kind of a claw back. Because that's what I represented in '11, and '11's sales were $886 million. We are divesting our businesses and were worth $80 million in '11.

Casey Alexander - *Gilford Securities - Analyst*

Right.

Brad Holiday - *Callaway Golf - CFO*

Okay, so that takes you down to the low $800 millions, and then you assume we are going to try to claw some of the, perhaps, Top-Flite business back.

Casey Alexander - *Gilford Securities - Analyst*

Okay. I've got you. I was a little bit confused about forex in that I see that other expense for the quarter was a negative, what was it, $4.5 million. So, was forex on the revenue line a positive for the quarter and there was some loss on the hedging program?

Brad Holiday - *Callaway Golf - CFO*

That's true. In the end, it was a big driver of the -- because it was a stronger YEN (inaudible) on the contract side. Keep in mind, the hedges are really meant to narrow down the volatility. So, if you see the plus in the business you are going to see the minus on the hedges.

Casey Alexander - *Gilford Securities - Analyst*

Okay, understood. And I see Japan was up nicely for the quarter. So that's good. Were you surprised, actually, given the, headline risk that we hear in Europe that actually, on a dollar-to-dollar basis, that Europe was actually up for the quarter?

Brad Holiday - *Callaway Golf - CFO*

Casey, I'm not surprised. They do have significant headwinds, but, you know, the brand is very strong over there. You know, we are spending more aggressively as per the previously announced strategy. So, you know, not -- no, I wasn't surprised. The success in that market is in the northern countries and the UK and obviously the southern part of Europe is in difficult economic straits, right now. And although we were up slightly on a constant dollar, it was still less than what we had hoped for.

Casey Alexander - *Gilford Securities - Analyst*

Okay. And my last question is in the operating segment information, while balls were down $5 billion year-to-year, the profitability was up significantly. Can you kind of square that up with the absence of Top-Flite and the success of the new ball and kind of parse that out for me a little bit, please?

Brad Holiday - *Callaway Golf - CFO*

Well, those two items, Casey, we won't get into a lot of detail. But it is, you know, the last Top-Flite sales at lower margins and then we launched our new premium ball which has got much higher margins so it's a positive mix, if you will.

Casey Alexander - *Gilford Securities - Analyst*

Right.

Brad Holiday - *Callaway Golf - CFO*

And the new balls are obviously a lot higher margin than what we had in the Top-Flite business.

Chip Brewer - *Callaway Golf - CEO*

That's one of our blessings, right now, Casey. The premium golf ball business is good. We have a trend, right there.

Casey Alexander - *Gilford Securities - Analyst*

If you were to just kind of apples-to-apples that the Callaway golf ball side of the business, how would that look?

Brad Holiday - *Callaway Golf - CFO*

Up and more profitable.

Casey Alexander - *Gilford Securities - Analyst*

Great. Thanks so much. I appreciate you taking my questions.

Operator

Lee Giordano.

Lee Giordano - *Imperial Capital - Analyst*

I may have missed this, but can you talk about the savings that you are getting next year for the $2 million? How much of that will you be reinvesting in either marketing or R&D for innovation? Thanks.

Chip Brewer - *Callaway Golf - CEO*

Lee, we are not prepared to outline any of that at this stage. So, but, this is intended to be a savings initiative. So, it's all cost savings. Lowering the breakeven.

Lee Giordano - *Imperial Capital - Analyst*

Got you. Okay. And then secondly, can you talk a little bit about the overall golf industry? Are you seeing rounds played rise, just overall impressions about the industry in general? Thanks.

Chip Brewer - *Callaway Golf - CEO*

Lee, the industry is actually pretty strong, right now. Perhaps a slight softening as the economy appears to soften as late in Q2 and early in July. But, rounds played are up in the US, roughly 16%. One of the first years in a long time we've had a considerable uptick in rounds played, and the overall business in the US is, you know, up nicely this year, ballpark 8%. So, industry is showing some good signs of health, our results haven't been where we want them, although there are some, will call them micro trends of optimism with our market shares during Q2 did start to improve. So, we like certain signs of what we are starting to feel right now and we have taken some fairly decisive action on many other areas.

