THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ELY - Q3 2015 Callaway Golf Co Earnings Call

EVENT DATE/TIME: OCTOBER 21, 2015 / 9:00PM GMT

OVERVIEW:

Co. reported 3Q15 consolidated net sales of $176m, net loss of $4m and EPS of minus $0.04. Expects full-year 2015 GAAP net sales to be $835-840m and fully diluted EPS to be $0.12-0.15. Also expects 4Q15 reported net sales growth to be approx. 9%.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Patrick Burke *Callaway Golf Company - Head of IR*

Chip Brewer *Callaway Golf Company - President & CEO*

Robert Julian *Callaway Golf Company - CFO*

CONFERENCE CALL PARTICIPANTS

Scott Hamann *KeyBanc Capital Markets - Analyst*

Lee Giordano *Sterne Agee CRT - Analyst*

Mike Swartz *SunTrust Robinson Humphrey - Analyst*

Rommel Dionisio *Wunderlich Securities, Inc. - Analyst*

Casey Alexander *Ladenburg Thalmann - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Mike and I will be your conference operator today. At this time I would like to welcome everyone to the Q3 2015 Callaway Golf results conference call.

(Operator Instructions)

I will now turn the call over to Patrick Burke, the Head of Investor Relations. You may begin your conference.

Patrick Burke - *Callaway Golf Company - Head of IR*

Thank you, Mike, and good afternoon, everyone. Welcome to Callaway's third-quarter 2015 earnings conference call. I'm Patrick Burke, the Company's Head of Investor Relations. Joining me on today's call are Chip Brewer, our President and Chief Executive Officer; and Robert Julian, our Chief Financial Officer.

I would like to point out that any comments made during the call about future performance, events, prospects or circumstances, including statements related to 2015 net sales, sales growth, gross margins, operating expenses, pretax income and earnings per share, future or market conditions, market share gains or brand momentum, the success of the Company's future products, long-term profitability or performance, the creation of long-term shareholder value, the collectibility of accounts receivable and salability of inventory, estimated 2015 capital expenditures and depreciation and amortization expenses and other statements referring to future periods and identified by words such as believe, will, could, would, expect or anticipate, 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 businesses. 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 most recent form 10-K for the year ended December 31, 2014 filed with the SEC, together with the Company's other reports subsequently filed with the SEC from time to time.

Also during the call, in order to provide a better understanding the Company's underlining under operational performance, we will provide certain of the Company's results and projections on a constant currency basis, which essentially excludes all foreign currency gains and losses recorded during the applicable period and applies to prior period exchange rates to the adjusted current or future period financial information, as those such prior-period rates were in effect during the current or future period.

We will also provide information on the company's earnings, excluding interest, taxes and depreciation and amortization expenses. This information may include non-GAAP financial measures within the meaning of Regulation G. The information provided on the call today and the earnings release and related schedules we issued today include a reconciliation of such non-GAAP financial information to the most directly comparable financial information provided in according with GAAP. The earnings release and related schedules are 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 Company - President & CEO*

Thanks, Patrick. Good afternoon, everybody, and thank you for joining us for today's call. Q3 was an excellent quarter for our Company. Despite spotty market conditions and foreign exchange headwinds Callaway Golf continued its trend of improved market share and operating efficiencies. On the strength of this performance we are raising our guidance for the year.

I'd like to start by thanking our employees and advocates across the globe for these results. Our brand and our products have returned to leadership positions while our operations have become more effective and efficient. The team should be proud of these results while also remaining humble and hungry for further improvement.

With that said, I will jump into some specifics. Revenues for Q3 were up 12% on a currency-neutral basis, reflecting improved market conditions and strong relative performance by Callaway. Our US business was up an impressive 17% during the quarter. The US market this year has improved retail sell-through, decreased retail inventories, less overall promotional activity and a slight increase in rounds played, all encouraging signs.

Our European business had a fantastic quarter with revenues up 24% on a constant currency basis. Market conditions in Europe remain mixed, with the UK roughly flat year over year but the continent down year over year.

Turning to Asia, our Japan business had a strong quarter with constant currency revenues up 11% while our rest of Asia business was down 15%, reflecting difficult market conditions in China as well as the continuing transition of our Southeast Asia business model. Asia in general has been our most challenging market this year with softer market conditions.

Looking at Japan specifically, that market was down 5.4% year to date through the first week of October on top of continuing foreign exchange translation issues. Fortunately our brand positions and long-term outlook remained strong across this region.

