



Callaway Golf Announces Record Sales for Second Quarter and First Six Months of 2007

CARLSBAD, Calif.--(BUSINESS WIRE)--Aug. 1, 2007--Callaway Golf Company (NYSE:ELY) today announced its financial results for the second quarter ended June 30, 2007. Highlights for the second quarter include:

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- Net sales of \$380.0 million, an increase of 11% compared to \$341.8 million for the same period in 2006. These record sales are primarily the result of strong sales of the Fusion FT-5 and FT-i drivers and X-20 irons, as well as increases in sales of accessories and golf balls.
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- Fully diluted earnings per share of \$0.53 on 69.3 million shares outstanding, an increase of 61% compared to \$0.33 on 68.6 million shares outstanding in 2006.
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- Fully diluted earnings per share include \$0.02 of after-tax charges for gross margin improvement initiatives. The second quarter of 2006 includes after-tax charges of \$0.01 for the integration of Top-Flite and \$0.01 for the restructuring initiatives announced in September 2005. Excluding these charges, the Company's pro forma fully diluted earnings per share for the second quarter of 2007 would have been \$0.55, an increase of 57% compared to \$0.35 for the second quarter of 2006.
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- Gross profit for the second quarter of 2007 increased 25% to \$175.1 million (or 46% of net sales) compared to \$140.1 million (or 41% of net sales) for the second quarter of 2006. The increase in gross profit as a percent of sales is primarily the result of an increased mix of higher margin woods and irons products and positive results from the Company's gross margin improvement initiatives announced in November, 2006.
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- Operating expenses for the second quarter of 2007 were \$113.0 million (or 30% of net sales) compared to \$101.3 million (or 30% of net sales) in 2006. The dollar increase is primarily due to higher selling expenses associated with increased sales, the negative impact of the weaker dollar on international operating expenses, higher legal expense associated with protecting the Company's intellectual property, and increased annual incentive compensation associated with the improved financial results compared to 2006.

Highlights for the first six months include:

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- Net sales increased 11% to \$714.6 million, a new record for the Company. Net Sales were \$644.3 million for the same period in 2006.
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- Fully diluted earnings per share increased 55% to \$1.01 on 68.8 million shares outstanding, as compared to \$0.65 on 69.4 million shares outstanding in 2006.
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- Fully diluted earnings per share include after-tax charges of \$0.03 associated with the Company's gross margin improvement initiatives. Results for the first half of 2006 include after-tax charges of \$0.02 for the integration of Top-Flite and \$0.01 for restructuring. Excluding these charges, the Company's pro forma fully diluted earnings per share for 2007 and 2006 would have been \$1.04 and \$0.68 respectively, an increase of 53%.
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- Gross profit for 2007 was \$335.8 million (or 47% of net sales) compared to \$271.6 million (or 42% of net sales) for 2006. The increase in gross profit is primarily the result of an increase in mix of higher margin products as well as positive results from the Company's gross margin improvement initiatives.
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- Operating expenses for 2007 were \$217.9 million (or 30% of net sales), compared to \$196.5 million (or 30% of net sales) for 2006. The increase is primarily due to higher selling and marketing expenses associated with the increase in sales, the negative impact of a weaker dollar on international operating expenses, increased legal expense associated with protecting the Company's intellectual property, and increased annual incentive compensation associated with the improved financial results.

"With the first half of 2007 behind us, we are pleased with our progress on many fronts," commented George Fellows, President and CEO. "Sales have increased 11% for the quarter and first half of the year, the result of strong consumer acceptance of our new products. Great technology in our Fusion line, particularly our driver products, an improved product development process, and improved ability to ship our products to market efficiently and on time are all contributing to these strong results. We have also seen U.S. revenue market share increase for the Top-Flite brand since December, 2006 driven by the successful introduction of the new D2 golf ball and a cleaner retail channel, resulting in improved profitability of this important brand."

"We are also making great progress on our gross margin initiatives," continued Mr. Fellows. "In fact, we are ahead of our internal targets, and are on track with the inventory reduction initiatives we announced earlier this year. Because of these results, we are increasing our full year outlook for the second time this year."

Business Outlook

The Company estimates that its full year 2007 net sales will be in the range of \$1.070 to \$1.080 billion compared to the previous estimate of \$1.035 to \$1.055 billion. It is also estimated that the 2007 full year pro forma fully diluted earnings per share will be in the range of \$0.78 to \$0.84 compared to the previous estimate of \$0.72 to \$0.82, both on 70 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.