Lee Giordano - *Imperial Capital - Analyst*

Thank you.

Operator

Rommel Dionisio, Wedbush Securities.

Rommel Dionisio - *Wedbush Securities - Analyst*

You know, in current quarters you guys have alluded to shifting some of your production of golf clubs especially down to Mexico from Southern California. And as I look at the income statement, I know that was supposed to generate pretty significant cost savings. But, I wonder if you could just address that point. Are we not quite getting the flow through you expected or have some of those efforts have been derailed in some form?

Brad Holiday - *Callaway Golf - CFO*

Well, this is Brad, Rommel, and I would tell you that a couple things there. Certainly, volume is down, relative to prior year's. So, there is just absorption issues. But, I would say to Chips earlier point in bringing our new head of ops on board, a lot of things are working well in Mexico. But I think there's opportunities to continue to optimize, especially on custom club and our customer service. So, still committed to the decision to go there, but I would say starting a new manufacturing facility has its challenges and one of the first things that our new head of ops took on is really fine tuning and optimizing the organization, and the structure down there. So, we are still committed to it but it hasn't performed quite up to our expectations, at this point.

Rommel Dionisio - *Wedbush Securities - Analyst*

Okay, fair enough. Thank you, Brad.

Operator

(Operator Instructions)

Craig Kennison, Robert W Baird.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

Maybe I could follow up on the prior question and could you give us a better understanding of what you're cost structure looks like to produce a club, to produce a ball and maybe how that benchmarks against, Chip, what you saw in a prior life in a prior role? I'm just trying to get a feel for whether -- how profitable those businesses can be, based on your cost structure versus your peers.

Chip Brewer - *Callaway Golf - CEO*

Craig, I'm not really, for competitive reasons, able to go into our cost structure detail by clubs or ball. Clearly, as shown in the financial reports, our ball business was profitable for the first half of the year and our club business, as well. We are optimistic on those businesses, going forward. There is some room for improvement on the cost side. You know, we are really making progress against that now. So, you know, optimistic on that front, that we will be able to do better, but I can't get into the specifics of the dollars and cents and metrics, as it relates to that cost structure.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

May I ask then, do you see if there is an opportunity on the cost side, given your experience at Adams at Callaway? Or is it primarily an opportunity on charging higher prices for a premium brand?

Chip Brewer - *Callaway Golf - CEO*

There is an opportunity at Callaway Golf on the cost side to further optimize. Like I said, their decisions and strategies, I think, were sound. But, they haven't been fully optimized, yet, in places such as Monterey. But having said that, the plant is really starting to hit its stride now. And we are seeing tangible improvements. So, there's opportunity on the cost side of this business and there's opportunity on the revenue side of this business. And we are really tackling them both.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thank you.

Operator

(Operator Instructions)

Scott Hamann, KeyBanc Capital Markets.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

In terms of the industry landscape now, can you give us a sense, overall, how the industry has trended thus far this year and then also, in terms of the channel inventory, and I know you guys are discounting some stuff to clear the channel, but how bad is it out there with respect to your stuff and competitive product, heading into the back half of the season?

Chip Brewer - *Callaway Golf - CEO*

Sure, Scott, this is Chip. The industry has been very healthy, right now, you know, that's a positive. Golf business is coming back, and rounds played are up. Really, all the metrics as it relates to the industry itself, are very good. The second part of the question, as it relates to, you know, our inventory position, we looked at that very detailed going into this call and some of the decisions we've made. It's kind of interesting. In the long and short of it is our inventory position in the field is higher than what we would like it to be.

In irons, it's higher than it was last year. In the other categories, it's at last year's levels or, in a couple cases, slightly lower. You know, part of what's going on here is just a philosophical change in leadership. And that is I'm more aggressive. I believe we need to drive, you know, sales through a little bit more aggressively and ensure that we get those inventory levels down to where I want them. You know, other than the iron category, we are a little higher than last year. Inventory is really on a metric basis, on a months on hand are where they were last are for Callaway.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. Just following up on that. I mean, with some of the new products being fairly heavily discounted, how do you kind of balance that premium perception with the customers and try to get that pricing back in the following years?

