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ELY - Q3 2012 Callaway Golf Earnings Conference Call

EVENT DATE/TIME: OCTOBER 25, 2012 / 9:00PM GMT

OVERVIEW:

ELY reported YTD consolidated sales of $714m and 3Q12 sales of $148m. Expects full-year 2012 net sales to be $830-845m and diluted loss per share to be $0.73-0.83.

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CORPORATE PARTICIPANTS

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Chip Brewer *Callaway Golf - President and CEO*

CONFERENCE CALL PARTICIPANTS

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Dan Renau *Raymond James - Analyst*

Jamie Yackow *Moab Partners - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Allie, and I will be your conference operator today.

At this time, I would like to welcome everyone to the Callaway Golf Company Third Quarter 2012 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator instructions)

I would now like to turn the conference over to your host, Brad Holiday, Chief Financial Officer. Sir, you may begin your conference.

Brad Holiday - *Callaway Golf - CFO*

Thanks, Allie. I'd like to welcome everyone to Callaway Golf Company's Third Quarter 2012 Earnings Conference 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 sales, gross margins, operating expenses, and loss per share for 2012, the estimated amount or timing of benefits and charges associated with the cost-reduction initiatives, the collectibility 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 federal securities laws. Such statements reflect our best judgment today based on current trends and conditions.

Actual results could differ materially from those projected in the forward-looking statements as a result of delays, difficulties, or increased costs in implementing the cost-reduction initiatives or 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 One, 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 adjustments, including a deferred tax valuation allowance, restructuring charges, the gain on the sale of three buildings, the gain on the sale of 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's sales on a constant currency basis and earnings, excluding interest, taxes, depreciation, and 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 - President and CEO*

Thanks, Brad. Good afternoon, everybody. I'm glad to be with you today and have the opportunity to discuss our results, as well as the many changes happening here at Callaway Golf.

The quick summary is as follows.

First of all, our Q3 operating results fell generally within the expectations we provided at the end of Q2.

Secondly, our outlook for the balance of the year has softened based on lower expectations in the US and Europe, and thus, we are lowering guidance for the balance of 2012.

And, lastly, and I believe most importantly, we are making good progress on our turnaround plan, where I believe we are moving quickly, decisively, and are on the right path.

Looking at our operating results --

In Japan, we have seen improved results versus last year based both on the launch of the Legacy 12 product, as well as improved market conditions versus last year. Our Japan business continues to be a strength for Callaway.

Our primary areas of weakness in Q3 and for the balance of the year were in the Americas, Canada, and the US, and in Europe. With the exception of our Asia-[specific] models, our 2012 products have not sold through well enough and thus during the quarter we took aggressive pricing action to drive sell-through and lower inventory levels, both our inventory levels and those in the field.

These actions had predictable results on our gross margins but were successful in delivering the desired results in the field, where we have enjoyed five consecutive months of hard good dollar market share growth in the US. Although painful on a financial basis right now, these actions are helpful for the long-term outlook in that they clear the channel and start to improve momentum for our 2013 story, when we will have new product and new marketing to drive improved results.

This is also significant in that to turn this business around, it needs to first stop shrinking, which means we need to stabilize and grow our dollar market share. To this end, in August, we had the first year-over-year gain in market share since November of 2010.

During the quarter, we also began to show our 2013 product line to key partners, and the feedback has been positive. Our larger customers are nearly uniformly behind us. They noticed the changes and improvements and believe we will do better than recent offerings, a sentiment I wholeheartedly agree with.

Having said this, customers are also cautious given our sell-through track record in the last several years and are also excited about some competitive offerings.

Net-net, I feel positive, and I invite you to do your own channel checks to confirm and to best put this all into perspective.

During the quarter, we also continued to firm up our 2013 marketing plans. As previously mentioned, these will be different, AKA better, than recent years, and I look forward to rolling these out and showing them to you in January.

On the tour front, we've continued to make good progress and have received verbal agreements from several targeted players. At this point, I'm optimistic that our tour staff will also be improved for 2013, and I believe this, too, is a key item on our long-term turnaround list.