Turning to market share, in the US our year-to-date hard good dollar market share through September was 21.3%, up 250 basis points year over year. This is the highest Q3 year-to-date number since we started tracking in mid-2000s. This third-party data has us sustaining the number one position in total clubs, as well as being the top-selling brand in irons, fairway woods, hybrids and putter categories.

Our year to date dollar share in the irons category is 26.1%, up an impressive 600 basis points and more than 600 basis points higher than the number two brand. Regaining the number one position in this category was a key strategic initiative for us this year and I'm proud to say we are on track to soundly accomplish this goal. In addition, our golf ball sell-through share increased to 11.5%, up 180 basis points and sustaining our position as the number two brand in this important category.

In Japan our year-to date hard goods share through the first week of October was 16.4%, up 130 basis points year over year. We remain the number one US brand in this market. In Europe through August our share was 20.9%, up 200 basis points and sustaining our position as the number one hard goods brand in that market. Overall we are very pleased with our market share growth and brand strength across the globe.

On the product side, during Q3 we launched two exciting new products, the Great Big Bertha drivers and the Mac Daddy 3 wedges. We are pleased with the consumer and trade reaction to both of these products.

In my opinion, the Great Big Bertha driver is the best performing, most versatile driver we've launched in my time here. It's in play across the world's stores and delivering great results there for the game's elite. At the same time, it has the adjustability and forgiveness to be a great choice for average golfers as well.

Similarly, the MD3 wedges are distinctive in their look and performance. We believe they will pave the way for further growth in this category. Initial sell-through results have been strong for both of these products.

We have also announced the launch of the new Apex irons and hybrids for later this month. We are excited about this product as it serves as the flagship of our industry-leading iron line-up and will now feature Cup Face Technology in the line.

It's interesting to note that over the last three years we have incorporated Face Cup Technology as the keystone technology in three product categories: fairway woods in 2013, hybrids in 2014 and most recently within the last 12 months in irons. Subsequently we are now number one in each of these categories. I think this provides some strong evidence regarding the impactfulness of this technology.

Turning to golf balls. Becoming the number two golf ball and sustaining brand momentum through the year was a key strategic objective for us this year and we are well on our way to accomplishing this goal. Our improved performance has been made possible by our new Chrome Soft product, which has been extremely well received and continues to resonate in the marketplace.

This product received the highest net promoter score of any golf ball product we have ever tested. Similarly, third-party brand data recently showed our overall golf net promoter score to be the highest in the industry, an unprecedented result given our challenger status in this category.

Looking forward, our future product pipeline remains robust and we are excited about additional new products which will launch in Q1 of 2016. These will be similar to this year's cadence with respect to timing and quantity of launches.

Moving to the operational side of our business. Our cost management and overall operating efficiencies continue to be at the high end of expectations and drive upside in our business. Our year-to-date gross margins through Q3 were 44.4%, an improvement of 170 basis points year over year and exceeding our expectations. We are encouraged by this trend and believe it bodes well for the long-term profitability of our business. Robert will have more color on this during his comments.

Looking at the balance sheet. During Q3 we negotiated private transactions to convert a majority of our convertible debt and just last week we put out notice to redeem the balance. The retirement of this debt will provide an incremental $5 million of cash flow per year and strengthen our balance sheet through the elimination of all long-term debt.

Turning now to balance of the year financial guidance. On the strength of our year-to-date results and anticipation of continued strong performance in Q4, we are revising our full-year guidance to revenues of $835 million to $840 million and earnings per share of $0.12 to $0.15. As I'm sure you've all noticed, this is a significant improvement in expected earnings.

In closing, I'm confident that Callaway's Golf is in a much stronger position today it than it has been in quite some time. The changes we have implemented are being noticed and are proving effective in driving increased consumer interest and significantly improved operating efficiencies.

Furthermore, the fundamentals of the industry appear to be improving with less overall promotional activity and inventory as well as a general stabilization of participation and increased interest in the game being driven by excitement in the professional ranks. As a result, I'm confident that we are on track with our overall plan and that the plan will lead to steadily improved performance and long-term shareholder value. I look forward to continuing to keep you updated on our progress and appreciate your interest and support. Robert, over to you.