Chip Brewer - *Callaway Golf - CEO*

I think that the world changed over the last 10 years and such, and the consumers, you know, I don't think will punish us or be concerned the fact that they were able to get a good deal on a Callaway product. If that is was case, you know our larger competitors out there would never be doing as well as they are. So, a lot of precedent there Scott, that what we are doing has no real risk to the brand. You could obviously argue the other side of it as we get more product in play and gain market share, you know, we will build satisfied and committed users. And then it's up to us to use this R&D asset that I'm so proud of, to build product that we and they get passionate about and want to buy. At the price points where we make money and we are clearly making the changes necessary to do that. Make sense?

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Yes. Thanks a lot, Chip.

Operator

Dan Wewer, Raymond James.

Chip Brewer - *Callaway Golf - CEO*

Are you there Dan?

Dan Wewer - *Raymond James & Associates - Analyst*

Some additions that you've made, you know, you talked about --.

Chip Brewer - *Callaway Golf - CEO*

Dan can you start over again? We didn't hear the first part.

Dan Wewer - *Raymond James & Associates - Analyst*

We were cut off. I wanted to follow up on the management additions that you have made. You talked about Harry and Mark joining the Company?

Chip Brewer - *Callaway Golf - CEO*

Yes.

Dan Wewer - *Raymond James & Associates - Analyst*

Can you go over their background? As I recall, were they at TalyorMade before joining Callaway?

Chip Brewer - *Callaway Golf - CEO*

Harry was at TaylorMade, immediately prior to joining Callaway. And, previous to that, in the sporting goods business on the apparel side, and had some experience, as well, in the book business, I believe. He's a proven veteran. Mark has industry experience, also, at TaylorMade, and has other experience; Coca-Cola, UPS, Fisher Scientific. Both of these executives have both industry experience and strong functional expertise. I think that is, you know, a combination that I am looking for.

Dan Wewer - *Raymond James & Associates - Analyst*

Do you know if there was anything in their employment contracts at TaylorMade that could prevent them from working on certain projects at Callaway?

Chip Brewer - *Callaway Golf - CEO*

You know, obviously, we would make sure that anything we do is within, you know, full spirit and guidelines of any legal requirements. But, I am not prepared to discuss any agreements that they may or may not have had with previous employers. Very excited to have them on the team, and I think they -- their teams and the rest of the teams here are really excited about making a difference.

Dan Wewer - *Raymond James & Associates - Analyst*

And one other separate question. In the US, the number of active golfers hasn't grown in several years.

Chip Brewer - *Callaway Golf - CEO*

No.

Dan Wewer - *Raymond James & Associates - Analyst*

Therefore, if Callaway is successful in growing market share, is it zero sum game? Someone else is going to lose share, given the industry really hasn't seen any growth in a while?

Chip Brewer - *Callaway Golf - CEO*

I think the industry is growing, first of all. If you look at -- it's recovering, I guess, from the downturn that was 2008, 2009. So, I believe that Callaway will have the opportunity to grow as the industry recovers. And, I believe we will have the opportunity to grow market share. You know, in addition, that's both domestically and internationally. So, and in Asia, you know, there are several markets which there is strong local growth. So, you know, we've got opportunities on multiple fronts. But part of it is going to be a market share gain.

Dan Wewer - *Raymond James & Associates - Analyst*

Right. Okay great, thanks.

Operator

There are no more questions at this time. I would now like to turn the call back over to Chip Brewer for closing remarks.

Chip Brewer - *Callaway Golf - CEO*

I'd like to thank everybody for calling in and their interest in the Company. I believe we have accomplished a lot over the last several months. We are excited about some of the progress we are making and we look forward to talking to you again at the end of Q3. Thanks for calling in.

Operator

Thank you for participating in today's conference call. You may now disconnect.