Callaway Golf Announces Third Quarter and Year to Date Results

CARLSBAD, Calif., Oct. 18 /PRNewswire/ -- Callaway Golf Company (NYSE: ELY) today reported third quarter and nine months operating results for the periods ended September 30, 2001, announcing record sales of $710.9 million for the year to date despite a decline in sales in the quarter. Excluding an after-tax, non-cash accounting charge, the Company's operating results exceeded consensus estimates for the quarter.

Third quarter net sales declined 6% to $195.8 million from $208.1 million during the same quarter in 2000. Net income during the quarter declined 67% to $6.5 million from $20.1 million the previous year. Third quarter 2001 earnings per diluted share decreased 69% to $0.09 from $0.29 in the same period last year. Excluding a $7.8 million after-tax, non-cash energy supply contract charge, Callaway Golf's net income decreased 28% to $14.3 million and earnings per diluted share decreased 31% to $0.20, exceeding third quarter consensus estimate of $0.19.

Net sales for the nine months ended September 30, 2001 increased 2% to $710.9 million, compared to $695.4 million during the same period in 2000. Net income during the period decreased 12% to $67.6 million from $76.4 million last year, and earnings per diluted share decreased 13% to $0.92 per diluted share from $1.06 per diluted share. Excluding the after-tax, non-cash charge related to the Company's long-term energy supply contract, net income for the first nine months increased 7% to $81.8 million, and earnings per diluted share increased 5% to $1.12.

"We are pleased with our year-to-date results in light of industry and economic challenges," said Ron Drapeau, Chairman, President and CEO of Callaway Golf. "Recent data show that we have maintained our #1 U.S. market share position in all golf club categories, and our golf ball products have shown good increases in market share as well. We believe these achievements are a testament to our brand strength and our commitment to providing demonstrably superior and pleasingly different products. In particular, our CB1(TM) golf ball line captured considerable U.S. market share in its price segment (16%) after just four months. At the same time, our quarterly results reflect the adverse conditions that have impacted the golf industry and the accounting impact of our energy supply agreement."

During the second quarter of 2001, Callaway Golf entered into a long-term energy supply contract as part of a comprehensive strategy to ensure the uninterrupted supply of energy while capping electricity costs in the volatile California energy market. Accounting rules mandate companies adjust the book value of such contracts based on current market rates and record any resulting gain or loss as either income or expense. During the quarter, Callaway Golf recorded a non-cash expense of $7.8 million after-tax, or $0.11 per diluted share, as a result of falling electricity rates. The Company may report non-cash gains or losses in future quarters as California's energy prices rise and fall relative to the underlying contract price.

"We are building on our position as the premier golf equipment company in the world," continued Mr. Drapeau. "During the quarter, we introduced several new products including the Hawk Eye® VFT®Tungsten Injected(TM) Titanium Irons, which are our most forgiving irons yet. We also introduced two revolutionary golf ball lines, our new premium HX(TM) golf balls and the CTU 30(TM) balls, bringing to three the number of new Callaway Golf ball lines introduced this year. In the coming weeks, we will have a broad array of additional product introductions in multiple product categories to support continued growth."

Mr. Drapeau added, "We are taking the necessary steps to maintain our leadership role and to improve financial results, especially given the recent economic conditions. We continue improving our sourcing and manufacturing processes to reduce costs and expand profitability. We have conducted a thorough review of our cost structure and are reducing expenses where possible, as reflected in part in an improvement in G&A and R&D expenses as a percentage of net sales in the most recent quarter. I am particularly enthusiastic about the new products planned for 2002. While the near term economic and industry outlook is uncertain due to world economic and political conditions, we believe our brand strength, superior products, and other initiatives will carry us through these challenging times and position us to deliver solid results as conditions improve."

Third quarter net sales of $196 million by product category and region were as follows:

- Metal woods sales decreased 16% to $81 million
- Irons sales decreased 2% to $72 million
- Golf ball sales increased 10% to $12 million
- Putters, accessories, and other sales increased 13% to $31 million
- U.S. sales decreased 5% to $103 million
- International sales decreased 7% to $93 million
- (in constant dollars, International sales were up 1%)
- Nine month net sales of $711 million by product category and region were as follows:
- Metal woods sales increased 8% to $360 million
- Irons sales decreased 18% to $208 million
- Golf ball sales increased 61% to $45 million
- Putters, accessories, and other sales increased 22% to $98 million
- U.S. sales increased 4% to $390 million
- International sales were flat at $321 million
- (in constant dollars, International sales were up 10%)
- Prior year amounts have been restated to reflect the Company's current year presentation including the adoption of Staff Accounting Bulletin No. 101.

Third quarter gross margin as a percent of net sales matched last year at 49%.

Selling and tour expenses for the third quarter were $45.3 million (23% of net sales), compared to $41.1 million (20% of net sales) in 2000. This increase was primarily due to demand creation initiatives, higher marketing costs, and additional advertising associated with new product launches, combined with lower overall sales during the quarter.

General and administrative expenses for the third quarter of 2001 were $17.5 million (9% of net sales), compared to $20.7 million (10% of net sales) in 2000. This decrease was primarily due to lower employee, depreciation and bad debt expenses.

"We continue improving our financial position," stated Brad Holiday, Executive Vice President and Chief Financial Officer. "A higher mix of metal woods, improved golf ball gross margins, and expense controls have contributed to the year-to-date improvements in gross margin and operating margin. Our balance sheet remains solid and we ended the quarter with no debt and $106 million in cash and marketable securities, after repurchasing $80 million of Callaway Golf's stock."

