



Callaway Golf Company Reports Fourth Quarter And 1999 Fiscal Year-End Financial Results; Net Sales And Earnings Up Over 1998

CARLSBAD, CA, January 26, 2000 - Callaway Golf Company (NYSE:ELY) announced today that its net sales for the year ended December 31, 1999 were \$714.5 million compared to the previous year's net sales of \$697.6 million. The Company also announced that it had net income of \$55.3 million for 1999 compared to a net loss of \$26.6 million reported for 1998 when earnings had been negatively affected by significant one-time restructuring and other charges (\$0.78 earnings per diluted share for 1999 vs. \$0.38 loss per share for 1998).

Net sales for the three months ended December 31, 1999 were \$115.7 million, up from net sales of \$114.5 million for the comparable period of 1998. For the three months ended December 31, 1999, the Company reported net income of \$157,000, or less than \$0.01 per diluted share, compared with a net loss of \$64.7 million, or \$0.93 loss per share, for the comparable period in 1998. The Company's earnings for the quarter reflected a one-time tax benefit resulting from the receipt of approximately \$4 million in non-taxable income during the quarter and a reorganizing of certain foreign operations.

"We think that our performance in 1999 demonstrates the strength of our products, our brand and our management team," said Ely Callaway, Founder, Chairman and CEO. "We met our goal of improving profitability - going from a loss of \$0.38 a share in 1998 to earnings of \$0.78 a share in 1999. We did this through a determined focus on our core business, particularly with respect to our costs and our margins. Total operating expenses as a percentage of sales improved each quarter and for the year, finishing the year with selling, G&A and R&D expenditures down \$24 million, or 8.4%, in the aggregate."

"Our total sales increased about \$17 million in 1999 despite a relatively soft market, and our brands remained number one in the worldwide markets for woods, irons and putters," Mr. Callaway continued. "To our best knowledge, this is an unprecedented level of market penetration by a golf club manufacturer. Our inventories of non-current products were sold in 1999 through a managed close out process, leaving us in an enviable inventory position at year end. On January 1, 2000 we began to run our business in Japan through our wholly-owned subsidiary, and at the same time we introduced and shipped, worldwide, the new Steelhead Plus™ Stainless Steel Metal Woods and the new Steelhead™ X-14™ Stainless Steel Irons. At the International Golf Show in Orlando, Florida, beginning on February 4 2000, we will be introducing the new Callaway Golf ball. At the same time, we will also show the new Odyssey® White Hot™ Putter that incorporates a unique insert material developed in connection with our golf ball. We finished 1999 with over \$100 million in cash and essentially no debt or other major financial commitments except for a \$50 million operating lease on our golf ball equipment. Overall, we believe our successes in 1999 have strengthened the Company as we prepare to face the challenges and seize the good opportunities we feel lie ahead for us."

Net sales of \$115.7 million for the fourth quarter were comprised of revenues of \$35.7 million from sales of Great Big Bertha® Hawk Eye® Titanium Drivers and Fairway Woods; \$14.5 million from sales of Big Bertha® Steelhead™ Stainless Steel Metal Woods; \$24.7 million from sales of Big Bertha® X-12® Stainless Steel Irons; \$20.6 million from sales of Great Big Bertha® Hawk Eye® Tungsten Injected™ Titanium Irons; \$7.9 million from sales of Odyssey® and Callaway Golf putters; and \$12.3 million from other sales. For the fourth quarter of 1999 vs. the fourth quarter of 1998, the Company's U.S. sales increased 8.4% to \$74.3 million and international sales decreased 10.0% to \$41.4 million.

Net sales of \$714.5 million for the year ended December 31, 1999, were comprised of revenues of \$262.5 million from sales of Great Big Bertha® Hawk Eye® Titanium Drivers and Fairway Woods; \$125.9 million from sales of Big Bertha® Steelhead™ Stainless Steel Metal Woods; \$172.8 million from sales of Big Bertha® X-12® Stainless Steel Irons; \$27.7 million from sales of Great Big Bertha® Hawk Eye® Tungsten Injected™ Titanium Irons; \$48.2 million from sales of Odyssey® and Callaway Golf putters; and \$77.4 million from other sales. The twelve month results

include non-current product sales of \$56.6 million, of which all but \$1.3 million occurred in the first nine months of 1999. For the year ended December 31, 1999 vs. the year ended December 31, 1998, the Company's U.S. sales decreased 5.4% to \$414.1 million and international sales increased 15.5% to \$300.4 million.

