AMONETT THOMAS N
Form 4
November 20, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
AMONETT THOMAS N
(Last) (First) (Middle)
12000 AEROSPACE DR. SUITE 300
(Street)
HOUSTON, TX 77034
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Orion Marine Group Inc [ORN]

3. Date of Earliest Transaction (Month/Day/Year)
11/20/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common stock	11/20/2012		A		9,160	A	(1)	32,632	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
AMONETT THOMAS N 12000 AEROSPACE DR. SUITE 300 HOUSTON, TX 77034	X			

Signatures

Thomas N. Amonett	11/20/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The grant of restricted stock under the Company's Long Term Incentive Plan vests in its entirety six months after the date of grant (May 20, 2013).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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The accompanying notes are an integral part of these consolidated financial statements.

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CALLAWAY GOLF COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
Net sales	$1,242,834	$1,048,736	$871,192
Cost of sales	664,465	568,288	486,181
Gross profit	578,369	480,448	385,011
Selling expenses	308,709	270,890	235,556
General and administrative expenses	100,466	94,153	71,969
Research and development expenses	40,752	36,568	33,318
Total operating expenses	449,927	401,611	340,843
Income from operations	128,442	78,837	44,168
Interest income	594	454	621
Interest expense	(5,543)	(4,365)	(2,368)
Gain on sale of investments in golf-related ventures	—	—	17,662
Other income (expense), net	7,779	(6,871)	(1,690)
Income before income taxes	131,272	68,055	58,393
Income tax provision (benefit)	26,018	26,388	(132,561)
Net income	105,254	41,667	190,954
Less: Net income attributable to non-controlling interests	514	861	1,054
Net income attributable to Callaway Golf Company	$104,740	$40,806	$189,900
Earnings per common share:			
Basic	$1.11	$0.43	$2.02
Diluted	$1.08	$0.42	$1.98
Weighted-average common shares outstanding:			
Basic	94,579	94,329	94,045
Diluted	97,153	96,577	95,845

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

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CALLAWAY GOLF COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	$105,254	$41,667	$190,954
Other comprehensive income (loss):			
Change in derivative instruments	153	(2,492)	1,976
Foreign currency translation adjustments	(7,672)	14,361	(8,831)
Comprehensive income, before income tax on other comprehensive income items	97,735	53,536	184,099
Income tax expense (benefit) on derivative instruments	282	594	(902)
Comprehensive income	98,017	54,130	183,197
Less: Comprehensive income (loss) attributable to non-controlling interests	297	163	(1,104)
Comprehensive income attributable to Callaway Golf Company	$97,720	$53,967	$184,301

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

CALLAWAY GOLF COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$105,254	$41,667	$190,954
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,948	17,605	16,586
Inventory step-up from acquisitions	—	3,112	—
Deferred taxes	21,705	24,594	(141,447)
Share-based compensation	13,530	12,647	8,965
(Gain) loss on disposal of long-lived assets and deferred gain amortization	(13)	1,490	(116)
Gain on sale of investments in golf-related ventures	—	—	(17,662)
Unrealized (gains) losses on foreign currency forward contracts	(4,585)	1,023	(683)
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(2,109)	51,618	(16,965)
Inventories	(78,017)	(52,010)	24,251
Other assets	(9,975)	(6,533)	168
Accounts payable and accrued expenses	22,268	15,414	12,553
Accrued employee compensation and benefits	3,148	7,021	(489)
Income taxes receivable and payable	82	(2,155)	2,493
Accrued warranty expense	953	1,262	(311)
Other liabilities	93	944	(587)
Net cash provided by operating activities	92,282	117,699	77,710
Cash flows from investing activities:			
Acquisitions, net of cash acquired	—	(183,478)	—
Capital expenditures	(36,825)	(26,203)	(16,152)
Investment in golf-related ventures	(1,743)	(21,499)	(1,448)
Proceeds from sale of property, plant and equipment	43	587	20
Proceeds from sale of investments in golf-related ventures	—	—	23,429
Note receivable	—	—	3,104
Net cash (used in) provided by investing activities	(38,525)	(230,593)	8,953
Cash flows from financing activities:			
(Repayments of) proceeds from credit facilities, net	(47,455)	75,789	(3,003)
(Repayments of) proceeds from long-term debt	(2,186)	11,815	—
Exercise of stock options	1,636	5,362	2,637
Acquisition of treasury stock	(22,456)	(16,617)	(5,144)
Dividends paid, net	(3,788)	(3,773)	(3,764)
Credit facility amendment costs	—	(2,246)	—
Distributions to non-controlling interest	(821)	(974)	—
Other financing activities	—	—	20
Net cash (used in) provided by financing activities	(75,070)	69,356	(9,254)
Effect of exchange rate changes on cash and cash equivalents	(380)	3,237	(1,235)
Net (decrease) increase in cash and cash equivalents	(21,693)	(40,301)	76,174
Cash and cash equivalents at beginning of year	85,674	125,975	49,801
Cash and cash equivalents at end of year	$63,981	$85,674	$125,975
Supplemental disclosures:			
Cash paid for interest and fees	$4,990	$4,594	$1,626
Cash paid for income taxes, net	$9,564	$10,788	$6,143

Noncash investing and financing activities:			
Accrued capital expenditures at period end	$2,672	$2,007	$736
Issuance of treasury stock and common stock for compensatory stock awards released from restriction	$5,744	$5,813	$920

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

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CALLAWAY GOLF COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Callaway Golf Shareholders									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Callaway Golf Company Shareholders' Equity	Non-controlling Interest	Total
	Shares	Amount				Shares	Amount			
Balance, December 31, 2015	93,769	$ 938	$ 322,793	$ 101,047	$ (11,813)	(2)	$ (20)	$ 412,945	$ —	$ 412,945
Acquisition of treasury stock	—	—	—	—	—	(572)	(5,144)	(5,144)		(5,144)
Exercise of stock options	—	—	(697)	—	—	374	3,334	2,637	—	2,637
Tax deficit from exercise of stock options and compensatory stock	—	—	20	—	—	—	—	20	—	20
Compensatory awards released from restriction	440	4	(920)	—	—	101	916	—	—	—
Share-based compensation	—	—	8,965	—	—	—	—	8,965	—	8,965
Stock dividends	5	—	45	(54)	—	1	9	—	—	—
Cash dividends ($0.04 per share)	—	—	—	(3,764)	—	—	—	(3,764)	—	(3,764)
Equity adjustment from foreign currency translation	—	—	—	—	(7,727)	—	—	(7,727)	(1,104)	(8,831)
Non-controlling interest	—	—	—	—	—	—	—	—	9,744	9,744
Equity adjustment from derivative instruments, net of tax	—	—	—	—	1,074	—	—	1,074	—	1,074
Net income	—	—	—	189,900	—	—	—	189,900	1,054	190,954
Balance, December 31, 2016	94,214	942	330,206	287,129	(18,466)	(98)	(905)	598,906	9,694	608,600
Acquisition of treasury stock	—	—	—	—	—	(1,536)	(16,617)	(16,617)	—	(16,617)
Exercise of stock options	—	—	(1,899)	—	—	681	7,261	5,362	—	5,362
	825	8	(5,813)	—	—	542	5,805	—	—	—

Compensatory awards released from restriction										
Share-based compensation	—	—	12,647	—	—	—	—	12,647	—	12,647
Stock dividends	4	—	81	(81)	—	—	—	—	—	—
Cash dividends ($0.04 per share)	—	—	—	(3,773)	—	—	—	(3,773)	—	(3,773)
Equity adjustment from foreign currency translation	—	—	—	—	14,198	—	—	14,198	163	14,361
Equity adjustment from derivative instruments, net of tax	—	—	—	—	(1,898)	—	—	(1,898)	—	(1,898)
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(974)	(974)
Net income	—	—	—	40,806	—	—	—	40,806	861	41,667
Balance, December 31, 2017	95,043	950	335,222	324,081	(6,166)	(411)	(4,456)	649,631	9,744	659,375
Adoption of accounting standard (Note 3)	—	—	—	(11,185)	—	—	—	(11,185)	—	(11,185)
Acquisition of treasury stock	—	—	—	—	—	(1,412)	(22,456)	(22,456)		(22,456)
Exercise of stock options	—	—	(1,734)	—	—	231	3,370	1,636	—	1,636
Compensatory awards released from restriction	606	6	(5,744)	—	—	451	5,738	—	—	—
Share-based compensation	—	—	13,530	—	—	—	—	13,530	—	13,530
Stock dividends	—	—	(33)	(49)	—	3	82	—	—	—
Cash dividends ($0.04 per share)	—	—	—	(3,788)	—	—	—	(3,788)	—	(3,788)
Equity adjustment from foreign currency translation	—	—	—	—	(7,969)	—	—	(7,969)	297	(7,672)
Equity adjustment from derivative instruments, net of tax	—	—	—	—	435	—	—	435	—	435
Distributions to non-controlling interests (see Note 9)	—	—	—	—	—	—	—	—	(821)	(821)
Net income	—	—	—	104,740	—	—	—	104,740	514	105,254

Balance, December 31, 2018	95,649	956	341,241	413,799	(13,700)	(1,138)	(17,722)	724,574	9,734	734,308

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

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CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company

Callaway Golf Company ("Callaway Golf" or the "Company"), a Delaware corporation, together with its subsidiaries, designs, manufactures and sells high quality golf clubs (drivers, fairway woods, hybrids, irons, wedges and putters), golf balls, golf bags and other golf-related accessories. The Company generally sells its golf-related products to golf retailers (including pro shops at golf courses and off-course retailers), sporting goods retailers, Internet retailers and mass merchants, directly and through its wholly-owned subsidiaries, and to third-party distributors in the United States and in over 100 countries around the world. The Company also sells pre-owned Callaway golf products through its website www.callawaygolfpreowned.com and sells new Callaway golf products through its websites www.callawaygolf.com and www.odysseygolf.com. In 2016, the Company further expanded its business into golf and lifestyle apparel and accessories with the completion of the golf apparel joint venture in Japan in July 2016. In 2017, the Company acquired OGIO International, Inc. ("OGIO"), a leading manufacturer of high quality bags, accessories and apparel in the golf and lifestyle categories, and TravisMathew, LLC ("TravisMathew"), a golf and lifestyle apparel company. These acquisitions are expected to enhance the Company's presence in golf while also providing a platform for future growth in the lifestyle category. In connection with the apparel joint venture in Japan and the TravisMathew acquisition, the Company now has retail locations in Japan and the U.S. that sell Callaway and TravisMathew branded apparel, gear and other golf accessories directly to consumers. In addition, the Company licenses its trademarks and service marks in exchange for a royalty fee to third parties for use on golf related accessories including golf apparel and footwear, golf gloves, prescription eyewear and practice aids as well as OGIO branded gear and accessories.

In January 2019, the Company completed the acquisition of JW Stargazer Holding GmbH, the owner of the international, premium outdoor apparel, footwear and equipment brand, Jack Wolfskin ("Jack Wolfskin") for €460,000,000 or approximately $525,000,000, subject to working capital adjustments. The Company financed the acquisition with a Term Loan B facility in the aggregate principal amount of $480,000,000 (see Note 5). Jack Wolfskin designs premium products targeted at the active outdoor and urban outdoor customer categories. This acquisition is expected to further enhance the Company's lifestyle category and provide a platform for future growth in the active outdoor and urban outdoor categories, which the Company believes are complementary to its portfolio of brands and product capabilities.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Examples of such estimates include provisions for warranty, uncollectible accounts receivable, inventory obsolescence, sales returns, tax contingencies and estimates related to the Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017, estimates on the valuation of share-based awards and recoverability of long-lived assets and investments. Actual results may materially differ from these estimates. On an ongoing basis, the Company reviews its estimates to ensure that these estimates appropriately reflect changes in its business or as new information becomes available.

Recent Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments in this ASU will remove, modify or add to the disclosure requirements for fair value measurements in ASC Topic 820, "Fair Value Measurement" ("ASC Topic 820). The

amendments are effective for all entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity is permitted to early adopt the removed or modified disclosures upon the issuance of this ASU and may delay adoption of the additional disclosures required for

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public companies until the effective date of this ASU. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements and disclosures.
In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The new standard is designed to refine and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. The new standard is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company will adopt this ASU on January 1, 2019 and, based on the Company's evaluation, this ASU will not have a material impact on its consolidated financial statements and disclosures.
In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," as amended by ASU 2018-11 issued in July 2018, which provides entities with an additional (and optional) transition method to adopt the new lease standard, as well as a practical expedient for lessors on non-lease components. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged and lessees will no longer be provided with a source of off-balance sheet financing. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into, after the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. In July 2018, the FASB issued ASU 2018-11, under which entities have the option to not restate the comparative periods in the period of adoption when transitioning to Topic 842, and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt ASU 2016-02 and the transition amendments provided by ASU 2018-11, on the effective date of January 1, 2019. The Company plans to elect transition-related accounting policies under ASU 2016-02, which allow entities to not reassess, as of the adoption date, (1) any expired or existing contracts that are leases or contain leases, (2) the classification of any expired or existing leases and (3) initial direct costs for any existing leases. The Company has a significant number of operating leases that are classified as off-balance sheet commitments under the current accounting rules. On January 4, 2019, the Company completed the acquisition of Jack Wolfskin and due to the timing of this acquisition, the Company is still evaluating Jack Wolfskin's lease portfolio under ASU 2016-02. Based on the Company's completed assessment of its existing lease portfolio, the Company estimates it will record right of use assets and lease liabilities in the range of $55,000,000 and $65,000,000 upon the adoption of this standard, which does not include the leases for Jack Wolfskin. These estimates will change as the Company continues to progress with the implementation and its assessment of the Jack Wolfskin lease portfolio. The addition of the Jack Wolfskin leases will more than double the Company's combined lease portfolio and therefore, the Company expects the addition of the Jack Wolfskin leases to significantly increase the estimated amount of its right of use assets and lease liabilities. On a consolidated basis, the adoption of this ASU will have a significant, material impact on the Company's consolidated balance sheet. The Company anticipates the impact to its consolidated statement of operations and statement of shareholders' equity to be immaterial.
Adoption of New Accounting Standards
On January 1, 2018, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" using the modified retrospective approach, and applied this guidance to all contracts as of the adoption date as discussed in Note 3 below. This new standard requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time based on when control of goods and services transfers to a customer. In addition, it requires companies to determine the transaction price for a contract, which is the price used to recognize revenue as well as the amount of consideration companies expect to collect from its customers in exchange for the promised goods or services in the contract. Because the transaction price can vary as

a result of variable consideration for items such as sales returns, discounts, rebates, price concessions and incentives, companies are required to include an estimate of variable consideration in the transaction price. The adoption of this new standard accelerated the timing of when the Company recognizes variable consideration for certain sales program incentives, which include sell-through promotions and price concessions or price reductions that it offers to its customers. As a result, the Company now estimates the variable consideration related to these sales programs at the time of the sale based on a rate that includes historical and forecasted data, as opposed to when these programs are approved and announced. Upon the adoption of Topic 606, the Company recorded a cumulative adjustment to beginning retained earnings of $11,185,000, as noted in the table below, which reflects the estimated amount of variable consideration related to future sales programs for

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revenue recognized in prior periods. In addition, under Topic 606, the liability for sales returns is now recorded separately from the cost recovery of inventory. As a result, the Company now records the cost recovery in other current assets. The liability for sales returns continues to be recorded as a reduction to accounts receivable. Prior period information that is presented for comparative purposes has not been restated and continues to be reported under the accounting standards that were in effect in those periods.