For the balance of 2012, we have rolled back our guidance due to lower expectations for Europe, which is primarily economic based, and for the US and Canada, where we're going to have to continue to be aggressive in our promotional activity in order to drive sales of our existing products.

In the US and Europe, we do not have significant product launches scheduled for the balance of this year, which puts us at a comparable disadvantage to last year, when we launched the RAZR XF irons globally in Q4.

In Japan, the Legacy 12 product launch is spread between Q3 and Q4 providing them with a stronger hand to play during the second half of this year.

Now, moving to our turnaround plan --

Looking at our business overall, we have a great brand, a global presence, and strong resources. However, it's clear that we're suffering from declining market share in our core business and a cost structure that is too high given that reality. We also believe the business has become distracted by competing priorities and brands and has been ineffective in several of those key initiatives.

As a result, over the last eight months, we've taken several decisive actions, including refocusing on our core business of clubs and balls, where earlier in the year we sold the Top-Flite and Ben Hogan brands, as well as licensing the apparel and footwear businesses.

We've lowered our cost structure. In July, we announced a $52 million cost-reduction initiative, and we are now furthering that to $60 million.

We have taken action to stabilize our market share and clear inventories, both here and the field.

We are aggressively overhauling our product strategy and our execution.

We have changed our marketing approach and strategy, including bringing in new senior leadership.

And we are building a more effective supply chain to improve costs, product development, and customer service, again, including bringing in new senior leadership.

Most importantly, we are reenergizing our culture and rebuilding morale. This is an ongoing change effort which I'm happy to report is progressing well. People see substantive change. Although some of the changes are difficult, I believe the vast majority agree with them and are energized by the clear, new direction.

Furthering this turnaround play and during Q3, we've continued all of the above, including substantial progress on the product marketing and organizational change fronts, and made further progress on our cost-reduction focusing efforts via strengthening our capital structure and lowering our cost of capital by issuing a new 3.75% debt instrument to replace the majority of our 7.5% preferred equity. This transaction was immediately accretive, and Brad will discuss it in more detail during his comments.

We reached preliminary term from the sale leaseback of our Chicopee, Mass golf ball facility. This transaction should close by the end of the year and result in a smaller footprint in that facility, roughly reducing our space up there from 810,000 square feet to 230,000 square feet. There is a $7.9 million non-cash charge associated with this action, but it should provide significant cost savings and strategic flexibility for us going forward.

We also restructured and streamlined our GPS electronic business to a third party-based model. This action resulted in [16.5 million] non-cash charge on the quarter, so it will allow us to improve profitability and focus going forward. We will continue to sell our existing electronic devices, but new products will be developed via a partnership model.

In addition, there were several other efforts aimed at streamlining and improving the efficiency of our business, which we're not going to go through with you today. The sum of these additional moves increased our cost savings from the $52 million we announced previously to $60 million now on annualized basis. The result of all of this is a much leaner, stronger, and more focused Callaway Golf.

We are going through a significant transformation, taking decisive actions and moving at a rapid pace. As a result, I believe that in 2013, we will be a more competitive and relevant player in our chosen space.

Unfortunately, turnarounds such as this take time. However, I remain confident that the clearance-specific actions we are taking will, in fact, turn this business around.

I look forward to continuing to keep you updated on our progress and appreciate your interest and support.

Brad, over to you.

Brad Holiday - *Callaway Golf - CFO*

Thanks, Chip.

We have a lot to cover today. I will first review some of the larger actions that took place during the quarter, and then I will provide a quick overview of third quarter results and an update on our annual guidance.

Because of the significant charges associated with our cost reduction and business streamlining initiative, our supporting financials include GAAP results, as well as supplemental details, on these and other charges to bring you to our pro forma or non-GAAP results.

Additionally, to assist you in understanding the impact of the actions we've taken this year in streamlining our business, we provided an additional schedule summarizing 2011 and 2012 quarterly sales and gross margins for our continuing core business and those we've either sold or are transitioning to a third-party model. I would encourage you to review this schedule as you develop your 2013 financial models.

