Callaway Golf Reports Record First Half Sales

Quarter Results | Statement of Operations | Balance Sheet

CARLSBAD, Calif./ July 25, 2001/ Callaway Golf Company (NYSE:ELY) today reported second quarter and six months operating results for the period ended June 30, 2001.

Net sales for the six months ended June 30, 2001 increased 6% to a record $515.0 million, compared to $487.3 million during the same period in 2000. Net income during the period increased 9% to $61.1 million from $56.3 million for the comparable period last year, and earnings per diluted share increased 6% to $0.83 per diluted share from $0.78 per diluted share for the comparable period last year. Excluding a non-cash charge related to a long-term energy supply contract, Callaway Golf's net income for the first six months increased 20% to $67.3 million, and diluted earnings per share increased 17% to $0.91.

"We are pleased to announce a record first half of the year given today's challenging worldwide economic environment," said Ron Drapeau, President and CEO of Callaway Golf. "In particular, we are pleased with first half earnings growth of 9% in contrast to industry trends. Given the current environment, I believe the sales and earnings growth are testaments to our products, brand strength, and team of managers and employees."

Second quarter net sales declined 13% to $253.7 million from $289.9 million during the same quarter in 2000. Net income during the quarter declined 39% to $27.0 million from $44.2 million the previous year. Second quarter 2001 diluted earnings per share decreased 41% to $0.36 from $0.61 in the same period last year. Excluding the non-cash energy supply contract charge, Callaway Golf's net income decreased 25% to $33.2 million and diluted earnings per share decreased 28% to $0.44.

Callaway Golf entered into a long-term energy supply contract during the second quarter to manage its electricity costs in light of uncertainty in the California energy market. Accounting rules mandate the value of such contracts be adjusted based on current market rates and any resulting gain or loss be recorded as either income or expense. During the quarter, Callaway Golf recorded a non-cash expense of $6.2 million after-tax or $0.08 per diluted share, as a result of fluctuating electricity rates. The Company may report non-cash income or expense charges in the future as California's underlying energy prices fluctuate in relation to the contract price.

"Our second quarter results were in line with our guidance," continued Mr. Drapeau. "While our international business remains solid, our consolidated results were negatively impacted by the strong U.S. dollar relative to other currencies. When measured in constant dollars, our first half net income increased 25% from last year. Furthermore, we believe our inventories, both domestically and internationally, are well controlled and will allow us to capitalize on sales opportunities as industry conditions improve."

Mr. Drapeau added, "Our strategic initiatives into the golf ball business and direct sales in Japan continue to trend positively. The May launch of our CB1™ two piece golf ball was very well received by retailers and consumers, resulting in a 12% U.S. market share in its price category. Combined with sales of our Rule 35® golf balls, our golf ball sales in the first half of 2001 nearly equaled all of 2000. We also remain pleased with our decision to invest in our Japanese subsidiary, which posted a 32% year-over-year sales increase during the first six months of 2001 despite the weak yen. This increase partially offset sales declines in Europe and the rest of Asia. We continue executing on our business and brand strategies with an eye toward maintaining our market-leading position, while exploring reasonable growth and expansion opportunities."

* Six month net sales of $515 million by product category and region were as follows:

- Metal woods sales increased 19% to $279 million
- Irons sales decreased 25% to $136 million
- Golf ball sales increased 95% to $32 million
- Putters, accessories, and other sales increased 26% to $68 million
- U.S. market sales increased 7% to $287 million
- International sales increased 4% to $228 million (in constant dollars, international sales increased 14% to $250 million)

* Second quarter net sales of $254 million by product category and region were as follows:

- Metal woods sales decreased 11% to $126 million
- Irons sales decreased 32% to $72 million
- Golf ball sales increased 97% to $21 million
- Putters, accessories, and other sales increased 8% to $35 million
- U.S. market sales decreased 10% to $140 million
- International sales decreased 16% to $114 million (in constant dollars, international sales decreased 7% to $126 million)

* Prior year amounts have been restated to reflect the Company's current year presentation including the adoption of Staff Accounting Bulletin No. 101 and Emerging Issues Task Force Issue No. 00-10.

Second quarter gross margin as a percent of net sales increased to 52% versus 50% for the same period last year. This improvement was primarily attributable to higher golf club and golf ball margins resulting from lower production costs and a more favorable product mix.

Selling and tour expenses for the second quarter were $54.1 million (21% of net sales), compared to $48.0 million (17% of net sales) in 2000. This increase was primarily due to higher marketing costs associated with new product launches, additional advertising, the rollout of the new fitting cart systems and store-in-store project, and other demand creation initiatives.

General and administrative expenses for the second quarter of 2001 were $20.6 million (8% of net sales), compared to $17.6 million (6% of net sales) in 2000. This increase was primarily due to higher employee compensation and legal expenses, partially offset by a decrease in depreciation expense.