Balance Sheet	Balance at December 31, 2017	Adjustments Due To Topic 606	Balance at January 1, 2018
Accounts receivable, net	$94,725	$(31,881)	$62,844
Deferred taxes, net	$91,398	$4,971	$96,369
Other current assets	$22,557	$15,725	$38,282
Retained earnings	$324,081	$(11,185)	$312,896

The impact of adopting the new revenue standard on the Company's consolidated statements of operations for the year ended December 31, 2018 was as follows:

	December 31, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change Increase/(Decrease)
Net Sales	$1,242,834	$1,244,612	$(1,778)
Income tax provision	$26,018	$26,627	$(609)
Net income	$104,740	$105,909	$(1,169)

The impact of adopting the new revenue standard on the Company's consolidated balance sheet as of December 31, 2018 was as follows:

	December 31, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change Increase/(Decrease)
Assets			
Accounts receivable, net	$71,374	$103,847	$(32,473)
Deferred taxes, net	$75,079	$69,981	$5,098
Other current assets	$50,781	$36,242	$14,539
Liabilities and Equity			
Income tax liability	$1,091	$1,573	$(482)
Retained earnings	$413,799	$426,153	$(12,354)

On January 1, 2018, the Company early adopted ASU No. 2018-02 “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate resulting from the Tax Act (or portion thereof) resulted in a disproportionate tax effect. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted this policy using the specific identification method, and the adoption of this policy did not have a material impact on the Company’s consolidated financial statements.

On January 1, 2018, the Company adopted ASU No. 2016-16 “Intra-Entity Asset Transfer of Assets other than Inventory,” which eliminates the requirement to defer the tax effects of intra-entity asset transfers until they are disposed or sold to a third party. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.
On January 1, 2018, the Company adopted ASU No. 2016-04, "Liabilities—Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products," which clarifies when it is acceptable to recognize the unredeemed portion of prepaid gift cards into income. The adoption of this ASU did not change the Company's accounting for gift

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cards, and therefore did not impact the Company's consolidated financial statements. As of December 31, 2018, the Company had $1,096,000 of deferred revenue related to unredeemed gift cards.
On January 1, 2018, the Company adopted No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendment requires (i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, (ii) public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, and (iii) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). This amendment eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. As of December 31, 2018, the Company had an investment in Topgolf International, Inc. of $72,238,000, consisting of common stock and various classes of preferred stock. Because Topgolf is a privately held company, the Company's investment in Topgolf is accounted for at cost less impairments, if any, as this investment is without a readily determinable fair value. In accordance with ASU No. 2016-01, if there is an observable price change as a result of an orderly transaction for the identical or similar investment of the same issuer, the Company would be required to assess the fair value impact, if any, on each identified or similar class of Topgolf stock held by the Company, and write such stock up or down to its estimated fair value. If there are any observable price changes related to this investment, the adjustment to measure this investment at fair value could have a material effect on the Company's financial position and results of operations. During the year ended December 31, 2018, the shares that were purchased from other Topgolf shareholders were not acquired in orderly transactions as these transactions were not exposed to the market and were not subject to marketing activities. As such, at December 31, 2018, the Company accounted for its investment in Topgolf at cost less impairments in accordance with ASU No. 2016-01. As of December 31, 2018, the Company has not recorded any impairments with respect to this investment (see Note 8).

Warranty Policy

The Company has a stated two-year warranty policy for its golf clubs. The Company’s policy is to accrue the estimated cost of satisfying future warranty claims at the time the sale is recorded. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company’s stated warranty policies and practices, the historical frequency of claims, and the cost to replace or repair its products under warranty. The increase in warranty expense and the claims paid in 2018 and 2017 compared to 2016 was primarily due to additional claims related to certain 2015 putter models. The Company believes it has resolved the quality issues related to these older putters.
The following table provides a reconciliation of the activity related to the Company’s accrued warranty expense:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Beginning balance	$6,657	$5,395	$5,706
Provision	9,437	9,434	5,493
Claims paid/costs incurred	(8,484)	(8,172)	(5,804)
Ending balance	$7,610	$6,657	$5,395

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability (the exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants. The Company measures and discloses the fair value of nonfinancial and financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. This hierarchy requires the use of observable market data when available. The measurement of assets and liabilities at fair value are classified using the following three-tier hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities;

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Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
Level 3: Fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.
The Company measures fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at fair value. When available, the Company utilizes quoted market prices from an independent third-party source to determine fair value and classifies such items in Level 1. In some instances where a market price is available, but the instrument is in an inactive or over-the-counter market, the Company consistently applies the dealer (market maker) pricing estimate and uses a midpoint approach on bid and ask prices from financial institutions to determine the reasonableness of these estimates. Assets and liabilities subject to this fair value valuation approach are typically classified as Level 2.
Items valued using internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or Level 3 even though there may be some significant inputs that are readily observable. The Company utilizes a discounted cash flow valuation model whenever applicable to derive a fair value measurement on long-lived assets and goodwill and intangible assets. The Company uses its internal cash flow estimates discounted at an appropriate rate, quoted market prices, royalty rates when available and independent appraisals as appropriate. The Company also considers its counterparty’s and own credit risk on derivatives and other liabilities measured at their fair value.
Advertising Costs
The Company's primary advertising costs are from television and print media advertisements. The Company’s policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 2018, 2017 and 2016 were $72,164,000, $62,898,000 and $59,003,000, respectively.
Research and Development Costs
Research and development costs are expensed as incurred. Research and development costs for 2018, 2017 and 2016 were $40,752,000, $36,568,000 and $33,318,000, respectively.
Foreign Currency Translation and Transactions
A significant portion of the Company’s business is conducted outside of the United States in currencies other than the U.S. dollar. As a result, changes in foreign currency exchange rates can have a significant effect on the Company’s financial results. Revenues and expenses that are denominated in foreign currencies are translated using the average exchange rate for the period. Assets and liabilities are translated at the rate of exchange on the balance sheet date. Gains and losses from assets and liabilities denominated in a currency other than the functional currency of the entity in which they reside are generally recognized currently in the Company's statements of operations. Gains and losses from the translation of foreign subsidiary financial statements into U.S. dollars are included in accumulated other comprehensive income or loss (see Accumulated Other Comprehensive Income policy below).
The Company recorded a net loss in foreign currency transactions of $2,824,000 in 2018, and net gains of $808,000 and $226,000 in 2017 and 2016, respectively,
Derivatives and Hedging
In order to mitigate the impact of foreign currency translation on transactions, the Company uses foreign currency forward contracts that are accounted for as non-designated and designated hedges pursuant to ASC Topic 815, “Derivatives and Hedging” ("ASC Topic 815"). ASC Topic 815 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as designated cash flow hedge that offsets certain exposures. Certain criteria must be satisfied in order for derivative financial instruments to be classified and accounted for as a cash flow hedge. Gains and losses from the remeasurement of qualifying cash flow hedges are recorded as a component of other comprehensive income and released into earnings as a component of cost of goods sold or net sales during the period in which the hedged transaction takes place. Gains and losses on the ineffective portion of hedges (hedges that do not meet accounting requirements due to ineffectiveness) and

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derivatives that are not elected for hedge accounting treatment are immediately recorded in earnings as a component of other income (expense).

Cash and Cash Equivalents

Cash equivalents are highly liquid investments purchased with original maturities of three months or less.

Trade Accounts Receivable

The Company's trade accounts receivable are recorded at net realizable value, which includes an appropriate allowance for estimated credit losses, as well as liabilities related to product returns and sales programs as described below in Note 3. The estimate of credit losses is based upon historical bad debts, current customer receivable balances, age of customer receivable balances, the customer’s financial condition and current economic trends, all of which are subject to change. Actual uncollected amounts have historically been generally consistent with the Company’s expectations. The Company's payment terms on its receivables from customers are generally 60 days or less.

From time to time, dependent upon the cost, the Company purchases trade insurance to mitigate the risk of uncollectible accounts on its outstanding accounts receivable. The Company considers any available insurance coverage when estimating its provision for uncollectible accounts. Insurance claim recoveries from this trade insurance are applied to the Company’s outstanding accounts receivable or are recorded as a reduction to bad debt expense in the period in which the claim is received.

The following table provides a reconciliation of the activity related to the Company’s allowance for estimated credit losses.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Beginning balance	$4,447	$5,728	$5,645
Provision for credit losses	2,257	2,335	2,398
Write-off of uncollectible amounts, net of recoveries	(1,094)	(3,616)	(2,315)
Ending balance	$5,610	$4,447	$5,728

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The inventory balance, which includes material, labor and manufacturing overhead costs, is recorded net of an estimate for obsolete or unmarketable inventory. This estimate is based upon current inventory levels, sales trends and historical experience as well as management’s estimates of market conditions and forecasts of future product demand, all of which are subject to change.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives generally as follows:

Buildings and improvements	10-30 years
Machinery and equipment	5-10 years
Furniture, computers and equipment	3-5 years
Production molds	2-5 years

Normal repairs and maintenance costs are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. The related costs and accumulated depreciation of disposed assets are eliminated and any resulting gain or loss on disposition is included in net income/(loss). Construction in-process consists primarily of costs associated with building improvements, machinery and equipment that have not yet been placed into service, unfinished molds as well as in-process internal-use software.

In accordance with ASC Topic 350-40, “Internal-Use Software,” the Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. Costs incurred in the preliminary project stage are expensed. All direct external costs incurred to develop internal-use software during the development stage are capitalized and amortized using the straight-line method over the remaining estimated useful lives. Costs such as

maintenance and training are expensed as incurred.

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Long-Lived Assets

In accordance with ASC Topic 360-10-35, “Impairment or Disposal of Long-Lived Assets”, the Company assesses potential impairments of its long-lived assets whenever events or changes in circumstances indicate that the asset’s carrying value may not be recoverable. An impairment charge would be recognized when the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group.

Goodwill and Intangible Assets

Goodwill and intangible assets, which consist of trade names, trademarks, service marks, trade dress, patents and other intangible assets, were acquired in connection with the acquisition of Odyssey Sports, Inc. in 1997, FrogTrader, Inc. in 2004, OGIO in January 2017, TravisMathew in August 2017, and certain foreign distributors. The Company expects to record goodwill and other intangible assets related to the acquisition of Jack Wolfskin in January 2019.

In accordance with ASC Topic 350, “Intangibles—Goodwill and Other,” goodwill and intangible assets with indefinite lives are not amortized but instead are measured for impairment at least annually or more frequently when events indicate that an impairment exists. The Company calculates impairment as the excess of the carrying value of goodwill and other indefinite-lived intangible assets over their estimated fair value. If the carrying value exceeds the estimate of fair value a write-down is recorded. To determine fair value, the Company uses its internal discounted cash flow estimates, quoted market prices, royalty rates when available and independent appraisals when appropriate. The Company completed its annual impairment test and fair value analysis of goodwill and other indefinite-lived intangible assets as of December 31, 2018, and the estimated fair values of the Company’s reporting units, as well as the estimated fair values of certain trade names and trademarks, significantly exceeded their carrying values. As a result, no impairment was recorded as of December 31, 2018.

Intangible assets that are determined to have definite lives are amortized over their estimated useful lives and are measured for impairment only when events or circumstances indicate the carrying value may be impaired in accordance with ASC Topic 360-10-35 discussed above. See Note 7 for further discussion of the Company’s goodwill and intangible assets.

Investments

The Company determines the appropriate classification of its investments at the time of acquisition and reevaluates such classification at each balance sheet date. Investments that do not have readily determinable fair values are stated at cost. The Company monitors investments for impairment whenever events or changes in circumstances indicate that the investment's carrying value may not be recoverable. An impairment charge would be recognized when the carrying amount exceeds its fair value. See Note 8 for further discussion of the Company’s investments.

Share-Based Compensation

The Company accounts for its share-based compensation arrangements in accordance with ASC Topic 718, “Compensation—Stock Compensation” (“ASC Topic 718”), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and non-employees based on estimated fair values. ASC Topic 718 further requires a reduction in share-based compensation expense by an estimated forfeiture rate. The forfeiture rate used by the Company is based on historical forfeiture trends. If actual forfeiture rates are not consistent with the Company’s estimates, the Company may be required to increase or decrease compensation expenses in future periods.

Performance share units are stock-based awards in which the number of shares ultimately received depends on the Company's performance against specified goals that are measured over a designated performance period from the date of grant. These performance goals are established by the Company at the beginning of the performance period. At the end of the performance period, the number of shares of stock that could be issued is fixed based upon the degree of achievement of the performance goals. The number of shares that could be issued can range from 0% to 200% of the participant's target award. Performance share units are initially valued at the Company's closing stock price on the date of grant. Compensation expense, net of estimated forfeitures, is recognized over the vesting period and will vary based on the anticipated performance level during the performance period. If the performance goals are not probable of achievement during the performance period, compensation expense would be reversed. The awards are forfeited if the

performance goals are not achieved as of the end of the performance period. The performance units vest in full at the end of a three-year period.

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The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options and stock appreciation rights (“SARs”) at the date of grant. As of December 31, 2018, all stock options were fully vested and all SARs were fully settled. The Company did not grant stock options or SARs in the years ended December 31, 2018, 2017 or 2016.

The Company records compensation expense for restricted stock awards and restricted stock units (collectively “restricted stock”) based on the estimated fair value of the award on the date of grant. The estimated fair value is determined based on the closing price of the Company’s common stock on the award date multiplied by the number of shares underlying the restricted stock awarded. Total compensation expense is recognized on a straight-line basis over the vesting period.

