



Callaway Golf Announces Fourth Quarter and Fiscal 2001 Results

CARLSBAD, Calif., Jan 17, 2002 (BUSINESS WIRE) -- Callaway Golf Company (NYSE:ELY) today reported fourth quarter and full year operating results for the periods ended December 31, 2001, announcing sales of \$816.2 million in 2001 -- third highest in the Company's history -- compared to \$837.6 million during 2000. In constant dollars, sales would have increased 1% to \$849.1 million. Net income during the period was \$58.4 million, versus \$81.0 million last year. Earnings per diluted share were \$0.82, compared to \$1.13 last year. Excluding the after-tax, non-cash charge of \$14.2 million related to the Company's long-term energy supply contract, net income for the year would have been \$72.6 million, and earnings per diluted share would have been \$1.02.

"We remain the leader in the golf equipment business with impressive revenue and earnings numbers in a very tough year," said Ron Drapeau, Chairman, President and CEO. "This was a significant accomplishment in a year where we faced a soft economy in major markets, poor weather during key months, an aggressive stand by the USGA against our very best driver, weakened foreign currencies, the disruption in consumer spending following September 11th, and the most significant event in our Company's history: the loss of our founder. I am very pleased that during this time our management team has maintained our market-leading positions in the U.S. in woods, irons and putters, while launching two new golf ball lines -- the CB1(TM) and the CTU 30(TM) balls -- and improving our golf ball revenues by 62%. At the same time our team put into place strategic initiatives that we expect will yield results in 2002 and future years, including apparel licenses in the U.S., Europe and Japan, and new golf club and golf ball products for 2002 and beyond."

Fourth quarter 2001 net sales declined 26% to \$105.3 million from \$142.2 million during the same quarter in 2000. Net loss during the current quarter was \$9.2 million, compared to net income of \$4.6 million in the fourth quarter 2000. Fourth quarter 2001 loss per diluted share was \$0.14, versus earnings per diluted share of \$0.07 last year.

During the second quarter of 2001, Callaway Golf entered into a long-term energy supply contract with a subsidiary of Enron Corp. as part of a comprehensive strategy to ensure the uninterrupted supply of energy while capping electricity costs in the volatile California energy market. Accounting rules mandated that the Company adjust the value of this contract each quarter based on current market rates, and record any resulting gain or loss as either income or expense in that quarter. The contract was terminated during the fourth quarter of 2001. The Company has adjusted the value of this contract in light of falling electricity prices through the date of termination, and year-to-date has recorded a cumulative non-cash expense of \$14.2 million after-tax, or \$0.20 per diluted share, with no additional charge required in the fourth quarter. Based upon advice from its auditors and other experts, the Company has concluded that current accounting rules require that it continue to reflect the non-cash valuation account on its balance sheet, subject to periodic review. However, going forward the Company will no longer adjust the valuation account for changes in market rates.

"The primary reason for the declines in the fourth quarter year-over-year were the ongoing uncertainty in the economy compounded by the lack of consumer confidence as a result of the attacks of September 11," said Mr. Drapeau. "In addition, last year we benefited from the late-season launch of two new premium products, the ERC(R) II Forged Titanium Driver and the Big Bertha(R) Hawk Eye(R) VFT(R) Titanium Driver and Fairway Woods."

"We are optimistic about our product line for 2002, which is the best and most extensive in the Company's history," continued Mr. Drapeau. "Our new flagship HX(TM) golf ball utilizes a patented tubular lattice network that is unlike anything on the market. This proprietary technology, which is a direct result of our dedicated R&D effort, improves the golf ball's aerodynamics by reducing high speed drag and increasing low speed lift. The Big Bertha C4(TM) Driver is the culmination of a multi-year development effort that has produced the largest, most forgiving driver design we have ever created. Using the break through technology of a Compression Cured Carbon Composite material, we were able

to create a lighter club head, allowing us to locate weight around the interior perimeter where it provides more forgiveness and more consistent shots. The Odyssey(R) White Hot(R) "2 Ball" Putter appears to be off to the biggest launch in Odyssey's history. And the new Big Bertha Irons will complement our existing iron lines with a design that is amazingly easy to hit. These are terrific, and in some cases breakthrough, products that are a direct result of Callaway Golf's industry-leading commitment to product research and development."

Mr. Drapeau added, "We continue making strides to improve our organization and enhance profitability, and expect many of the steps we took in 2001 to yield results in 2002. As an example, we have instituted a Six Sigma program company-wide that has already helped us realize important productivity gains and cost savings. In addition, we have developed a three year strategic plan that articulates a roadmap for improving earnings and enhancing shareholder value in the future."

