



Callaway Golf Announces Results for Second Quarter 2006

CARLSBAD, Calif.--(BUSINESS WIRE)--July 26, 2006--Callaway Golf Company (NYSE:ELY) today announced its financial results for the second quarter ended June 30, 2006. Highlights for the quarter include:

- Net sales of \$341.8 million, an increase of 6% as compared to \$323.1 million for the same period in 2005.
- Fully diluted earnings per share of \$0.33 on 68.6 million shares, an increase of 22%, as compared to \$0.27 on 68.7 million shares in 2005.
- Fully diluted earnings per share include \$0.03 of after-tax charges for employee equity-based compensation associated with FAS 123R as well as charges of \$0.01 for the integration of Top-Flite operations and \$0.01 for the cost-reduction initiatives announced in September 2005. The second quarter of 2005 included after-tax charges of \$0.03 for the integration of Top-Flite operations. Excluding these charges, the Company's pro forma fully diluted earnings per share for the second quarter of 2006 would have increased 27% to \$0.38, as compared to pro forma fully diluted earnings per share of \$0.30 for the second quarter of 2005.
- Gross profit for the second quarter of 2006 was \$140.1 million (or 41% of net sales), a decrease of \$6.6 million from \$146.7 million (or 45% of net sales) for the second quarter of 2005. Gross margins in the second quarter of 2006 were negatively affected by approximately \$3.3 million (or one percentage point) due to a golf ball work-in-process inventory adjustment.
- Operating expenses for the second quarter of 2006 were \$101.3 million, a decrease of \$17.7 million compared to \$119.0 million in 2005. A majority of the decrease is due to the cost-reduction initiatives announced in September 2005. This decrease also includes a \$7.0 million reduction in accrued employee incentive compensation compared to last year.

Highlights for the first six months include:

- Net sales of \$644.3 million, an increase of 3.3% as compared to \$623.0 million for the same period in 2005.
- Fully diluted earnings per share of \$0.65 on 69.4 million shares, an increase of 20%, as compared to \$0.54 on 68.6 million shares in 2005.
- Fully diluted earnings per share include \$0.05 of after-tax charges for employee equity-based compensation associated with FAS 123R as well as \$0.02 for the integration of Top-Flite operations and \$0.01 associated with the cost-reduction initiatives. The first half of 2005 included after-tax charges of \$0.06 for the integration of Top-Flite operations. Excluding these charges, the Company's pro forma fully diluted earnings per share for the first half of 2006 would have increased 22% to \$0.73, as compared to pro forma fully diluted earnings per share of \$0.60 for the first half of 2005.
- Gross profit for the first half of 2006 was \$271.6 million (or 42% of net sales), a decrease of \$7.7 million from \$279.3 million (or 45% of net sales) for the first half of 2005.
- Operating expenses for the first half of 2006 were \$196.5 million, a decrease of \$23.5 million compared to \$220.0 million in 2005. A majority of this decrease reflects the cost-reduction initiatives announced in September 2005. This decrease also includes a \$4.5 million reduction in accrued employee incentive compensation.

"Shortly after joining the Company we announced in September 2005 the implementation of several business improvement and cost-reduction initiatives to improve the manner in which we bring products to market as well as reduce our overall operating expenses," commented George Fellows, President and CEO of Callaway Golf Company. "Our second quarter results reflect the success of these initiatives. Sales of our Callaway and Odyssey brands continue to gain momentum in both revenue and market share which indicates that our product line for 2006 is being

well received by both our customers and consumers in a very competitive marketplace," continued Mr. Fellows. "In addition, we are also delivering the anticipated savings in operating expenses from our cost-reduction initiatives and expect that a majority of those savings will positively impact earnings with the balance being reinvested in demand creation initiatives, consistent with our commitment. Performance in these two areas is critical to achieving our three year targets."

"We also previously announced we would focus on reversing the decline in gross margins that we had been experiencing over the last several years," continued Mr. Fellows. "Our second quarter gross margin results did not meet our expectations due to some unanticipated execution issues and cost increases. Initiatives are in process to begin improving gross margins, but they will not impact results until late 2006 and into next year." Mr. Fellows added, "In addition to the gross margin initiatives, we are also focused on restoring the Top-Flite brand business. We believe that this brand can succeed in the market place and are implementing several initiatives designed to stabilize this important brand. I can assure you that these and other such initiatives are a top priority and I hope to share more details by the end of the year."

