FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon. My name is Marcello and I will be your conference operator today. At this time, I would like to welcome everyone to the Callaway Golf first-quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions).

Thank you. I'll now turn the call over to Mr. Brad Holiday, Chief Financial Officer. Mr. Holiday, please begin.

Brad Holiday - *Callaway Golf Company - CFO*

Thank you and we'd like to welcome everybody to today's call. Joining me today is George Fellows, President and CEO of Callaway Golf.

During today's conference call, George will provide some opening remarks, and I will provide an overview of the Company's financial results, and we will then open the call for questions. We've also issued today a press release and schedule to the press release, which provide details concerning our results.

I would like to point out that any comments made about future performance, events, prospects or circumstances, including statements relating to an economic or golf industry recovery, future growth, or operating improvement. Estimated 2011 profitability and estimated amounts, and timing of charges and benefits relating to the Company's gross margin initiatives, as well as the Company's estimated capital expenditures and depreciation and amortization expenses, are forward-looking statements subject to Safe Harbor protection under the federal securities laws.

Such statements reflect our best judgment today based on current market trends and conditions. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risks and uncertainties applicable to the Company and its business. For details concerning these and other risks and uncertainties, you should consult our earnings release issued today, as well as Part 1, Item 1A of our most recent Form 10-K for the year ended December 31, 2010, filed with the SEC, together with the Company's other reports subsequently filed with the SEC from time to time.

In addition, during the call, in order to assist interested parties with period-over-period comparisons on a consistent and comparable basis, we will provide certain pro forma information as to the Company's performance for 2011 and 2010, excluding charges associated with the Company's gross margin initiatives and information, and to the Company's operating results on a currency-neutral basis. This pro forma information may include non-GAAP financial measures within the meaning of Regulation G.

The information provided on the call today and the earnings release we issued today, including a reconciliation of such non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP. The earnings release is available on the Investor Relations section of the Company's website at www.callawaygolf.com.

George?

George Fellows - *Callaway Golf Company - President and CEO*

Thank you, Brad. And thank you all for joining us. Our first-quarter results varied significantly by region, with some areas reflecting robust recoveries and others reflecting the effects of some rather severe external mitigating factors. Sales in Europe, Canada and emerging markets are off to a strong start this season, with Europe and Canada up 11% and emerging markets up 26%. This performance was able to offset the slight decline we experienced in the US.

Unfortunately, the recent tragedy in Japan, our second largest region, the flooding in Australia, and the delayed opening of the golf season in Korea due to extreme weather, has offset these recoveries and caused a decline in our first-quarter sales. Looking longer-term, we are encouraged by early signs of stabilization in Japan and by early indications that the overall golf industry is recovering in 2011. We are seeing improved industry sales across most product categories, driven by increases in traffic at retail and increases in average selling prices.

Consistent with these industry trends, the initial retail sell-through of our new products in general, and our RAZR X irons and woods in particular, have been positive. These results confirm the very positive response our products received in the Golf Digest Equipment Review last fall.

We are particularly pleased with the progress of our global operations strategy. Given the increasing inflationary pressure in China, with wage increases averaging a reported 17%, and difficulty in maintaining the workforce, we believe our decision to diversify our worldwide manufacturing and distribution footprint by locating some assembly and manufacturing to Mexico is proving to be correct. The transition is proceeding quite smoothly, and promises to deliver the cost savings and supply chain flexibility originally envisioned.

We began shipping finished clubs and logo golf balls to the US this quarter, and have not experienced any security issues whatsoever. Longer term, this strategic decision will drive additional shareholder value and provide an important hedge against cost inflation.

As we do each first-quarter call, we hasten to caution that this period is one with limited sell-through and mostly characterized by pipelining. The season, weather permitting, starts to ramp up in April post the Masters, and a much better perspective of the year begins to emerge. The trade continues to be cautious regarding inventories, and that fact, together with the timing changes in product introductions, dictated a conservative first-quarter plan.