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. 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 three hours after the call ends, and will remain available through 9:00 p.m. PDT on Wednesday, August 8, 2007. The replay may be accessed through the Internet at 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 881407.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results, performance or prospects, including statements relating to progress on the gross margin or inventory reduction initiatives or 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 majority 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 and demand for 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 other risks and uncertainties, including delays, difficulties or increased costs in the supply of components needed to manufacture the Company's products, in manufacturing the Company's products, or in connection 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.

Through an unwavering commitment to innovation, Callaway Golf creates products and services designed to make every golfer a better golfer. Callaway Golf Company manufactures and sells golf clubs and golf balls, and sells golf accessories, under the Callaway Golf(R), Top-Flite(R), Odyssey(R) and Ben Hogan(R) brands. For more information visit www.callawaygolf.com.

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

	June 30, 2007	December 31, 2006
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ASSETS		
Current assets:		
Cash and cash equivalents	\$ 48,397	\$ 46,362
Accounts receivable, net	281,538	118,133
Inventories, net	225,835	265,110
Deferred taxes	37,047	32,813
Income taxes receivable	-	9,094
Other current assets	21,429	21,688
	-----	-----
Total current assets	614,246	493,200
Property, plant and equipment, net	133,052	131,224
Intangible assets, net	174,089	175,159
Deferred taxes	25,866	18,821
Other assets	27,866	27,543

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	\$975,119	\$845,947
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$141,358	\$111,360
Accrued employee compensation and benefits	31,960	18,731
Accrued warranty expense	14,365	13,364
Bank line of credit	55,394	80,000
Other current liabilities	8,033	-

Total current liabilities	-----	-----
	251,110	223,455

Long-term liabilities	59,117	43,388
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Minority interest	1,937	1,987
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Shareholders' equity	662,955	577,117
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	\$975,119	\$845,947
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Callaway Golf Company
Statements of Operations
(In thousands, except per share data)
(Unaudited)

Quarter Ended
June 30,

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	2007		2006		-----
	-----		-----		-----
Net sales	\$380,017	100%	\$341,815	100%	
Cost of sales	204,892	54%	201,729	59%	
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Gross profit	175,125	46%	140,086	41%	
Operating expenses:					
Selling	80,910	21%	77,045	23%	
General and administrative	24,187	6%	18,101	5%	
Research and development	7,907	2%	6,194	2%	
	-----		-----		
Total operating expenses	113,004	30%	101,340	30%	
Income from operations	62,121	16%	38,746	11%	
Other expense, net	(1,891)		(1,273)		
	-----		-----		
Income before income taxes	60,230	16%	37,473	11%	
Income tax provision	23,591		14,934		
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Net income	\$ 36,639	10%	\$ 22,539	7%	
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Earnings per common share:

Basic	\$ 0.54	\$ 0.33
Diluted	\$ 0.53	\$ 0.33

Weighted-average shares outstanding:

Basic	67,970	67,799
Diluted	69,274	68,577

	Six Months Ended June 30,			
	2007		2006	
Net sales	\$714,624	100%	\$644,260	100%
Cost of sales	378,778	53%	372,662	58%
Gross profit	335,846	47%	271,598	42%
Operating expenses:				
Selling	156,201	22%	145,173	23%
General and administrative	45,745	6%	38,325	6%
Research and development	15,923	2%	12,998	2%
Total operating expenses	217,869	30%	196,496	30%
Income from operations	117,977	17%	75,102	12%
Other expense, net	(3,229)		(971)	
Income before income taxes	114,748	16%	74,131	12%
Income tax provision	45,273		28,731	
Net income	\$ 69,475	10%	\$ 45,400	7%
Earnings per common share:				
Basic	\$ 1.03		\$ 0.66	
Diluted	\$ 1.01		\$ 0.65	
Weighted-average shares outstanding:				
Basic	67,623		68,479	
Diluted	68,798		69,356	

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

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 69,475	\$ 45,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,600	15,225
Non-cash compensation	6,527	6,331
Loss on disposal of assets	61	324
Deferred taxes	5,348	1,165
Changes in assets and liabilities, net of effects from acquisition	(66,208)	(114,383)
Net cash provided by (used in) operating activities	32,803	(45,938)