Income Taxes

Current income tax expense or benefit is the amount of income taxes expected to be payable or receivable for the current year. A deferred income tax asset or liability is established for the difference between the tax basis of an asset or liability computed pursuant to ASC Topic 740 and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. In accordance with the applicable accounting rules, the Company maintains a valuation allowance for a deferred tax asset when it is deemed to be more likely than not that some or all of the deferred tax assets will not be realized. In evaluating whether a valuation allowance is required under such rules, the Company considers all available positive and negative evidence, including prior operating results, the nature and reason for any losses, its forecast of future taxable income, and the dates on which any deferred tax assets are expected to expire. These assumptions require a significant amount of judgment, including estimates of future taxable income. These estimates are based on the Company’s best judgment at the time made based on current and projected circumstances and conditions. For further information, see Note 11 “Income Taxes.”

Pursuant to ASC Topic 740-25-6, the Company is required to accrue for the estimated additional amount of taxes for uncertain tax positions if it is deemed to be more likely than not that the Company would be required to pay such additional taxes. The Company is required to file federal and state income tax returns in the United States and various other income tax returns in foreign jurisdictions. The preparation of these income tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. The Company accrues an amount for its estimate of additional tax liability, including interest and penalties in income tax expense, for any uncertain tax positions taken or expected to be taken in an income tax return. The Company reviews and updates the accrual for uncertain tax positions as more definitive information becomes available. Historically, additional taxes paid as a result of the resolution of the Company’s uncertain tax positions have not been materially different from the Company’s expectations. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. For further information, see Note 11 “Income Taxes.”

In December 2017, the U.S. government enacted comprehensive tax legislation referred to as the Tax Cuts and Jobs Act (the "Tax Act"). Shortly after the Tax Act was enacted, the SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provides guidance on accounting for the Tax Act’s impact. SAB 118 provides a measurement period, during which a company acting in good faith may complete the accounting for the impacts of the Tax Act under ASC Topic 740. The measurement period began in the reporting period that includes the Tax Act’s enactment date and ended when the Company obtained, prepared, and analyzed the information that was needed in order to complete the accounting requirements under ASC Topic 740. The Company provided a reasonable estimate for the impact of the Tax Act for the year ended December 31, 2017. The measurement period ended on December 22, 2018 and the Company recorded additional expense of $906,000 related to the transition tax. No other significant adjustments were made relating to the Act. Additionally, the Company has elected to treat global intangible low taxed income ("GILTI") as a period cost and will expense GILTI in the period it is incurred. For further information, see Note 11 “Income Taxes.”

Other Income (Expense), Net

Other income (expense), net primarily includes gains and losses on foreign currency forward contracts and foreign currency transactions. The components of other income (expense), net are as follows:

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	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Foreign currency forward contract gain (loss), net	$10,085	$(7,688)	$(2,917)
Foreign currency transaction gain (loss), net	(2,824)	808	226
Other	518	9	1,001
	$7,779	$(6,871)	$(1,690)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the impact of foreign currency translation adjustments and activity related to derivative instruments designated for hedge accounting. The total equity adjustment from foreign currency translation included in accumulated other comprehensive income were losses of $7,969,000 and $7,727,000 as of December 31, 2018 and 2016, respectively and gains of $14,198,000 as of December 31, 2017. With the exception of the Company's entity in Canada, the Company met the permanent reinvestment criteria and as such it does not accrue income taxes on foreign currency translation adjustments (see Note 11 for further discussion). The total equity adjustment from activity related to derivative instruments was net gains of $435,000 and $1,074,000 as of December 31, 2018 and 2016, respectively, and a net loss of $1,898,000 as of December 31, 2017. For further information see Note 17 "Derivatives and Hedging."

The following table details the amounts reclassified from accumulated other comprehensive income to cost of goods sold, as well as changes in foreign currency translation for the years ended December 31, 2018, 2017 and 2016 (in thousands).

	Derivative Instruments	Foreign Currency Translation	Total
Accumulated other comprehensive loss, December 31, 2015	525	(12,338)	(11,813)
Change in derivative instruments	(567)	—	(567)
Net losses reclassified to cost of goods sold	1,500	—	1,500
Net losses reclassified to net sales	1,014	—	1,014
Foreign currency translation adjustments	—	(7,698)	(7,698)
Income tax expense	(902)	—	(902)
Accumulated other comprehensive loss, December 31, 2016, after tax	1,570	(20,036)	(18,466)
Change in derivative instruments	(2,679)	—	(2,679)
Net losses reclassified to cost of goods sold	187	—	187
Foreign currency translation adjustments	—	14,198	14,198
Income tax expense	594	—	594
Accumulated other comprehensive loss, December 31, 2017, after tax	(328)	(5,838)	(6,166)
Change in derivative instruments	389	—	389
Net gains reclassified to cost of goods sold	(236)	—	(236)
Foreign currency translation adjustments	—	(7,969)	(7,969)
Income tax expense	282	—	282
Accumulated other comprehensive loss, December, 2018, after tax	$ 107	$ (13,807)	$(13,700)

Segment Information

The Company has three operating and reportable segments, namely Golf Clubs, Golf Balls and Gear, Accessories and Other as of December 31, 2018. The Golf Clubs operating segment consists of Callaway Golf woods, hybrids, irons and wedges, Odyssey putters, including Toulon Design putters by Odyssey, packaged sets and sales of pre-owned golf clubs. At the product category level, sales of packaged sets are included within irons, and sales of pre-owned golf clubs are included in the respective woods, irons and putters product categories. The Golf Balls segment consists of Callaway Golf and Strata golf balls that are designed, manufactured and sold by the Company. The Gear, Accessories and Other operating segment consist of soft goods products which include golf apparel and footwear, golf bags, golf gloves, travel gear, headwear and other golf-related accessories, retail apparel sales from the Company's joint venture

in Japan, OGIO branded gear products and TravisMathew golf and lifestyle apparel and accessories. Also included in this operating segment are licensing revenues from the licensing of the Company’s trademarks and

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service marks for various soft goods. Due to the recent acquisition of Jack Wolfskin in January 2019 (Note 4), the Company is anticipating significant growth in its soft goods business, and as such, it will be evaluating its global business platform, including its management structure, operations, supply chain and distribution, which may result in changes in the composition of its operating and reportable segments.

This information, as well as information about the Company's geographic areas, is presented in Note 18 “Segment Information.”

Concentration of Risk

The Company operates in the golf equipment industry and has a concentrated customer base, which is primarily comprised of golf equipment retailers (including pro shops at golf courses and off-course retailers), sporting goods retailers and mass merchants and foreign distributors. On a consolidated basis, no single customer accounted for more than 10% of the Company’s consolidated revenues in 2018 and 2017, and 8% in 2016. The Company's top five customers accounted for approximately 22% of the Company's consolidated revenues in each of 2018 and 2016, and 21% in 2017.

With respect to the Company's segments, the Company's top five

- Golf Club customers accounted for approximately 25%, 20% and 26% of total consolidated Golf Club sales in 2018, 2017 and 2016, respectively;
- Golf Ball customers accounted for approximately 29%, 30% and 28% of total consolidated Golf Ball sales in 2018, 2017 and 2016, respectively; and
- Gear and Accessories customers accounted for approximately 19%, 15% and 18% of total consolidated Gear and Accessories sales in 2018, 2017 and 2016, respectively.

A loss of one or more of these customers could have a significant effect on the Company's net sales.

With respect to the Company's trade receivables, the Company performs ongoing credit evaluations of its customers’ financial condition and generally requires no collateral from these customers. The Company maintains reserves for estimated credit losses, which it considers adequate to cover any such losses. At December 31, 2018 one customer represented 12% of the Company's outstanding accounts receivable balance. At December 31, 2017, no single customer represented over 9% of the Company’s outstanding accounts receivable balance. Managing customer-related credit risk is more difficult in regions outside of the United States. Of the Company’s total net sales, approximately 43%, 46% and 49% were derived from sales outside of the United States in 2018, 2017 and 2016, respectively. Prolonged unfavorable economic conditions could significantly increase the Company’s credit risk with respect to its outstanding accounts receivable.

The Company is dependent on a limited number of suppliers for its clubheads and shafts, some of which are single sourced. Furthermore, some of the Company’s products require specially developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. In addition, many of the Company’s suppliers are not well capitalized and prolonged unfavorable economic conditions could increase the risk that they will go out of business. If current suppliers are unable to deliver clubheads, shafts or other components, or if the Company is required to transition to other suppliers, the Company could experience significant production delays or disruption to its business. The Company also depends on a single or a limited number of suppliers for the materials it uses to make its golf balls. Many of these materials are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact on the Company’s golf ball business. If the Company were to experience any such delays or interruptions, the Company may not be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company’s financial instruments that are subject to concentrations of credit risk consist primarily of cash equivalents, trade receivables and foreign currency forward contracts.

From time to time, the Company invests its excess cash in money market accounts and short-term U.S. government securities and has established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Company enters into foreign currency forward contracts for the purpose of hedging foreign exchange rate exposures on existing or anticipated transactions. In the event of a failure to honor one of these contracts by one of the

banks with which the Company has contracted, management believes any loss would be limited to the exchange rate differential from the time the contract was made until the time it was settled.

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Note 3. Revenue Recognition

The Company recognizes revenue from the sale of its products, which include golf clubs, golf balls, golf bags and other lifestyle and golf-related apparel and accessories. The Company sells its products to customers, which include on- and off-course golf shops and national retail stores, as well as to consumers through its e-commerce business and at its apparel retail locations. In addition, the Company recognizes royalty income from the sale by third-party licensees of certain soft goods products, as well as revenue from the sale of gift cards.

The Company's contracts with customers are generally in the form of a purchase order. In certain cases, the Company enters into sales agreements containing specific terms, discounts and allowances. In addition, the Company enters into licensing agreements with certain distributors.

The following table presents the Company's revenue disaggregated by major product category and operating and reportable segment (in thousands):

	Year Ended December 31, 2018			
	Operating and Reportable Segments			
	Golf Clubs	Golf Balls	Gear, Accessories & Other	Total
Major product category:				
Woods	$304,459	$—	$ —	$304,459
Irons	316,463	—	—	316,463
Putters	96,371	—	—	96,371
Golf Balls	—	195,654	—	195,654
Gear, Accessories and Other	—	—	329,887	329,887
	$717,293	$195,654	$ 329,887	$1,242,834

The Company sells its golf clubs and golf ball products as well as its gear and accessories in the United States and internationally, with its principal international regions being Japan and Europe. Sales of golf clubs, golf balls and gear and accessories in each region are generally proportional to the Company's consolidated net sales by operating segment as a percentage of total consolidated net sales. Sales of gear and accessories in Japan are proportionally higher relative to the size of that region due to sales from the Company's apparel joint venture in Japan. See Note 18 for information on revenue by major geographic region.

Product Sales

The Company recognizes revenue from the sale of its products when it satisfies the terms of a sales order from a customer, and transfers control of the products ordered to the customer. Control transfers when products are shipped, and in certain cases, when products are received by customers. In addition, the Company recognizes revenue at the point of sale on transactions with consumers at its retail locations. Sales taxes, value added taxes and other taxes that are collected in connection with revenue transactions are withheld and remitted to the respective taxing authorities. As such, these taxes are excluded from revenue. The Company elected to account for shipping and handling as activities to fulfill the promise to transfer the good. Therefore, shipping and handling fees that are billed to customers are recognized in revenue and the associated shipping and handling costs are recognized in cost of goods sold as soon as control of the goods transfers to the customer.

Royalty Income

Royalty income is recognized over time in net sales as underlying product sales occur, subject to certain minimum royalties, in accordance with the related licensing arrangements and is included in the Company's Gear, Accessories and Other operating segment. Total royalty income for the years ended December 31, 2018, 2017 and 2016 was $19,021,000, $18,622,000 and $7,622,000 respectively. The increase in royalty income in 2018 and 2017 compared to 2016 was primarily due to royalties recognized in connection with OGIO branded products.

Gift Cards

Revenues from gift cards are deferred and recognized when the cards are redeemed. The Company’s gift cards have no expiration date. The Company recognizes revenue from unredeemed gift cards, otherwise known as breakage, when the likelihood of redemption becomes remote and under circumstances that comply with any applicable state

escheatment laws. To determine when redemption is remote, the Company analyzes an aging of unredeemed cards (based on the date the card was last used or the

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activation date if the card has never been used) and compares that information with historical redemption trends. The Company uses this historical redemption rate to recognize breakage on unredeemed gift cards over the redemption period. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to determine the timing of recognition of gift card revenues. As of December 31, 2018 and 2017, the total amount of deferred revenue on gift cards was $1,096,000 and $971,000, respectively, and is reflected in accounts payable and accrued expenses on the accompanying consolidated balance sheets. The Company recognized $1,518,000 and $1,455,000 of deferred gift card revenue during the year ended December 31, 2018 and 2017, respectively.

Variable Consideration

The amount of revenue the Company recognizes is based on the amount of consideration it expects to receive from customers. The amount of consideration is the sales price adjusted for estimates of variable consideration, including sales returns, discounts and allowances as well as sales programs, sales promotions and price concessions that are offered by the Company as described below. These estimates are based on the amounts earned or to be claimed by customers on the related sales, and are therefore recorded as reductions to sales and trade accounts receivable.

The Company’s primary sales program, the “Preferred Retailer Program,” offers potential rebates and discounts for participating retailers in exchange for providing certain benefits to the Company, including the maintenance of agreed upon inventory levels, prime product placement and retailer staff training. Under this program, qualifying retailers can earn either discounts or rebates based upon the amount of product purchased. Discounts are applied and recorded at the time of sale. For rebates, the Company estimates the amount of variable consideration related to the rebate at the time of sale based on the customer’s estimated qualifying current year product purchases. The estimate is based on the historical level of purchases, adjusted for any factors expected to affect the current year purchase levels. The estimated year-end rebate is adjusted quarterly based on actual purchase levels, as necessary. The Preferred Retailer Program is generally short-term in nature and the actual amount of rebate to be paid under this program is known as of the end of the year and paid to customers shortly after year-end. Historically, the Company's actual amount of variable consideration related to its Preferred Retailer Program has not been materially different from its estimates.

The Company also offers short-term sales program incentives, which include sell-through promotions and price concessions or price reductions. Sell-through promotions are generally offered throughout the product's life cycle of approximately two years, and price concessions or price reductions are generally offered at the end of the product's life cycle. The estimated variable consideration related to these programs is based on a rate that includes historical and forecasted data. The Company records a reduction to net sales using this rate at the time of the sale. The Company monitors this rate against actual results and forecasted estimates, and adjusts the rate as deemed necessary in order to reflect the amount of consideration it expects to receive from its customers. There were no material changes to the rate during the twelve months ended December 31, 2018. Historically, the Company's actual amount of variable consideration related to these sales programs has not been materially different from its estimates.