Unfortunately, the events described above had made the quarter more challenging than originally contemplated. Despite the mixed start, we are encouraged by several factors. While it is difficult to estimate the full impact of Japan at this time, there are signs that the market stabilizing.

We're further encouraged by the continued growth in emerging markets; our European growth; continued development of our apparel business; and the ongoing contributions of our margin improvement initiatives. As a result, we expect that in 2011, our underlying operational performance and full-year financial results will improve compared to 2010 and be profitable on a pro forma basis. And we expect that the significant investments we've made in our global operations strategy and margin improvement initiatives will be completed in 2011, and continue to pay important dividends for many years to come.

Now let me turn the call back over to Brad to give you some more details and color to the first-quarter results.

Brad Holiday - *Callaway Golf Company - CFO*

Thanks, George. I will quickly cover some of the highlights for the quarter and then we'll open the call for questions.

Consolidated net sales for the quarter were $286 million, with a net income of $10 million, or a fully diluted earnings per share of $0.15 on 84.7 million shares. These results compared to 2010 results of $303 million in net sales; net income of $18 million; and fully diluted earnings per share of $0.24 on 83.9 million shares. Included in the 2011 results are charges associated with our global operations strategy, which include incremental costs compared to last year, related to the opening of our new manufacturing facility in Mexico.

These after-tax charges were $4 million in 2011 compared to under $1 million last year. Excluding these charges, 2011 pro forma earnings per share were $0.20 compared to $0.25 last year.

Net sales in the first quarter declined compared to last year, due to the adverse impact of the earthquakes and flooding in Japan and South Pacific, as well as a shift in timing of new product launches -- in particular, the Diablo octane wood line, which shipped early in the fourth quarter of 2010 instead of the first quarter of this year. Excluding Japan, net sales for the balance of our business were generally in line with our expectations.

In looking at our regional breakout, US sales declined by 4% to $145 million compared to $151 million last year, due primarily to the timing of the Octane launch, and later, timing of our marketing spend compared to last year.

International sales for the quarter were $140 million, a decline of 8% compared to last year's sales of $152 million. Setting aside the impact of Japan for a moment, we saw solid growth of 11% in Europe and Canada, combined with a 26% increase from our emerging markets of China, Southeast Asia, and India. These increases were offset by Japan and South Pacific, both of which were impacted by earthquakes and flooding, as well as the adverse weather conditions in Korea that George mentioned.

Foreign currency exchange rates positively impacted sales by $8 million, so in constant dollars, international sales would have been $132 million, or a decline of 13%. Excluding Japan, the balance of our international business increased 4% compared to last year, and was flat compared to last year in constant dollars.

First-quarter gross margins were 43% of net sales compared to 45% last year. As expected, we incurred planned incremental expenses associated with the transition of our club assembly operation in Mexico, with pre-tax charges included in our reported numbers this year of $6 million compared to $1 million last year. We believe that the significant investments in our global operations strategy should be completed by the end of this year. Excluding these charges, gross margins were 46% for both years.

2011 gross margins were positively impacted by the gross margin initiative savings, but offset by the impact of lower sales in Japan, which typically has higher margins relative to the rest of our margins, as well as a slightly negative impact due to product mix. Operating expenses were $101 million compared to $109 million last year. Included in this year's results is a gain of $6 million associated with the sale of three buildings within our corporate campus here in Carlsbad. This action was taken as part of the manufacturing move to Mexico and a continued focus on reducing overall expenses.

These three adjacent buildings were sold as a package to maximize the overall selling price, and we will be leasing these buildings back for different periods of time, ranging from one year up to five years on one of the buildings. There will be no impact to future operating income due to the leaseback of these buildings, as the expense will be offset by the deferred gain on these buildings.

The other income line shows expense of $1.4 million compared to other income of $1.6 million last year, or a change of $3 million. This was primarily due to a generally weaker US dollar against several currencies, and the impact on outstanding foreign currency hedges at the end of the quarter. Please keep in mind that the purpose of these hedges is to reduce volatility of foreign currency translation on our results, and partially offset the $8 million positive impact on sales that I already mentioned.

