



## **Callaway Golf Announces 22% Increase in Sales for the Third Quarter Resulting in Record Sales for the First Nine Months of 2007**

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

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- Net sales of \$235.5 million, an increase of 22% compared to \$193.8 million for the same period in 2006. These strong sales are primarily the result of sales of Fusion drivers and X-series irons, as well as increases in sales of accessories and golf balls.
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- Fully diluted earnings per share of \$0.02 on 67.6 million shares outstanding compared to a loss per share of \$0.18 on 67.0 million shares outstanding in 2006. The third quarter 2007 results include a gain of approximately \$0.03 per diluted share related to the sale of a building.
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- Fully diluted earnings per share include \$0.04 of after-tax charges for gross margin improvement initiatives. The third 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 third quarter of 2007 would have been \$0.06 compared to a loss per share of \$0.16 for the third quarter of 2006.
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- Gross profit for the third quarter of 2007 increased 39% to \$94.0 million (or 40% of net sales) compared to \$67.7 million (or 35% of net sales) for the third quarter of 2006. The increase in gross profit as a percent of sales is primarily the result of the Company's gross margin improvement initiatives announced in November, 2006 and secondarily a more favorable mix of higher margin Fusion woods and X-series irons products.

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- Operating expenses for the third quarter of 2007 were \$93.1 million (or 40% of net sales) compared to \$84.6 million (or 44% of net sales) in 2006. The dollar increase is primarily due to higher marketing expenses, increased annual incentive compensation associated with the improved financial results compared to 2006, higher legal expenses to enforce the Company's intellectual property rights, and higher selling expenses associated with increased sales, partially offset by the gain recognized on the sale of a building.

Highlights for the first nine months include:

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- Net sales increased 13% to \$950.2 million, a new record for the Company. Net Sales were \$838.0 million for the same period in 2006.
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- Fully diluted earnings per share increased 110% to \$1.03 on 68.4 million shares outstanding, as compared to \$0.49 on 68.8 million shares outstanding in 2006.
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- Fully diluted earnings per share include after-tax charges of \$0.07 associated with the Company's gross margin improvement initiatives. Results for the first nine months of 2006 include after-tax charges of \$0.04 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 \$1.10 and \$0.54 respectively, an increase of 104%.
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- Gross profit for 2007 was \$429.9 million (or 45% of net sales) compared to \$339.3 million (or 40% of net sales) for 2006. The increase in gross profit is due to the positive results of the Company's gross margin initiatives and a more favorable mix of higher margin products.

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- Operating expenses for 2007 were \$311.0 million (or 33% of net sales), compared to \$281.1 million (or 34% of net sales) for 2006. The dollar increase is primarily due to increased annual incentive compensation associated with the improved financial results, higher marketing expenses, increased legal expenses to enforce the Company's intellectual property rights, and higher selling expenses associated with the increase in sales.

"We are very pleased with the results for the quarter and for the first nine months of 2007," commented George Fellows, President and CEO. "Year to date sales have increased 13% for a new record as a result of strong consumer demand for our 2007 products, driven by our Fusion drivers and X-series irons along with the successful launch of the Top-Flite D2 golf ball. This growth has been across all of our regions, a majority of which was driven by our international business which is up 19% for the year."

"Our gross margins as a percent of sales also continue to improve," continued Mr. Fellows, "as we successfully execute the gross margin improvement initiatives announced last November, with a majority of the third quarter improvement resulting from these efforts. We also reduced our third quarter inventory by \$28 million compared to last year, in line with our expectations, due to these initiatives while maintaining and in many cases improving customer service levels. "

#### Business Outlook

The Company estimates that its full year 2007 net sales will be in the range of \$1.095 to \$1.105 billion compared to the previous estimate of \$1.070 to \$1.080 billion. It is also estimated that the 2007 full year pro forma fully diluted earnings per share will be in the range of \$0.85 to \$0.89 (on 68.0 million shares) compared to the estimate provided last quarter of \$0.78 to \$0.84 (on 70.0 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.

"We are raising our forecast to reflect the higher than expected third quarter results," commented Brad Holiday, Chief Financial Officer. "Our full year forecast continues to take into consideration that the fourth quarter, due to seasonality, is typically our smallest revenue quarter and also that unlike last year, there are very limited new product introductions planned in the quarter. Overall we are very pleased with our results to date and feel we are well on track in achieving our three year targets we set earlier this year."