Cost of goods sold as a percentage of net sales was 51.6% in the fourth quarter of 1999, versus 82.2% during the comparable period in 1998. This decrease was primarily due to lower obsolescence charges in 1999 vs. a \$30.0 million excess inventory charge recorded in the fourth quarter of 1998. The Company also experienced decreased warranty expenses and reduced manufacturing labor and overhead costs in the fourth quarter of 1999 as compared to the comparable period in the prior year.

Selling expenses in the fourth quarter increased to \$32.9 million from \$28.7 million in the same quarter of the prior year. This increase was primarily related to employee and advertising production costs associated with the creation of new sales forces and new advertising programs for the golf ball and Japanese subsidiaries.

General and administrative expenses for the fourth quarter of 1999 were \$25.1 million compared to \$29.3 million for the fourth quarter of 1998. The decrease was primarily attributable to decreased employee compensation costs related to the consolidation of certain foreign and domestic subsidiaries, and a reduction in bad debt and consulting expenses. These amounts were partially offset by increased pre-production costs at the golf ball subsidiary.

In the fourth quarter of 1999 the Company reversed \$6.3 million of a reserve related to a lease obligation in New York City because the lease had been assigned to a third party. The Company has a remaining restructuring reserve of \$1.4 million, which it considers to be sufficient to complete the restructuring efforts initiated in 1998.

"In 1999 we set the stage for the direct distribution of Callaway Golf products in Japan beginning in 2000 through our wholly-owned Japanese distribution company," said Mr. Callaway. "In the fourth quarter we successfully completed negotiations with our prior distributor in Japan, Sumitomo Rubber Industries, Ltd., to provide a smooth transition of our business. Fourth quarter charges associated with the transition agreement and its implementation, including the cost of buying back certain current inventory, payments for non-current inventory liquidation and other transition expenses (including foreign currency losses), were approximately \$8.6 million (\$0.08 loss per share). These costs, as well as other costs associated with the start-up of our Japanese business including the cost of advertising and promotional materials and a new sales force, negatively affected our fourth quarter earnings. Sales in Japan for 1999 were down 9% overall compared with 1998, with the reduction largely because net purchases by our distributor, as planned, declined in anticipation of the transition. Overall, these special factors associated with Japan affecting our 1999 results have been consistent with our expectations, and reflect our planned investment in what we believe to be the second largest potential market for our products."

"The Callaway Golf ball will be introduced, on schedule, at the International Golf Show in Orlando, Florida, on February 4," said Chuck Yash, President of Callaway Golf Company and President and CEO of its wholly-owned subsidiary, Callaway Golf Ball Company. "Although we designed the ball to bring more enjoyment to the game for amateur golfers - just as we have done with our golf clubs - it has been satisfying to see that 18 professional golfers have already put Callaway Golf balls in play on the PGA, LPGA and Senior Tours. Our investment in this new business has been substantial - it will exceed \$170 million by the end of the launch. This was reflected in part in a pre-tax loss of \$13.6 million in the fourth quarter of 1999 and a pre-tax loss of \$38.4 million for the year (\$0.12 and \$0.34 loss per share, respectively). And we expect that golf ball operations will continue to generate a pre-tax loss in 2000, equaling as much as \$15 million, due to significant start-up selling expenses and the time needed to achieve market penetration and manufacturing and other operational efficiencies. However, we believe that there is significant excitement about our ball today, even before we launch, which makes our future prospects for long term profitability from the golf ball operations continue to look good."

"In 2000 we hope to continue our efforts to focus on the Company's overall profitability," continued Mr. Callaway.

"While it will be unlikely that we can see the same percentage gains through efficiencies and operational changes as we achieved in 1999, we still plan to improve in these areas, particularly in controlling G&A expenses. There will no doubt be increased selling expenses, particularly in the first half of 2000, associated with the start-up of our golf ball business and the direct distribution of our products in Japan. In addition, revenues in Japan will now be recorded upon sale to the retailer, not upon sale to our distributor, causing a delay in the recording of revenues for Japan as compared to prior years. Because of these increased expenses in the first part of the year and the delay in recording revenues for Japan, we are currently expecting that our earnings in the first quarter of 2000 may be as much as \$0.06

per diluted share less than our reported earnings for the first quarter of 1999. However, while we never predict, earnings in later quarters should improve and we currently believe that our earnings per share for the year 2000 will be significantly better - by as much as 45 to 50% - than they were in 1999. In short, we are encouraged by our performance in 1999 and look forward to continued improvement and progress in 2000."