The Company records an estimate for anticipated returns as a reduction of sales and cost of sales, and accounts receivable, in the period that the related sales are recorded. Sales returns are estimated based upon historical returns, current economic trends, changes in customer demands and sell-through of products. The Company also offers its customers sales programs that allow for specific returns. The Company records a return liability for anticipated returns related to these sales programs at the time of the sale based on the terms of the sales program. As a result of the adoption of Topic 606, the liability for sales returns is now recorded separately from the cost recovery of inventory, which is now recorded in other current assets. The increase in the provision for 2018, as compared to 2017 and 2016, reflects this change. Historically, the Company’s actual sales returns have not been materially different from management’s original estimates.

The following table provides a reconciliation of the activity related to the Company’s allowance for sales returns:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Beginning balance	$15,470	$9,341	$8,148
Provision	52,088	37,521	38,444

Sales returns	(43,036)	(31,392)	(37,251)
Ending balance	$24,522	$15,470	$9,341

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Note 4. Business Combinations

During 2017, the Company completed the acquisitions of OGIO and TravisMathew. The purchase price of each acquisition was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition in accordance with ASC Topic 820. The excess between the purchase price and the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed was allocated to goodwill. The Company determined the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. The Company may retrospectively adjust the fair value of the identifiable assets acquired and the liabilities assumed, as necessary, during the measurement period of up to one year from the acquisition date, to reflect new information about circumstances existing at the acquisition date affecting the measurement of those amounts at that date, and any additional assets or liabilities existing at that date.

Valuations of acquired intangible assets and inventory are subject to fair value measurements that were based primarily on significant inputs not observable in the market and thus represent Level 3 measurements (see Note 16). Both acquisitions were treated as asset purchases for income tax purposes and, as such, the Company expects to deduct all of the intangible assets, including goodwill, from taxable income over time.

Acquisition of OGIO International, Inc.

In January 2017, the Company acquired all of the outstanding shares of capital stock of OGIO, a leading manufacturer of high quality bags, accessories and apparel in the golf and lifestyle categories, in a cash transaction pursuant to the terms of a Share Purchase Agreement, by and among the Company, OGIO, and each of the shareholders and option holders of OGIO.

The acquired furniture, fixtures, office equipment, leasehold improvements, computer equipment and warehouse equipment were all valued at their estimated replacement cost, which the Company determined approximated the net book value of the assets on the date of the acquisition. Inventory was valued using the net realizable value approach, which was based on the estimated selling price in the ordinary course of business less reasonable disposal costs and profit on the disposal effort. The customer and distributor relationships were valued under the income approach based on the present value of future earnings. The trade name was valued under the royalty savings income approach method, which is equal to the present value of the after-tax royalty savings attributable to owning the trade name as opposed to paying a third party for its use. For this valuation, the Company used a royalty rate of 7.5%, which is reflective of royalty rates paid in market transactions, and a discount rate of 14.0% on the future cash flows generated by the net after-tax savings. Goodwill arising from the acquisition consists largely of the synergies expected from combining the operations of the Company and OGIO. For segment reporting purposes, goodwill is reported in the Gear, Accessories and Other operating segment.

The total purchase price was valued at $65,951,000. The Company incurred transaction costs of approximately $3,052,000, of which $1,805,000 was recognized in general and administrative expenses during the year ended December 31, 2017. The remainder was recognized in 2016.

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The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date based on the purchase price allocation (in thousands):

	At January 11, 2017
Assets Acquired	
Cash	$8,061
Accounts receivable	7,696
Inventory	7,092
Other current assets	328
Property and equipment	2,369
Intangibles - trade name	49,700
Intangibles - customer & distributor relationships	1,500
Intangibles - non-compete agreements	150
Goodwill	5,885
Total assets acquired	82,781
Liabilities Assumed	
Accounts Payable and accrued liabilities	16,830
Net assets acquired	$65,951

Acquisition of TravisMathew, LLC

In August 2017, the Company acquired TravisMathew, a golf and lifestyle apparel company in an all-cash transaction pursuant to the terms of an Agreement and Plan of Merger, by and among the Company, TravisMathew, OTP LLC, a California limited liability company and wholly-owned subsidiary of the Company (“Merger Sub”), and a representative of the equity holders of TravisMathew. The Company acquired TravisMathew by way of a merger of Merger Sub with and into TravisMathew, with TravisMathew surviving as a wholly-owned subsidiary of the Company. The primary reason for this acquisition was to enhance the Company's presence in golf while also providing a platform for future growth in the lifestyle category.

The acquired furniture, fixtures, office equipment, leasehold improvements, computer equipment and warehouse equipment were all valued at their estimated replacement cost, which the Company determined approximated the net book value of the assets on the date of the acquisition. Inventory was valued using the net realizable value approach, which was based on the estimated selling price in the ordinary course of business less reasonable disposal costs and profit on the disposal effort. The licensing agreement was valued under the income approach based on the projected royalty income from the distributors. The customer and distributor relationships were valued under the income approach based on the present value of future earnings. The trade name was valued under the royalty savings income approach method, which is equal to the present value of the after-tax royalty savings attributable to owning the trade name as opposed to paying a third party for its use. For this valuation, the Company used a royalty rate of 8.0%, which is reflective of royalty rates paid in market transactions, and a discount rate of 11.0% on the future cash flows generated by the net after-tax savings. Goodwill associated with this acquisition is related to the operational synergies the Company expects to realize in future periods. For segment reporting purposes, goodwill is reported in the Gear, Accessories and Other operating segment.

The total purchase price was valued at $124,578,000. In connection with the acquisition, during the year ended December 31, 2017, the Company recognized transaction costs of approximately $2,521,000 in general and administrative expenses.

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The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the acquisition date based on the purchase price allocation (in thousands):

	At August 17, 2017
Assets Acquired	
Cash	$663
Accounts receivable	9,715
Inventory	11,909
Other current assets	549
Property and equipment	4,327
Other assets	117
Intangibles - trade name	78,400
Intangibles - licensing agreement	1,100
Intangibles - customer & distributor relationships	4,450
Intangibles - non-compete agreements	600
Goodwill	23,748
Total assets acquired	135,578
Liabilities Assumed	
Accounts Payable and accrued liabilities	11,000
Net assets acquired	$124,578

Supplemental Pro-Forma Information (Unaudited)

The following table presents supplemental pro-forma net sales and net income for the years ended December 31, 2017 and 2016 for the OGIO and TravisMathew acquisitions as if they had occurred on January 1, 2016 and were consolidated with the Company as of January 1, 2016. These amounts were calculated after applying the Company's accounting policies and were based upon available information at the time. For this analysis, the Company assumed that costs associated with the acquisitions, including the amortization of intangible assets and the step-up of inventory, as well as the tax effect on those costs, were recognized as of January 1, 2016. Pre-acquisition net sales and net income amounts for OGIO and TravisMathew were derived from the books and records of OGIO and TravisMathew prepared prior to the respective acquisition and are presented for informational purposes only and do not purport to be indicative of the results of future operations or of the results that would have occurred had the acquisition taken place as of the dates noted below. The Company's net sales and net income for the year ended December 31, 2018 include a full year of results for both OGIO and TravisMathew and are therefore not presented in the pro-forma information below.

	Years Ended December 31,	
	2017	2016
(in thousands)		
Net sales	$1,086,593	$964,514
Net income attributable to Callaway Golf Company	$52,514	$188,117

For the year ended December 31, 2017, the Company's consolidated net sales included $66,670,000 attributable to OGIO and TravisMathew, and the Company's consolidated net income included a net loss of $1,721,000 related to TravisMathew. The Company integrated the OGIO brand into its consolidated operations as of December 31, 2017, therefore net income information related to OGIO could not be determined.

Acquisition of JW Stargazer Holding GmbH

In January 2019, the Company completed the acquisition of JW Stargazer Holding GmbH, the owner of the international, premium outdoor apparel, footwear and equipment brand, Jack Wolfskin for €460,000,000 or approximately $525,000,000, subject to working capital adjustments. The Company financed the acquisition with a

Term Loan B facility in the aggregate principal amount of $480,000,000 (see Note 5). Jack Wolfskin is an international, premium outdoor apparel, footwear and equipment brand. Jack Wolfskin designs premium products targeted at the active outdoor and urban outdoor customer categories. This acquisition

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is expected to further enhance the Company's lifestyle category and provide a platform for future growth in the active outdoor and urban outdoor categories, which the Company believes are complimentary to its portfolio of brands and product capabilities.
In connection with the acquisition, during the year ended December 31, 2018, the Company recognized transaction costs of approximately $3,661,000 in general and administrative expenses, and an unrealized gain of $4,409,000 in other income (expense) from the re-measurement of a foreign currency forward contract that was put in place to mitigate the risk of foreign currency fluctuations on the purchase price, which was denominated in Euros. In January 2019, the Company realized a $3,215,000 net loss upon the settlement of this contract. Due to the timing of this acquisition, it was impracticable for the Company to compile pro-forma financial information and preliminary purchase accounting estimates in accordance with ASC 805 "Business Combinations."

Note 5. Financing Arrangements
In addition to cash on hand, as well as cash generated from operations, the Company relies on its primary and Japan asset-based revolving credit facilities to manage seasonal fluctuations in liquidity and to provide additional liquidity when the Company’s operating cash flows are not sufficient to fund the Company’s requirements. As of December 31, 2018, the Company had $40,300,000 outstanding under these facilities, $1,187,000 in outstanding letters of credit, and $63,981,000 in cash and cash equivalents. As of December 31, 2018, the Company's available liquidity, which is comprised of cash on hand and amounts available under both facilities, after letters of credit was $256,393,000. At December 31, 2017 the Company had $87,755,000 outstanding under these facilities, $887,000 in outstanding letters of credit, and $85,674,000 in cash and cash equivalents. As of December 31, 2017, the Company's available liquidity was $238,884,000, which is comprised of cash on hand and amounts available under both facilities, after letters of credit and outstanding borrowings.
Primary Asset-Based Revolving Credit Facility
In November 2017, the Company amended and restated its primary credit facility (the Third Amended and Restated Loan and Security Agreement) (the “ABL Facility”) with Bank of America N.A. and other lenders (the "ABL Lenders"), which provides a senior secured asset-based revolving credit facility of up to $330,000,000, comprised of a $260,000,000 U.S. facility, a $25,000,000 Canadian facility, and a $45,000,000 United Kingdom facility, in each case subject to borrowing base availability under the applicable facility. The amounts outstanding under the ABL Facility are secured by certain assets, including cash (to the extent pledged by the Company), the Company's intellectual property, certain eligible real estate, inventory and accounts receivable of the Company’s subsidiaries in the United States, Canada and the United Kingdom. The real estate and intellectual property components of the borrowing base under the ABL Facility are both amortizing. The amount available for the real estate portion is reduced quarterly over a 15-year period, and the amount available for the intellectual property portion is reduced quarterly over a 3-year period.
As of December 31, 2018, the Company had $40,300,000 in borrowings outstanding under the ABL Facility and $1,187,000 in outstanding letters of credit. Amounts available under the ABL Facility fluctuate with the general seasonality of the business and increase and decrease with changes in the Company’s inventory and accounts receivable balances. Inventory balances are generally higher in the fourth and first quarters to meet demand during the height of the golf season, and accounts receivable are generally higher during the first half of the year when sales are higher. Average outstanding borrowings during the year ended December 31, 2018 were $81,850,000, and average amounts available under the ABL Facility during the year ended December 31, 2018, after outstanding borrowings and letters of credit, was approximately $188,574,000. Amounts borrowed under the ABL Facility may be repaid and borrowed as needed. The entire outstanding principal amount (if any) is due and payable on November 19, 2022.
The ABL Facility includes certain restrictions including, among other things, restrictions on the incurrence of additional debt, liens, stock repurchases and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. In addition, the ABL Facility imposes restrictions on the amount the Company could pay in annual cash dividends, including certain restrictions on the amount of additional indebtedness and requirements to maintain a certain fixed charge coverage ratio under certain circumstances.. These restrictions do not materially limit the Company's ability to pay future dividends at the current dividend rate. As of December 31, 2018, the Company

was in compliance with all financial covenants of the ABL Facility. Additionally, the Company is subject to compliance with a fixed charge coverage ratio covenant during, and continuing 30 days after, any period in which the Company's borrowing base availability, as amended, falls below 10% of the maximum facility amount or $33,000,000. The Company's borrowing base availability was above $33,000,000 during the year ended December 31, 2018, and the Company was in compliance with the fixed charge coverage ratio as of December 31, 2018. Had the Company not

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been in compliance with the fixed charge coverage ratio as of December 31, 2018, the maximum amount of additional indebtedness that could have been outstanding on December 31, 2018 would have been reduced by $33,000,000.
The interest rate applicable to outstanding loans under the ABL Facility fluctuates depending on the Company’s “availability ratio," which is expressed as a percentage of (i) the average daily availability under the ABL Facility to (ii) the sum of the Canadian, the U.K. and the U.S. borrowing bases, as adjusted. At December 31, 2018, the Company’s trailing 12-month average interest rate applicable to its outstanding loans under the ABL Facility was 4.30%. The ABL Facility provides for monthly fees of 0.25% of the unused portion of the ABL Facility.
The fees incurred in connection with the origination and amendment of the ABL Facility totaled $2,336,000, which are amortized into interest expense over the term of the ABL Facility agreement. Unamortized origination fees as of December 31, 2018 and 2017 were $1,825,000 and $2,197,000, respectively, of which $476,000 and $454,000, respectively, were included in other current assets and $1,349,000 and $1,743,000, respectively, were included in other long-term assets in the accompanying consolidated balance sheets.
Japan ABL Facility
In January 2018, the Company refinanced the asset-based loan agreement between its subsidiary in Japan and The Bank of Tokyo-Mitsubishi UFJ, Ltd (the "Japan ABL Facility"), which provides a credit facility of up to 4,000,000,000 Yen (or U.S. $36,500,000, using the exchange rate in effect as of December 31, 2018) over a three-year term, subject to borrowing base availability under the facility. The amounts outstanding are secured by certain assets, including eligible inventory and eligible accounts receivable. The Company had no borrowings outstanding under the Japan ABL Facility as of December 31, 2018. The Japan ABL Facility also includes certain restrictions including covenants related to certain pledged assets and financial performance metrics. As of December 31, 2018, the Company was in compliance with these covenants. The Japan ABL Facility is subject to an effective interest rate equal to the Tokyo interbank offered rate plus 0.80%. The average interest rate during 2018 was 0.86%. The facility expires in January 2021.
Equipment Note
In December 2017, the Company entered into a long-term financing agreement (the "Equipment Note") secured by certain equipment at the Company's golf ball manufacturing facility. As of December 31, 2018, the Company had $9,628,000 outstanding under the Equipment Note, of which $2,411,000 were reported in current liabilities and $7,218,000 were reported in long-term liabilities in the accompanying consolidated balance sheet. The Company's interest rate applicable to outstanding borrowings was 3.79%. Total interest expense recognized during the year ended December 31, 2018 was $762,000. The equipment note amortizes over a 5-year term.
The Equipment Note is subject to compliance with the financial covenants in the Company's ABL Facility. As of December 31, 2018, the Company was in compliance with these covenants.
Term Loan B Facility
In January 2019, to fund the purchase price of the Jack Wolfskin acquisition, the Company entered into a Credit Agreement (the “Credit Agreement”) with Bank of America, N.A and other lenders party to the Credit Agreement (the "Term Lenders"). The Credit Agreement provides for a Term Loan B facility (the “Term Loan Facility”) in an aggregate principal of $480,000,000, which was issued less $9,600,000 in original issue discount and other transaction fees. Such amount may be increased pursuant to incremental facilities in the form of additional tranches of term loans or new commitments, up to a maximum incremental amount of $225,000,000, or an unlimited amount subject to compliance with a first lien net leverage ratio of 2.25 to 1.00. The Term Loan Facility is due in January 2026.
In connection with the Term Loan Facility, the Company entered into agreements with the lenders party to the Credit Agreement to mitigate the interest rate on $200,357,000 of the total principal outstanding under the Term Loan Facility, from a floating rate of LIBOR plus 4.50% to a fixed rate of 4.60%. This was achieved by entering into an interest rate hedge agreement and a cross-currency debt swap agreement, converting the $200,357,000 principal into €176,200,000, both of which mature in January 2025.
Loans under the Term Loan Facility are subject to interest at a rate per annum equal to either, at the Company's option, the LIBOR rate or the base rate, plus 4.50% or 3.50%, respectively, and any amounts outstanding are secured by the Company's assets. Principal payments of $1,200,000 are due quarterly, however the Company has the option to prepay any outstanding loan balance in whole or in part without premium or penalty. In addition, the Term Loan

Facility requires excess cash flow payments beginning after December 31, 2019.