Looking at the balance sheet, we ended the quarter at $29 million in cash and $3 million outstanding on our credit facility. Consolidated net receivables were $267 million compared to $277 million last year. Consolidated day sales outstanding was 85 days compared to 83 days last year. The increase in DSO was the result of increases in a few of our international markets, offset by an improvement in the US market. The overall quality of our accounts receivables remains good.

Net inventories were $258 million at the end of the quarter compared to $231 million in 2010. The year-over-year increase is due to a decision to take a larger position in bags earlier than last year, to avoid production constraints that we experienced last year. Additionally, the transition to our facility in Mexico requires some duplication of inventory until the transition is complete. A portion is also related to an increase in inventory in our Asia-Pacific regions.

Capital expenditures for the quarter were $7 million compared to $4 million in 2010, due to increased spending against our global operations initiatives we've already mentioned. We estimate full-year CapEx of $25 million to $30 million. Depreciation and amortization expense was $10 million for the quarter, flat with 2010. We estimate full-year depreciation of approximately $40 million.

As George mentioned in his comments, ex-Japan, we are seeing signs of recovery in a majority of our regions globally. Industry-wide premium products such as woods and irons are selling well, driving an increase in average selling prices and increases in retail traffic. Sell-through on our new products continued to gain momentum, which is encouraging, as the key to success in any year is the re-orders generated during the critical second quarter.

While cautiously optimistic at this time, the situation in Japan makes it very difficult to estimate the full year, given the importance of that region to our overall results. While we feel the situation is improving, we are temporarily suspending annual guidance at this time, but still expect to be profitable on a pro forma basis, excluding approximately $23 million in pre-tax charges for the final stages of our global operations strategy.

We would now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Dan Wewer, Raymond James.

Dan Wewer - *Raymond James & Associates - Analyst*

Thanks. I guess the first question for Brad -- just more of a housekeeping. When you're talking about pro forma earnings for the year expected to be profitable, is that including or excluding the $0.05 gain on the real estate (multiple speakers) -- about that [and a few these].

Brad Holiday - *Callaway Golf Company - CFO*

(multiple speakers) Yes, Dan, the pro forma that we talk about, we typically just exclude the GOS expense. We did call out the gain on the sale of the building, but that would be included in the numbers that we're thinking about full-year.

Dan Wewer - *Raymond James & Associates - Analyst*

But am I correct that the opportunity to sell the buildings arose out of the decision to move the assembly to Mexico, right?

Brad Holiday - *Callaway Golf Company - CFO*

That is true. One of the buildings was part of the move and then we packaged the three together. So, (multiple speakers) I mean, it could be in either one. We called it out separately so at least you can adjust your model however you want to adjust them.

Dan Wewer - *Raymond James & Associates - Analyst*

Okay. Just out of curiosity, I mean, if you were to back out the gain on the real estate, would you still be looking for a profit this year?

Brad Holiday - *Callaway Golf Company - CFO*

Yes.

Dan Wewer - *Raymond James & Associates - Analyst*

Okay. That's very helpful. A second question on Japan, down 30% during the quarter, recognize the earthquake/tsunami took place towards the end of the period, March 11, if I recall, so 30% drop seems like a lot. How did business look in Japan prior to the earthquake?

George Fellows - *Callaway Golf Company - President and CEO*

The business in Japan I think was suffering a little bit towards the end of last year. The economy in Japan was not particularly healthy. And we had, as a consequence of that, Japan to actually underperform in '11 versus '10, just because the recovery seemed somewhat in doubt.

And up until the disaster that occurred there, they were essentially coming in reasonably close to what our expectations were. Of course, the tsunami and the resultant disaster afterward has exacerbated that problem significantly. So Japan was not one that we were looking for particularly stellar results from, just given the nature of the market.

