



Callaway Golf Announces Results for Third Quarter 2006

CARLSBAD, Calif.--(BUSINESS WIRE)--Nov. 1, 2006--Callaway Golf Company (NYSE:ELY) today announced its financial results for the third quarter ended September 30, 2006, in line with earlier estimates. Highlights for the third quarter include:

- Net sales of \$193.8 million, as compared to \$220.6 million for the same period in 2005. As mentioned in the October 16th pre-release, this decline in sales is primarily due to the planned timing of new product introductions which adversely affected the quarter by approximately \$30 million as compared to the third quarter of 2005.
- Loss per share of \$0.18 on 67.0 million shares, as compared to a loss of \$0.07 on 68.8 million shares in 2005.
- The loss per share includes \$0.03 of after-tax charges for employee equity-based compensation associated with FAS 123R, \$0.01 for the integration of Top-Flite, and \$0.01 for restructuring charges. The third quarter of 2005 includes after-tax charges of \$0.02 for the integration of Top-Flite and \$0.06 for restructuring charges. Excluding these charges, the Company's pro forma loss per share for the third quarter of 2006 would have been \$0.13, as compared to pro forma earnings per share of \$0.01 for the third quarter of 2005.
- Gross profit for the third quarter of 2006 was \$67.7 million (or 35% of net sales) compared to \$86.9 million (or 39% of net sales) for the third quarter of 2005. The decline in gross profit is primarily the result of a lower mix of higher margin woods and irons products due to the timing of new product introductions, as well as lower Top-Flite ball margins due to price reductions related to the initiatives to clear older Top-Flite golf ball inventory in preparation for the re-launch of that brand in 2007. Additional details can be found in the Company's October 16, 2006 earnings pre-release.
- Operating Expenses for the third quarter of 2006 were \$84.6 million, a decrease of \$11.8 million compared to \$96.4 million in 2005. The decrease is primarily due to the restructuring initiatives announced in September 2005.

Highlights for the first nine months include:

- Net sales of \$838.0 million, as compared to \$843.6 million for the same period in 2005.
- Fully diluted earnings per share of \$0.49 on 68.8 million shares, as compared to fully diluted earnings per share of \$0.46 on 69.0 million shares in 2005.
- Fully diluted earnings per share includes after-tax charges of \$0.07 for employee equity-based compensation associated with FAS 123R, \$0.04 for the integration of Top-Flite, and \$0.01 for restructuring. The third quarter of 2005 includes after-tax charges of \$0.08 for integration of Top-Flite, \$0.06 for restructuring, and \$0.01 for employee equity-based compensation. Excluding these charges, the Company's pro forma fully diluted earnings per share for both 2006 and 2005 would have been \$0.61.
- Gross profit for 2006 was \$339.3 million (or 40% of net sales) compared to \$366.2 million (or 43% of net sales) for 2005. The decline in gross profit is primarily the result of a lower mix of higher margin irons due to the timing of new product introductions, as well as lower Top-Flite ball margins due to the initiatives to clear older Top-Flite golf ball inventory.
- Operating Expenses for 2006 were \$281.1 million, a decrease of \$35.3 million compared to \$316.4 million in 2005. A majority of the decrease is due to the restructuring initiatives announced in September 2005. Total savings since September 2005 have totaled approximately \$44 million, net of reinvestment, compared to original estimates of \$25 to \$30 million.

"We continue to make progress on many fronts this year, despite the disappointing performance in our Top-Flite brand," commented George Fellows, President and CEO. "Sales of our core brands of Callaway and Odyssey have grown significantly this year and we have materially reduced our operating expenses as a result of last September's cost cutting initiatives. More importantly, these factors should combine to increase our full year pro forma earnings per share by more than 20% in 2006. In addition, we have strengthened the management team, made several internal process improvements, and today on our earnings call, will share a series of initiatives focused on improving gross margins by an estimated \$50 to \$60 million over the next two years. Ultimately, these actions along with future initiatives should continue the progress we've made-to-date towards our three year plan and position Callaway to create additional value for shareholders."

The estimated increase in 2006 pro forma earnings excludes non-cash charges related to employee equity-based compensation, charges related to the Top-Flite integration and 2005 restructuring initiatives, as well as charges incurred related to the implementation of the gross margin initiatives. For more detailed financial information concerning current financial results, including additional pro forma information and pro forma reconciliations, see attached schedules and "Supplemental Financial Information."