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Loans outstanding under this facility are guaranteed by the Company's domestic subsidiaries. The loans and guaranties are secured by substantially all the assets of the Company and guarantors. In connection with the Credit Agreement, the Company amended its ABL Facility (the "Second Amendment to Third Amended and Restated Loan and Security Agreement") to expand the security interest granted to the ABL Lenders to match the security interest of the Term Lenders.

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. Events of default permitting acceleration under the Credit Agreement include, among others, nonpayment of principal or interest, covenant defaults, material breaches of representations and warranties, bankruptcy and insolvency events, certain cross defaults or a change of control.

Note 6. Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding for the period.

Diluted earnings per common share takes into account the potential dilution that could occur if certain dilutive securities were exercised. Dilutive securities are included in the calculation of diluted earnings per common share using the treasury stock method in accordance with ASC Topic 260, “Earnings per Share.” Dilutive securities include outstanding stock options, restricted stock units and performance share units granted to employees and non-employee directors (see Note 14).

Weighted-average common shares outstanding—diluted is the same as weighted-average common shares outstanding—basic in periods when a net loss is reported or in periods when anti-dilution occurs.

The following table summarizes the computation of basic and diluted earnings per share:

	Years Ended December 31,		
	2018	2017	2016[(1)]
	(In thousands, except per share data)		
Earnings per common share—basic			
Net income attributable to Callaway Golf Company	$ 104,740	$ 40,806	$ 189,900
Weighted-average common shares outstanding—basic	94,579	94,329	94,045
Basic earnings per common share	$ 1.11	$ 0.43	$ 2.02
Earnings per common share—diluted			
Net income attributable to Callaway Golf Company	$ 104,740	$ 40,806	$ 189,900
Weighted-average common shares outstanding—basic	94,579	94,329	94,045
Options and restricted stock	2,574	2,248	1,800
Weighted-average common shares outstanding—diluted	97,153	96,577	95,845
Diluted earnings per common share[(1)]	$ 1.08	$ 0.42	$ 1.98

(1) During the fourth quarter of 2016, the Company reversed a significant portion of the valuation allowance on its U.S. deferred tax assets. This resulted in a favorable impact to net income of $156,600,000 ($1.63 per share), partially offset by $15,974,000 ($0.16 per share) as the result of the recognition of income taxes that were retroactive for all of 2016 on the Company's U.S. business (see Note 11). In addition, net income for 2016 includes a $17,662,000 ($0.18 per share) pre-tax gain from the sale of approximately 10.0% of the Company's investment in Topgolf (see Note 8).

Earnings per share—diluted, reflects the potential dilution that could occur if convertible securities, or other contracts to issue common stock, were exercised or converted into common stock. Options with an exercise price in excess of the average market value of the Company's common stock during the period have been excluded from the calculation as their effect would be antidilutive.

Antidilutive securities excluded from the earnings per share computation are summarized as follows:

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For the year ended December 31, 2018, there were no securities excluded from the calculation of earnings per common share—diluted.

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- For the year ended December 31, 2017, securities outstanding totaling approximately 129,000, compromised of anti-dilutive options.
- For the year ended December 31, 2016, securities outstanding totaling approximately 313,000, compromised of anti-dilutive options.

Note 7. Goodwill and Intangible Assets

Goodwill at December 31, 2018 decreased to $55,816,000 from $56,429,000 at December 31, 2017 due to foreign currency fluctuations of $721,000. Goodwill in 2017 includes additions of $5,885,000 and $23,748,000 as a result of the acquisitions of OGIO completed in January 2017 and TravisMathew completed in August 2017, respectively. The Company's goodwill is reported within the Golf Clubs and Gear, Accessories and Other operating segments (see Note 18).

In accordance with ASC Topic 350, “Intangibles—Goodwill and Other,” the Company’s goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. The following sets forth the intangible assets by major asset class:

	Useful Life (Years)	December 31, 2018			December 31, 2017		
		Gross	Accumulated Amortization (In thousands)	Net Book Value	Gross	Accumulated Amortization (In thousands)	Net Book Value
Indefinite-lived:							
Trade name, trademark and trade dress and other	NA	$218,364	$ —	$218,364	$218,364	$ —	$218,364
Amortizing:							
Patents	2-16	31,581	31,543	38	31,581	31,491	90
Customer and distributor relationships, and other	1-9	15,780	9,490	6,290	15,780	8,476	7,304
Total intangible assets		$265,725	$ 41,033	$224,692	$265,725	$ 39,967	$225,758

Aggregate amortization expense on intangible assets was approximately $1,066,000, $546,000 and $71,000 for the years ended December 31, 2018, 2017 and 2016, respectively. Amortization expense related to intangible assets at December 31, 2018 in each of the next five fiscal years and beyond is expected to be incurred as follows (in thousands):

2019	$1,053
2020	966
2021	910
2022	734
2023	595
Thereafter	2,069
	$6,327

Note 8. Investments

Investment in Topgolf International, Inc.

The Company owns a minority interest of approximately 14.0% in Topgolf International, Inc. doing business as the Topgolf Entertainment Group ("Topgolf"), the owner and operator of Topgolf entertainment centers, which ownership consists of common stock and various classes of preferred stock. In connection with this investment, the Company has a preferred partner agreement with Topgolf in which the Company has preferred signage rights, rights as the preferred supplier of golf products used or offered for use at Topgolf facilities at prices no less than those paid by the Company’s customers, preferred retail positioning in Topgolf retail stores, and other rights incidental to those listed above. Topgolf is a privately held company, and as such, the common and preferred shares comprising the Company’s investment are illiquid and their fair value is not readily determinable. On January 1, 2018, the Company adopted ASU No. 2016-01, which requires equity securities without a readily determinable fair value to be measured at cost, less impairments if any, plus or minus

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changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Since the adoption of ASU 2016-01, there has been no observable transactions which would provide an estimate of fair value.
As of December 31, 2018 and 2017, the Company's total investment in Topgolf was $72,238,000 and $70,495,000, respectively. The Company invested $1,742,000, $21,499,000 and $1,448,000 in shares of Topgolf in 2018, 2017 and 2016, respectively. The shares that were purchased in 2018 from other Topgolf shareholders were not acquired in orderly transactions as these transactions were not exposed to the market and were not subject to marketing activities. As such, at December 31, 2018, the Company continues to account for its investment in Topgolf at cost less impairments in accordance with ASU No. 2016-01. As of December 31, 2018, the Company has not recorded any impairments with respect to this investment. If in the future there is an observable price change as a result of an orderly transaction for the identical or similar investment in Topgolf, the Company would be required to assess the fair value impact, if any, on each identified or similar class of Topgolf stock held by the Company, and write such stock up or down to its estimated fair value, which could have a material effect on the Company's financial position and results of operations.
In December 2017, Topgolf completed a private placement led by Fidelity Management and Research Company (the "Fidelity Investment"), in which the Company invested $20,000,000 in series F preferred shares of Topgolf. Due to the nature and timing of this transaction, the Company determined that the carrying value of the series F preferred shares that it purchased in this private placement approximated the fair value for such series as of December 31, 2017. At the time, the Company was not able to estimate the fair value of its other series of Topgolf preferred stock or common stock due to the dissimilar nature of conversion rights, liquidation features and other preferred terms of these shares relative to the series F preferred shares. Accordingly, the Company accounted for this investment at cost in accordance with the accounting rules in effect at the time.
In February 2016, Topgolf announced that Providence Equity Partners L.L.C. (“Providence Equity”) made a significant minority preferred stock investment in Topgolf (the “Providence Equity Investment”). As required by the terms of the Providence Equity Investment, Topgolf used a portion of the proceeds it received to repurchase shares from its existing shareholders, other than Providence Equity (the “Topgolf Repurchase Program”). In April 2016, the Company sold approximately 10.0% or $5,767,000 (on a cost basis) of its preferred shares in Topgolf under the Topgolf Repurchase Program for $23,429,000, and recognized a gain of approximately $17,662,000 in other income (expense).
Note 9. Joint Venture
The Company has a joint venture in Japan, Callaway Apparel K.K., with its long-time apparel licensee, TSI Groove & Sports Co, Ltd., ("TSI") for the design, manufacture and distribution of Callaway-branded apparel, footwear and headwear in Japan. In July 2016, the Company contributed $10,556,000, primarily in cash, for a 52% ownership of the joint venture, and TSI contributed $9,744,000, primarily in inventory, for the remaining 48%. The Company has a majority voting percentage on matters pertaining to the business operations and significant management decisions of the joint venture, and as such, the Company is required to consolidate the financial results of the joint venture with the financial results of the Company. The joint venture is consolidated one month in arrears.
As a result of the consolidation, during the years ended December 31, 2018, 2017 and 2016, the Company recorded net income attributable to the non-controlling interest of $514,000, $861,000, and $1,054,000, respectively. During the years ended December 31, 2018 and 2017, the joint venture paid dividends to TSI of $821,000 and $974,000, respectively, which were recorded as a reduction in non-controlling interests in the consolidated financial statements. Total non-controlling interests on the Company's consolidated balance sheets and consolidated statements of shareholders' equity was $9,734,000 and $9,744,000 at December 31, 2018 and 2017, respectively.

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Note 10. Selected Financial Statement Information

	December 31,	
	2018	2017
	(In thousands)	
Accounts receivable, net:		
Trade accounts receivable	$108,547	$120,066
Liability for sales returns	(24,522)	(15,470)
Accrued variable consideration for sales program incentives	(7,041)	(5,424)
Allowance for doubtful accounts	(5,610)	(4,447)
	$71,374	$94,725
Inventories:		
Raw materials	$80,474	$67,785
Work-in-process	815	868
Finished goods	256,768	193,833
	$338,057	$262,486
Property, plant and equipment, net:		
Land	$7,232	$7,322
Buildings and improvements	75,070	71,692
Machinery and equipment	111,055	98,116
Furniture, computers and equipment	111,793	108,706
Production molds	4,804	19,604
Construction-in-process	17,026	10,665
	326,980	316,105
Accumulated depreciation	(238,508)	(245,878)
	$88,472	$70,227
Accounts payable and accrued expenses:		
Accounts payable	$42,468	$63,204
Accrued expenses	127,135	87,925
Accrued goods in-transit	39,050	24,998
	$208,653	$176,127
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$31,559	$29,363
Accrued vacation and sick pay	10,606	9,781
Accrued commissions	1,007	1,029
	$43,172	$40,173

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Note 11. Income Taxes

The Company’s income before income tax provision was subject to taxes in the following jurisdictions for the following periods (in thousands):

	Years Ended December 31,		
	2018	2017	2016[1]
United States	$100,031	$50,706	$38,268
Foreign	31,241	17,349	20,125
	$131,272	$68,055	$58,393

The expense (benefit) for income taxes is comprised of (in thousands):

	Years Ended December 31,		
	2018	2017	2016[2]
Current tax provision:			
Federal	$736	$610	$541
State	1,880	1,259	543
Foreign	6,577	6,135	7,289
	9,193	8,004	8,373
Deferred tax expense (benefit):			
Federal	14,844	20,746	(129,405)
State	1,086	(1,127)	(10,693)
Foreign	895	(1,235)	(836)
	16,825	18,384	(140,934)
Income tax provision	$26,018	$26,388	$(132,561)

(1) Income before income taxes in 2016 includes a gain of $17,662,000 that was recognized in connection with the sale of preferred shares of the Company's investment in Topgolf. See Note 7 for further discussion.

(2) The income tax benefit for 2016 includes the reversal of a significant portion of the valuation allowance on the Company's deferred tax assets in the U.S. See further discussion below.

In December 2017, the Tax Act was enacted into legislation, which includes a broad range of provisions affecting businesses. The Tax Act significantly revises how companies compute their U.S corporate tax liability by, among other provisions, reducing the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, implementing a territorial tax system, and requiring a mandatory one-time tax on U.S. owned undistributed foreign earnings and profits known as the toll charge or transition tax.

Pursuant to the SEC Staff Accounting Bulletin ("SAB") No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" ("SAB 118"), a company may select among one of three scenarios to reflect the impact of the Tax Act in its financial statements within a measurement period. Those scenarios are (i) a final estimate which effectively closes the measurement period; (ii) a reasonable estimate leaving the measurement period open for future revisions; and (iii) no estimate as the law is still being analyzed in which case a company continues to apply its accounting on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. SAB 118 allows for the reporting provisional of amounts for certain income tax effects in scenarios (ii) and (iii). The measurement period began in the reporting period that includes the Tax Act’s enactment date and ended when the Company obtained, prepared, and analyzed the information that was needed in order to complete the accounting requirements under ASC Topic 740. The Company provided a reasonable estimate for the impact of the Tax Act for the year ended December 31, 2017. The measurement period ended on December 22, 2018 and the Company recorded additional expense of $906,000 related to the transition tax. No other significant adjustments were made relating to the Tax Act.