Dan Wewer - *Raymond James & Associates - Analyst*

Okay. Then the last question I have, I guess, at this time, US revenues down 4%. Just attempting to square that with commentary from Golfsmith and Golf Galaxy, which achieved positive same-store sales during the first quarter. It looks like maybe your US revenues didn't grow as much as the market?

George Fellows - *Callaway Golf Company - President and CEO*

Well, no, actually, our sales in Golfsmith are up approximately the same level as their business is up. They happen to be doing, at least from a revenue point of view, particularly well.

I think that -- the thing you've got to remember is the timing of new products this year was -- I think we called it out in the fourth quarter call, that the quarterly splits this year were going to be somewhat different, because we timed new products differently. We changed from what we did the year before. And we also delayed some of our marketing spending.

If you recall last year, we had a fairly substantial spend early on, on the Super Bowl. And that accelerated some of the activity in the first quarter. The subsequent results reflected the fact that while it bolstered some of the sell-through early in the period, those are relatively low index months. And I don't think we got the kind of return from that investment that we were looking for.

As a consequence, we adjusted the plan this year to be somewhat later and more in line with what the typical consumer buying patterns are in the United States. As a consequence, the ramp-up, if you will, of spending really began in April, which is quite a bit later than last year, so.

Dan Wewer - *Raymond James & Associates - Analyst*

So the payback should be in the second quarter?

George Fellows - *Callaway Golf Company - President and CEO*

Exactly, right, yes. And that is a more -- we experimented with something last year, and there was a positive response to it, but we don't think it was enough of a response to repeat it this year. So we've gone back to somewhat of a more traditional support pattern this year.

Dan Wewer - *Raymond James & Associates - Analyst*

Okay, great. Thanks.

Operator

(Operator Instructions). Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Sorry if I missed this, I had to jump off part of the call, but did you talk about April trends months to date? And if not, could you comment on that?

George Fellows - *Callaway Golf Company - President and CEO*

April trends in terms of what measure, Jennifer?

Jennifer Davis - *Lazard Capital Markets - Analyst*

What you're seeing so far there.

George Fellows - *Callaway Golf Company - President and CEO*

Oh. I think we're seeing a ramp-up of the consumer -- the thing that you ought to keep in mind is, typically, the first quarter, January through March, only represents about 16% of the total year's sell-through volume. So they tend to be very low months. It starts ramping up rather dramatically in the second quarter. And essentially, the order -- the pickup, if you will, is post the Masters. So we're seeing sell-through pickup, traffic pickup -- I mean, all of the things that you would anticipate as the market opens.

The only thing that distorts that to some degree is weather. And as you can tell by listening to the news, as we all do, it's been rather bizarre during this year. Oddly enough, it turned out that January and February had rather large increases in rounds played. But again, these are very, very low index months, so it's not large and the obsolete. March gave it all back. And so far in April, through a good portion of the country has been sort of spotty. So even despite that, I think we're seeing some pickup in the consumer activity.

It's fairly clear that the pent-up buying urge, if you will, that has been long delayed is, in fact, becoming evidenced in the market. So we're seeing higher priced products selling; average selling prices are going up; certainly, the early reports, as you've seen yourself in the retail stores, are quite positive even though they are low index months. If we get a continuation of this kind of consumer response, 2011 will, in fact, be a recovery year, much as we had expected in '10 but obviously, a year later.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay. Great. Thanks.

Operator

Craig Kennison, Robert W. Baird.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

Thanks for taking my question as well. You mentioned that ASP trends were favorable. Could you also comment on the discounting environment that you've seen lately relative to last year?

George Fellows - *Callaway Golf Company - President and CEO*

The discounting environment typically doesn't really settle in until the latter part of the year. So you would not expect a great deal of discounting at this particular stage. And, in fact, we're not seeing a great deal right now.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

That's helpful. And then relative to the United States, could you talk about maybe trends in the South versus trends in the North? If you could find a market where weather was not a factor year-over-year, what kind of experience have you had?