Robert Julian - *Callaway Golf Company - CFO*

Thank you, Chip. Today we are reporting consolidated Q3 2015 net sales of $176 million compared to $169 million last year, an increase of 4%. Foreign currency variances negatively impacted revenues by $13 million, so on a currency-neutral basis year-over-year net sales increased 12%.

Looking at Q3 revenue on a regional basis, net sales in the US increased 17% to $87 million. International sales were $89 million in the quarter, a decrease of 6% on a GAAP basis. However on a currency-neutral basis, Q3 international sales increased 9% year over year. Details by region are included in the attachment to today's press release.

Gross margins were 44.1% in Q3 2015 compared to 38.7% last year, an improvement of 540 basis points. This increase was driven by favorable price and mix variances, less close-outs, lower promotional activity along with continued operational improvements. This favorability was partially offset by increased costs related to new product technology and negative foreign currency variances.

Operating expenses were $77 million in Q3 2015, a 13% increase compared to last year. This increase was due to planned investment in marketing and tour and increases in employee costs associated with stock price appreciation. These results generated positive operating income of $1 million in Q3 2015 compared to an operating loss of $3 million last year.

We have other expense of $3 million in Q3 2015 compared to $2 million of other income last year. This change was due to the net impact of changes in currency rates on outstanding foreign currency hedging contracts and $1.9 million of mostly non-cash charges related to the exchange transactions for $85 million of convertible debt in the quarter. These expenses were partially offset by $0.5 million of interest savings on the converted notes.

The Company generated a net loss of $4 million in Q3 2015 compared to a net loss of $1 million in 2014. Earnings per share were minus $0.04 on 84 million shares in Q3 2015 compared to minus $0.01 on 78 million shares in 2014. On a constant currency basis Q3 2015 earnings per share would have been positive $0.07.

Returning to net sales, I would like to provide some more details by product category all on a currency-neutral basis. Wood sales were $52 million in Q3 2015, an increase of 1% compared to last year. This was due to the success of our Great Big Bertha launch which was partially offset by lower close-outs. On a year-to-date basis Callaway is the number one fairway wood and hybrid for dollar market share in the US.

Iron and wedge sales were $46 million in Q3, an increase of 26% versus last year. This was driven by the successful launch of our Mac Daddy 3 wedges as well as continued momentum in our XR line of irons. On a year-to-date basis Callaway is the number one iron for dollar market share in the US.

Putter sales were $19 million in Q3, an increase of 40% compared to last year. We had continued success with our in-line putters driven by the success of our Odyssey Works putter line. On a year-to-date basis Odyssey is the number one putter for dollar market share in the US.

Golf ball sales were $31 million in Q3, an increase of 24% compared to last year. This was due to the successful launch of our new Chrome Soft golf ball and the continued success of our Supersoft line of balls. On a year-to-date basis Callaway is the clear number two golf ball for dollar market share in the US. Accessories and other sales were $41 million in Q3, a decrease of 2% compared to last year.

Turning now to balance sheet. We ended Q3 2015 with cash of $42 million compared to $33 million for Q3 of last year. We had no outstanding borrowings on our ABL credit facilities at the end of Q3 2015, consistent with Q3 of last year.

Available liquidity including cash improved to $131 million, a 31% increase versus Q3 of last year. Our consolidated net receivables were $153 million at the end of Q3 2015, an increase of 7% compared to Q3 of last year.

DSO increased to 80 days compared to 78 days last year. However, we remain comfortable with the overall quality of our accounts receivable.

Our inventory balance was $185 million at the end of Q3 2015, flat compared to Q3 of last year. We remain comfortable with the quality of our inventory at this time.

Capital expenditures for Q3 2015 were $3 million compared to $3 million last year. We estimate approximately $15 million for the full year of 2015.

Depreciation and amortization expense was $4 million in the quarter compared to $5 million last year. We estimate approximately $18 million for the full year of 2015.

Our trailing 12-month EBITDA at the end of Q3 was $33 million compared to $44 million last year, a 14% decrease year over year caused by the change in foreign currencies.

I will now comment on our 2015 full-year guidance. For the reasons Chip mentioned earlier we are raising the bottom end of our 2015 net sales estimate on a GAAP basis to a range of $835 million to $840 million. On a constant currency basis this new estimate would equate to range of $885 million to $890 million.

This is essentially flat compared last year, with market share gains being offset by launch timing, lower close-outs, and softer than expected Asian markets. The Company does expect Q4 net sales to be up approximately 9% on an as-reported basis and approximately 13% on a constant currency basis.