	Sales by Product and Region					
	Full Year - 2001			Fourth Quarter - 2001		
	% Growth (Decline)			% Growth (Decline)		
	Net Sales (\$ Millions)	As Reported	Constant Dollar	Net Sales (\$ Millions)	As Reported	Constant Dollar
Metal Woods	\$393	(2%)	2%	\$ 33	(54%)	(52%)
Irons	\$249	(17%)	(14%)	\$ 41	(9%)	(6%)
Golf Balls	\$ 55	62%	66%	\$ 10	66%	69%
Putter, Accessories, Other	\$119	18%	23%	\$ 21	5%	9%
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TOTAL	\$816	(3%)	1%	\$105	(26%)	(24%)
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United States	\$444	(2%)	(2%)	\$ 54	(28%)	(28%)
International	\$372	(4%)	5%	\$ 51	(24%)	(19%)
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TOTAL	\$816	(3%)	1%	\$105	(26%)	(24%)
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Gross profit for the year was \$404.6 million (50% of net sales), versus \$397.5 million (47% of sales) the previous year. This improvement was primarily attributable to higher golf club and golf ball margins resulting from lower production costs and a more favorable golf club product mix.

Selling and tour expenses for the year were \$188.3 million (23% of net sales), compared to \$170.5 million (20% of net sales) in 2000. This increase was primarily due to increased advertising costs and increased promotional expense associated with the Company's Green Grass staff programs.

General and administrative expenses for 2001 were \$71.1 million (9% of net sales), compared to \$70.3 million (8% of net sales) in 2000. This increase was primarily due to consolidation of buildings in Carlsbad and severance charges.

Research and development expenses for the year were \$32.7 million (4% of net sales) versus \$34.6 million (4% of net sales) the previous year. This decline was the result of lower depreciation expense and employee costs.

Commenting on the results, Brad Holiday, Executive Vice President and Chief Financial Officer stated, "For the year, our gross margin improved to 50% from 47% last year, which is notable considering the economic and industry weakness. Our balance sheet remains strong, with no debt and ending cash and marketable securities of \$91 million."

During the fourth quarter, the Company repurchased 0.3 million of its shares at an average cost of \$14.79 per share under the \$100 million repurchase authorization granted by the Board and announced in August 2001. For the entire year, the Company repurchased 6.0 million shares at an average cost of \$17.34 per share.

In accordance with the Company's dividend practice, the next dividend will be determined by the Board of Directors at its February 6, 2002 meeting.

Business Outlook

In light of SEC Regulations, the Company elects 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.

"While encouraged with our new products and many new initiatives, it is difficult to predict how quickly the economy will rebound this year," continued Mr. Holiday. "Given our pre-book orders to date, we estimate first quarter net sales of \$245-255 million and \$0.40-0.45 in earnings per share. With regards to guidance for the entire year, we are approaching 2002 conservatively. We believe it is premature to provide specific expectations at this time, particularly in light of the ongoing uncertainty. However, excluding adverse or unexpected events, we would expect our net sales and operating earnings in 2002 to exceed 2001."

The Company will be holding a conference call at 2:00 p.m. PST today, which will be hosted by Ron Drapeau, Chairman, CEO and 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 www.callawaygolf.com. To listen to the call, please go to the web site 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 one hour after the conclusion of the conference call. The replay may be accessed through the Internet at www.callawaygolf.com or by telephone by calling toll free (877) 289-8525 for calls originating within the United States or (416) 640-1917 for International calls. The replay pass code is 166464 and the replay will be available through 5:00 p.m. PST, on Thursday, January 24, 2002.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results or performance, including statements in the Business Outlook section of this press release relating to the Company's future prospects, and estimated sales, and earnings, 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 adverse market and economic conditions, 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), adverse weather conditions and seasonality, competitive pressures, fluctuations in foreign currency exchange rates, delays, difficulties or increased costs in the manufacturing of the Company's golf club or ball products, or in the procurement of materials or resources needed to manufacture the Company's golf club or ball products (including business interruptions or increased costs resulting from power outages or shortages), any actions taken by the USGA or other golf association that could have an adverse impact upon demand for the Company's products (such as the USGA's announcement that scores in rounds played with clubs that do not conform to USGA rules such as the Company's ERC(R) II Forged Titanium Driver may not be posted for USGA handicap purposes), and the effect of terrorist activity or armed conflict 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, see Part I, Item 2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, 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 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.