Cash flows from investing activities:		
Capital expenditures	(18,439)	(20,463)
Business acquisition, net of cash acquired	-	(5,911)
Proceeds from sale of capital assets	9	120
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Net cash used in investing activities	(18,430)	(26,254)
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Cash flows from financing activities:		
Issuance of Common Stock	42,108	6,519
Dividends paid, net	(4,757)	(4,901)
Acquisition of Treasury Stock	(28,735)	(42,894)
Tax benefit from exercise of stock option	3,013	481
(Payments on) proceeds from line of credit net	(24,606)	110,300
Other financing activities	(50)	(20)
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Net cash (used in) provided by financing activities	(13,027)	69,485
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Effect of exchange rate changes on cash and cash equivalents	689	1,339
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Net increase (decrease) in cash and cash equivalents	2,035	(1,368)
Cash and cash equivalents at beginning of period	46,362	49,481
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Cash and cash equivalents at end of period	\$ 48,397	\$ 48,113
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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)	
	June 30,			
	2007	2006	Dollars	Percent
	-----	-----	-----	-----
Net sales:				
Woods	\$111,971	\$ 86,319	\$25,652	30%
Irons (1)	95,381	103,148	(7,767)	-8%
Putters	37,458	37,313	145	0%
Golf balls	72,114	69,103	3,011	4%
Accessories and other (1)	63,093	45,932	17,161	37%
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	\$380,017	\$341,815	\$38,202	11%
	=====	=====	=====	=====

Net Sales by Product Category

	Six Months Ended		Growth/(Decline)	
	June 30,			
	2007	2006	Dollars	Percent
Net sales:				
Woods	\$214,994	\$183,439	\$31,555	17%
Irons (1)	195,418	189,708	5,710	3%
Putters	66,532	62,191	4,341	7%
Golf balls	125,660	124,833	827	1%
Accessories and other (1)	112,020	84,089	27,931	33%
	\$714,624	\$644,260	\$70,364	11%

(1) Prior periods have been restated to reflect current period classification.

Net Sales by Region

	Quarter Ended		Growth/(Decline)	
	June 30,			
	2007	2006	Dollars	Percent
Net sales:				
United States	\$204,391	\$186,349	\$18,042	10%
Europe	70,284	54,336	15,948	29%
Japan	33,847	34,042	(195)	-1%
Rest of Asia	25,645	25,561	84	0%
Other foreign countries	45,850	41,527	4,323	10%
	\$380,017	\$341,815	\$38,202	11%

Net Sales by Region

	Six Months Ended		Growth/(Decline)	
	June 30,			
	2007	2006	Dollars	Percent
Net sales:				
United States	\$388,195	\$367,632	\$20,563	6%
Europe	126,307	104,421	21,886	21%
Japan	71,787	60,156	11,631	19%
Rest of Asia	48,466	42,549	5,917	14%
Other foreign countries	79,869	69,502	10,367	15%
	\$714,624	\$644,260	\$70,364	11%

Operating Segment Information

	Quarter Ended		Growth/(Decline)	
	June 30,			
	2007	2006	Dollars	Percent

Net sales:				
Golf clubs	\$307,903	\$272,713	\$35,190	13%
Golf balls	72,114	69,102	3,012	4%
	-----	-----	-----	
	\$380,017	\$341,815	\$38,202	11%
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Income before provision for income taxes:				
Golf clubs	\$ 73,869	\$ 50,328	\$23,541	47%
Golf balls	5,584	544	5,040	926%
Reconciling items				
(2)	(19,223)	(13,399)	(5,824)	-43%
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	\$ 60,230	\$ 37,473	\$22,757	61%
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Operating Segment Information

	Six Months Ended		Growth/(Decline)	
	June 30,			
	2007	2006	Dollars	Percent
	-----	-----	-----	-----
Net sales:				
Golf clubs	\$ 588,964	\$ 519,427	\$ 69,537	13%
Golf balls	125,660	124,833	827	1%
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	\$ 714,624	\$ 644,260	\$ 70,364	11%
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Golf clubs	\$ 139,524	\$ 95,395	\$ 44,129	46%
Golf balls	11,001	6,902	4,099	59%
Reconciling items				
(2)	(35,777)	(28,166)	(7,611)	-27%
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	\$ 114,748	\$ 74,131	\$ 40,617	55%
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(2) 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 June 30,