The Company will be holding a conference call at 2:00 p.m. PST 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 the call ends, and will remain available through 9:00 p.m. PST on Wednesday, November 8, 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 846344.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results, performance or prospects, including statements relating to estimated earnings growth for 2006, the amount or timing of the anticipated improvement in gross margins, implementation of future initiatives, achievement of three-year plan, and creation of future shareholder value, 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, delays, difficulties or increased costs associated 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; market acceptance of current and future products; 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 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 and charges related to the integration of the Callaway Golf Company and Top-Flite Golf Company operations as well as the September 2005 restructuring 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.

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.

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

	September 30, 2006	December 31, 2005
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$52,501	\$49,481
Accounts receivable, net	138,372	98,082
Inventories, net	241,683	241,577
Income taxes receivable	-	2,026
Other current assets	54,589	47,424
	-----	-----
Total current assets	487,145	438,590
Property, plant and equipment, net	134,040	127,739
Intangible assets, net	175,269	175,191
Deferred taxes	3,766	6,516
Other assets	15,288	16,462
	-----	-----
	\$815,508	\$764,498
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$102,279	\$102,134
Accrued employee compensation and benefits	20,480	24,783
Accrued warranty expense	14,157	13,267
Bank line of credit	60,000	-
Income taxes payable	4,850	-
Capital leases, current portion	-	21
	-----	-----
Total current liabilities	201,766	140,205
Long-term liabilities	27,023	28,245
Shareholders' equity	586,719	596,048
	-----	-----
	\$815,508	\$764,498
	=====	=====

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

	Quarter Ended			
	September 30,			
	2006		2005	
Net sales	\$193,763	100%	\$220,611	100%
Cost of sales	126,058	65%	133,713	61%
Gross profit	67,705	35%	86,898	39%
Operating expenses:				
Selling expense	56,949	29%	69,744	32%
General and administrative expense	20,901	11%	19,531	9%
Research and development expense	6,788	4%	7,116	3%
Total operating expenses	84,638	44%	96,391	44%
Loss from operations	(16,933)	-9%	(9,493)	-4%
Other income (expense), net	(1,058)		735	
Income (loss) before income taxes	(17,991)	-9%	(8,758)	-4%
Income tax provision (benefit)	(6,075)		(3,954)	
Net income (loss)	\$(11,916)	-6%	\$(4,804)	-2%
Earnings (loss) per common share:				
Basic	(\$0.18)		(\$0.07)	
Diluted	(\$0.18)		(\$0.07)	
Weighted-average shares outstanding:				
Basic	67,000		68,849	
Diluted	67,000		68,849	

	Nine Months Ended			
	September 30,			
	2006		2005	
Net sales	\$838,023	100%	\$843,600	100%
Cost of goods sold	498,720	60%	477,363	57%
Gross profit	339,303	40%	366,237	43%
Operating expenses:				
Selling expense	202,122	24%	236,129	28%
General and administrative expense	59,226	7%	59,855	7%
Research and development expense	19,786	2%	20,439	2%
Total operating expenses	281,134	34%	316,423	38%
Income from operations	58,169	7%	49,814	6%
Other expense, net	(2,029)		(2,252)	
Income before income taxes	56,140	7%	47,562	6%
Provision for income taxes	22,656		15,614	
Net income	\$33,484	4%	\$31,948	4%

Earnings per common share:		
Basic	\$0.49	\$0.47
Diluted	\$0.49	\$0.46
Weighted-average shares outstanding:		
Basic	67,980	68,436
Diluted	68,777	69,028

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

	Nine Months Ended September 30,	
	----- 2006	2005 -----
Cash flows from operating activities:		
Net income	\$33,484	\$31,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,961	30,942
Non-cash compensation	9,611	5,733
Loss on disposal of assets	1,047	1,109
Deferred taxes	(3,240)	(2,110)
Changes in assets and liabilities, net of effects of acquisitions	(35,969)	(10,473)
	-----	-----
Net cash provided by operating activities	28,894	57,149
	-----	-----
Cash flows from investing activities:		
Capital expenditures and other	(28,551)	(24,896)
Business acquisition, net of cash acquired	(5,911)	-
Proceeds from sale of capital assets	468	71
	-----	-----
Net cash used in investing activities	(33,994)	(24,825)
	-----	-----
Cash flows from financing activities:		
Issuance of Common Stock	9,053	13,589
Dividends paid, net	(9,695)	(9,706)
Acquisition of Treasury Stock	(52,872)	(39)
Tax benefit from exercise of stock options	472	951
Proceeds from (payments on) Line of Credit, net	60,000	(13,000)
Payments on financing arrangements	(16)	(39)
	-----	-----
Net cash provided by (used in) financing activities	6,942	(8,244)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	1,178	(1,141)
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Net increase in cash and cash equivalents	3,020	22,939
Cash and cash equivalents at beginning of period	49,481	31,657
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Cash and cash equivalents at end of period	\$52,501	\$54,596
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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)	
	September 30,		Dollars	Percent
	2006	2005		
Net sales:				
Woods	\$43,718	\$62,881	\$(19,163)	-30%
Irons	53,911	60,258	(6,347)	-11%
Putters	22,954	22,374	580	3%
Golf balls	42,700	50,384	(7,684)	-15%
Accessories and other	30,480	24,714	5,766	23%
	\$193,763	\$220,611	\$(26,848)	-12%

