



## Callaway Golf Reports Double-digit Increases In Sales, Net Income And Earnings Per Share

CONTACT(S): Ely Callaway, Brad Holiday, Larry Dorman, Krista Mallory (760) 931-1771

CARLSBAD, California/ October 25, 2000/ Callaway Golf Company (NYSE:ELY) today reported net sales of \$205.9 million for the third quarter ended September 30, 2000, a 12% increase from net sales of \$184.5 million reported for the third quarter of 1999. Net income increased 10% to \$19.3 million in the third quarter of 2000 from \$17.6 million in the comparable quarter of 1999, and diluted earnings per share increased 12% to \$0.28 in the third quarter of 2000 from \$0.25 in the third quarter of 1999.

For the nine months ended September 30, 2000, net sales increased 17% to \$704.8 million from \$602.4 million for the same period in 1999. Net income increased 46% to \$80.5 million from \$55.2 million for the nine months ended September 30, 2000 and 1999, respectively. Diluted earnings per share increased 44% to \$1.12 from \$0.78 for the nine months ended September 30, 2000 and 1999, respectively.

Net sales reported by the Company reflect the effect of a reclassification of shipping revenues from "selling expenses." This reclassification, which added \$1.5 million and \$1.2 million to third quarter sales in 2000 and 1999, respectively, and \$4.7 million and \$3.7 million for the first nine months of 2000 and 1999, respectively, was required by a recently issued accounting pronouncement and did not result in a change in the Company's earnings or earnings per share for any period.

"Net sales of clubs, accessories and balls totaling \$705 million for the first nine months of 2000 is a new record for Callaway Golf," reported Ely Callaway, Founder, Chairman and CEO. "These results reflect our very strong club sales so far this year of \$660 million. Our leadership position in golf clubs is stronger than it's ever been, and while our golf ball business is still in its early development stage, it looks very promising. We are growing and expanding our total business significantly this year while achieving a nearly 50% increase in net income over the first nine months of last year."

"Our third quarter golf ball sales of \$11.3 million exceeded our second quarter results," said Chuck Yash, President, "reflecting, among other things, improved productivity, the launch of our Rule 35™ golf ball in Japan and better distribution in the United States. We also made good progress during the current quarter in reducing our manufacturing and overhead expenses. Our golf ball operation generated a pre-tax loss of \$10.2 million, before corporate allocations, which was on track with our previous expectations for the quarter."

Mr. Yash continued, "We are making major strides forward and we remain focused on constantly improving our manufacturing process and growing our ball business. We remain positive on our prospects primarily for the following reasons:

- "golfers at all skill levels have communicated to us that we have a superior ball that delivers Complete Performance™;
- "more than 70 touring professionals on six tours worldwide are using the Rule 35™ golf ball;
- "we have greatly improved our golf ball manufacturing capabilities with production more than doubling and yields up 50% from April; and
- "we expect to recognize cost reductions through the consolidation of our club and ball operations."

Net sales of \$205.9 million for the third quarter were composed of: \$98.4 million of Great Big Bertha® Hawk Eye®, ERC™, and Big Bertha® Steelhead Plus™ Metal Woods; \$72.4 million of Big Bertha® Steelhead™ X-14® and Hawk Eye® Tungsten Injected™ Titanium Irons; and \$35.1 million of Odyssey® and Callaway Golf® putters, golf balls, and other sales. For the third quarter of 2000 vs. the third quarter of 1999, the Company's U.S. sales increased 2% to \$106.9 million from \$104.6 million, and international sales increased 24% to \$99.1 million from \$79.9 million.

Net sales of \$704.8 million for the nine months ended September 30, 2000, were composed of: \$344.8 million of Great Big Bertha® Hawk Eye®,

ERC™, and Big Bertha® Steelhead Plus™ Metal Woods; \$255.0 million of Big Bertha® Steelhead™ X-14® and Hawk Eye® Tungsten Injected Titanium Irons; and \$105.0 million from Odyssey® and Callaway Golf® putters, golf balls, and other sales. For the first nine months of 2000 vs. the first nine months of 1999, the Company's U.S. sales increased 11% to \$382.3 million from \$343.2 million, and international sales increased 24% to \$322.5 million from \$259.2 million.

Cost of goods sold as a percentage of net sales improved to 51% in the third quarter of 2000 from 52% in the third quarter of 1999 and included the reclassification of shipping expense, which was previously recorded in "selling expense." The reclassification resulted in an increase in cost of goods sold of \$3.0 million and \$2.5 million for the quarters ended September 30, 2000, and 1999, respectively, and of \$9.0 million and \$6.8 million for the nine months ended September 30, 2000, and 1999, respectively. The improvement in cost of goods sold during the current quarter resulted from a favorable product mix and a reduction in golf club manufacturing labor and overhead expenses, partially offset by golf ball manufacturing expenses.

