



## Callaway Golf Announces First Quarter 2007 Results

CARLSBAD, Calif.--(BUSINESS WIRE)--May 3, 2007--Callaway Golf Company (NYSE:ELY) today announced its financial results for the first quarter ended March 31, 2007, reporting significant improvements in sales and earnings over the same period a year ago. Highlights for the quarter include:

- Net sales of \$334.6 million, an 11% increase as compared to \$302.4 million for the same period in 2006.
- Fully diluted earnings per share of \$0.48 on 68.3 million shares as compared to \$0.33 on 70.1 million shares in 2006. This represents a 45% increase in diluted earnings per share.
- Fully diluted earnings per share for the first quarter of 2007 include \$0.01 of after-tax charges for gross margin improvement initiatives announced in November, 2006. Also, the first quarter of 2006 includes \$0.01 of after-tax charges for the integration of Top-Flite operations. Excluding these charges, the Company's pro forma fully diluted earnings per share for the first quarter of 2007 would have increased 44% to \$0.49, as compared to pro forma fully diluted earnings per share of \$0.34 for the first quarter of 2006.

"We are pleased with our results for the first quarter and the initial consumer acceptance of our new products this year," commented George Fellows, President and CEO. "Our efforts to improve our product development process and supply chain along with gross margin improvement initiatives are beginning to deliver positive operating results."

"While cautiously optimistic given our first quarter results," continued Mr. Fellows, "it is important to remember that it is very early in the year. In fact, the second quarter is the real start of the golf season in many regions, and when consumer purchases hit their peak. Accordingly, our focus is to support our retailers during the peak season and deliver products to them and our consumers as quickly as possible. Having said this, we are raising our full year estimates to reflect the positive results of the first quarter, balanced with the fact that a majority of the year still remains."

### Business Outlook

The Company estimates that its full year 2007 net sales will be in the range of \$1.045 to \$1.065 billion compared to the previous estimate of \$1.035 to \$1.055 billion and that its 2007 full year pro forma fully diluted earnings per share will be in the range of \$0.72 to \$0.82 on an estimated 70 million shares compared to \$0.66 to \$0.76 on 68 million shares. Pro forma earnings exclude charges related to the Company's gross margin improvement initiatives, currently estimated at \$0.08 per share for 2007, but include charges related to employee equity-based compensation under FAS 123R.

For more details, including pro forma reconciliations to assist in year-over-year comparison, please see the attached "Supplemental Financial Information."

The Company will be holding a conference call at 2:00 p.m. PDT today. The call will be broadcast live over the Internet and can be accessed at [www.callawaygolf.com](http://www.callawaygolf.com). To listen to the call, please go to the website 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 two hours after the conclusion, and will remain available through 9:00 p.m. PDT on Thursday, May 10, 2007. The replay may be accessed through the Internet at [www.callawaygolf.com](http://www.callawaygolf.com) or by telephone by calling 1-800-475-6701 toll free for calls originating within the United States or 320-365-3844 for International calls. The replay pass code is 871645.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results, performance or prospects, including statements relating to estimated sales and earnings for 2007, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These estimates and statements are based upon current information and expectations. Investors should understand that it is very difficult to forecast sales of the Company's products as a substantial portion of the Company's sales each year is derived from the sale of new products. Accurately estimating the Company's sales (and therefore earnings) each year is therefore based upon various unknowns including consumer acceptance of the Company's new products as well as future consumer discretionary purchasing behavior. Actual results may differ materially from those estimated or anticipated as a result of these unknowns or as a result of certain risks and uncertainties, including but not limited to, delays, difficulties or increased costs associated with the implementation of the Company's planned gross margin initiatives, the re-launch of the Top-Flite brand or the implementation of future initiatives; market acceptance of current and future products; adverse market and economic conditions; adverse weather conditions and seasonality; any rule changes or other actions taken by the USGA or other golf association that could have an adverse impact upon demand or supply of the Company's products; a decrease in participation levels in golf; and the effect of terrorist activity, armed conflict, natural disasters or pandemic diseases on the economy generally, on the level of demand for the Company's products or on the Company's ability to manage its supply and delivery logistics in such an environment. For additional information concerning these and other risks and uncertainties that could affect these statements and the Company's business, see Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as well as other risks and uncertainties detailed from time to time in the Company's reports on Forms 10-K, 10-Q and 8-K subsequently filed from time to time with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Regulation G: The financial results reported in this press release have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In addition to the GAAP results, the Company has also provided additional information concerning its results, which includes certain financial measures not prepared in accordance with GAAP. The non-GAAP financial measures included in this press release exclude charges associated with the integration of the Callaway Golf Company and Top-Flite Golf Company operations and charges related to the gross margin initiatives. These non-GAAP financial measures should not be considered a substitute for any measure derived in accordance with GAAP. These non-GAAP financial measures may also be inconsistent with the manner in which similar measures are derived or used by other companies. Management believes that the presentation of such non-GAAP financial measures, when considered in conjunction with the most directly comparable GAAP financial measures, provides additional useful information concerning the Company's operations without these charges. The Company has provided reconciling information in the text of this press release and in the supplemental financial information attached to this release.