"In summary," continued Mr. Fellows, "we are comfortable with our three year corporate targets. I am pleased with our progress to date, with sales and earnings up for the first half, but recognize there is more to do. Our core brands are performing well and we are aggressively focused on improving our overall profitability."

For more details, including pro forma reconciliations to assist in year-over-year comparison, please see the attached "Supplemental Financial Information."

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 its conclusion, and will remain available through 9:00 p.m. PDT on Wednesday, August 2, 2006. 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 837120.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results, performance or prospects, including statements relating to momentum in revenue or market share, future gross margin improvement, restoration of the Top-Flite brand, future operating expense savings and reinvestment, and achievement of three year targets 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. 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; adverse market and economic conditions; adverse weather conditions and seasonality; delays, difficulties or increased costs in manufacturing the Company's products; a decrease in supply or increased costs of the materials needed to manufacture the Company's products; an increase in competitive pricing pressures; any rule changes or other actions taken by the USGA or other golf association that could have an adverse impact upon demand for 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, 2005, 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 preliminary 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 employee equity based compensation, the integration of the Company's Top-Flite operations and

charges related to the Company's business improvement and cost-reduction initiatives announced in September 2005. 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 attachment 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®, Top-Flite®, Odyssey® and Ben Hogan® brands. For more information visit www.callawaygolf.com.

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

	June 30, 2006	December 31, 2005
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$48,113	\$49,481
Accounts receivable, net	257,782	98,082
Inventories, net	232,236	241,577
Income taxes receivable	-	2,026
Other current assets	50,108	47,424
	-----	-----
Total current assets	588,239	438,590
Property, plant and equipment, net	136,024	127,739
Intangible assets, net	176,098	175,191
Deferred taxes	4,657	6,516
Other assets	15,072	16,462
	-----	-----
	\$920,090	\$764,498
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$128,930	\$102,134
Accrued employee compensation and benefits	20,176	24,783
Accrued warranty expense	15,469	13,267
Bank line of credit	110,300	-
Income taxes payable	10,590	-
Capital leases, current portion	-	21
	-----	-----
Total current liabilities	285,465	140,205
Long-term liabilities	26,946	28,245
Shareholders' equity	607,679	596,048
	-----	-----
	\$920,090	\$764,498
	=====	=====

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

	Quarter Ended June 30,			
	2006		2005	
Net sales	\$341,815	100%	\$323,132	100%
Cost of sales	201,729	59%	176,399	55%
Gross profit	140,086	41%	146,733	45%
Operating expenses:				
Selling expense	77,045	23%	90,640	28%
General and administrative expense	18,101	5%	21,239	7%
Research and development expense	6,194	2%	7,083	2%
Total operating expenses	101,340	30%	118,962	37%
Income from operations	38,746	11%	27,771	9%
Other expense, net	(1,273)		(1,806)	
Income before income taxes	37,473	11%	25,965	8%
Income tax provision	14,934		7,573	
Net Income	\$22,539	7%	\$18,392	6%
Earnings per common share:				
Basic	\$0.33		\$0.27	
Diluted	\$0.33		\$0.27	
Weighted-average shares outstanding:				
Basic	67,799		68,270	
Diluted	68,577		68,660	

	Six Months Ended June 30,			
	2006		2005	
Net sales	\$644,260	100%	\$622,989	100%
Cost of goods sold	372,662	58%	343,650	55%
Gross profit	271,598	42%	279,339	45%
Operating expenses:				
Selling expense	145,173	23%	166,385	27%
General and administrative expense	38,325	6%	40,324	6%
Research and development expense	12,998	2%	13,323	2%
Total operating expenses	196,496	30%	220,032	35%
Income from operations	75,102	12%	59,307	10%
Other expense, net	(971)		(2,987)	
Income before income taxes	74,131	12%	56,320	9%

Provision for income taxes	28,731		19,568	
	-----		-----	
Net income	\$45,400	7%	\$36,752	6%
	=====		=====	
Earnings per common share:				
Basic	\$0.66		\$0.54	
Diluted	\$0.65		\$0.54	
Weighted-average shares outstanding:				
Basic	68,479		68,226	
Diluted	69,356		68,643	