Callaway Golf Company makes and sells Big Bertha(R) Metal Woods and Irons, including Big Bertha ERC(R) II Forged Titanium Drivers, Big Bertha C4(TM) Compression Cured Carbon Composite Drivers, Big Bertha Hawk Eye(R) VFT(R) and Big Bertha Hawk Eye VFT Pro Series Titanium Drivers and Fairway Woods, Big Bertha Steelhead(TM) III Stainless Steel Drivers and Fairway Woods, Hawk Eye VFT Tungsten Injected(TM) Titanium Irons, Big Bertha Stainless Steel Irons, and Steelhead X-14(R) and Steelhead X-14 Pro Series Stainless Steel Irons. Callaway Golf

Company also makes and sells Odyssey(R) Putters, including White Hot(R), TriHot(TM), and Dual Force(R) Putters, including the White Hot "2 Ball" Putter. Callaway Golf Company makes and sells the Callaway Golf(R) HX(TM) Blue and HX Red balls, CTU 30(TM) Blue and CTU 30 Red balls, and the CB1(TM) Blue and CB1 Red balls. For more information about Callaway Golf Company, please visit our Web sites at www.callawaygolf.com and www.odysseygolf.com.

Callaway Golf Company								
Consolidated Condensed Statement of Operations								
(In thousands, except per share data)								
	Three Months Ended				Year Ended			
	December 31, (unaudited)				December 31,			
	2001		2000		2001		2000	
Net sales	\$105,295	100%	\$142,218	100%	\$816,163	100%	\$837,627	100%
Cost of goods sold	64,584	61%	79,513	56%	411,585	50%	440,119	53%
Gross profit	40,711	39%	62,705	44%	404,578	50%	397,508	47%
Operating expenses:								
Selling	35,648	34%	38,734	27%	188,306	23%	170,541	20%
General and admin-istrative	13,149	12%	14,530	10%	71,058	9%	70,333	8%
Research and develop-ment	7,296	7%	8,331	6%	32,697	4%	34,579	4%
Income (loss) from opera-tions	(15,382)	-15%	1,110	1%	112,517	14%	122,055	15%
Other (expense) income, net	1,012		852		(14,325)		7,267	
Income (loss) before income taxes and cumu-lative effect of accounting change	(14,370)	-14%	1,962	1%	98,192	12%	129,322	16%
Income tax provision (benefit)	(5,177)		(2,652)		39,817		47,366	
Income (loss) before cumula-								

tive effect of accounting change	(9,193)	-9%	4,614	3%	58,375	7%	81,956	10%
Cumulative effect of accounting change							(957)	
Net income (loss)	\$(9,193)	-9%	\$4,614	3%	\$58,375	7%	\$80,999	10%
Earnings (loss) per common share: Basic Income (loss) before cumulative effect of accounting change	(\$0.14)		\$0.07		\$0.84		\$1.17	
Cumulative effect of accounting change							(0.01)	
Net income (loss)	(\$0.14)		\$0.07		\$0.84		\$1.16	
Diluted Income (loss) before cumulative effect of accounting change	(\$0.14)		\$0.07		\$0.82		\$1.14	
Cumulative effect of accounting change							(0.01)	
Net income (loss)	(\$ 0.14)		\$ 0.07		\$ 0.82		\$1.13	
Common equivalent shares:								
Basic	66,771		68,678		69,809		69,946	
Diluted	66,771		70,301		71,314		71,412	

Callaway Golf Company
Consolidated Condensed Balance Sheet
(In thousands)

December 31, December 31,
2001 2000

ASSETS

Current assets:

Cash and cash equivalents	\$ 84,263	\$102,596
Marketable securities	6,422	
Accounts receivable, net	48,653	58,836
Inventories, net	167,760	133,962
Deferred taxes	21,270	29,354

Other current assets	25,249	17,721
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Total current assets	353,617	342,469
Property, plant and equipment, net	133,250	134,712
Intangible assets, net	121,313	112,824
Other assets	38,348	40,929
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	\$646,528	\$630,934
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$ 45,323	\$ 44,173
Accrued employee compensation and benefits	25,301	22,574
Accrued warranty expense	34,864	39,363
Income taxes payable		3,196
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Total current liabilities	105,488	109,306
Long-term liabilities	26,691	9,884
Shareholders' equity	514,349	511,744
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	\$646,528	\$630,934
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