During the third quarter, the Company repurchased 4.7 million of its shares at an average cost of $17.07 per share under the $100 million repurchase authorization granted by the Board and announced in August 2001.

In accordance with the Company's dividend practice for 2001, the dividend for the third quarter will be determined by the Board of Directors at its November 2001 meeting.

BUSINESS OUTLOOK

In light of SEC Regulations, the Company elects to provide certain forward-looking information in this press release. These statements are based on current information and expectations, and actual results may differ materially. The Company undertakes no obligation to update this information. See further disclaimer below.

Full Year 2001

The Company estimates:

- Expected net sales for the year of approximately $800-$820 million
- Expected gross margins for the year of approximately 50% of net sales
- Expected earnings per diluted share for the year of approximately $1.01 - $1.06 excluding charges associated with the aforementioned energy supply contract.

"We are lowering our sales and earnings expectations for the remainder of the year based on current trends and the many uncertainties facing all industries, including ours," concluded Mr. Holiday. "Following the events of September 11th, we postponed our new product introductions and retailer partnership event that were originally scheduled for September. We are reevaluating our 2002 expectations in light of market conditions and expect to offer guidance after we collect feedback from our planned product introductions."

The Company will be holding a conference call at 2:00 p.m. PDT today, which will be hosted by Ron Drapeau, Chairman, CEO and President, and Brad Holiday, Executive Vice President and Chief Financial Officer. The call will be broadcast live over the Internet and can be accessed at http://www.callawaygolf.com. To listen to the call, please go to the web site at least 15 minutes before the call to register and for instructions on how to access the broadcast. A replay of the conference call will be available approximately one hour after the conclusion of the conference call. The replay may be accessed through the Internet at http://www.callawaygolf.com or by telephone by calling (888) 509-0082 for calls originating within the United States or (416) 695-9731 for International calls. The replay will be available through 5:00 p.m. PDT, on Thursday, October 25, 2001.

Callaway Golf Company makes and sells Big Bertha® Metal Woods and Irons, including Big Bertha ERC® II Forged Titanium Drivers, Big Bertha Hawk Eye® VFT® and Big Bertha Hawk Eye VFT Pro Series Titanium Drivers and Fairway Woods, Big Bertha Steelhead Plus® Stainless Steel Drivers and Fairway Woods, Hawk Eye VFT Tungsten Injected(TM) Titanium Irons, Steelhead(TM) X-14® and Steelhead X-14 Pro Series Stainless Steel Irons. Callaway Golf Company also makes and sells Odyssey® Putters, including White Hot®, TriHot(TM), and Dual Force® Putters. Callaway Golf Company makes and sells the Callaway Golf® HX(TM) Red and HX Blue balls, Rule 35® Firmfeel(TM) and Softfeel(TM) balls, the CTU 30(TM) Red and CTU 30 Blue balls, and the CB1(TM) Red and CB1 Blue balls. For more information about Callaway Golf Company, please visit our Web sites at www.callawaygolf.com and www.odysseygolf.com.

Callaway Golf Company
Consolidated Condensed Statement of Operations (Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2001		Three Months Ended September 30, 2000		Nine Months Ended September 30, 2001		Nine Months Ended September 30, 2000	
Net sales	$195,848	100%	$208,081	100%	$710,868	100%	$695,409	100%
Cost of goods sold	100,824	51%	106,050	51%	347,001	49%	360,606	52%
Gross profit	95,024	49%	102,031	49%	363,867	51%	334,803	48%
Operating expenses:								
Selling	45,281	23%	41,066	20%	152,658	21%	131,806	19%
General and administrative	17,473	9%	20,683	10%	57,909	8%	55,804	8%
Research and development	8,025	4%	9,899	5%	25,402	4%	26,248	4%
Income from operations	24,245	12%	30,383	15%	127,898	18%	120,945	17%
Other (expense) income, net	(12,708)		2,689		(15,335)		6,415	
Income before income taxes and cumulative effect of accounting change	11,537	6%	33,072	16%	112,563	16%	127,360	18%
Income tax provision	5,018		13,017		44,994		50,018	
Income before cumulative effect of accounting change	6,519	3%	20,055	10%	67,569	10%	77,342	11%
Cumulative effect of accounting change							(957)	
Net income	$6,519	3%	$20,055	10%	$67,569	10%	$76,385	11%
Earnings per common share:								
Basic								
Income before cumulative effect of accounting change	$0.09		$0.29		$0.96		$1.10	
Cumulative effect of accounting change							(0.01)	
Net income	$0.09		$0.29		$0.96		$1.09	
Diluted								

Income before cumulative effect of accounting change	$0.09	$0.29	$0.92	$1.07
Cumulative effect of accounting change				(0.01)
Net income	$0.09	$0.29	$0.92	$1.06
Common equivalent shares:				
Basic	69,744	69,237	70,365	70,372
Diluted	72,611	70,203	73,231	71,786

Callaway Golf Company
Consolidated Condensed Balance Sheet
(In thousands)

	September 30, 2001 (unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$42,807	$102,596
Marketable securities	63,685	
Accounts receivable, net	97,032	58,836
Inventories, net	145,261	133,962
Deferred taxes	23,749	29,354
Other current assets	10,478	17,721
Total current assets	383,012	342,469
Property, plant and equipment, net	132,057	134,712
Intangible assets, net	123,395	112,824
Other assets	37,104	40,929
	$675,568	$630,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$53,883	$44,173
Accrued employee compensation and benefits	33,368	22,574
Accrued warranty expense	36,179	39,363
Income taxes payable		3,196
Total current liabilities	123,430	109,306
Long-term liabilities	26,081	9,884
Shareholders' equity	526,057	511,744
	$675,568	$630,934