Selling expenses in the third quarter increased to \$41.1 million from \$31.3 million in the same quarter of the prior year, including the reclassification of shipping revenue and expense

which were previously recorded in "selling expense." The effect of this reclassification was a reduction of selling expense by \$1.5 and \$1.3 million for the quarters ended September 30, 2000 and 1999, respectively, and by \$4.3 million and \$3.1 million for the nine-month periods ended September 30, 2000 and 1999, respectively. The increase in selling expenses during the current quarter was primarily attributable to additional expenses associated with sales of golf balls, expanded golf club sales activity in the Company's Japanese subsidiary, and other promotional costs.

General and administrative expenses for the third quarter of 2000 were \$20.7 million compared to \$22.9 million for the third quarter of 1999. This decrease was primarily attributable to the shifting of costs associated with the Company's golf ball pre-production period – i.e., the costs related to the production and the sale of golf balls during the quarter are now included in cost of goods sold rather than G&A. This decrease was partially offset by an increase in bad debt expense associated with the write-off of uncollectible accounts.

Earnings per diluted share in the third quarter were affected by the Company's repurchase program during the quarter of approximately 1.7 million shares of the Company's common stock at an average cost of \$12.89 per share. The Company's repurchase activity year to date contributed approximately \$0.01 to earnings per diluted share for the third quarter. Before the end of the year management may purchase up to \$28.5 million in additional shares, in open market or private transactions, under the authority granted by the Board of Directors in May of 2000.

"Not only are we pleased with the positive results the Company has achieved so far in 2000," Mr. Callaway added, "but we also are very excited about our new golf club products for 2001. At a major press conference held on October 18, 2000 featuring Arnold Palmer, we introduced two new titanium drivers: the new Big Bertha® Hawk Eye® VFT™ Driver and the new Big Bertha® ERC™ II Forged Titanium Driver. Consistent with our announced commitment to continue placing primary emphasis on making and selling clubs that conform to the Rules of Golf, we have designed both of these new drivers to fully comply with the Rules outside the United States as published by the R&A, while fabricating the Hawk Eye® VFT™ Driver to be the best driver we can make – today – that conforms to the USGA's test for the so-called 'spring-like effect' in the U.S. In a new twist, we have also decided to make our new ERC II Driver, which does not conform to the USGA's limits, available in the United States for use in casual or 'recreational' golf by the many American golfers who play most of their rounds just for fun. We think these new products, and the thinking they represent, will be good for the game of golf and good for the Company. Both of these new drivers, along with the new Big Bertha Hawk Eye VFT Fairway Woods, will be delivered in quantity to our retailers in the United States and around the world not later than January, 2001. We believe that these new golf clubs will be enthusiastically accepted by golfers around the world."

In accordance with the Company's dividend practice for 2000, any dividend for the third quarter will be determined by the Board of Directors at its meeting in November 2000.

## **BUSINESS OUTLOOK**

In light of recently adopted SEC Regulations, the Company has elected to provide certain forward-looking information in this press release. These statements are based on current information and expectations, and actual results may differ materially. The Company undertakes no obligation to update this information. See further disclaimer below.

### **Full Year 2000**

- The Company estimates revenue for the year will be approximately \$840 million - including the impact of accounting changes noted earlier in this release.
- The Company estimates gross margins for the year will be approximately 48%.
- The Company estimates pre-tax profit for the year will be approximately 16% of net revenues.

- The Company estimates earnings per share (fully diluted) for the year will be approximately \$1.11.

## **Full Year 2001**

- The Company estimates revenue for the year will be approximately \$900 million.
- The Company estimates gross margins for the year will be approximately 50%.
- The Company estimates pre-tax profit for the year will be approximately 19% of net revenues.
- The Company estimates earnings per share (fully diluted) for the year will be approximately \$1.51 - \$1.56.

The Company will be holding a conference call at 2:30 p.m. PDT today, which will be hosted by Ely Callaway, Founder, Chairman and C.E.O., Charles Yash, President, and Brad Holiday, Executive Vice President and Chief Financial Officer.

The call will be broadcast live over the Internet and can be accessed at <http://www.callawaygolf.com>. To listen to the call, go to the web site at least 15 minutes before the call to register and for instructions on how to access the broadcast.