About Callaway Golf

Through an unwavering commitment to innovation, Callaway Golf Company creates products and services designed to make every golfer a better golfer. Callaway Golf Company, which celebrates its 25th Anniversary in 2007, manufactures and sells golf clubs and golf balls, and sells golf accessories, under the Callaway Golf(R), Odyssey(R), Top-Flite(R), and Ben Hogan(R) brands in more than 110 countries worldwide. For more information please visit [www.callawaygolf.com](http://www.callawaygolf.com).

Callaway Golf Company  
Consolidated Condensed Balance Sheets  
(In thousands)  
(Unaudited)

March 31,    December 31,  
2007                    2006  
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Current assets:		
Cash and cash equivalents	\$34,594	\$46,362
Accounts receivable, net	278,810	118,133
Inventories, net	270,646	265,110
Deferred taxes	34,601	32,813
Income taxes receivable	-	9,094
Other current assets	21,762	21,688
	-----	-----
Total current assets	640,413	493,200
Property, plant and equipment, net	130,985	131,224
Intangible assets, net	174,475	175,159
Deferred taxes	33,006	18,821
Other assets	27,707	27,543
	-----	-----
	\$1,006,586	\$845,947
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	\$130,865	\$111,360
Accrued employee compensation and benefits	27,012	18,731
Accrued warranty expense	14,156	13,364
Bank line of credit	155,000	80,000
Other current liabilities	5,098	-
	-----	-----
Total current liabilities	332,131	223,455
Long-term liabilities	65,493	43,388
Minority interest	1,768	1,987
Shareholders' equity	607,194	577,117
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	\$1,006,586	\$845,947
	=====	=====

Callaway Golf Company  
Statements of Operations  
(In thousands, except per share data)  
(Unaudited)

	Quarter Ended March 31,			
	-----		-----	
	2007		2006	
	-----		-----	
Net sales	\$334,607	100%	\$302,445	100%
Cost of sales	173,886	52%	170,933	57%
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Gross profit	160,721	48%	131,512	43%
Operating expenses:				
Selling	75,291	23%	68,128	23%
General and administrative	21,558	6%	20,224	7%
Research and development	8,016	2%	6,804	2%
	-----		-----	
Total operating expenses	104,865	31%	95,156	31%
Income from operations	55,856	17%	36,356	12%

Other income (expense), net	(1,338)		302	
	-----		-----	
Income before income taxes	54,518	16%	36,658	12%
Income tax provision	21,682		13,797	
	-----		-----	
Net income	\$32,836	10%	\$22,861	8%
	=====		=====	
Earnings per common share:				
Basic	\$0.49		\$0.33	
Diluted	\$0.48		\$0.33	
Weighted-average shares outstanding:				
Basic	67,272		69,166	
Diluted	68,318		70,143	

Callaway Golf Company  
Consolidated Condensed Statements of Cash Flows  
(In thousands)  
(Unaudited)