Before I review the financial results, I would like to provide some additional detail on the key initiatives that happened during the quarter that Chip mentioned in his opening remarks.

In August, we completed a convertible debt issuance of $112.5 million of 3.75% convertible senior notes due in 2019. $63 million of this new convertible debt was exchanged for 632,000 shares of the Company's outstanding preferred stock; $49 million was issued for cash, of which netted to $43 million after discounts and fees; $35 million of preferred stock was converted to 5.9 million shares of common stock.

The annual impact of this transaction will be an increase in pre-tax interest expense of $5 million and a reduction in after-tax net dividends of $7.1 million. This transaction was $0.02 accretive for the quarter and is estimated to be $0.05 accretive for the year. $42 million of preferred stock remains outstanding at this time and is redeemable at our discretion.

With regards to the remaining net cash raise of $43 million, we will evaluate all potential opportunities that might arise, including the redemption of the remaining preferred stock, and determine its most effective use. For now, we have used the proceeds to pay down our credit facility to a zero balance.

Also during the quarter, we had entered into an agreement in principle for the sale and leaseback of the Chicopee, Massachusetts golf ball facility.

Due to a changing golf ball sourcing strategy, as well as streamlining and efficiency initiatives at this facility over the past several years, we are currently utilizing less than 30% of the facility's footprint. Under this arrangement, we will sell the facility and surrounding property and lease back only that space required for our current operations.

This decision resulted in a non-cash charge of approximately $8 million in the quarter, which was included in our estimate of charges we provided last quarter. We estimate annual savings of just under $1 million and look forward to closing this transaction by the end of the year.

Also during the quarter, we made a decision to restructure and streamline our GPS electronics business to a third party-based model, where an outside partner will design, develop, and sell new products under the Callaway Golf brand. We will continue to sell and service our existing products that are in the marketplace at this time.

This decision further simplifies our business and allows us to focus on our core brands of Callaway Golf and Odyssey and key products of clubs and balls. This decision resulted in a one-time non-cash charge of $16 million in the quarter, associated with the write-down of assets associated with the original uPlay acquisition, as well as other related assets.

We are increasing our estimate of charges associated with these and previous initiatives from a range of 36 to $42 million to approximately $55 million, two-thirds of which is non-cash. A majority of this increase is associated with the GPS decision.

We increased our cost savings estimate from $52 million to $60 million due to these additional actions, with slightly more than half of the increase generated from the change in the GPS business model and the balance coming from additional streamlining and efficiencies gains.

The new estimate positively impacts OpEx by $41 million annually, with a balance of $19 million affecting cost of goods sold. Of the total $60 million, $18 million will impact this year, 2012, with an additional $42 million impacting 2013.

Now, let me quickly review some of the results for the quarter and year to date.

All of the detailed financials are attached to our press release issued today, but let me add a couple of comments on the operating results.

These results will be on a pro forma basis, and in 2012 exclude the impact of the sale of the Top-Flite and Ben Hogan brands, the recent cost-reduction initiatives, including those during this past quarter, and deferred tax valuation allowance.

2011 results exclude charges for our global operations strategy, the non-cash tax adjustments related to our deferred tax valuation allowance, the Top-Flite impairment, the gain on the sale of buildings, and the 2011 restructuring initiatives.

For the third quarter, sales totaled $148 million, in line with our internal expectations but a decrease of 15% compared to last year, driven primarily by the sale of the Top-Flite and Hogan business, as well as a weakness in Europe, Canada, and the US markets. 39% of the quarterly sales were from the US, with 61% from our international markets.

On a year-to-date basis, consolidated sales were $714 million, a decrease of 3% compared to last year, due primarily to the sale of the Top-Flite and Hogan business.

Our core business is essentially flat compared to last year. US accounted for 49% of the total, with 51% coming from our international markets. Foreign currency rates adversely impacted year-to-date sales by $4 million.