George Fellows - *Callaway Golf Company - President and CEO*

Well, the Sun Belt -- we track -- the Sun Belt represents about 10% to 15% of the business. And including in the Sun Belt, I would say, is Australia -- you know, the markets that fall below the equator. But in the US, it's about 10 to 15%.

The market in the Sun Belt looks rather positive. When the weather was good and Florida had generally good weather through a good portion of the winter, we saw some very good consumer response. That gave us, at least anecdotally, some positive feelings about what the ultimate consumer response to the marketplace is going to be. So far, again, very early days because much of the remainder of the country remains close to golf largely.

It seems to be playing itself out in most other regions as well. So we're hopeful -- again, weather permitting and no undue thing happening on the world stage -- that this is going to be a recovery year.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

Regarding market share, I know it's hard to generalize, but how would you characterize your overall marketshare trend so far this year at retail?

George Fellows - *Callaway Golf Company - President and CEO*

Well, again, you've got to take a look at it in the context of two very important things. Number one, these are low index months and, therefore, we did not spend much support money in the first quarter -- unlike last year when we spent quite a bit more.

And so our shares are starting to climb in March. They were not particularly terrific in January or February, but we weren't doing much support in January and February. And some of our competition, at least, had launched some products earlier than we did and put a fair amount of money into support in that early stage.

As we get into March and now, particularly as you get into April and May, I think you'll get a better representation of what might ultimately happen for the balance of the year. Because we've begun to spend our marketing monies at what we believe is an appropriate level. So I'd say that our shares are lower than -- I certainly hope they're going to be as we get further into the year and begin spending our money, but there's not a whole lot of real evidence to project from, given the relatively small base of consumer sell-through that occurs in the first quarter.

Having said that, I will tell you that one of our -- or at least several of our competition introduced some very successful products in first quarter. They seem to have gained some traction against a very heavy spending. So clearly, we're watching it very carefully and we'll respond to it accordingly; but again, it's so early in the season that you try not to over-conclude from this particular period of the year.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

Terrific. That's very helpful. Thank you.

Operator

Dan Wewer, Raymond James.

Dan Wewer - *Raymond James & Associates - Analyst*

Just looking at the inventory levels, and I understand your explanation for the increase year-over-year, but this is the third consecutive quarter that inventories have grown quite a bit faster than revenues. Is there also an issue just with sales coming in a bit below plan, the Company getting caught with some extra inventory? And if so, could that require some extra clearance markdowns in future months?

George Fellows - *Callaway Golf Company - President and CEO*

We don't think that it's at the level that would require that. Again, one of the products that we have agreed that the inventory is higher than I think we would like it to be, but all of it is very current merchandise. So it's not of the sort that requires particularly aggressive markdown to get rid of. We'll obviously adjust our production scheduling accordingly and bleed the inventory out largely through the balance of the year.

So, no, as we see it right now, there's nothing in our inventory, given the current nature of the vast majority of it, that's likely to require a major markdown issued later in the year.

Brad Holiday - *Callaway Golf Company - CFO*

Hey, Dan, one comment I would make on the bags -- last year, we got caught in a situation where, when we went to our supplier to try to meet the demand that we had, they didn't have the production capacity. So this year, to avoid that issue, and also with the timing of the Chinese New Year, we were concerned about not being able to get enough bags. So we did take a heavier position.

That is all current catalog inventory that just due to the nature of down on what we're going to get from supply chain for the balance of the year and the increase in demand, it's just a natural work-through. So we don't see any discounting on that product, but it was really timing and making sure we had appropriate levels of inventory, where last year, we fell short.

Dan Wewer - *Raymond James & Associates - Analyst*

Okay. The next question I had on the gross margin discussion, I understand how Japan impacts that, but you had also noted that there was a change in mix that hurt gross margin rate somewhat, and yet we're also talking about an increase in average selling prices. And I know in the past, your higher ASP items were your best margin items. So I'm trying to reconcile those two comments.