	Quarter Ended	
	March 31,	
	-----	-----
	2007	2006
	-----	-----
Cash flows from operating activities:		
Net income	\$32,836	\$22,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,009	7,290
Non-cash compensation	3,127	4,401
Loss on disposal of assets	3	138
Deferred taxes	(264)	(227)
Changes in assets and liabilities	(122,057)	(129,560)
	-----	-----
Net cash used in operating activities	(77,346)	(95,097)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(7,987)	(6,844)
Proceeds from sale of capital assets	-	120
	-----	-----
Net cash used in investing activities	(7,987)	(6,724)
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Cash flows from financing activities:		
Issuance of Common Stock	12,833	5,761
Acquisition of Treasury Stock	(15,155)	(14,788)
Net proceeds from line of credit	75,000	85,000
Other financing activities	677	406
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Net cash provided by financing activities	73,355	76,379
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Effect of exchange rate changes on cash and cash equivalents	210	375
Net decrease in cash and cash equivalents	(11,768)	(25,067)
Cash and cash equivalents at beginning of period	46,362	49,481
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Cash and cash equivalents at end of period	\$34,594	\$24,414
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Callaway Golf Company  
Consolidated Net Sales and Operating Segment Information  
(In thousands)  
(Unaudited)

Net Sales by Product Category

	Quarter Ended		Growth/(Decline)	
	March 31,		Dollars	Percent
	2007	2006		
Net sales:				
Woods	\$103,023	\$97,120	\$5,903	6%
Irons	100,037	86,560	13,477	16%
Putters	29,074	24,878	4,196	17%
Golf balls	53,546	55,730	(2,184)	-4%
Accessories and other	48,927	38,157	10,770	28%
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	\$334,607	\$302,445	\$32,162	11%
	=====	=====	=====	=====

Net Sales by Region

	Quarter Ended		Growth/(Decline)	
	March 31,		Dollars	Percent
	2007	2006		
Net sales:				
United States	\$183,804	\$181,283	\$2,521	1%
Europe	56,023	50,085	5,938	12%
Japan	37,940	26,114	11,826	45%
Rest of Asia	22,821	16,988	5,833	34%
Other foreign countries	34,019	27,975	6,044	22%
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	\$334,607	\$302,445	\$32,162	11%
	=====	=====	=====	=====

Operating Segment Information

	Quarter Ended		Growth/(Decline)	
	March 31,		Dollars	Percent
	2007	2006		
Net sales:				
Golf clubs	\$281,061	\$246,715	\$34,346	14%
Golf balls	53,546	55,730	(2,184)	-4%
	-----	-----	-----	-----
	\$334,607	\$302,445	\$32,162	11%
	=====	=====	=====	=====

Income before provision for income

taxes:

Golf clubs	\$65,656	\$45,067	\$20,589	46%
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Golf balls	5,415	6,356	(941)	-15%
Reconciling items (1)	(16,553)	(14,765)	(1,788)	-12%
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	\$54,518	\$36,658	\$17,860	49%
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(1) Represents corporate general and administrative expenses and other income (expense) not utilized by management in determining segment profitability.

Callaway Golf Company  
Supplemental Financial Information  
(In thousands, except per share data)  
(Unaudited)

	Quarter Ended March 31,		
	-----		
	2007		
	-----		
	Pro Forma	Gross Margin	
	Callaway	Improvement	Total as
	Golf	Initiatives	Reported
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Net sales	\$334,607	\$-	\$334,607
Gross profit	162,126	(1,405)	160,721
% of sales	48%	n/a	48%
Operating expenses	104,865	-	104,865
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Income from operations	57,261	(1,405)	55,856
Other income (expense), net	(1,338)	-	(1,338)
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Loss before income taxes	55,923	(1,405)	54,518
Income tax provision	22,236	(554)	21,682
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Net Income	\$33,687	\$(851)	\$32,836
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Diluted earnings (loss) per share:	\$0.49	\$(0.01)	\$0.48
Weighted-average shares outstanding:	68,318	68,318	68,318

	Quarter Ended March 31,		
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	2006		
	-----		
	Pro Forma		
	Callaway	Integration	Total as
	Golf	Charges	Reported
	-----		
Net sales	\$302,445	\$-	\$302,445
Gross profit	132,181	(669)	131,512
% of sales	44%	n/a	43%
Operating expenses	94,805	351	95,156
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Income from operations	37,376	(1,020)	36,356
Other income (expense), net	302	-	302
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Income before income taxes	37,678	(1,020)	36,658
Income tax provision	14,192	(395)	13,797
	-----	-----	-----
Net Income	\$23,486	\$(625)	\$22,861
	=====	=====	=====
Diluted earnings (loss) per share:	\$0.34	\$(0.01)	\$0.33
Weighted-average shares outstanding:	70,143	70,143	70,143

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SOURCE: Callaway Golf Company