	Nine Months Ended		Growth/(Decline)	
	September 30,		Dollars	Percent
	2006	2005		
Net sales:				
Woods	\$227,157	\$197,928	\$29,229	15%
Irons	249,681	279,892	(30,211)	-11%
Putters	85,145	88,198	(3,053)	-3%
Golf balls	167,533	180,176	(12,643)	-7%
Accessories and other	108,507	97,406	11,101	11%
	\$838,023	\$843,600	\$(5,577)	-1%

Net Sales by Region

	Quarter Ended		Growth/(Decline)	
	September 30,		Dollars	Percent
	2006	2005		
Net sales:				
United States	\$103,196	\$119,051	\$(15,855)	-13%
Europe	29,201	36,428	(7,227)	-20%
Japan	23,236	25,729	(2,493)	-10%
Rest of Asia	18,279	18,874	(595)	-3%
Other foreign countries	19,851	20,529	(678)	-3%
	\$193,763	\$220,611	\$(26,848)	-12%

Nine Months Ended

	September 30,		Growth/(Decline)	
	2006	2005	Dollars	Percent
Net sales:				
United States	\$470,828	\$485,605	\$(14,777)	-3%
Europe	133,622	144,159	(10,537)	-7%
Japan	83,392	80,856	2,536	3%
Rest of Asia	60,828	52,603	8,225	16%
Other foreign countries	89,353	80,377	8,976	11%
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	\$838,023	\$843,600	\$(5,577)	-1%
	=====	=====	=====	=====

Operating Segment Information

	Quarter Ended		Growth/(Decline)	
	September 30,		Dollars	Percent
	2006	2005		
Net sales:				
Golf clubs	\$151,063	\$170,227	\$(19,164)	-11%
Golf balls	42,700	50,384	(7,684)	-15%
	-----	-----	-----	-----
	\$193,763	\$220,611	\$(26,848)	-12%
	=====	=====	=====	=====

Income before provision for income taxes:				
Golf clubs	\$6,570	\$8,685	\$(2,115)	-24%
Golf balls	(8,717)	(7,700)	(1,017)	-13%
Reconciling items	(15,844)	(9,743)	(6,101)	-63%
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	\$(17,991)	\$(8,758)	\$(9,233)	-105%
	=====	=====	=====	=====

	Nine Months Ended		Growth/(Decline)	
	September 30,		Dollars	Percent
	2006	2005		
Net sales:				
Golf clubs	\$670,490	\$663,424	\$7,066	1%
Golf balls	167,533	180,176	(12,643)	-7%
	-----	-----	-----	-----
	\$838,023	\$843,600	\$(5,577)	-1%
	=====	=====	=====	=====

Income before provision for income taxes:				
Golf clubs	\$101,931	\$82,429	\$19,502	24%
Golf balls	(1,781)	43	(1,824)	-4242%
Reconciling items	(44,010)	(34,910)	(9,100)	-26%
	-----	-----	-----	-----
	\$56,140	\$47,562	\$8,578	18%
	=====	=====	=====	=====

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

Quarter Ended September 30,

2006

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges
Net sales	\$193,763	\$-	\$-
Gross profit	69,064	(1,195)	(46)
% of sales	36%	n/a	n/a
Operating expenses	81,294	79	995
Income (loss) from operations	(12,230)	(1,274)	(1,041)
Other expense, net	(1,058)	-	-
Income (loss) before income taxes	(13,288)	(1,274)	(1,041)
Provision (benefit) for income taxes	(4,487)	(430)	(351)
Net income (loss)	\$(8,801)	\$(844)	\$(690)
Diluted earnings (loss) per share:	\$(0.13)	\$(0.01)	\$(0.01)
Weighted-average shares outstanding:	67,000	67,000	67,000