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 three hours after the call ends, and will remain available through 9:00 p.m. PST on Thursday, November 8, 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 892455.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results, performance or prospects, including statements relating to estimated future sales and earnings, 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. 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 current or 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; 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 preliminary 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, charges related to the September 2005 restructuring initiatives, and charges related to the Company's 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](http://www.callawaygolf.com).

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

	September 30, 2007	December 31, 2006
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<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,640	\$ 46,362
Accounts receivable, net	165,002	118,133
Inventories, net	213,902	265,110
Deferred taxes	39,488	32,813
Income taxes receivable	-	9,094
Other current assets	21,217	21,688
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Total current assets	471,249	493,200
Property, plant and equipment, net	127,103	131,224
Intangible assets, net	173,948	175,159
Deferred taxes	28,193	18,821
Other assets	30,604	27,543
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	\$ 831,097	\$ 845,947
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 113,553	\$ 111,360
Accrued employee compensation and benefits	37,776	18,731
Accrued warranty expense	13,067	13,364
Credit facilities	932	80,000
Other current liabilities	4,436	-
	-----	-----
Total current liabilities	169,764	223,455
Long-term liabilities	61,593	43,388
Minority interest	1,865	1,987
Shareholders' equity	597,875	577,117
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	\$ 831,097	\$ 845,947
	=====	=====

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

	Quarter Ended			
	September 30,			
	2007		2006	
	-----		-----	
Net sales	\$235,549	100%	\$193,763	100%
Cost of sales	141,543	60%	126,058	65%
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Gross profit	94,006	40%	67,705	35%
Operating expenses:				
Selling	65,808	28%	56,949	29%
General and administrative	19,394	8%	20,901	11%
Research and development	7,928	3%	6,788	4%
	-----		-----	
Total operating expenses	93,130	40%	84,638	44%
Income (loss) from operations	876		(16,933)	-9%
Other income (expense), net	1,223	1%	(1,058)	
	-----		-----	
Income (loss) before income taxes	2,099	1%	(17,991)	-9%
Income tax provision (benefit)	830		(6,075)	
	-----		-----	
Net income (loss)	\$ 1,269	1%	\$(11,916)	-6%
	=====		=====	
Earnings (loss) per common share:				
Basic	\$ 0.02		(\$0.18)	
Diluted	\$ 0.02		(\$0.18)	
Weighted-average shares outstanding:				
Basic	66,516		67,000	

Diluted	67,639		67,000	
	Nine Months Ended			
	September 30,			
	-----		-----	
	2007		2006	
	-----		-----	
Net sales	\$950,173	100%	\$838,023	100%
Cost of sales	520,321	55%	498,720	60%
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Gross profit	429,852	45%	339,303	40%
Operating expenses:				
Selling	222,009	23%	202,122	24%
General and administrative	65,139	7%	59,226	7%
Research and development	23,851	3%	19,786	2%
	-----		-----	
Total operating expenses	310,999	33%	281,134	34%
Income from operations	118,853	13%	58,169	7%
Other expense, net	(2,006)		(2,029)	
	-----		-----	
Income before income taxes	116,847	12%	56,140	7%
Income tax provision	46,103		22,656	
	-----		-----	
Net income	\$ 70,744	7%	\$ 33,484	4%
	=====		=====	
Earnings per common share:				
Basic	\$ 1.05		\$ 0.49	
Diluted	\$ 1.03		\$ 0.49	
Weighted-average shares outstanding:				
Basic	67,250		67,980	
Diluted	68,407		68,777	

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

	Nine Months Ended	
	September 30,	
	-----	-----
	2007	2006
	-----	-----
Cash flows from operating activities:		
Net income	\$ 70,744	\$ 33,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,464	23,961
Non-cash share-based compensation	8,207	9,611
Deferred taxes	1,444	(3,573)
(Gain) loss on disposal of assets	(3,425)	1,047
Changes in assets and liabilities, net of effects from acquisition	41,408	(35,969)
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Net cash provided by operating activities	145,842	28,561
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Cash flows from investing activities:		
Capital expenditures	(24,130)	(28,551)
Proceeds from sale of capital assets	5,491	468
Investment in golf related venture	(1,310)	-
Business acquisition, net of cash acquired	-	(5,911)
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Net cash used in investing activities	(19,949)	(33,994)
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Cash flows from financing activities:		
Issuance of common stock	47,672	9,053
Dividends paid, net	(14,241)	(9,695)
Acquisition of treasury stock	(101,387)	(52,872)
Tax benefit from exercise of stock option	4,537	805
(Payments on) proceeds from credit facilities, net	(79,068)	60,000
Other financing activities	(122)	(16)
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Net cash (used in) provided by financing activities	(142,609)	7,275
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	1,994	1,178
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Net (decrease) increase in cash and cash equivalents	(14,722)	3,020
Cash and cash equivalents at beginning of period	46,362	49,481
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Cash and cash equivalents at end of period	\$ 31,640	\$ 52,501
	=====	=====