Additionally, the Company has elected to treat GILTI as a period cost and will expense GILTI in the period it is incurred.

As of December 31, 2018 significant guidance with respect to the Tax Act remains proposed or outstanding. As such, many components of the 2018 tax expense remain estimates and are primarily based on proposed regulations and

other guidance as released by the IRS and United States Treasury. The most significant estimate relates to foreign derived intangible income ("FDII").

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The Company recorded $3,562,000 of tax benefit related to FDII which was calculated based on the Company's best interpretation of the Tax Act and is not expected to differ materially if guidance differs from the Company's assumptions.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Reserves and allowances not currently deductible for tax purposes	$13,495	$12,783
Basis difference related to fixed assets	5,342	5,946
Compensation and benefits	8,416	7,807
Basis difference for inventory valuation	1,784	1,612
Compensatory stock options and rights	3,988	3,869
Deferred revenue and other	120	175
Operating loss carryforwards	7,191	21,799
Tax credit carryforwards	54,219	62,668
Basis difference related to intangible assets with a definite life	12,767	7,061
Other	5,678	634
Total deferred tax assets	113,000	124,354
Valuation allowance for deferred tax assets	(13,408)	(11,114)
Deferred tax assets, net of valuation allowance	$99,592	$113,240
Deferred tax liabilities:		
Prepaid expenses	(1,181)	(773)
Basis difference related to intangible assets with an indefinite life	(25,128)	(22,891)
Total deferred tax liabilities	(26,309)	(23,664)
Net deferred tax assets	$73,283	$89,576
Net deferred tax assets (liabilities) are shown on the accompanying consolidated balance sheets as follows:		
Non-current deferred tax assets	$75,079	$91,398
Non-current deferred tax liabilities	(1,796)	(1,822)
Net deferred tax assets	$73,283	$89,576

The net change in net deferred taxes in 2018 of $16,292,000 is primarily comprised of the utilization of net operating losses and tax credits through profitable operations offset by the generation of R&D credits and the foreign derived intangible income deduction.

Deferred tax assets and liabilities result from temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are anticipated to be in effect at the time the differences are expected to reverse. The realization of the deferred tax assets, including loss and credit carry forwards, is subject to the Company generating sufficient taxable income during the periods in which the temporary differences become realizable. In accordance with the applicable accounting rules, the Company maintains a valuation allowance for a deferred tax asset when it is deemed to be more likely than not that some or all of the deferred tax assets will not be realized. In evaluating whether a valuation allowance is required under such rules, the Company considers all available positive and negative evidence, including prior operating results, the nature and reason for any losses, its forecast of future taxable income, and the dates on which any deferred tax assets are expected to expire. These assumptions require a significant amount of judgment, including estimates of future taxable income. These estimates are based on the Company's best judgment at the time made based on current and projected circumstances and conditions.

In 2011, the Company established a valuation allowance against its U.S. deferred tax assets. During the fourth quarter of 2016, the Company evaluated all available positive and negative evidence, including the Company's improved profitability in 2015 and 2016, combined with future projections of profitability. As a result, the Company determined

that the majority of its U.S. deferred tax assets were more likely than not to be realized and reversed a significant portion of the valuation allowance against those deferred tax assets accordingly. The remaining valuation allowance on the Company's U.S. deferred tax assets as of December

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31, 2018 and 2017 relate primarily to state net operating loss carryforwards and credits the Company estimates it may not be able to utilize in future periods. With respect to non-U.S. entities, there continues to be sufficient positive evidence to conclude that realization of its deferred tax assets is more likely than not under applicable accounting rules, and no significant allowances have been established.

At December 31, 2018, the Company had federal and state income tax credit carryforwards of $62,806,000 and $18,335,000, respectively, which will expire if unused at various dates beginning on December 31, 2024. Such credit carryforwards expire as follows (in thousands):

U.S. foreign tax credit	$47,407	2024 - 2028
U.S. research tax credit	$15,374	2030 - 2038
U.S. business tax credits	$25	2030 - 2038
State investment tax credits	$1,031	Do not expire
State research tax credits	$17,304	Do not expire

The Company has recorded a deferred tax asset reflecting the benefit of operating loss carryforwards. The net operating losses expire as follows (in thousands):

U.S. loss carryforwards	$—	N/A
State loss carryforwards	$105,771	2021 - 2035

The Company's ability to utilize the losses and credits to offset future taxable income may be deferred or limited significantly if the Company were to experience an "ownership change" as defined in section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in ownership of the Company's stock by "5-percent shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. The Company determined that no ownership change has occurred for purposes of Section 382 for the period ended December 31, 2018.

A reconciliation of the effective tax rate on income or loss and the statutory tax rate is as follows:

	Years Ended December 31,					
	2018		2017		2016	
Statutory U.S. tax rate	21.0	%	35.0	%	35.0	%
State income taxes, net of U.S. tax benefit	2.0	%	2.6	%	3.1	%
Federal and State tax credits, net of U.S. tax benefit	(6.0	)%	(4.1	)%	(5.0	)%
Foreign income taxed at other than U.S. statutory rate	1.7	%	(0.2	)%	1.8	%
Effect of foreign rate changes	(0.1	)%	0.2	%	0.5	%
Foreign tax credit	(0.8	)%	(1.3	)%	(11.3	)%
Basis differences of intangibles with an indefinite life	—	%	0.1	%	0.1	%
Change in deferred tax valuation allowance	0.5	%	(1.9	)%	(262.4	)%
Accrual for interest and income taxes related to uncertain tax positions	1.8	%	2.2	%	2.9	%

Income (loss) from flowthrough entities	0.6	%	1.0	%	(0.2	)%
Meals and entertainment	0.6	%	1.1	%	1.5	%
Group loss relief	(0.4	)%	(0.6	)%	(1.6	)%
Stock option compensation	(1.1	)%	(2.0	)%	0.2	%
Foreign dividends and earnings inclusion	0.2	%	0.7	%	9.9	%
Foreign tax withholding	0.5	%	0.9	%	0.6	%
Executive compensation limitation	0.7	%	0.5	%	0.7	%
Intra-entity asset transfers	0.8	%	(6.3	)%	—	%
Enactment of the Tax Cuts and Jobs Act	0.3	%	11.1	%	—	%
Foreign Derived Intangible Income Deduction	(2.7	)%	—	%	—	%
Other	0.2	%	(0.2	)%	(2.8	)%
Effective tax rate	19.8	%	38.8	%	(227.0	)%

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2018	2017	2016
Balance at January 1	$9,300	$8,256	$7,090
Additions based on tax positions related to the current year	1,354	1,061	969
Additions for tax positions of prior years	1,624	233	542
Reductions for tax positions of prior years	(148)	(192)	(80)
Settlement of tax audits	—	(33)	—
Reductions due to lapsed statute of limitations	(298)	(25)	(265)
Balance at December 31	$11,832	$9,300	$8,256

As of December 31, 2018, the gross liability for income taxes associated with uncertain tax benefits was $11,832,000. This liability could be reduced by $1,620,000 of offsetting tax benefits associated with the correlative effects of potential transfer pricing adjustments, which was recorded as a long-term income tax receivable, as well as $4,090,000 of deferred taxes. The net amount of $6,122,000, if recognized, would affect the Company's financial statements and favorably affect the Company's effective income tax rate.

The Company does not expect changes to the unrecognized tax benefits in the next 12 months to have a material impact on its results of operations or its financial position.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company recognized a tax expense of approximately $42,000, $301,000, and $258,000 for the years ended December 31, 2018, 2017, and 2016, respectively. As of December 31, 2018 and 2017, the gross amount of accrued interest and penalties included in income taxes payable in the accompanying consolidated balance sheets was $1,660,000 and $1,618,000, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities in its major jurisdictions as follows:

Major Tax Jurisdiction	Years No Longer Subject to Audit
U.S. federal	2010 and prior
California (U.S.)	2008 and prior
Canada	2010 and prior
Japan	2011 and prior
South Korea	2012 and prior
United Kingdom	2014 and prior

As of December 31, 2018, the Company had $129,347,000 of undistributed foreign earnings and profits. Pursuant to the Tax Act, the Company's undistributed foreign earnings and profits were deemed repatriated as of December 31, 2017 and 2018 foreign profits are not expected to be subject to U.S. income tax. The Company has not provided deferred tax liabilities for foreign withholding taxes and certain state income taxes on the undistributed earnings and profits from certain non-U.S. subsidiaries that will be permanently reinvested outside the United States.

Upon the distribution of foreign earnings and profits, certain foreign countries impose withholding taxes, subject to certain limitations, for use as credits against the Company's U.S. tax liability, if any. If the foreign earnings and profits were distributed, the Company would need to accrue an additional income tax liability. However, the Company may also be allowed a credit against substantially all the Company's U.S. tax liability for the taxes paid in foreign jurisdictions. The Company expects the net impact on the Company's U.S. tax liability to be insignificant.

Note 12. Commitments & Contingencies

Legal Matters

The Company is subject to routine legal claims, proceedings and investigations incident to its business activities, including claims, proceedings, and investigations relating to commercial disputes and employment matters. The Company also receives from time to time information claiming that products sold by the Company infringe or may infringe patent, trademark or other intellectual property rights of third parties. One or more such claims of potential infringement could lead to litigation, the need to obtain

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Explanation of Responses:

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licenses, the need to alter a product to avoid infringement, a settlement or judgment or some other action or material loss by the Company, which also could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the marketplace. In addition, the Company is occasionally subject to non-routine claims, proceedings or investigations.

The Company regularly assesses such matters to determine the degree of probability that the Company will incur a material loss as a result of such matters as well as the range of possible loss. An estimated loss contingency is accrued in the Company's financial statements if it is probable the Company will incur a loss and the amount of the loss can be reasonably estimated. The Company reviews all claims, proceedings and investigations at least quarterly and establishes or adjusts any accruals for such matters to reflect the impact of negotiations, settlements, advice of legal counsel and other information and events pertaining to a particular matter. All legal costs associated with such matters are expensed as incurred.

Historically, the claims, proceedings and investigations brought against the Company, individually and in the aggregate, have not had a material adverse effect on the consolidated results of operations, cash flows or financial position of the Company. The Company believes that it has valid legal defenses to the matters currently pending against the Company. These matters are inherently unpredictable and the resolutions of these matters are subject to many uncertainties and the outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary loss, amounts covered by insurance or the financial impact that will result from such matters. In addition, the Company cannot assure that it will be able to successfully defend itself in those matters or that any amounts accrued are sufficient. The Company does not believe that the matters currently pending against the Company will have a material adverse effect on the Company's consolidated business, financial condition, cash flows or results of operations on an annual basis.

Lease Commitments

The Company leases certain warehouse, distribution and office facilities, vehicles and office equipment under operating leases, and certain office equipment under capital leases. Lease terms range from one to ten years expiring at various dates through December 2025, with options to renew operating leases at varying terms. Commitments for minimum lease payments under non-cancelable operating and capital leases as of December 31, 2018 are as follows (in thousands):

	Operating Leases	Capital Leases
2019	$ 10,184	$ 163
2020	9,345	117
2021	8,193	116
2022	7,750	113
2023	7,250	3
Thereafter	17,832	—
	$ 60,554	$ 512

Rent expense for the Company's operating lease commitments for the years ended December 31, 2018, 2017 and 2016 was $19,379,000, $16,382,000 and $13,516,000, respectively. At December 31, 2018, the minimum rental payments under capital leases totaled $512,000. Minimum rental payments under operating leases with initial or remaining terms of one year or more totaled $60,554,000, net of sublease receipts of $419,000 at December 31, 2018.

Unconditional Purchase Obligations

During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase commitments for production materials, endorsement agreements with professional golfers and other endorsers, employment and consulting agreements, and intellectual property licensing agreements pursuant to which the Company is required to pay royalty fees. It is not possible to determine the amounts the Company will ultimately be required to pay under these agreements as they are subject to many variables including performance-based bonuses, severance arrangements, the Company's sales levels, and reductions in payment obligations if designated minimum performance criteria are not achieved. As of December 31, 2018, the Company has entered into many of these contractual agreements with terms ranging from one to four years. The aggregate minimum

obligations that the Company is required to pay under these agreements is $51,159,000 over the next five years. In the aggregate, the actual amount paid under these obligations is likely to be higher than the amounts listed as a result of the variable nature of these obligations. In addition, the Company also enters into unconditional purchase obligations with various vendors and suppliers of goods and services in the normal course of operations through purchase orders or other documentation or that are

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undocumented except for an invoice. Such unconditional purchase obligations are generally outstanding for periods less than a year and are settled by cash payments upon delivery of goods and services and are not reflected in this line item. Future purchase commitments as of December 31, 2018, are as follows (in thousands):

2019	$33,724
2020	10,075
2021	5,077
2022	2,283
	$51,159

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company product or trademarks, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to the goods and services provided to the Company or based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, the Company has consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued guarantees in the form of standby letters of credit of $1,187,000 as of December 31, 2018.

The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that payments under the commitments and guarantees described above will have a material effect on the Company's financial condition. The fair value of indemnities, commitments and guarantees that the Company issued during and as of the year ended December 31, 2018 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments, including salary continuation, upon the termination of employment by the Company without substantial cause or by the officer for good reason or non-renewal. In addition, in order to assure that the officers would continue to provide independent leadership consistent with the Company's best interest, the contracts also generally provide for certain protections in the event of a change in control of the Company. These protections include the payment of certain severance benefits, such as salary continuation, upon the termination of employment following a change in control.

Note 13. Capital Stock

Common Stock and Preferred Stock

As of December 31, 2018, the Company has an authorized capital of 243,000,000 shares, $0.01 par value, of which 240,000,000 shares are designated common stock, and 3,000,000 shares are designated preferred stock. Of the preferred stock, 240,000 shares are designated Series A Junior Participating Preferred Stock and the remaining shares of preferred stock are undesignated as to series, rights, preferences, privileges or restrictions.

The holders of common stock are entitled to one vote for each share of common stock on all matters submitted to a vote of the Company's shareholders. Although to date no shares of Series A Junior Participating preferred stock have been issued, if such shares were issued, each share of Series A Junior Participating Preferred Stock would entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Company. The holders of Series A Junior Participating Preferred Stock and the holders of common stock shall generally vote together as one class on all matters submitted to a vote of the Company's shareholders. Shareholders entitled to vote for the election of directors are entitled to vote cumulatively for one or more nominees.