Dividend

In accordance with the Company's dividend practice for 1999, the dividend for the fourth quarter of 1999 will be determined by the Board of Directors at its meeting in February 2000, payable in March of 2000.

2000 Annual Meeting

The Company also announced that its 2000 Annual Meeting of Shareholders will be held on May 3, 2000, at the Company's headquarters in Carlsbad, California.

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Callaway Golf Company makes and sells Big Bertha® metal woods and irons, including Great Big Bertha® Hawk Eye® Titanium Metal Woods, Big Bertha® Steelhead Plus™ Stainless Steel Metal Woods, Great Big Bertha® Hawk Eye® Tungsten Injected™ Titanium Irons, Big Bertha® Steelhead™ X-14™ Stainless Steel Irons, Odyssey® Du Force® and TriForce™ putters with Stronomic® and Lyconite® inserts, and Callaway Golf® and Bobby Jones® putters.

Statements used in this press release that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including but not limited to market acceptance of current and future products, including the golf ball to be introduced in early 2000, seasonality, adverse market and economic conditions, competitive pressures, and costs and potential disruption of business as a result of the restructuring of operations and the transition of the Company's Japanese distribution to a wholly-owned subsidiary, as well as other risks and uncertainties detailed from time to time in the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed 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.

Callaway Golf Company
Consolidated Condensed Statement of Operations
(In thousands, except per share data)

	Fourth Quarter Ended				Year Ended			
	December 31, (unaudited)				December 31,			
	1999		1998		1999		1998	
Net sales	\$115,683	100%	\$114,517	100%	\$714,471	100%	\$697,621	100%
Cost of goods sold	<u>59,698</u>	52%	<u>94,085</u>	82%	<u>376,405</u>	53%	<u>401,607</u>	58%
Gross profit	55,985	48%	20,432	18%	338,066	47%	296,014	42%
Operating expenses:								
Selling	32,929	28%	28,708	25%	131,858	18%	147,022	21%
General and administrative	25,121	22%	29,330	26%	92,478	13%	98,048	14%
Research and development	8,596	7%	10,638	9%	34,002	5%	36,848	5%
Restructuring	(6,325)	(5%)	54,235	47%	(5,894)	(1%)	54,235	8%
SRI transition	<u>5,713</u>	5%			<u>5,713</u>	1%		
(Loss) income from operations	(10,049)	(9%)	(102,479)	(89%)	79,909	11%	(40,139)	(6%)
Other income, net	<u>4,819</u>		<u>937</u>		<u>5,588</u>		<u>1,240</u>	
(Loss) income before income taxes	(5,230)	(5%)	(101,542)	(89%)	85,497	12%	(38,899)	(6%)
Income tax (benefit) provision	<u>(5,387)</u>		<u>(36,844)</u>		<u>30,175</u>		<u>(12,335)</u>	
Net income (loss)	<u>\$ 157</u>	0%	<u>(\$ 64,698)</u>	(56%)	<u>\$ 55,322</u>	8%	<u>(\$ 26,564)</u>	(4%)
Earnings (loss) per common share:								
Basic	\$0.00		(\$0.93)		\$0.79		(\$0.38)	
Diluted	\$0.00		(\$0.93)		\$0.78		(\$0.38)	
Common equivalent shares:								
Basic	70,726		69,701		70,397		69,463	
Diluted	71,787		69,701		71,214		69,463	

Callaway Golf Company
Consolidated Condensed Balance Sheet
(In thousands)

	December 31,	
	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$112,602	\$ 45,618
Accounts receivable, net	54,252	73,466
Inventories, net	97,938	149,192
Deferred taxes	32,558	51,029
Other current assets	<u>13,122</u>	<u>4,301</u>
Total current assets	310,472	323,606
Property, plant and equipment, net	142,214	172,794
Intangible assets, net	120,143	127,779
Other assets	<u>43,954</u>	<u>31,648</u>
	<u>\$616,783</u>	<u>\$ 655,827</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 46,664	\$ 35,928
Line of credit		70,919
Note payable		12,971
Accrued employee compensation and benefits	21,126	11,083
Accrued warranty expense	36,105	35,815
Accrued restructuring costs	1,379	7,389
Income taxes payable	<u></u>	<u>9,903</u>
Total current liabilities	105,274	184,008
Long-term liabilities:		
Deferred compensation	11,575	7,606
Accrued restructuring costs		11,117
Stockholders' equity	<u>499,934</u>	<u>453,096</u>
	<u>\$616,783</u>	<u>\$ 655,827</u>