Callaway Golf Company  
Consolidated Net Sales and Operating Segment Information  
(In thousands)  
(Unaudited)

	Net Sales by Product Category			
	Quarter Ended		Growth/(Decline)	
	September 30,		Dollars	Percent
	2007	2006		
	-----	-----	-----	-----
Net sales:				
Woods	\$ 56,207	\$ 43,718	\$12,489	29%
Irons (1)	65,391	52,966	12,425	23%
Putters	21,590	22,954	(1,364)	-6%
Golf balls	49,045	42,700	6,345	15%
Accessories and other (1)	43,316	31,425	11,891	38%
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	\$235,549	\$193,763	\$41,786	22%
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	Nine Months Ended			
	September 30,		Growth/(Decline)	
	2007	2006	Dollars	Percent
Net sales:				
Woods	\$271,201	\$227,157	\$ 44,044	19%
Irons (1)	260,809	242,674	18,135	7%
Putters	88,122	85,145	2,977	3%
Golf balls	174,705	167,533	7,172	4%
Accessories and other (1)	155,336	115,514	39,822	34%
	\$950,173	\$838,023	\$112,150	13%

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

	Net Sales by Region			
	Quarter Ended		Growth/(Decline)	
	2007	2006	Dollars	Percent
Net sales:				
United States	\$124,321	\$103,196	\$21,125	20%
Europe	40,983	29,201	11,782	40%
Japan	25,154	23,236	1,918	8%
Rest of Asia	20,540	18,279	2,261	12%
Other foreign countries	24,551	19,851	4,700	24%
	\$235,549	\$193,763	\$41,786	22%

	Nine Months Ended			
	September 30,		Growth/(Decline)	
	2007	2006	Dollars	Percent
Net sales:				
United States	\$512,516	\$470,828	\$ 41,688	9%
Europe	167,290	133,622	33,668	25%
Japan	96,941	83,392	13,549	16%
Rest of Asia	69,006	60,828	8,178	13%
Other foreign countries	104,420	89,353	15,067	17%
	\$950,173	\$838,023	\$112,150	13%

#### Operating Segment Information

Quarter Ended	Growth/(Decline)
September 30,	

	2007	2006	Dollars	Percent
Net sales:				
Golf clubs	\$186,504	\$151,063	\$ 35,441	23%
Golf balls	49,045	42,700	6,345	15%
	\$235,549	\$193,763	\$ 41,786	22%

Income (loss) before provision for income taxes:				
Golf clubs	\$ 16,689	\$ 6,570	\$ 10,119	154%
Golf balls	(2,757)	(8,717)	5,960	68%
Reconciling items (2)	(11,833)	(15,844)	4,011	25%
	\$ 2,099	\$(17,991)	\$ 20,090	112%

	Nine Months Ended September 30,		Growth/(Decline)	
	2007	2006	Dollars	Percent
Net sales:				
Golf clubs	\$775,468	\$670,490	\$104,978	16%
Golf balls	174,705	167,533	7,172	4%
	\$950,173	\$838,023	\$112,150	13%

Income (loss) before provision for income taxes:				
Golf clubs	\$156,213	\$101,931	\$ 54,282	53%
Golf balls	8,244	(1,781)	10,025	563%
Reconciling items (2)	(47,610)	(44,010)	(3,600)	-8%
	\$116,847	\$ 56,140	\$ 60,707	108%

(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 September 30,

2007

Pro Forma Gross Margin Total as

	Callaway Golf	Improvement Initiatives	Reported
Net sales	\$235,549	\$ -	\$235,549
Gross profit	98,125	(4,119)	94,006
% of sales	42%	n/a	40%
Operating expenses	93,130	-	93,130
Income (loss) from operations	4,995	(4,119)	876
Other expense, net	1,223	-	1,223
Income (loss) before income taxes	6,218	(4,119)	2,099
Income tax provision (benefit)	2,429	(1,599)	830
Net income (loss)	\$ 3,789	\$(2,520)	\$ 1,269
Diluted earnings (loss) per share:	\$ 0.06	\$ (0.04)	\$ 0.02
Weighted-average shares outstanding:	67,639	67,639	67,639