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Treasury Stock and Stock Repurchases

In August 2014, the Company's Board of Directors authorized a $50,000,000 share repurchase program (the "2014 Repurchase Program") under which the Company was authorized to repurchase shares of its common stock in the open market or in private transactions, subject to the Company’s assessment of market conditions and buying opportunities. Through April 2018, the Company had repurchased $46,900,000 of its common stock under this program. The 2014 Repurchase Program remained in effect until May 8, 2018, at which time it was canceled by the Board of Directors and replaced by a new share repurchase program with a maximum cost to the Company of $50,000,000 (the "2018 Repurchase Program"), under which the Company is authorized to repurchase shares of its common stock in the open market or in private transactions, subject to the Company’s assessment of market conditions and buying opportunities. The repurchases are made consistent with the terms of the Company's ABL Facility which limits the amount of stock that can be repurchased. The repurchase program will remain in effect until completed or until terminated by the Board of Directors.

During 2018, the Company repurchased approximately 1,412,000 shares of its common stock under the 2014 and 2018 repurchase programs at an average cost per share of $15.90, for a total cost of $22,456,000. Included in these amounts are $6,081,000 of shares the Company withheld to satisfy the Company's tax withholding obligations in connection with the vesting and settlement of employee restricted stock unit awards and performance share units. The Company’s repurchases of shares of common stock are recorded at cost and result in a reduction of shareholders’ equity. As of December 31, 2018, the total amount remaining under the repurchase authorization was $49,719,000.

Note 14. Share-Based Employee Compensation

The Company accounts for its share-based compensation arrangements in accordance with ASC Topic 718, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. ASC Topic 718 further requires a reduction in share-based compensation expense by an estimated forfeiture rate. The forfeiture rate used by the Company is based on historical forfeiture trends. If actual forfeiture rates are not consistent with the Company’s estimates, the Company may be required to increase or decrease compensation expenses in future periods.

On January 1, 2017 the Company adopted ASU 2016-09. As a result, all tax effects related to employee share based compensation are reflected as a component of continuing operations. The previous “APIC Pool” method under ASC Topic 718 is no longer applicable to the Company. For further discussion see Note 2.

Stock Plans

As of December 31, 2018, the Company had two shareholder approved stock plans under which shares were available for equity-based awards: the Callaway Golf Company Amended and Restated 2004 Incentive Plan (the "2004 Incentive Plan") and the 2013 Non-Employee Directors Stock Incentive Plan (the "2013 Directors Plan").

The 2004 Incentive Plan permits the granting of stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share units and other equity-based awards to the Company’s officers, employees, consultants and certain other non-employees who provide services to the Company. All grants under the 2004 Incentive Plan are discretionary, although no participant may receive awards in any one year in excess of 2,000,000 shares. The maximum number of shares issuable over the term of the 2004 Incentive Plan is 33,000,000.

The 2013 Directors Plan permits the granting of stock options, restricted stock awards and restricted stock units to eligible directors serving on the Company's Board of Directors. The Directors may receive a one-time grant upon their initial appointment to the Board and thereafter an annual grant upon being re-elected at each annual meeting of shareholders, not to exceed 50,000 shares within any calendar year. The maximum number of shares issuable over the term of the 2013 Directors Plan is 1,000,000.

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The following table presents shares authorized, available for future grant and outstanding under each of the Company's plans as of December 31, 2018:

	Authorized	Available	Outstanding[1]
	(In thousands)		
2004 Incentive Plan	33,000	9,706	3,004
2013 Directors Plan	1,000	696	51
Total	34,000	10,402	3,055

(1) Includes 6,000 shares of accrued incremental dividend equivalent rights on outstanding shares underlying restricted stock units granted under the 2004 Incentive Plan and 2013 Directors Plan.

Stock Options

All stock option grants made under the 2004 Incentive Plan are made at exercise prices no less than the Company's closing stock price on the date of grant. Outstanding stock options generally vest over a three-year period from the grant date and generally expire up to 10 years after the grant date. The Company recorded $14,000, $34,000 and $146,000 of compensation expense relating to outstanding stock options for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The model uses various assumptions, including a risk-free interest rate, the expected term of the options, the expected stock price volatility, and the expected dividend yield. Compensation expense for employee stock options is recognized over the vesting term and is reduced by an estimate for forfeitures, which is based on the Company's historical forfeitures of unvested options and awards. The Company did not grant stock options during the years ended December 31, 2018, 2017 and 2016. For the years ended December 31, 2018 and 2017, the weighted average estimated forfeiture rate used was 1.7% and 3.7% at December 31, 2016.

The Company uses forecasted dividends to estimate the expected dividend yield. The expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury yield curve at the date of grant with maturity dates approximately equal to the expected term of the options at the date of the grant. The expected life of the Company's options is based on evaluations of historical employee exercise behavior, forfeitures, cancellations and other factors. The valuation model applied in this calculation utilizes highly subjective assumptions that could potentially change over time. Changes in the subjective input assumptions can materially affect the fair value estimates of an option. Furthermore, the estimated fair value of an option does not necessarily represent the value that will ultimately be realized by the employee holding the option.

The following table summarizes the Company's stock option activities for the year ended December 31, 2018 (in thousands, except price per share and contractual term):

Options	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2018	980	$ 7.15		
Granted	—	$ —		
Exercised	(232)	$ 7.05		
Forfeited	—	$ —		
Expired	(57)	$ 14.92		
Outstanding at December 31, 2018	691	$ 6.54	4.05	$ 6,053
Vested and expected to vest in the future at December 31, 2018	691	$ 6.54	4.05	$ 6,053
Exercisable at December 31, 2018	691	$ 6.54	4.05	$ 6,053

At December 31, 2018, there was no unrecognized compensation expense related to options granted to employees under the Company's share-based payment plans.

The total intrinsic value for options exercised during the years ended December 31, 2018, 2017 and 2016 was $2,621,000, $3,546,000 and $1,005,000, respectively. Cash received from the exercise of stock options for the years ended December 31, 2018, 2017 and 2016 was $1,636,000, $5,362,000 and $2,637,000, respectively.

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Restricted Stock Units

Restricted stock units awarded under the 2004 Incentive Plan and the 2013 Directors Plan are recorded at the Company’s closing stock price on the date of grant. Restricted stock units generally vest over a one- to three-year period. At December 31, 2018, 2017 and 2016, the weighted average grant-date fair value of restricted stock units granted was $15.30, $10.94 and $9.36, respectively. The Company recorded $5,949,000, $5,537,000 and $4,283,000 of compensation expense related to restricted stock units in 2018, 2017 and 2016, respectively.

The table below is a roll-forward of the activity for restricted stock units during the 12 months ended December 31, 2018 (in thousands, except fair value amounts):

Restricted Stock Units	Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	1,276	$ 10.09
Granted	424	15.30
Vested	(451)	9.28
Forfeited	(10)	11.32
Nonvested at December 31, 2018[1]	1,239	$ 12.16

(1) Excludes 6,000 shares of accrued incremental dividend equivalent rights on outstanding shares underlying restricted stock units granted under the 2004 Incentive Plan and 2013 Directors Plan.

At December 31, 2018, there was $8,918,000 of total unrecognized compensation expense related to nonvested restricted stock units granted to employees under the Company’s share-based payment plans. That cost is expected to be recognized over a weighted-average period of 2.2 years.

Performance Share Units

Performance share units granted under the 2004 Incentive Plan are stock-based awards in which the number of shares ultimately received depends on the Company's performance against specified metrics which are generally over a one- to three-year performance period from the date of grant. These performance metrics are established by the Company at the beginning of the performance period. At the end of the performance period, the number of shares of stock that could be issued is fixed based upon the degree of achievement of the performance goals. The number of shares that could be issued can range from 0% to 200% of the participant's target award. Performance share units are initially valued at the Company's closing stock price on the date of grant. Stock compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period. The expense recognized over the vesting period is adjusted up or down based on the anticipated performance level during the performance period. If the performance metrics are not probable of achievement during the performance period, compensation expense would be reversed. The awards are forfeited if the threshold performance metrics are not achieved as of the end of the performance period. The performance share units generally cliff-vest in full three years from the date of grant.

The Company granted 307,000, 462,000 and 420,000 performance share units during the years ended December 31, 2018, 2017 and 2016, respectively, at a weighted average grant-date fair value of $14.80, $10.68 and $8.61 per share, respectively. These awards are subject to a three-year performance period provided that (i) if certain first year performance goals are achieved, the participant could earn up to 50% of the three-year target award shares, subject to continued service through the vesting date, and (ii) if certain cumulative first and second year performance goals are achieved, the participant could earn up to an aggregate of 80% of the three-year target award shares (which includes any shares earned during the first year), subject to continued service through the vesting date. Based on the Company’s performance, participants earned a minimum of 50% of the target award shares granted in 2017, and 80% of the target award shares granted in 2016, subject to continued service through the vesting dates.

During the years ended December 31, 2018, 2017 and 2016, the Company recognized total compensation expense, net of estimated forfeitures, of $7,567,000, $7,075,000 and $4,536,000, respectively, for performance share units. At December 31, 2018, the unamortized compensation expense related to these awards was $10,066,000, which is expected to be recognized over a weighted-average period of 1.1 years.

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The table below is a roll-forward of the activity for performance share units during the 12 months ended December 31, 2018 (in thousands, except fair value amounts):

Performance Share Units	Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018[1]	1,433	$ 9.05
Granted	307	14.80
Vested	(606)	7.87
Forfeited	(15)	10.68
Nonvested at December 31, 2018	1,119	$ 11.10

(1) Nonvested performance share units as of January 1, 2018, are comprised of 1,292,000 shares at the target award rate adjusted for shares earned by participants at 130.2% for awards granted in 2015.

Stock Appreciation Rights

Cash settled stock appreciation rights ("SARs") granted under the 2004 Incentive Plan are valued using the Black-Scholes option-pricing model on the date of grant. SARs are subsequently remeasured at each interim reporting period based on a revised Black-Scholes value until they are exercised. SARs vest over a three-year period. As of December 31, 2016, the outstanding SARs were fully vested.

There were no awards outstanding as of December 31, 2018 and 2017. The Company reversed $32,000 and recognized $320,000 during the years ended December 31, 2017 and 2016, respectively, in compensation expense related to previously granted awards.

Share-Based Compensation Expense

The table below summarizes the amounts recognized in the financial statements for the years ended December 31, 2018, 2017 and 2016 for share-based compensation, including expense for stock options, restricted stock units, performance share units and cash settled stock appreciation rights (in thousands):

	2018	2017	2016
Cost of sales	$976	$907	$704
Operating expenses	12,554	11,708	8,581
Total cost of employee share-based compensation included in income before income tax	$13,530	$12,615	$9,285

Note 15. Employee Benefit Plan

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the “401(k) Plan”) for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to 75% of annual compensation, up to the maximum permitted under federal law, and the Company is obligated to contribute annually an amount equal to 50% of the participant’s contributions up to 6% of their eligible annual compensation.

The portion of the participant’s account attributable to elective deferral contributions and rollover contributions are 100% vested and nonforfeitable. Participants vest in employer contributions at a rate of 50% per year, becoming fully vested after the completion of two years of service. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $2,340,000, $1,927,000 and $1,842,000 during 2018, 2017 and 2016, respectively.

Note 16. Fair Value of Financial Instruments

Certain of the Company’s financial assets and liabilities are measured at fair value on a recurring and nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability (the exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants. Assets and liabilities carried at fair value are classified using the three-tier hierarchy (see Note 2).

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The following table summarizes the valuation of the Company’s foreign currency forward contracts (see Note 17) that are measured at fair value on a recurring basis as of December 31, 2018 and 2017 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
2018				
Foreign currency forward contracts —asset position	$4,539	$ —	$4,539	$ —
Foreign currency forward contracts —liability position	(236)	—	(236)	—
	$4,303	$ —	$4,303	$ —
2017				
Foreign currency forward contracts —asset position	$179	$ —	$179	$ —
Foreign currency forward contracts —liability position	(239)	—	(239)	—
	$(60)	$ —	$(60)	$ —

The fair value of the Company’s foreign currency forward contracts is based on observable inputs that are corroborated by market data. Observable inputs include broker quotes, daily market foreign currency rates and forward pricing curves. Remeasurement gains and losses on foreign currency forward contracts designated as cash flow hedges are recorded in other comprehensive income, and in other income (expense) for non-designated foreign currency forward contracts (see Note 17).

Disclosures about the Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade accounts receivable and trade accounts payable at December 31, 2018 and 2017 are categorized within Level 1 of the fair value hierarchy due to the short-term nature of these balances. The table below illustrates information about fair value relating to the Company’s financial assets and liabilities that are recognized in the accompanying consolidated balance sheets as of December 31, 2018 and 2017, as well as the fair value of contingent contracts that represent financial instruments (in thousands).

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Primary Asset-Based Revolving Credit Facility[2]	$40,300	$40,300	$74,000	$ 74,000
Japan ABL Facility[1]	$—	$—	$13,755	$ 13,755
Equipment Note[2]	$9,629	$9,629	$11,815	$ 11,815
Standby letters of credit[3]	$1,187	$1,187	$887	$ 887

(1) The carrying value of amounts outstanding under the Primary Asset-Based Revolving and the Japan ABL credit facilities approximate the fair value due to the short term nature of these obligations. The fair value of this debt is categorized within Level 2 of the fair value hierarchy. See Note 5 for information on the Company's credit facilities, including certain risks and uncertainties related thereto.

(2) In December 2017, the Company entered into the Equipment Note secured by certain equipment at the Company's golf ball manufacturing facility. As of December 31, 2018, the Company had $9,629,000 outstanding under the Equipment Note. The fair value of this debt is categorized within Level 2 of the fair value hierarchy. See Note 5 for further information.

(3) The carrying value of the Company's standby letters of credit approximates the fair value as they represent the Company’s contingent obligation to perform in accordance with the underlying contracts. The fair value of this contingent obligation is categorized within Level 2 of the fair value hierarchy.

Nonrecurring Fair Value Measurements

The Company measures certain assets at fair value on a nonrecurring basis at least annually or when certain indicators are present. These assets include long-lived assets, goodwill and non-amortizing intangible assets that are written down to fair value when they are held for sale or determined to be impaired. In each of 2018, 2017, and 2016, the Company did not have any significant assets or liabilities that were measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

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Note 17. Derivatives and Hedging

In the normal course of business, the Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries. As part of its strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses designated cash flow hedges and non-designated hedges in the form of foreign currency forward contracts to mitigate the impact of foreign currency translation on transactions that are denominated primarily in Japanese Yen, British Pounds, Euros, Canadian Dollars, Australian Dollars and Korean Won.