Full-year 2015 gross margins are estimated to be 42.8%, an improvement of 80 basis points from our prior estimate due to better than expected Q3 results, continued improvements in our manufacturing operations and supply chain and improved sales mix over the balance of the year. Overall this represents a 240 basis point improvement in gross margin compared to prior year on a GAAP basis.

Operating expenses are estimated to be approximately $333 million for full-year 2015, slightly lower than previous guidance. This compares to $327 million in 2014. The increase primarily relates to planned additional investment in marketing and tour spending as well as other employee-related costs and normal annual cost increases.

Finally, we are raising our 2015 earnings per share estimate on a fully-diluted basis to a range of $0.12 to $0.15 per share on 85 million shares outstanding. This compares to our previous estimate of a range of $0.01 to $0.06 per share. On a currency basis our updated EPS estimate would range from $0.56 to $0.59 per share compared last year's $0.20 per share.

That concludes our prepared remarks. We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scott Hamann, KeyBanc Capital Markets.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Thanks, good afternoon. Starting off with gross margin, obviously a very impressive performance there. Even ex currency, up dramatically even for the year. Can you help us look at the magnitude of some of the improvement that you've seen? Obviously it's been greater than you anticipated. How sustainable is that as we move forward?

Chip Brewer - *Callaway Golf Company - President & CEO*

Sure. I will take a crack at that, Scott. Robert, jump in if you have anything to add.

Our gross margin performance really year to date and in the quarter have been quite good. We've had a lot of things go right this year in terms of brand momentum, market share, commodity pricing, less promotional environment in the field, et cetera. It has allowed us to deliver some excellent results, despite the foreign exchange pressures which certainly impacted the gross margin. We are very pleased with that. We've talked about in the past, well-run businesses in our space being in the range of 42% to 44% gross margin. We are trending to be in that range this year and we feel very good about that. That's faster than what we had originally expected, but on trend with what our goals were.

We feel increasingly confident we're going to be able to deliver gross margins in the ranges that we've talked about. Our range for this year is now higher than we expected. We are not at this point changing our long-term expectations, but we're increasingly confident that we're going to be able to hit them. We will be revisiting it because of the positive news as well. It's possible that there will be some upside but we're not changing our expectations quite yet.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. And then thinking about the ball business. Obviously good momentum with Chrome Soft. It seems like you're making more of a concerted effort going into 2016 to enhance your distribution and launch some new products. What's the strategy and the opportunity as you see it today? And then tying that into your operating margin objectives longer-term, that seems like a structurally higher-margin business that you positioned to really lift the overall profitability of the Company. So does that change the way you think about the long-term operating profit for Callaway overall?

Chip Brewer - *Callaway Golf Company - President & CEO*

Yes. Let me take a shot at that one as well, Scott. Long and a little bit complicated question. Golf balls, certainly a growth opportunity for us. We're excited about our trend there and the potential. We've moved to the number two position but we have, if I remember the stat correctly, 11.5% year-to-date market share. We think we can continue to grow that in the channels that market share is measured, particularly on the green grass channel where it really is a distribution opportunity. We think we are in the position to continue to perform well there.

We think we have a very differentiated product in Chrome Soft. It's clearly resonating with consumers. We have a very focused product lineup and messaging. Chrome Soft and Supersoft, the benefits and differences are in the name and clearly resonating with consumers. You're going to continue to see us with that same focus going forward.

Golf ball is a category that has increasing efficiencies as you scale up, so it is profitable for us. Not too long ago we were losing money in the golf ball category. We now make money and the percentage of sales it's slightly more profitable than clubs with some upside leverage. We're excited about it. We were particularly excited to see how our golf ball business sustained itself throughout Q3 this year. One of the key objectives was not only to get out of the chute real fast at the beginning of the year, but to sustain that. We feel good about that accomplishment as well.

A lot of work to be done. We're a challenger in this category as opposed to clubs where we are a leader. But love the trends, and the team has a lot of energy around the category going forward.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Got it. Finally, on the OpEx. You had talked a little bit more about increased tour spending over the last couple years and you made a lot of strides there. Do you see the need to continue to increase that investment, particularly as others in the space have indicated that they may plan to pull back a little bit in that area? Thanks.