Quarter Ended September 30,

2006

	Pro Forma Callaway Golf	Gross Margin Improvement Initiatives	Integra- tion Charges	Restruc- turing Charges	Total as Reported
Net sales	\$193,763	\$ -	\$ -	\$ -	\$193,763
Gross profit	69,295	(349)	(1,195)	(46)	67,705
% of sales	36%	-	n/a	n/a	35%
Operating expenses	83,564	-	79	995	84,638
Income (loss) from operations	(14,269)	(349)	(1,274)	(1,041)	(16,933)
Other expense, net	(1,058)	-	-	-	(1,058)
Income (loss) before income taxes	(15,327)	(349)	(1,274)	(1,041)	(17,991)
Income tax provision (benefit)	(5,176)	(118)	(430)	(351)	(6,075)
Net income (loss)	\$(10,151)	\$ (231)	\$ (844)	\$ (690)	\$(11,916)
Diluted earnings (loss) per share:	\$ (0.16)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.18)
Weighted-average shares outstanding:	67,000	67,000	67,000	67,000	67,000

Nine Months Ended September 30,

2007

	Pro Forma Callaway Golf	Gross Margin Improvement Initiatives	Total as Reported
Net sales	\$950,173	\$ -	\$950,173
Gross profit	437,327	(7,475)	429,852
% of sales	46%	n/a	45%
Operating expenses	310,999	-	310,999
Income (loss) from operations	126,328	(7,475)	118,853
Other expense, net	(2,006)	-	(2,006)
Income (loss) before income taxes	124,322	(7,475)	116,847
Income tax provision (benefit)	49,015	(2,912)	46,103
Net income (loss)	\$ 75,307	\$(4,563)	\$ 70,744
Diluted earnings (loss) per share:	\$ 1.10	\$ (0.07)	\$ 1.03
Weighted-average shares outstanding:	68,407	68,407	68,407

Nine Months Ended September 30,

2006

	Pro Forma Callaway Golf	Gross Margin Improvement Initiatives	Integra- tion Charges	Restruc- turing Charges	Total as Reported
Net sales	\$838,023		\$ -	\$ -	\$838,023
Gross profit	343,174	(349)	(3,366)	(156)	339,303
% of sales	41%		n/a	n/a	40%
Operating expenses	279,017		672	1,445	281,134
Income (loss) from operations	64,157	(349)	(4,038)	(1,601)	58,169
Other expense, net	(2,029)		-	-	(2,029)
Income (loss) before income taxes	62,128	(349)	(4,038)	(1,601)	56,140
Income tax provision (benefit)	24,825	(118)	(1,491)	(560)	22,656
Net income (loss)	\$ 37,303	\$ (231)	\$(2,547)	\$(1,041)	\$ 33,484
Diluted earnings (loss) per share:	\$ 0.54	\$ (0.00)	\$ (0.04)	\$ (0.01)	\$ 0.49
Weighted-average shares outstanding:	68,777	68,777	68,777	68,777	68,777

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

2007 Trailing Twelve Months EBITDA

	Quarter Ended				
	December	March	June	September	Total
	31, 2006	31, 2007	30, 2007	30, 2007	
Net income (loss)	\$(10,194)	\$32,836	\$36,639	\$ 1,269	\$ 60,550
Interest expense (income), net	905	1,677	1,672	29	4,283
Income tax provision (benefit)	(10,948)	21,682	23,591	830	35,155
Depreciation and amortization expense	8,313	9,009	8,591	9,864	35,777
EBITDA	\$(11,924)	\$65,204	\$70,493	\$11,992	\$135,765

2006 Trailing Twelve Months EBITDA

	Quarter Ended				
	December	March	June	September	Total
	31, 2005	31, 2006	30, 2006	30, 2006	
Net income (loss)	\$(18,664)	\$22,861	\$22,539	\$(11,916)	\$14,820
Interest expense (income), net	(165)	533	1,522	1,132	3,022
Income tax provision (benefit)	(14,361)	13,797	14,934	(6,075)	8,295
Depreciation and amortization expense	7,318	7,290	7,935	8,736	31,279
EBITDA	\$(25,872)	\$44,481	\$46,930	\$( 8,123)	\$57,416

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SOURCE: Callaway Golf Company