Pro forma gross margins were 21% for the quarter, consistent with our internal expectations, and were less than last year due to the increased promotional activity during the quarter. As Chip mentioned, while this promotional activity negatively impacted our gross margins, they were successful in delivering increased sell-through, as demonstrated by the five months of consecutive US market share increases in hard goods.

On a year-to-date basis, pro forma gross margins were 37% compared to 40% last year, due once again to the increase in promotional activity, as well as higher costs on our more technical products, such as the RAZR Fit driver, as well as increased closeout pricing on our older putter models in preparation for the Metal-X launch last quarter.

Pro forma operating expenses were $79 million for the quarter and were favorable compared to $85 million last year due primarily to our cost-reduction initiatives, partially offset by planned increases in marketing and advertising expense.

Year-to-date operating expenses totaled $279 million, a decrease of 5% compared to 294 last year, for the same reasons just mentioned.

Turning to our balance sheet, we ended the quarter with cash of $59 million compared to $64 million last year. Our consolidated net receivables were $144 million compared to $148 million last year. DSOs were 89 days, an increase compared to 78 days last year due to increased promotional activity. The overall quality of our accounts receivables remains good.

Net inventories were $189 million, a decrease of 7% compared to last year due to lower Top-Flite apparel and footwear inventories associated with our streamlining initiatives.

As a percent of trailing 12-month sales, 2012 inventory improved to 22% compared to 23% last year.

We ended the quarter with no outstanding balance on our credit facility, and at the end of the quarter, we had $82 million of available credit.

Capital expenditures for the quarter were $2 million, and we estimate the full-year CapEx to be approximately $20 million.

Depreciation and amortization expense was $8 million for the quarter, and we estimate full year at $35 million. This excludes any accelerated depreciation that was included as part of impairment charges associated with the cost-reduction and business-streamlining initiatives.

While third quarter results were in line with our internal expectations, we are lowering our full-year guidance because of -- our outlook for the balance of the year has softened based on continued economic weakness in Europe and continued aggressive promotional activity in the US to drive sell-through of our existing products in preparation for 2014.

We now estimate net sales will range from 830 to $845 million, or the low end of our previous range of sales, compared to $887 million last year. This year-over-year decline in sales is due primarily to the sale of Top-Flite and Ben Hogan brands.

As I mentioned earlier, we have provided a schedule summarizing 2011 and 2012 sales and gross margins by quarter for what we would consider is now our core business, as well as those businesses affected by our streamlining initiatives.

We estimate annual sales for our core business will be approximately $785 million for 2012, a good base to start with as you develop your 2013 models.

Full-year 2012 gross margins are estimated at approximately 35%, compared to 38% last year due to the increase in promotional activity this year and adverse manufacturing absorption related to the decline in sales.

Full-year 2012 pro forma operating expense is estimated at approximately $363 million, which includes $18 million in operating expense savings this year.

We estimate a diluted loss per share ranging from $0.73 to $0.83 on a share count of 67 million shares.

We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

Andrew Burns, DA Davidson.

Unidentified Participant - *DA Davidson - Analyst*

(Inaudible - technical difficulty) on for Andrew. Just a quick question. You previously spoke about accelerating the fees and inventory clean-up to minimize steeping inventory. Can you speak a little bit to the success of those efforts and kind of how clean you feel your inventories are ahead of next season?

Chip Brewer - *Callaway Golf - President and CEO*

Sure. That has been a part of our actions we've taken over the last few months, and I'm pleased with the results. The product has sold through well, as evidenced by our market share gains, and we anticipate that field inventories, as well as our own inventories, are going to be in good shape by the end of the year.

Unidentified Participant - *DA Davidson - Analyst*

Thank you very much.

Chip Brewer - *Callaway Golf - President and CEO*

Sure.

Operator

James Hardiman, Longbow Research.

Phil Anderson - *Longbow Research - Analyst*

Good evening, everybody. This is Phil Anderson in for James.