Chip Brewer - *Callaway Golf Company - President & CEO*

Scott, I think that we've made some good strategic investments in our business over the last few years in the marketing and tour side. Based on the market share and brand rating, those have been fruitful and have delivered for the business and its shareholders. We are going to continue to play that same theme. But we are also cognizant of the need to deliver operating leverage, so we will be making more investments. We will also keep an eye on the operating leverage side of it.

Operator

Lee Giordano, Sterne Agee CRT

Lee Giordano - *Sterne Agee CRT - Analyst*

Thanks, good evening, everyone. Chip, I was hoping you could talk about some of the structural changes that may have been made by manufacturers and retailers over the past year or so on product cycles and lengthening product cycles. It sounds like the promotional activity in the industry seems to be under control this year. Do you think the structural changes are permanent? Do you think there's been a change that can last longer term? How do you view that? Thank you.

Chip Brewer - *Callaway Golf Company - President & CEO*

Lee, this is -- looking forward is highly speculative. Take it with a grain of salt any comments on there. There certainly has been a less promotional environment this year. There's been less inventory in the field. If you look at all of the metrics you can see that the field inventories in sticks particular are down year over year and down in a meaningful manner. That same is occurring on an international basis.

Launch cycles in general have lengthened, or product life cycles. Certainly here at Callaway we've made a very conscious and strategic decision to lengthen many of our product life cycles. We feel good about that. It has led to improved market conditions in most of the markets across the globe, but particularly here in the US.

Right now I feel good about it, that there's been a stability restored to the markets that is sustainable. But that's very speculative. Now it does feel sustainable and we are enjoying very stable improved trading conditions.

Lee Giordano - *Sterne Agee CRT - Analyst*

Great thank you.

Operator

Mike Swartz, SunTrust.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Good evening, guys. Wanted to hop on the back of one of Scott's comments about the golf ball business and looking at the profitability in the last couple quarters. I guess it really just stood out to me that you guys had a similar operating margin in that business this quarter as the second quarter, but in the second quarter your revenue was $11 million higher.

What I'm trying to get at here, is there a better way to think about the structural margins of that business? And maybe even incremental margins on that for every incremental million dollars in revenue?

THOMSON REUTERS

Robert Julian - *Callaway Golf Company - CFO*

Mike, this is Robert. I think you have to be a little bit careful in looking at revenue as it compares to our production volume and the type of absorption we get. I think that we will try to produce in a more stable, constant way over the course of the year, so I wouldn't necessarily try to equate, if I understand your question properly, an expected fixed cost absorption or a variable contribution on higher margin from quarter to quarter.

What I can tell you is that there's been tremendous operational improvements in the golf ball business and the margins have improved greatly year over year. I wouldn't be necessarily looking for variation from quarter to quarter on changes in volume.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. Then with regards to the guidance for the full year, and as we think of the change from your prior guidance to your current guidance, how much of the change is coming from -- I guess there's a bunch of moving parts in there -- but what's the negative or the change in FX versus last quarter that goes into that guidance in particular? Versus what -- maybe it's just the core underlying growth.

Robert Julian - *Callaway Golf Company - CFO*

So if you compare our current results or our current guidance to prior, just for the impact of foreign exchange, there was actually a slight negative impact to our Q3 results versus our prior guidance for foreign exchange, about $2 million to $3 million on the top line. If you look at our full-year guidance right now and the impact of that FX on that, there is actually slight positive impact of about $3 million. I would say that's primarily due to the strengthening yen. In the grander scheme of things in the larger context of our $800 million-plus of revenue, it sort of noise.

Patrick Burke - *Callaway Golf Company - Head of IR*

Mike, this is Patrick. I would also add, remember we have a hedging program where we're hedging up to 70% to 80% of that risk. As there are impacts on the revenue line, the impacts on the earnings are very small, so very negligible. The vast majority of the increase in the earnings was operational performance in the business, mostly the gross margin improvement.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay, great. Thanks for the color, guys.

Operator

Rommel Dionisio, Wunderlich Securities.

Rommel Dionisio - *Wunderlich Securities, Inc. - Analyst*

Thanks very much. The last few years we've definitely noticed that some of the premium products, both in woods and irons here in the US have moved up to higher price points. For example, woods, some woods now [Strongflex] is at $399 and they're successfully sticking there. Are you guys seeing similar trends of that pricing gains on the premium side in foreign markets like Japan and Europe specifically?