Brad Holiday - *Callaway Golf Company - CFO*

Let me help you a little bit with that. I think you may recall from some prior calls, Dan, that we've established target margins for each product category. The margins that we have on a $299 driver are not materially lower than they are on a $399 driver. The ticket price is obviously different but then so is the cost. So when that happens, that doesn't necessarily impact your overall margin.

There are certain things like fairways and things like that that tend to have a higher margin, so you do get some mix issues that occur accordingly. But we don't really have that kind of an issue as far as margin is concerned.

George Fellows - *Callaway Golf Company - President and CEO*

It's a little bit. I would just add that if you take -- look. I guess, two things here -- the standard margins on all of our products in every product category grew this year relative to last year, so they all improved. I would tell you that the irons we have are a few margin points lower than, say, woods and putters. And because of that, that was very slight, but it was a slight downturn in the margins. So I would say that all margins are up, but just the mix a little bit, because we have a heavier iron here, was just down a few margin points compared to what our mix was last year.

Brad Holiday - *Callaway Golf Company - CFO*

I think the real mix effect was really related in large part to Japan. Our margins coming out of Japan are typically the highest of all of our locations. And because that -- those revenues were impacted so heavily in the first quarter, that created a mix that affected the margin, but that's really the only difference I think that you're seeing.

Dan Wewer - *Raymond James & Associates - Analyst*

Okay. So the last question I have for this evening -- George, I appreciate your comments about some of your competitors, I guess, TaylorMade would be an example of that, with successful launches. Yet when I look at the independent product reviews in the golf industry -- not just Golf Digest, but some of the others -- your RAZR lines receive glowing comments across the board.

Do you ask yourself if maybe the marketing message for the RAZR line could have been stronger, and that might have helped address the market share shift?

George Fellows - *Callaway Golf Company - President and CEO*

You know, if you don't ask yourself that question every day, you're not doing your job. Clearly, you have to find the best way to communicate your message. But again, remember a couple of things -- A, we have not spent money yet -- or I should say, we've just begun to spend money against the -- both the RAZR line and the Octane line. So trying to draw a conclusion from the very early part of the year I think may mislead you.

I'm not diminishing the fact that I think that some of our competition have come out with some decent products, as they do every year. This is not a strange thing. If their line has gained a little more traction based on some very heavy spending in the first quarter, we're going to have to deal with that as we begin to ramp up our spending. But if you're asking me to rate one company's marketing versus another, ours is brilliant.

Dan Wewer - *Raymond James & Associates - Analyst*

Great. Okay. Thank you.

Operator

James Hardiman, Longbow Research.

James Hardiman - *Longbow Research - Analyst*

A couple of questions for you guys. Going back for a moment to the Japanese market, I know you guys don't ever give geographic guidance or narrow down the guidance beyond what you've already given, but just given the special circumstances here, can

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you at least speak a little bit about what you expected out of that market? Forgetting about the tragedy that happened in March, but it sounded like from some of your prepared comments that you're already expecting that market to be down for the quarter. Was it the same for the year? How should I have thought about -- how should I think about the baseline expectations for the Japanese market prior to the tsunami?

George Fellows - *Callaway Golf Company - President and CEO*

The baseline expectations for the market, we're going into the year at least, it'd be relatively flat to slightly down. I mean, that was the expectation based on what we were seeing happen in the market and the general economy, et cetera. Clearly, that was impacted heavily in the first quarter. And now the real issue and -- it's not that we don't want to help you out with some guidance, but it's a little tenuous at this moment -- how quickly is the market going to stabilize? And more importantly, how has this tsunami issue, and all of the other attendant issues, affected the mentality of the Japanese population particularly?

As you know, that culture tends to suffer as a group. And there's a general feeling in the country that because there is some serious suffering on the part of the populace, it may inhibit other people from going out there and recreating at the same level that they would normally. We want to get a better sense and handle on that before we really come up with a projection as to how much the Japanese event is going to affect the business overall.