Those wishing to listen via telephone should call (847) 413-3149 and ask to be connected to the Callaway Golf call. A replay of the conference call will be available one hour after the call ends through 5:00 p.m. PDT, October 27, by calling (402) 220-4363 or by accessing it via our home page at <http://www.callawaygolf.com>.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results or performance, including statements relating to the Company's future prospects and the statements made under the "Business Outlook" section, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. 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 Company's golf ball products and the Company's new golf club products (not all of which conform to USGA rules), seasonality, adverse market and economic conditions, competitive pressures, delays, difficulties or increased costs in the manufacturing of the Company's golf club or ball products, or in the procurement of materials needed to manufacture the Company's golf club or ball products, 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 (unaudited)  
(In thousands, except per share data)

	Three Months Ended				Nine Months Ended			
	September 30,				September 30,			
	2000		1999		2000		1999	
Net sales	\$205,940	100%	\$184,488	100%	\$704,788	100%	\$ 602,439	100%
Cost of goods sold	<u>105,111</u>	51%	<u>95,943</u>	52%	<u>364,783</u>	52%	<u>323,548</u>	54%
Gross profit	100,829	49%	88,545	48%	340,005	48%	278,891	46%
Operating expenses:								
Selling	41,066	20%	31,336	17%	131,808	19%	95,740	16%
General and administrative	20,683	10%	22,911	12%	55,804	8%	67,357	11%
Research and development	9,899	5%	8,672	5%	26,247	4%	25,405	4%
Restructuring			<u>(65)</u>				<u>431</u>	
Income from operations	<u>29,181</u>	14%	<u>25,691</u>	14%	<u>126,146</u>	18%	<u>89,958</u>	15%
Other income, net	<u>2,689</u>		<u>2,934</u>		<u>6,417</u>		<u>769</u>	
Income before income taxes	31,870	15%	28,625	16%	132,563	19%	90,727	15%
Provision for income taxes	<u>12,542</u>		<u>11,053</u>		<u>52,059</u>		<u>35,562</u>	
Net income	<u>\$ 19,328</u>	9%	<u>\$ 17,572</u>	10%	<u>\$ 80,504</u>	11%	<u>\$ 55,165</u>	9%
Earnings per common share:								
Basic	\$0.28		\$0.25		\$1.14		\$0.78	
Diluted	\$0.28		\$0.25		\$1.12		\$0.78	
Common equivalent shares:								
Basic	69,237		70,581		70,372		70,290	
Diluted	70,203		71,094		71,786		71,026	

Callaway Golf Company  
Consolidated Condensed Balance Sheet  
(In thousands)

	September 30, 2000 (unaudited)	December 31, 1999
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 121,625	\$ 112,602
Accounts receivable, net	97,208	54,252
Inventories, net	103,005	97,938
Deferred taxes	30,372	32,558
Other current assets	10,689	13,122
Total current assets	362,899	310,472
Property, plant and equipment, net	135,998	142,214
Intangible assets, net	113,878	120,143
Other assets	42,966	43,954
	<b>\$ 655,741</b>	<b>\$ 616,783</b>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,638	\$ 46,664
Accrued employee compensation and benefits	29,297	21,126
Accrued warranty expense	39,603	36,105
Accrued restructuring costs		1,379
Income taxes payable	12,945	
Total current liabilities	125,483	105,274
Long-term liabilities:		
Deferred compensation	11,031	11,575
Shareholders' equity	519,227	499,934
	<b>\$ 655,741</b>	<b>\$ 616,783</b>

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Callaway Golf Company makes and sells Big Bertha® Metal Woods and Irons, including Big Bertha ERC™ II Forged Titanium Drivers, Big Bertha Hawk Eye® VFT™ Titanium Drivers and Fairway Woods, Great Big Bertha® Hawk Eye Titanium Drivers and Fairway Woods, Big Bertha Steelhead Plus™ Stainless Steel Drivers and Fairway Woods, Hawk Eye Tungsten Injected™ Titanium Irons, Steelhead™ X-14® and Steelhead X-14 Pro Series Stainless Steel Irons, and Bobby Jones® and Carlsbad Series™ Putters. Callaway Golf Company also makes and sells Odyssey® putters, including White Hot™, TriHot™, and TriForce® Putters. Callaway Golf Ball Company, a wholly-owned subsidiary of Callaway Golf Company, makes and sells the Callaway Golf® Rule 35™ Firmfeel™ and Softfeel™ golf balls. For more information about Callaway Golf Company, please visit our Web sites : [www.callawaygolf.com](http://www.callawaygolf.com), [www.callawaygolfball.com](http://www.callawaygolfball.com) and [www.odysseygolf.com](http://www.odysseygolf.com).

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