	Employee Stock Compensation	Total as Reported
Net sales	\$-	\$193,763
Gross profit	(118)	67,705
% of sales	n/a	35%
Operating expenses	2,270	84,638
Income (loss) from operations	(2,388)	(16,933)
Other expense, net	-	(1,058)
Income (loss) before income taxes	(2,388)	(17,991)
Provision (benefit) for income taxes	(807)	(6,075)
Net income (loss)	\$(1,581)	\$(11,916)
Diluted earnings (loss) per share:	\$(0.03)	\$(0.18)
Weighted-average shares outstanding:	67,000	67,000

Quarter Ended September 30,

2005

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges
Net sales	\$220,611	\$-	\$-
Gross profit	90,283	(1,248)	(2,137)
% of sales	41%	n/a	n/a
Operating expenses	91,130	985	4,107
Income (loss) from operations	(847)	(2,233)	(6,244)
Other expense, net	735	-	-
Income (loss) before income taxes	(112)	(2,233)	(6,244)
Provision (benefit) for income taxes	(668)	(848)	(2,373)
Net income (loss)	\$556	\$(1,385)	\$(3,871)
Diluted earnings (loss) per share:	\$0.01	\$(0.02)	\$(0.06)
Weighted-average shares outstanding:	68,849	68,849	68,849

	Employee Stock Compensation	Total as Reported
Net sales	\$-	\$220,611
Gross profit	-	86,898
% of sales	n/a	39%
Operating expenses	169	96,391
Income (loss) from operations	(169)	(9,493)
Other expense, net	-	735
Income (loss) before income taxes	(169)	(8,758)
Provision (benefit) for income taxes	(65)	(3,954)
Net income (loss)	\$(104)	\$(4,804)
Diluted earnings (loss) per share:	\$-	\$(0.07)
Weighted-average shares outstanding:	68,849	68,849

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

Nine Months Ended September 30,

2006

	Pro Forma Callaway Golf	Integration Charges	Restructuring Charges
Net sales	\$838,023	\$-	\$-
Gross profit	343,205	(3,366)	(156)
% of sales	41%	n/a	n/a
Operating expenses	272,077	672	1,445
Income (loss) from operations	71,128	(4,038)	(1,601)
Other expense, net	(2,029)	-	-
Income (loss) before income taxes	69,099	(4,038)	(1,601)
Provision for income taxes	27,141	(1,491)	(560)
Net income (loss)	\$41,958	\$(2,547)	\$(1,041)
Diluted earnings (loss) per share:	\$0.61	\$(0.04)	\$(0.01)
Weighted-average shares outstanding:	68,777	68,777	68,777

	Employee Stock Compensation	Total as Reported
Net sales	\$-	\$838,023
Gross profit	(380)	339,303
% of sales	n/a	40%
Operating expenses	6,940	281,134
Income (loss) from operations	(7,320)	58,169
Other expense, net	-	(2,029)
Income (loss) before income taxes	(7,320)	56,140
Provision for income taxes	(2,434)	22,656
Net income (loss)	\$(4,886)	\$33,484
Diluted earnings (loss) per share:	\$(0.07)	\$0.49
Weighted-average shares outstanding:	68,777	68,777

Nine Months Ended September 30,

2005

Pro Forma Integration Restructuring
Callaway Charges Charges

Golf

Net sales	\$843,600	\$-	\$-
Gross profit	373,999	(5,625)	(2,137)
% of sales	44%	n/a	n/a
Operating expenses	308,238	3,695	4,107
Income (loss) from operations	65,761	(9,320)	(6,244)
Other expense, net	(2,252)	-	-
Income (loss) before income taxes	63,509	(9,320)	(6,244)
Provision for income taxes	21,674	(3,541)	(2,373)
Net income (loss)	\$41,835	\$(5,779)	\$(3,871)
Diluted earnings (loss) per share:	\$0.61	\$(0.08)	\$(0.06)
Weighted-average shares outstanding:	69,028	69,028	69,028

	Employee Stock Compensation	Total as Reported
Net sales	\$-	\$843,600
Gross profit	-	366,237
% of sales	n/a	43%
Operating expenses	383	316,423
Income (loss) from operations	(383)	49,814
Other expense, net	-	(2,252)
Income (loss) before income taxes	(383)	47,562
Provision for income taxes	(146)	15,614
Net income (loss)	\$(237)	\$31,948
Diluted earnings (loss) per share:	\$(0.01)	\$0.46
Weighted-average shares outstanding:	69,028	69,028

CONTACT: Callaway Golf Company
Brad Holiday/Patrick Burke, 760-931-1771

SOURCE: Callaway Golf Company