The market share numbers that you gave -- or, I'm sorry, the market share trends that you gave, are those looking at global market share, or is that just US based?

Chip Brewer - *Callaway Golf - President and CEO*

US, hard goods, dollar share. So just to simplify the issue, what I was referring to in my comments were US, hard goods, dollar share.

Phil Anderson - *Longbow Research - Analyst*

And what do you guys include in hard goods?

Chip Brewer - *Callaway Golf - President and CEO*

Woods, irons, putters, wedges, which is part of irons, golf balls, and I think that's it.

Phil Anderson - *Longbow Research - Analyst*

Okay. And then just looking at the year-over-year increase in market share that you said you posted in August --

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Chip Brewer - *Callaway Golf - President and CEO*

Yes.

Phil Anderson -- is that -- I guess how much of a function of the discounting that you've done do you think that is? And are there other strategic things you're doing that played a role in getting there? Or I guess just elaborate on that, if you could, a little bit.

Chip Brewer - *Callaway Golf - President and CEO*

Sure. Without question, the promotional activity that we've done is a key contributor to some of the improved market share results, but there have also been small but hopefully significant changes in our marketing and the overall aggressiveness which we'd go to market, both through our sales execution and conducting our business.

So it's impossible to factor or proportion what drove what percentage of that. I will tell you I'm really pleased with the reaction to the moves we've made, and I think it's a good sign of brand strength in terms of the effectiveness of our moves thus far in the field.

Phil Anderson - *Longbow Research - Analyst*

And last question. Do you know, were those market share gains sustained in September, or is that data available yet?

Chip Brewer - *Callaway Golf - President and CEO*

It's not available yet. It's just starting to crease in, so we'll have to wait to give you that. But it isn't just one month that we're talking about. We've had several consecutive months, and there will be ebb and flow. We're not going to be able to fully deliver results indicative of how we're running this business until next year, when we get fresh product and fresh marketing, but you are seeing some positive trends out there, and it's been more than just one month. The one month was the culmination where I was so pleased because we did show year-over-year, not just month-over-month improvement.

Phil Anderson - *Longbow Research - Analyst*

Right. You said five consecutive months of sequential gains? Was that--?

Chip Brewer - *Callaway Golf - President and CEO*

Five consecutive months of month-over-month gains, and then August, we had a year-over-year gain, which was our first since November of 2010.

Phil Anderson - *Longbow Research - Analyst*

Okay, very good. Thanks for taking my questions.

Chip Brewer - *Callaway Golf - President and CEO*

Of course. Thank you.

Operator

Ed Timmons, Roth Capital.

Ed Timmons - *Roth Capital - Analyst*

I guess the first question I have is what has changed -- in terms of the guidance that you're revising, what's changed since the previous update? I mean things have been weak in Europe for quite a while now.

Chip Brewer - *Callaway Golf - President and CEO*

Yes.

Ed Timmons - *Roth Capital - Analyst*

You've had some product issues for quite some time, as well. I'm just wondering what's changed in the last three months to cause the revision down again.

Chip Brewer - *Callaway Golf - President and CEO*

Well, we've had further -- and this is not intended to be a short answer, but we further revised down our expectations for the business in Europe, which we do believe is strictly related to the economic conditions over there.

So as our information came more clearly to us, we were forced to revise that, and although we certainly understood the situation in the US and that we were going to have to take promotional activity and such, it hasn't delivered the same level of revenue that we expected it to, and that culminated in us taking it down.

Ed Timmons - *Roth Capital - Analyst*

With the new product launches in '13, do you expect increased visibility? And should, let's call it, limited visibility continue at some point? Do you consider suspending giving guidance?

Chip Brewer - *Callaway Golf - President and CEO*

We think that the business benefit -- I think at this point that the business benefits from providing guidance, and when you're in a turnaround position and making as many changes as we're doing right now, having some level of limited visibility is par for the course.

As we get further into our turnaround plan, as we deliver the changes in terms of product and marketing and demand creation that we have underway, we do envision improved visibility.