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

	Six Months Ended June 30,	
	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$45,400	\$36,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,225	22,659
Non-cash compensation	6,331	3,957
Loss on disposal of assets	324	856
Deferred taxes	1,165	(1,184)
Changes in assets and liabilities, net of effects of acquisitions	(114,383)	(67,378)
	-----	-----
Net cash used in operating activities	(45,938)	(4,338)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(20,463)	(19,046)
Business acquisition, net of cash acquired	(5,911)	-
Proceeds from sale of capital assets	120	20
	-----	-----
Net cash used in investing activities	(26,254)	(19,026)
	-----	-----
Cash flows from financing activities:		
Issuance of Common Stock	6,519	3,560
Dividends paid, net	(4,901)	(4,853)
Acquisition of Treasury Stock	(42,894)	(39)
Tax benefit from exercise of stock options	481	269
Proceeds from Line of Credit, net	110,300	37,000
Payments on financing arrangements	(20)	(22)
	-----	-----
Net cash provided by financing activities	69,485	35,915
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	1,339	(1,552)
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Net increase (decrease) in cash and cash		

equivalents	(1,368)	10,999
Cash and cash equivalents at beginning of period	49,481	31,657
	-----	-----
Cash and cash equivalents at end of period	\$48,113	\$42,656
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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,			
	2006	2005	Dollars	Percent
Net sales:				
Woods	\$86,319	\$69,583	\$16,736	24%
Irons	106,800	111,686	(4,886)	-4%
Putters	37,313	33,976	3,337	10%
Golf balls	69,103	70,759	(1,656)	-2%
Accessories and other	42,280	37,128	5,152	14%
	-----	-----	-----	-----
	\$341,815	\$323,132	\$18,683	6%
	=====	=====	=====	=====

	Six Months Ended		Growth/(Decline)	
	June 30,			
	2006	2005	Dollars	Percent
Net sales:				
Woods	\$183,439	\$135,047	\$48,392	36%
Irons	195,770	219,634	(23,864)	-11%
Putters	62,191	65,824	(3,633)	-6%
Golf balls	124,833	129,792	(4,959)	-4%
Accessories and other	78,027	72,692	5,335	7%
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	\$644,260	\$622,989	\$21,271	3%
	=====	=====	=====	=====

Net Sales by Region

	Quarter Ended		Growth/(Decline)	
	June 30,			
	2006	2005	Dollars	Percent
Net sales:				
United States	\$186,349	\$181,453	\$4,896	3%
Europe	54,336	56,568	(2,232)	-4%
Japan	34,042	30,274	3,768	12%

Rest of Asia	25,561	19,064	6,497	34%
Other foreign countries	41,527	35,773	5,754	16%
	<u>\$341,815</u>	<u>\$323,132</u>	<u>\$18,683</u>	<u>6%</u>

	Six Months Ended June 30,		Growth/(Decline)	
	2006	2005	Dollars	Percent
Net sales:				
United States	\$367,632	\$366,554	\$1,078	0%
Europe	104,421	107,731	(3,310)	-3%
Japan	60,156	55,127	5,029	9%
Rest of Asia	42,549	33,729	8,820	26%
Other foreign countries	69,502	59,848	9,654	16%
	<u>\$644,260</u>	<u>\$622,989</u>	<u>\$21,271</u>	<u>3%</u>

Operating Segment Information

	Quarter Ended June 30,		Growth/(Decline)	
	2006	2005	Dollars	Percent
Net sales:				
Golf clubs	\$272,712	\$252,373	\$20,339	8%
Golf balls	69,103	70,759	(1,656)	-2%
	<u>\$341,815</u>	<u>\$323,132</u>	<u>\$18,683</u>	<u>6%</u>

Income before provision for income taxes:				
Golf clubs	\$50,327	\$33,365	\$16,962	51%
Golf balls	545	6,018	(5,473)	-91%
Reconciling items	(13,399)	(13,418)	19	0%
	<u>\$37,473</u>	<u>\$25,965</u>	<u>\$11,508</u>	<u>44%</u>

	Six Months Ended June 30,		Growth/(Decline)	
	2006	2005	Dollars	Percent
Net sales:				
Golf clubs	\$519,427	\$493,197	\$26,230	5%
Golf balls	124,833	129,792	(4,959)	-4%
	<u>\$644,260</u>	<u>\$622,989</u>	<u>\$21,271</u>	<u>3%</u>

Income before provision for income taxes:				
Golf clubs	\$95,395	\$73,744	\$21,651	29%
Golf balls	6,902	7,744	(842)	-11%
Reconciling items	(28,166)	(25,168)	(2,998)	-12%
	-----	-----	-----	
	\$74,131	\$56,320	\$17,811	32%
	=====	=====	=====	