The Company accounts for its foreign currency forward contracts in accordance with ASC Topic 815, "Derivatives and Hedging" ("ASC Topic 815"). ASC Topic 815 requires the recognition of all derivative instruments as either assets or liabilities on the balance sheet, the measurement of those instruments at fair value and the recognition of changes in the fair value of derivatives in earnings in the period of change, unless the derivative qualifies as a designated cash flow hedge that offsets certain exposures. Certain criteria must be satisfied in order for derivative financial instruments to be classified and accounted for as a cash flow hedge. Gains and losses from the remeasurement of qualifying cash flow hedges are recorded as a component of other comprehensive income and released into earnings as a component of cost of goods sold or net sales during the period in which the hedged transaction takes place. Gains and losses on the ineffective portion of hedges (hedges that do not meet accounting requirements due to ineffectiveness) and derivatives that are not elected for hedge accounting treatment are immediately recorded in earnings as a component of other income (expense).

Foreign currency forward contracts are used only to meet the Company’s objectives of minimizing variability in the Company’s operating results arising from foreign exchange rate movements. The Company does not enter into foreign currency forward contracts for speculative purposes. The Company utilizes counterparties for its derivative instruments that it believes are credit-worthy at the time the transactions are entered into and the Company closely monitors the credit ratings of these counterparties.

The following table summarizes the fair value of the Company's foreign currency forward contracts as well as the location of the asset and/or liability on the consolidated balance sheets at December 31, 2018 and 2017 (in thousands):

	Asset Derivatives			
	December 31, 2018		December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedging instruments:				
Foreign currency forward contracts	Other current assets	$ 54	Other current assets	$ 168
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Other current assets	$ 4,485	Other current assets	$ 11

	Liability Derivatives			
	December 31, 2018		December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedging instruments:				
Foreign currency forward contracts	Accounts payable and accrued expenses	$ 39	Accounts payable and accrued expenses	$ 194
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Accounts payable and accrued expenses	$ 197	Accounts payable and accrued expenses	$ 45

The Company's foreign currency forward contracts are subject to a master netting agreement with each respective counterparty bank and are therefore net settled at their maturity date. Although the Company has the legal right of

offset under the master netting agreements, the Company has elected not to present these contracts on a net settlement amount basis, and therefore present these contracts on a gross basis on the accompanying consolidated balance sheets at December 31, 2018 and 2017.

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Cash Flow Hedging Instruments

The Company uses foreign currency forward contracts designated as qualifying cash flow hedging instruments to help mitigate the Company's foreign currency exposure on intercompany sales of inventory to its foreign subsidiaries. These contracts generally mature within 12 to 15 months from their inception. At December 31, 2018, the Company had no outstanding foreign currency forward contracts designated as cash flow hedges. At December 31, 2017, the notional amounts of the Company's foreign currency forward contracts designated as cash flow hedge instruments were approximately $14,210,000. The reporting of gains and losses on these cash flow hedging instruments depends on whether the gains or losses are effective at offsetting changes in the cash flows of the underlying hedged items. The Company uses the critical terms method to measure the effectiveness of the foreign currency forward contracts and evaluates the effectiveness on a quarterly basis. The effective portion of the gains and losses on the hedging instruments are recorded in other comprehensive income until recognized in earnings during the period that the hedged transactions take place. Any ineffective portion of the gains and losses from the hedging instruments is recognized in earnings immediately. The Company would discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated, or exercised, (iii) if it becomes probable that the forecasted transaction being hedged by the derivative will not occur, (iv) if a hedged firm commitment no longer meets the definition of a firm commitment, or (v) if it is determined that designation of the derivative as a hedge instrument is no longer appropriate. The Company estimates the fair value of its foreign currency forward contracts based on pricing models using current market rates. These contracts are classified under Level 2 of the fair value hierarchy (see Note 16).

As of December 31, 2018, the Company recorded a net gain of $389,000 in other comprehensive income related to its hedging activities. Of this amount, for the year ended December 31, 2018, net gains of $236,000 were relieved from other comprehensive income and recognized in cost of goods sold for the underlying intercompany sales that were recognized. There were no ineffective gains or losses recognized during 2018. Gains on forward points of $377,000 were recognized as incurred. Based on the current valuation, the Company expects to reclassify net gains of $133,000 from accumulated other comprehensive income into net earnings during the next 12 months. See Note 2 for a rollforward of accumulated other comprehensive income.

The Company recognized a net loss of $187,000 in cost of goods sold in the year ended December 31, 2017.

The following tables summarize the net effect of all cash flow hedges on the consolidated financial statements for the year ended December 31, 2018, 2017, and 2016 (in thousands):

	Net Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion) Year Ended December 31,		
Derivatives designated as cash flow hedging instruments	2018	2017	2016
Foreign currency forward contracts	$389	$(2,679)	$(538)

	Net Gain (Loss) Reclassified from Other Comprehensive Income into Earnings (Effective Portion) Year Ended December 31,		
Derivatives designated as cash flow hedging instruments	2018	2017	2016
Foreign currency forward contracts	$236	$(187)	$(2,514)

Foreign Currency Forward Contracts Not Designated as Hedging Instruments

The Company uses foreign currency forward contracts that are not designated as qualified hedging instruments to mitigate certain balance sheet exposures (payables and receivables denominated in foreign currencies), as well as gains and losses resulting from the translation of the operating results of the Company's international subsidiaries into U.S. dollars for financial reporting purposes. These contracts generally mature within 12 months from their inception. At December 31, 2018, 2017 and 2016, the notional amounts of the Company's foreign currency forward contracts used to mitigate the exposures discussed above were approximately $459,600,000, $4,821,000 and $14,821,000, respectively. The significant increase in 2018 includes a foreign currency forward contract that was put in place to mitigate the risk of foreign currency fluctuations in connection with the acquisition of Jack Wolfskin, which was denominated in Euros (see Note 4). The Company estimates the fair values of foreign currency

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forward contracts based on pricing models using current market rates, and records all derivatives on the balance sheet at fair value with changes in fair value recorded in the statement of operations. The foreign currency contracts are classified under Level 2 of the fair value hierarchy (see Note 16).

The following table summarizes the location of gains and losses on the consolidated statements of operations that were recognized during the years ended December 31, 2018, 2017 and 2016, respectively, in addition to the derivative contract type (in thousands):

Derivatives not designated as hedging instruments	Location of gain (loss) recognized in income on derivative instruments	Amount of Gain (Loss) Recognized in Income on Derivative Instruments Years Ended December 31,		
		2018	2017	2016
Foreign currency forward contracts	Other income (expense), net	$9,705	$(7,958)	$(6,563)

In addition, during the year ended December 31, 2018, 2017, and 2016, the Company recognized net foreign currency losses of $2,824,000 and gains of $808,000, $226,000, respectively, related to transactions with foreign subsidiaries, respectively.

Note 18. Segment Information

The Company has three operating and reportable segments that are organized on the basis of products, namely (i) Golf Clubs, (ii) Golf Balls and (iii) Gear, Accessories and Other. The Golf Clubs segment consists of Callaway Golf drivers and fairway woods, hybrids, irons and wedges, Odyssey putters, including Toulon Design putters by Odyssey, packaged sets and sales of pre-owned golf clubs. At the product category level, sales of packaged sets are included within irons, and sales of pre-owned golf clubs are included in the respective woods, irons and putters product categories. The Golf Balls segment consists of Callaway Golf and Strata golf balls that are designed, manufactured and sold by the Company. The Gear, Accessories and Other segment consists of golf apparel and footwear, golf bags, golf gloves, travel gear, headwear and other lifestyle and golf-related apparel, gear and accessories, OGIO branded personal storage gear and accessories, TravisMathew branded apparel, and royalties from licensing of the Company’s trademarks and service marks for various soft goods products. There are no significant intersegment transactions.

Due to the recent acquisition of Jack Wolfskin in January 2019 (Note 4), significant growth in the Company's soft goods business is anticipated, and as such, it will be evaluating its global business platform, including its management structure, operations, supply chain and distribution, which may result in changes in the composition of its operating and reportable segments.

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The table below contains information utilized by management to evaluate its operating segments.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net sales:			
Golf Clubs	$717,293	$643,096	$582,381
Golf Balls	195,654	162,546	152,261
Gear, Accessories and Other	329,887	243,094	136,550
	$1,242,834	$1,048,736	$871,192
Income (loss) before income tax:			
Golf Clubs	$104,177	$77,018	$48,489
Golf Balls	27,887	26,854	23,953
Gear, Accessories and Other	56,620	30,631	18,223
Reconciling items[1]	(57,412)	(66,448)	(32,272)
	$131,272	$68,055	$58,393
Identifiable assets:[2]			
Golf Clubs	$343,506	$321,265	$276,654
Golf Balls	94,098	57,120	45,758
Gear, Accessories and Other	269,432	236,515	35,788
Reconciling items[3]	345,908	376,257	443,082
	$1,052,944	$991,157	$801,282
Additions to long-lived assets:[3]			
Golf Clubs	$9,176	$11,396	$6,163
Golf Balls	18,602	12,178	6,585
Gear, Accessories and Other	9,712	3,790	2,050
	$37,490	$27,364	$14,798
Goodwill:			
Golf Clubs	$26,183	$26,904	$25,593
Golf Balls	—	—	—
Gear, Accessories and Other[4]	29,633	29,525	—
	$55,816	$56,429	$25,593
Depreciation and amortization:			
Golf Clubs	$3,239	$8,769	$8,509
Golf Balls	7,926	4,496	4,355
Gear, Accessories and Other	8,783	4,340	3,722
	$19,948	$17,605	$16,586

(1) Reconciling items represent the deduction of corporate general and administration expenses and other income (expenses), which are not utilized by management in determining segment profitability. In 2018, reconciling items include $7,261,000 of net foreign currency exchange gains, and $3,661,000 of transaction costs associated with the Jack Wolfskin acquisition that was completed in January 2019. Reconciling items in 2017 include $11,264,000 of transaction and transitional costs associated with the acquisitions of OGIO and TravisMathew in 2017, and net foreign currency exchange losses of $6,880,000. In 2016, reconciling items include a $17,662,000 gain in connection with the sale of approximately 10.0% of the Company's investment in Topgolf (see Note 8) and net foreign currency exchange losses of $2,691,000.

(2) Identifiable assets are comprised of net inventory, certain property, plant and equipment, intangible assets and goodwill. Reconciling items represent unallocated corporate assets not segregated between the three segments including cash and cash equivalents, net accounts receivable, and deferred tax assets. The $30,349,000 decrease in reconciling items in 2018 compared to 2017 was primarily due to decreases of $21,693,000 in cash and cash

equivalents and $16,319,000 in deferred tax assets related to utilization of net operating losses, tax credits, and tax reform regulations released in 2018. The $66,825,000 decrease in reconciling items in 2017 compared to 2016 was primarily due a $40,301,000 decrease in cash and cash equivalents primarily

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to fund the OGIO and TravisMathew acquisitions in 2017, combined with a $23,535,000 decrease in net deferred tax assets primarily due to the utilization of net operating losses and the reevaluation of deferred tax assets as a result of the Tax Act.

(3) Additions to long-lived assets are comprised of purchases of property, plant and equipment.

(4) The $30,836,000 increase in goodwill in 2017 compared to 2016 was primarily as a result of the acquisitions of OGIO and TravisMathew in 2017.

The Company’s net sales by product category are as follows:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net sales:			
Woods	$304,459	$307,865	$216,094
Irons	316,463	250,636	278,562
Putters	96,371	84,595	87,725
Golf Balls	195,654	162,546	152,261
Accessories and Other	329,887	243,094	136,550
	$1,242,834	$1,048,736	$871,192

The Company markets its products in the United States and internationally, with its principal international markets being Japan and Europe. The tables below contain information about the geographical areas in which the Company operates. Revenues are attributed to the location to which the product was shipped. Long-lived assets are based on location of domicile.

	Sales	Long-Lived Assets(1)
	(In thousands)	
2018		
United States	$706,332	$ 422,803
Europe	149,602	6,855
Japan	223,707	8,723
Rest of Asia	92,026	4,200
Other foreign countries	71,167	10,378
	$1,242,834	$ 452,959
2017(2)		
United States	$564,648	$ 403,493
Europe	140,947	7,681
Japan	199,372	7,635
Rest of Asia	76,530	3,717
Other foreign countries	67,239	11,248
	$1,048,736	$ 433,774
2016		
United States	$447,613	$ 199,617
Europe	122,805	7,260
Japan	170,760	6,201
Rest of Asia	67,099	2,668
Other foreign countries	62,915	10,405
	$871,192	$ 226,151

(1) Long-lived assets include all non-current assets of the Company except deferred tax assets.

(2) Prior period amounts have been reclassified to conform to current year presentation of regional sales related to OGIO-branded products.

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Explanation of Responses:

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Note 19. Transactions with Related Parties

The Callaway Golf Company Foundation (the “Foundation”) oversees and administers charitable giving and makes grants to selected organizations. Officers of the Company also serve as directors of the Foundation and the Company’s employees provide accounting and administrative services for the Foundation. In each of 2018, 2017 and 2016, the Company recognized charitable contribution expense of $750,000 for the Foundation.

Note 20. Summarized Quarterly Data (Unaudited)

	Fiscal Year 2018 Quarters				
	1st	2nd	3rd	4th	Total
	(In thousands, except per share data)				
Net sales	$403,191	$396,311	$262,654	$180,678	$1,242,834
Gross profit	$200,462	$192,697	$115,239	$69,971	$578,369
Net income (loss)	$62,731	$60,934	$9,740	$(28,151)	$105,254
Less: Net income attributable to non-controlling interests	$(124)	$67	$223	$348	$514
Net income (loss) attributable to Callaway Golf Company	$62,855	$60,867	$9,517	$(28,499)	$104,740
Earnings (loss) per common share[(1)]					
Basic	$0.66	$0.65	$0.10	$(0.30)	$1.11
Diluted	$0.65	$0.63	$0.10	$(0.30)	$1.08

	Fiscal Year 2017 Quarters				
	1st	2nd	3rd	4th	Total
	(In thousands, except per share data)				
Net sales	$308,927	$304,548	$243,604	$191,657	$1,048,736
Gross profit	$147,715	$148,165	$104,902	$79,666	$480,448
Net income (loss)	$25,880	$31,474	$3,089	$(18,776)	$41,667
Less: Net income attributable to non-controlling interests	$191	$31	$29	$610	$861
Net income (loss) attributable to Callaway Golf Company	$25,689	$31,443	$3,060	$(19,386)	$40,806
Earnings (loss) per common share[(1)]					
Basic	$0.27	$0.33	$0.03	$(0.20)	$0.43
Diluted	$0.27	$0.33	$0.03	$(0.20)	$0.42

(1) Earnings per share is computed individually for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not necessarily equal the total for the year.

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