2007

Pro Forma Gross Margin Total as
Callaway Improvement Reported
Golf Initiatives

Net sales	\$380,017	\$ -	\$380,017
Gross profit	177,076	(1,951)	175,125
% of sales	47%	n/a	46%
Operating expenses	113,004	-	113,004
Income (loss) from operations	64,072	(1,951)	62,121
Other expense, net	(1,891)	-	(1,891)
Income (loss) before income taxes	62,181	(1,951)	60,230
Income tax provision	24,350	(759)	23,591
Net income (loss)	\$ 37,831	\$ (1,192)	\$ 36,639
Diluted earnings (loss) per share:	\$ 0.55	\$ (0.02)	\$ 0.53
Weighted-average shares outstanding:	69,274	69,274	69,274

Quarter Ended June 30,

2006

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges	Total as Reported
Net sales	\$341,815	\$ -	\$ -	\$341,815
Gross profit	141,698	(1,516)	(96)	140,086
% of sales	41%	n/a	n/a	41%
Operating expenses	100,648	218	474	101,340
Income (loss) from operations	41,050	(1,734)	(570)	38,746
Other expense, net	(1,273)	-	-	(1,273)
Income (loss) before income taxes	39,777	(1,734)	(570)	37,473
Income tax provision	15,809	(662)	(213)	14,934
Net income (loss)	\$ 23,968	\$ (1,072)	\$ (357)	\$ 22,539
Diluted earnings (loss) per share:	\$ 0.35	\$ (0.01)	\$ (0.01)	\$ 0.33
Weighted-average shares outstanding:	68,577	68,577	68,577	68,577

Six Months Ended June 30,

2007

Pro Forma Gross Margin Total as
Callaway Improvement Reported
Golf Initiatives

Net sales	\$714,624	\$ -	\$714,624
Gross profit	339,202	(3,356)	335,846
% of sales	47%	n/a	47%
Operating expenses	217,869	-	217,869
Income (loss) from operations	121,333	(3,356)	117,977
Other expense, net	(3,229)	-	(3,229)
Income (loss) before income taxes	118,104	(3,356)	114,748
Income tax provision	46,586	(1,313)	45,273
Net income (loss)	\$ 71,518	\$(2,043)	\$ 69,475
Diluted earnings (loss) per share:	\$ 1.04	\$ (0.03)	\$ 1.01
Weighted-average shares outstanding:	68,798	68,798	68,798

Six Months Ended June 30,

2006

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges	Total as Reported
Net sales	\$644,260	\$ -	\$ -	\$644,260
Gross profit	273,879	(2,171)	(110)	271,598
% of sales	43%	n/a	n/a	42%
Operating expenses	195,453	593	450	196,496
Income (loss) from operations	78,426	(2,764)	(560)	75,102
Other expense, net	(971)	-	-	(971)
Income (loss) before income taxes	77,455	(2,764)	(560)	74,131
Income tax provision	30,001	(1,061)	(209)	28,731
Net income (loss)	\$ 47,454	\$(1,703)	\$ (351)	\$ 45,400
Diluted earnings (loss) per share:	\$ 0.68	\$ (0.02)	\$ (0.01)	\$ 0.65
Weighted-average shares outstanding:	69,356	69,356	69,356	69,356

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA):

2007 Trailing Twelve Months EBITDA

Quarter Ended

September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	Total
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Net income (loss)	\$ (11,916)	\$ (10,194)	\$ 32,836	\$ 36,639	\$ 47,365
Interest expense (income), net	1,132	905	1,677	1,672	5,386
Income tax provision (benefit)	(6,075)	(10,948)	21,682	23,591	28,250
Depreciation and amortization expense	8,736	8,313	9,009	8,591	34,649
EBITDA	\$ (8,123)	\$ (11,924)	\$ 65,204	\$ 70,493	\$ 115,650

2006 Trailing Twelve Months EBITDA

	Quarter Ended				
	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006	Total
Net income (loss)	\$ (4,804)	\$ (18,664)	\$ 22,861	\$ 22,539	\$ 21,932
Interest expense (income), net	332	(165)	533	1,522	2,222
Income tax provision (benefit)	(3,954)	(14,361)	13,797	14,934	10,416
Depreciation and amortization expense	8,283	7,318	7,290	7,935	30,826
EBITDA	\$ (143)	\$ (25,872)	\$ 44,481	\$ 46,930	\$ 65,396

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SOURCE: Callaway Golf Company