"We are encouraged by our gross margin improvement during the second quarter," stated Brad Holiday, Executive Vice President and Chief Financial Officer. "Our gross margins have expanded as we leverage our manufacturing costs and improve golf ball profitability. While we are pleased with our profitability improvement, we are pursuing strategies to improve our financial performance even further. In addition, our ability to ship new products early in 2001 had the expected effect of increasing overall sales in the first half of the year."

During the second quarter, the Company repurchased 1,022,200 of its shares at an average cost of $19.07 per share completing the original $100 million repurchase authorization granted by the Board in May 2000. The program resulted in the repurchase of a total of 5,837,441 shares at an average price of $17.13.

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

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 $830 - $840 million
- Expected gross margins for the year of approximately 50% of net sales
- Expected pre-tax profit for the year of approximately 15% of net sales
- Expected earnings per diluted share for the year of approximately $1.00 - $1.05

"This guidance for the remainder of 2001 assumes that current industry trends will continue," concluded Mr. Holiday. "Obviously, this guidance is subject to change depending upon economic, competitive, and other market conditions, including fluctuations in foreign currencies as compared to the dollar."

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The Company will be holding a conference call at 2:00 p.m. PDT today, which will be hosted by Ron Drapeau, 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. Those wishing to listen via telephone should call (877) 356-4615 for US/Canada participants and (706) 643-0832 for International/Local participants prior to the start of the call and ask to be connected to the Callaway Golf Earnings Release call. A replay of the conference call will be available approximately two hours after the call ends through 5:00 p.m. PDT, on July 27, 2001 by calling (800) 642-1687 for US/Canada participants and (706) 645-9291 for International/Local participants. You will be asked to enter the Conference ID #1349208 for the replay only. You may also access it via our home page at http://www.callawaygolf.com.

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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 Tungsten Injected™ Titanium Irons, Steelhead™ X-14® and Steelhead X-14 Pro Series Stainless Steel Irons. Callaway Golf Company also makes and sells Odyssey® Putters, including White Hot®, TriHot™, and Dual Force® Putters. Callaway Golf Company makes and sells the Callaway Golf® Rule 35® Firmfeel™ and Softfeel™ golf balls, and the CB1™ Red and CB1 Blue golf 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				Six Months Ended			
	June 30,				June 30,			
	2001		2000		2001		2000	
Net sales	$ 253,655	100%	$ 289,922	100%	$515,021	100%	$487,328	100%
Cost of goods sold	121,719	48%	145,415	50%	246,177	48%	254,556	52%
Gross profit	131,936	52%	144,507	50%	268,844	52%	232,772	48%
Operating expenses:								
Selling	54,131	21%	47,990	17%	107,377	21%	90,740	19%
General and administrative	20,586	8%	17,614	6%	40,436	8%	35,121	7%
Research and development	8,444	4%	8,132	3%	17,378	3%	16,349	3%
Income from operations	48,775	19%	70,771	24%	103,653	20%	90,562	19%
Other (expense) income, net	(3,557)		2,141		(2,627)		3,726	
Income before income taxes and cumulative effect of accounting change	45,218	18%	72,912	25%	101,026	20%	94,288	19%
Income tax provision	18,243		28,723		39,976		37,001	
Income before cumulative effect of accounting change	26,975	11%	44,189	15%	61,050	12%	57,287	12%
Cumulative effect of accounting change							(957)	
Net income	$ 26,975	11%	$ 44,189	15%	$ 61,050	12%	$ 56,330	12%
Earnings per common share:								
Basic								
Income before cumulative effect of accounting change	$0.38		$0.63		$0.86		$0.80	
Cumulative effect of accounting change							(0.01)	
Net income	$0.38		$0.63		$0.86		$0.79	
Diluted								
Income before cumulative effect of accounting change	$0.36		$0.61		$0.83		$0.79	
Cumulative effect of accounting change							(0.01)	
Net income	$0.36		$0.61		$0.83		$0.78	

Common equivalent shares:				
Basic	71,490	70,693	70,754	70,946
Diluted	74,777	72,686	73,619	72,584

Callaway Golf Company
Consolidated Condensed Balance Sheet
(In thousands)

	June 30, 2001	December 31, 2000
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 131,831	$ 102,596
Accounts receivable, net	141,936	58,836
Inventories, net	138,810	133,962
Deferred taxes	24,773	29,354
Other current assets	14,452	17,721
Total current assets	451,802	342,469
Property, plant and equipment, net	132,611	134,712
Intangible assets, net	124,441	112,824
Other assets	37,402	40,929
	$ 746,256	$ 630,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 56,187	$ 44,173
Accrued employee compensation and benefits	29,709	22,574
Accrued warranty expense	38,212	39,363
Income taxes payable		3,196
Total current liabilities	124,108	109,306
Long-term liabilities	21,520	9,884
Shareholders' equity	600,628	511,744
	$ 746,256	$ 630,934