Callaway Golf Company
Supplemental Financial Information
(In thousands, except per share data)
(Unaudited)

Quarter Ended June 30,

2006

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges	Employee Stock Compensation	Total as Reported
	-----	-----	-----	-----	-----
Net sales	\$341,815	\$-	\$-	\$-	\$341,815
Gross profit	141,859	(1,516)	(96)	(161)	140,086
% of sales	42%	n/a	n/a	n/a	41%
Operating expenses	98,095	218	474	2,553	101,340
	-----	-----	-----	-----	-----
Income (loss) from operations	43,764	(1,734)	(570)	(2,714)	38,746
Other expense, net	(1,273)	-	-	-	(1,273)
	-----	-----	-----	-----	-----
Income before income taxes	42,491	(1,734)	(570)	(2,714)	37,473
Provision for income taxes	16,635	(662)	(213)	(826)	14,934
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Net income (loss)	\$25,856	\$(1,072)	\$(357)	\$(1,888)	\$22,539
	=====	=====	=====	=====	=====
Diluted earnings (loss) per share:	\$0.38	\$(0.01)	\$(0.01)	\$(0.03)	\$0.33
Weighted-average shares outstanding:	68,577	68,577	68,577	68,577	68,577

Quarter Ended June 30,

2005

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges	Employee Stock Compensation	Total as Reported
Net sales	\$323,132	\$-	\$-	\$-	\$323,132
Gross profit	148,027	(1,294)	-	-	146,733
% of sales	46%	n/a	n/a	n/a	45%
Operating expenses	116,880	1,966	-	116	118,962
Income (loss) from operations	31,147	(3,260)	-	(116)	27,771
Other expense, net	(1,806)	-	-	-	(1,806)
Income before income taxes	29,341	(3,260)	-	(116)	25,965
Provision for income taxes	8,856	(1,239)	-	(44)	7,573
Net income (loss)	\$20,485	\$(2,021)	\$-	\$(72)	\$18,392
Diluted earnings (loss) per share:	\$0.30	\$(0.03)	\$-	\$(0.00)	\$0.27
Weighted-average shares outstanding:	68,660	68,660	68,660	68,660	68,660

Callaway Golf Company
Supplemental Financial Information
(In thousands, except per share data)
(Unaudited)

Six Months Ended June 30,

2006

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges	Employee Stock Compensation	Total as Reported
Net sales	\$644,260	\$-	\$-	\$-	\$644,260
Gross profit	274,141	(2,171)	(110)	(262)	271,598
% of sales	43%	n/a	n/a	n/a	42%

Operating expenses	190,783	593	450	4,670	196,496
Income (loss) from operations	83,358	(2,764)	(560)	(4,932)	75,102
Other expense, net	(971)	-	-	-	(971)
Income (loss) before income taxes	82,387	(2,764)	(560)	(4,932)	74,131
Provision for income taxes	31,628	(1,061)	(209)	(1,627)	28,731
Net income (loss)	\$50,759	\$(1,703)	\$(351)	\$(3,305)	\$45,400
Diluted earnings (loss) per share:	\$0.73	\$(0.02)	\$(0.01)	\$(0.05)	\$0.65
Weighted-average shares outstanding:	69,356	69,356	69,356	69,356	69,356

Six Months Ended June 30,

2005

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges	Employee Stock Compensation	Total as Reported
Net sales	\$622,989	\$-	\$-	\$-	\$622,989
Gross profit	283,716	(4,377)	-	-	279,339
% of sales	46%	n/a	n/a	n/a	45%
Operating expenses	217,108	2,710	-	214	220,032
Income (loss) from operations	66,608	(7,087)	-	(214)	59,307
Other expense, net	(2,987)	-	-	-	(2,987)
Income (loss) before income taxes	63,621	(7,087)	-	(214)	56,320
Provision for income taxes	22,342	(2,693)	-	(81)	19,568

Net income					
(loss)	\$41,279	\$(4,394)	\$-	\$(133)	\$36,752
	=====	=====	=====	=====	=====
Diluted earnings					
(loss) per					
share:	\$0.60	\$(0.06)	\$-	\$(0.00)	\$0.54
Weighted-average					
shares					
outstanding:	68,643	68,643	68,643	68,643	68,643

CONTACT: Callaway Golf Company
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SOURCE: Callaway Golf Company