James Hardiman - *Longbow Research - Analyst*

Okay. Very fair. And then you've talked a little bit in the past about some of the intricacies of the Japanese market from an inventory perspective -- sell-in versus sell-through. Can you just remind us how that retail market might differ from the US? And is there a concern that maybe if you had a little bit of a glut coming out of the first quarter, that that could really, even if demand does pick up, should we expect a similar increase in sell-in? Weren't there some differences in the past?

George Fellows - *Callaway Golf Company - President and CEO*

Well, they're characterized by somewhat different classic trade structure. They have a larger department store element that does some of the retail for golf. They also tend to be very heavily end-of-month shipment requirement, which is why the tsunami affected the Japanese results so dramatically, because it occurred within the last two weeks of the end of the quarter, and that tends to be a very heavy shipping period for them. And, obviously, that was suspended.

The Japanese market is also very different because the competitive set is quite different. Companies like [Trixon] and Bridgestone, which tend to be much lesser factors in the United States and in Europe, are quite powerful and quite strong there. In fact, they're the numbers one and two manufacturers in that marketplace.

So the competitive set is different; the class of trade set is quite different; the shipment pattern tends to be very different from what we see in other parts of the world. And right now, I think the country has been traumatized. And it's not just that the North, which represents a relatively small proportion of the population and a small proportion of the golf business, has been hit, but it's a country-wide disaster as far as the people are concerned.

So areas that are far, far outside of the affected area have been impacted in terms of how they recreate, their purchasing patterns. The rolling power outages that they're facing have seriously impacted their retail environment. In some instances, stores are not turning on their lights and don't even look like they're open, even though they may be.

So we've got to get by this crisis period before I think you can really conclude how long it's going to take for them to come back. I will tell you one thing that is absolutely true, because we're in very close contact with our Japanese subsidiary. In fact, I'm going there in two weeks to visit each of our major accounts -- they are going to come back. It's a very, very strong culture and we're really talking much like the recovery from our economy in this country -- we're talking an issue of timing, not whether or not.

So, yes, I'm quite confident that Japan is going to come back as very, very strong commercial environment. But we have to give them some time to heal, I think.

James Hardiman - *Longbow Research - Analyst*

Sure. And then your competitors -- any discussion, some Japanese competitors, how they're doing? If there might be a little bit of a shortage of Japanese product and if that could affect the competitive set here as we move forward?

George Fellows - *Callaway Golf Company - President and CEO*

No, I don't think there's any shortage of product. Remember, even in Japan, a lot of the stuff is produced outside the country. No, there's no shortage of product. I think right now there is a shortage of sales. And I think everybody is feeling it proportionally.

So, as I said, I think we're just -- we're pushing as hard as we can. We're trying to restore as much balance and normalcy as possible, but this was a very, very important hit to the psyche of the Japanese consumer, and I think we're going to have to watch it carefully and look for signs.

We are seeing signs that there is some stabilization occurring. Areas in the west of Japan and the southern part of Japan are beginning to return to a more normal environment. If that continues, then I think the country will recover quite nicely and maybe a little sooner than we might think otherwise.

The northern part, which continues to suffer under the -- now the -- forget about the recovery from the tsunami and the earthquake, but the radiation issues are really the ones that are paramount. And the fact that they've now raised the alert rate to what it was in Chernobyl will tell you the severity of what they're facing up in the northern part of the country. So we're going to have to be a little patient with Japan, I think.

James Hardiman - *Longbow Research - Analyst*

Very helpful. And then last question, you pointed out some offsets in terms of timing for both sales and expenses in the first quarter. Are there any other offsets that we should be thinking about as we put together our models for the second quarter and the second half? Obviously, a number of retailers point to the Easter shift; I'm assuming that's not really a big deal for you guys. But can you talk about just any other intricacies over the second quarter or the second half from a timing perspective?