Having said that, this has always been and always will be a difficult business to forecast. It's consumer discretionary with a technology and fashion element to it. So you put the product out, and you need to excite the consumer, and you're estimating that. But I have a good amount of experience here, as do we, and although we've had to revise these full-year guidance numbers now, we're not anticipating that to be a trend.

Ed Timmons - *Roth Capital - Analyst*

Okay. And then switching gears a little bit, on the endorsement side, you talked about having verbal agreements with a number of players, and I know you don't want to disclose names, but can you talk about the types of players? Are these younger players? Are they previous winners on the tour? Any color around that?

Chip Brewer - *Callaway Golf - President and CEO*

Yes, I can't talk much, but there are both domestic and international, and they do include younger players and previous winners on tour.

Ed Timmons - *Roth Capital - Analyst*

Any comments on the rumors/talk on [Rory]'s deal with Nike and how that might impact you guys, if at all?

Chip Brewer - *Callaway Golf - President and CEO*

No comment. Interesting rumors. Fun to listen.

Ed Timmons - *Roth Capital - Analyst*

Okay. All right. Appreciate it. Thanks.

Chip Brewer - *Callaway Golf - President and CEO*

Sure, of course, Ed.

Operator

Lee Giordana, Imperial Capital.

Lee Giordana - *Imperial Capital - Analyst*

I was wondering if you'd talk a little bit more about performance by category. It looks like woods were down 25% in the quarter. Was there anything year over year in terms of launch schedule that impacted that, or is this still just promotionally driven declines?

Chip Brewer - *Callaway Golf - President and CEO*

Yes, I don't recall that there's anything that swung it on a year-over-year basis, so that was simply sell-through based and the actions we had to take to address that sell-through.

Lee Giordana - *Imperial Capital - Analyst*

Got you. And when you think --

Chip Brewer - *Callaway Golf - President and CEO*

And weakness -- Lee, just a little more color on there. We're stronger in the driver category than the fairway wood category, and the hybrid category had been weaker for us this year. There's been some competitive success in those latter two categories.

Brad Holiday - *Callaway Golf - CFO*

We saw some growth in the putter category with the launch of our Metal-X line of putters, so that was positive for the quarter for us.

Lee Giordana - *Imperial Capital - Analyst*

Great. And can you talk a little bit more about the Hex golf balls? Are you gaining share in that category? And how happy are you with the performance with the Hex?

Chip Brewer - *Callaway Golf - President and CEO*

Oh, it's a great golf ball and really pleased with the reaction to that product. You've seen us in a transition year when we're in the process of selling Top-Flite and divesting that business, grow our premium ball share. There's more and more talk about what a great product we have. We're in the process of streamlining our operating environment for the golf ball and we have -- we're optimistic regarding that business going forward.

Lee Giordana - *Imperial Capital - Analyst*

Thank you.

Operator

Craig Kennison, Robert W. Baird.

Craig Kennison - *Robert W. Baird - Analyst*

(Inaudible - technical difficulty) taking my questions, as well. Many have been asked already, but maybe I'll just ask again, as you look at the future and many of your sort of financial and other targets, what would you have the investment community anchor on, whether it's market share or revenue goals?

And maybe, if you could, Chip, just leverage your past history at another company and talk about what you've targeted from a metric standpoint.

And then, finally, just talk about how sort of senior leadership will be compensated and what metrics you'd be held accountable to.

Chip Brewer - *Callaway Golf - President and CEO*

Okay. The primary issue for us right now is to turn around the momentum of this business, so the business has clearly been shrinking and decreasing over the last three years in its market presence certainly here in the US, and you can't turn around the business until you stabilize that and start to turn that momentum around. We're making key progress on that, and if I was an investor in this business, that's what I would be paying keen attention to, with the more significant report card coming early next year.

We're also making substantive changes on the demand creation side, which I've talked to extensively, but again, you're going to need to judge those based on channel checks and also what happens in the marketplace next year, and obviously, we will resize the cost structure of this business to fit our estimation of where we are at this point in time.