Chip Brewer - *Callaway Golf Company - President & CEO*

Hey, Rommel, this is Chip. Yes, we are. In a local currency basis, because of the foreign exchange movements, we've also had to increase pricing in the international markets. You are seeing both the average transacted price points move up and the price points on the new products as we bake more and more technology into them. That seems to be resonating with consumers. From a Callaway perspective it's been a trend that's continued for a year or two. The sell-through results have been positive.

Rommel Dionisio - *Wunderlich Securities, Inc. - Analyst*

That's great. I appreciate the color, Chip, thanks.

Operator

Casey Alexander, Ladenburg Thalmann.

Casey Alexander - *Ladenburg Thalmann - Analyst*

Hi, good afternoon. Most of my questions have been answered. But in relation to that last question, Chip, is that what is accounting for the increase, which I think is a pretty impressive increases versus FX in Europe for the quarter. Up 9% year to year is a pretty strong comparison. Is that because you've been successful at pushing price increase through that market?

Chip Brewer - *Callaway Golf Company - President & CEO*

When you look at all of the international markets, we've started to adjust pricing, including in Europe. Europe had a really strong quarter but there is some pricing in the results, particularly in Q3, in the international markets. So it's definitely part of the story.

Casey Alexander - *Ladenburg Thalmann - Analyst*

As it relates to that, do you think you're leading the market up in price? Or are you following?

Chip Brewer - *Callaway Golf Company - President & CEO*

Great question. I don't know. We are moving based on what we believe our product is worth and the technology we're putting in it. In the international markets we are very successfully raising the prices. But I think there is a trend in the market as well. We are a leader, though, in so many product categories now and so many markets that I'm sure we are influential.

Robert Julian - *Callaway Golf Company - CFO*

And Casey, this is Robert. The other thing that I would mention on pricing in this industry, it's not just the price that products are sold in at. Pricing in this industry is also having to be less promotional and have less discounts.

I think the strength of our products and our market share and how the products has resonated with consumers has allowed us to be less promotional in terms of discounting. That's price too. Sometimes that's not as obvious as selling in at a higher price point, it's also us being less promotional and having to discount less given the success of the products.

Casey Alexander - *Ladenburg Thalmann - Analyst*

Okay, great. Robert, you specifically, in the guidance section it's discussing a base of 83 million shares, which is -- it was 83.8 million for the quarter and it says a base of 83 million for 2015. What should we use for Q4? And what's a good number now that this convertible is completely out of the way for 2016?

Robert Julian - *Callaway Golf Company - CFO*

It's probably worth explaining because it's a little bit complicated. What's happening to the shares, they are being used in our EPS calculation. When we converted to $85 million of debt in Q3 that actually led to the issuance of 11.3 million additional shares. However, the weighted average shares that's used in the calculation for Q3 only went up by 5.3 million because that transaction happened somewhere after we were halfway through the quarter.

When you look at it on a full-year basis, and Chip mentioned that we've actually issued a notice of redemption for the remaining principal balance. When that happens and that is redeemed, which we anticipate it would be, there'll be another 3.7 million shares. You will get the full 15 million shares now added to our basis. However, that would be averaged over 12 months for a full-year EPS calculation. So on a weighted-average basis that adds less total shares to the full-year weighted average over the full year, because it's dividing by the 12 months now.

Casey Alexander - *Ladenburg Thalmann - Analyst*

So you think the full-year weighted average is going to be 83 million.

Robert Julian - *Callaway Golf Company - CFO*

Correct, right.

Casey Alexander - *Ladenburg Thalmann - Analyst*

And then next year we should work with 95 million.

Robert Julian - *Callaway Golf Company - CFO*

That's exactly right. You'll get the full effect of the 15 million shares in 2016 [earning] from day one.

Chip Brewer - *Callaway Golf Company - President & CEO*

You got it, Casey, and in Q4 it's going to be closer to that more into the mid 92 million because you'll have almost all the shares in for Q4.

Robert Julian - *Callaway Golf Company - CFO*

Yes.

Casey Alexander - *Ladenburg Thalmann - Analyst*

Okay, great, that's perfect. Thank you very much for taking my questions.

Chip Brewer - *Callaway Golf Company - President & CEO*

Thank you.

Operator

There are no further questions. I will turn the call back over to Chip Brewer for final comment.

Chip Brewer - *Callaway Golf Company - President & CEO*

I want to thank everybody for tuning in today and calling in on the call. Again, to the Callaway team, thanks for some great results. Appreciate it and let's keep it going. Thank you.

Operator

This concludes today's conference call. You may now disconnect.