George Fellows - *Callaway Golf Company - President and CEO*

No, I think -- look. I think, again, if you are as hopeful as we are right now that the recovery is, in fact, now happening from a retail point of view, people are going out for shopping, they're going to go out and spend. We're going to be spending. Our support money is behind it. The only variable, the real variable that we see at this particular moment, is weather, which is something we face every year. So it's not unique to this year.

But if the trends of the early anecdotal trends that we saw in the first quarter continue, I don't think the 20-plus percent increases that we saw in the first quarter are likely to continue for the full year, because that would be more than I could hope for. But it looks like it's going to come back.

James Hardiman - *Longbow Research - Analyst*

Great.

George Fellows - *Callaway Golf Company - President and CEO*

It may be more typical of what we've seen in more normal years, if you will.

James Hardiman - *Longbow Research - Analyst*

Great. Thanks, guys.

Operator

Rommel Dionisio, Wedbush Securities.

Rommel Dionisio - *Wedbush Securities - Analyst*

George, could you provide us a little more granularity on Europe? On your 11% growth there in a market where -- continues to face some economic challenges in certain regions, could you just walk us through? Was there some market share gains or good weather? What are some of the key drivers there for the growth you're seeing?

George Fellows - *Callaway Golf Company - President and CEO*

That 11%, by the way, was a combination of the two. I think the UK may be a little less than 11%.

The fact is that part of it is a mea culpa. I think we made some mistakes in the green grass channel in the UK last year that we've corrected. And the corrections are responding quite positively. So that, I think, is in part responsible for a much more aggressive return, if you will, in the UK market. But, having said that, the recovery is pretty much across the board, both green grass and non-green grass.

And all I can tell you is that, both from a trade point of view as well as the early consumer point of view, the market seems to be responding and looking quite good. The products have been extraordinarily well-received. The response that we're getting in demo days to the RAZR product has been quite, quite positive.

So, again, don't want to over-conclude from the first quarter. Just to -- and I'm saying this as much to myself as I am to you, the first quarter is still very largely a selling quarter. The second quarter is when the offtake really begins to happen. But the offtake, as it has happened so far to date, seems to be quite positive and does give us some confidence that, indeed, the market is going to respond quite nicely.

Rommel Dionisio - *Wedbush Securities - Analyst*

Okay. Thanks very much, George.

Operator

And ladies and gentlemen, at this time there are no further questions in queue. I'll now turn the call back over to Mr. George Fellows for any closing remarks.

George Fellows - *Callaway Golf Company - President and CEO*

Again, thank you all for spending some time with us. This is a very difficult quarter in that we had a lot of very, very positive signs that the long-awaited recovery of the golf market was indeed taking hold in '11. Unfortunately, interrupted by some really unfortunate and rather disastrous events, not the least of which, of course, with Japan. But weather has not been our friend during the first quarter in many parts of the world.

Having put that aside, though, the fundamentals appear to be very sound right now. The consumer is back, they're willing to spend some more money. Traffic is back. All of those things are fundamental to the long-term health of the golf business. And while we have been saying now for quite some time that it was really a matter of when, not if, it looks like the when may indeed be '11.

So we're feeling pretty good about that. We still have some hurdles to get by. Clearly, the Asia-Pacific markets between Korea and Japan have to recover. We have to start seeing some response in the US to the marketing spending that has just begun. But, at this point, we're -- the phrase that we've been using, which I'm getting a little tired of hearing myself is, "cautiously optimistic" that '11 is, in fact, the recovery that we've been hoping for, for quite some period of time.

But I don't want anybody to get overly bullish. We still have a long way to go. I don't think '11, even with the recovery, is going to get back to the '07 levels quite so quickly. The important thing from our point of view, because we have projected and planned conservatively, is that we are on the road to recovery. We're going in the right direction. And if that continues, the golf industry will be quite healthy going forward.

So, stay tuned. We'll be looking forward to talking to you in the second quarter.

Operator

Ladies and gentlemen, this does conclude today's Callaway Golf first-quarter earnings call. We'd like to thank you for your participation and you may now disconnect.