Craig Kennison - *Robert W. Baird - Analyst*

And, secondly, as you look over the next, let's say, three to five years, are there demographic or geographic holes in the portfolio that you think might provide an opportunity for you to grow?

Chip Brewer - *Callaway Golf - President and CEO*

You know, we're a global brand, so one of the great strengths of this business is that we are -- every significant place where people play golf, we are a significant player. We have a strong brand strength, particularly in Asia, so very optimistic for our business going forward there. We have very strong demographic strength within the baby-boomer community, which should be a key opportunity for us in the US. And we're also going to be expanding the reach of the brand going forward with some of the changes we've got, so we think extensively that it's just a longwinded answer, I guess.

Craig Kennison - *Robert W. Baird - Analyst*

Thanks for taking the questions.

Chip Brewer - *Callaway Golf - President and CEO*

Of course.

Operator

Aziz Pirbhoy, Raymond James.

Dan Renau - *Raymond James - Analyst*

[Dan Renau], (inaudible). First question, could you guys just talk a little bit about how Callaway goes about convincing some of its key customers to give it support, especially when it's lost share in recent years?

Chip Brewer - *Callaway Golf - President and CEO*

Dan, that one's easy. That was one of the great -- came as a surprise and a blessing when I got here. I know these customers from previous life, and certainly within the US, I know most of them reasonably well, and they want Callaway Golf to be successful. They are excited about the changes we're making, and they know that it would be good for them to have a strong Callaway Golf. So we don't really have to convince them. We just have to partner with them and listen to them, and candidly, we're getting really good at that.

Dan Renau - *Raymond James - Analyst*

Okay, and switching gears a little bit, I guess, why was business in the US and Canada incrementally weaker versus 2Q? Is there anything you guys can point to specifically that changed?

Chip Brewer - *Callaway Golf - President and CEO*

Yes, it's basically [self-ware] based. If you look at the beginning of our year, you look at the revenues, we're roughly flat, but the market share was down, and at some point, you have to address that.

Dan Renau - *Raymond James - Analyst*

All right, great. Thank you.

Operator

[Jamie Yackow], Moab Partners.

Jamie Yackow - *Moab Partners - Analyst*

I'm trying to understand the rationale behind paying down the credit facility versus redeeming the remaining preferred, convertible preferred. I mean the strike price is not much higher than where the stock previously closed, and it would seem more economical to redeem those than pay down the credit facility. Just thoughts around that?

Brad Holiday - *Callaway Golf - CFO*

Well, this is Brad, and certainly, that's an option for us, but we're just trying to give ourselves some flexibility right now as we look at the possibilities of other things we might want to use that cash for. We're just evaluating some other opportunities. And so it's not that we won't; it's just we've got some other things to consider at this point in time, and it's redeemable at any time at our discretion. So we're not saying we will, and we aren't saying we won't, but we're evaluating some other opportunities for use of that cash.

Jamie Yackow - *Moab Partners - Analyst*

Are you able to disclose any of those opportunities?

Brad Holiday - *Callaway Golf - CFO*

Not at this time, but the intent would be that it would be a better decision to invest in some of these than perhaps even redeeming of the preferred, but certainly, we have that flexibility at our fingertips at any point in time.

Jamie Yackow - *Moab Partners - Analyst*

All right. Thank you, guys.

Brad Holiday - *Callaway Golf - CFO*

You're welcome.

Chip Brewer - *Callaway Golf - President and CEO*

Thank you.

Operator

(Operator instructions)

Unidentified Speaker

Allie, are there any more questions?

Operator

No, sir, not at this time.

Chip Brewer - *Callaway Golf - President and CEO*

All right. Well, this is Chip. I just want to thank everybody for calling in today and your precious time. We really appreciate it.

Mixed results in the quarter, but we feel like we're well underway on a turnaround plan that's decisive and we are confident in.

We look forward to updating you further at the end of our year results, which will be early next year. Thank you very much for [calling].

Operator

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