Callaway Golf Announces Third Quarter Results

CARLSBAD, Calif., Oct 17, 2002 (BUSINESS WIRE) -- Callaway Golf Company (NYSE:ELY) today reported operating results for the third quarter and nine months ended September 30, 2002.

For the quarter ended September 30, 2002, net sales declined 18% to $160.0 million ($156.5 million in constant dollars) compared to $195.8 million for the same quarter last year. Net income was $12.4 million compared to $6.5 million last year, and fully diluted earnings per share were $0.19 compared to $0.09 in 2001.

For the nine months ended September 30, 2002 net sales declined 6% to $668.6 million ($669.8 million in constant dollars) compared to $710.9 million for the same period last year. Net income increased 19% to $80.2 million compared to $67.6 million in 2001, and fully diluted earnings per share increased 29% to $1.19 from $0.92 last year.

In reporting these results, the Company believes it is important for investors and potential investors to be aware of the following additional information:

- Earnings for the three and nine months ended September 30, 2001, were negatively affected by non-cash pre-tax charges associated with a long-term electricity supply agreement of $12.2 million and $19.9 million, respectively. Accounting rules mandated the Company adjust the value of this contract each quarter based on current market rates, and record the resulting gain or loss as either income or expense in that quarter. Although the contract was terminated in the fourth quarter of 2001, current accounting rules require the Company to retain the non-cash valuation account on its balance sheet, subject to periodic review, without future adjustments for changes in market rates. In reaching this conclusion, the Company consulted with its then outside independent auditors and the SEC.
- Earnings for the third quarter of 2002 and the nine month period ended September 30, 2002, were positively affected by a $17.0 million non-cash pre-tax reversal in the Company's warranty reserve. As previously announced, the Company completed a review of its warranty commitments during the quarter, which resulted in a refinement of its process for estimating potential claims. The Company elected to reflect this reversal entirely in the third quarter of 2002. The Company has also concluded that it would be prudent to voluntarily seek a review of the timing of this adjustment with the staff of the SEC, which could result in a decision to shift some or all of the non-cash adjustment to prior periods.
- Excluding the effects of these non-cash items, earnings per diluted share were $0.03 for the third quarter of 2002 compared to $0.20 in the comparable quarter in 2001, and $1.03 versus $1.12 for the nine month periods ended September 30, 2002 and 2001, respectively.

"Despite a solid first half of the year, the softness in the U.S. and Japanese economies and the reversal of the USGA's proposal regarding high COR drivers negatively impacted sell-through and re-orders from our customers in the third quarter," said Ron Drapeau, Chairman, President and CEO. "Moreover, titanium driver and fairway wood sales continue trailing last year due to normal product cycles as both our ERC II and Hawk Eye VFT titanium wood models are in their second year of production. Partially offsetting this has been sales growth in Europe, Canada, and Australia, as well as year-over-year increases in irons, putters, wedges and golf balls. We have reduced operating expenses compared to 2001 despite advertising and promotional investments we made to attract consumers. We remain focused on developing superior products, and are confident we will be positioned to take advantage of marketplace opportunities when conditions improve."

Sales by Product and Region

	Third Quarter - 2002			Year-to-Date - 2002		
		% Change vs. 2001			% Change vs. 2001	
	Net Sales ($ Millions)	As Reported	Constant(1) Dollars	Net Sales ($ Millions)	As Reported	Constant(1) Dollars
Woods	$ 55.7	(31%)	(33%)	$ 257.8	(28%)	(28%)
Irons	$ 50.7	(30%)	(31%)	$ 212.5	2%	2%
Golf Balls	$ 11.3	(8%)	(9%)	$ 57.5	29%	29%
Putters, Accessories, Other	$ 42.3	38%	35%	$ 140.8	43%	43%
TOTAL	$ 160.0	(18%)	(20%)	$ 668.6	(6%)	(6%)
United States	$ 80.1	(22%)	(22%)	$ 374.6	(4%)	(4%)
International	$ 79.9	(14%)	(18%)	$ 294.0	(8%)	(8%)
TOTAL	$ 160.0	(18%)	(20%)	$ 668.6	(6%)	(6%)

(1) As measured by applying 2001 exchange rates to 2002 Net Sales.

Brad Holiday, Executive Vice-President and Chief Financial Officer, stated, "The economic conditions in the third quarter were challenging with sales falling below last year. We remain focused on those factors within our control to improve our financial results, namely our expense management initiatives implemented over the past year. Through these initiatives our year to date gross margins of 51%, excluding the warranty adjustment, are on par with last year, and total operating expenses have declined 5%. Our balance sheet remains strong with $104.3 million in cash and marketable securities, virtually no debt, and $251.9 million in net working capital as of September 30."

During the third quarter, the Company repurchased 746,000 of its shares at an average cost of $14.50 per share.

In accordance with the Company's dividend practice, the Board of Directors will determine the next dividend at its November 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.

"We were pleased to finish the third quarter with earnings that exceeded our September 26, 2002 guidance," Mr. Holiday added. "While encouraged by the initial demand for our new products, including our new Great Big Bertha II Titanium Driver, it would be pre-mature to upgrade our full year expectations at this time. If interest in our new products can sustain the current trends, and there is no further negative news in our key markets, there is a chance we will exceed our current full year guidance of $750 to $760 million in revenues and $0.85 - $0.90 in EPS. Moreover, actions that we might take as a part of our ongoing structural and competitive reviews may impact fourth quarter and full year results in material ways. We expect to provide further guidance on 2002 and 2003 by year-end."

The Company will be holding a conference call at 2:00 p.m. PDT 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 (800) 642-1687 toll free for calls originating within the United States or (706) 645-9291 for International calls. The replay pass code is 5952425 and the replay will be available until 5:00 p.m. PDT, on Thursday, October 24, 2002.

Disclaimer: Statements used in this press release that relate to future plans, events, financial results or performance, including statements concerning future operating expenses and 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 golf club products, 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, any actions taken by the USGA or other golf association that could have an adverse impact upon demand for the Company's products, 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 June 30, 2002, 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 Great Big Bertha(R) II Titanium Drivers and Fairway Woods, Big Bertha C4(TM) Compression Cured Carbon Composite Drivers, Big Bertha ERC(R) II Forged Titanium Drivers, Big Bertha ERC Forged Titanium Fairway Woods, 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, Steelhead X-16(TM) and Steelhead X-16 Pro Series Stainless Steel Irons, Steelhead X-14(R) and Steelhead X-14 Pro Series Stainless Steel Irons, and Callaway Golf Forged Wedges. Callaway Golf Company also makes and sells Odyssey(R) Putters, including White Hot(R), TriHot(R), DFX(TM) and Dual Force(R) Putters. Callaway Golf Company makes and sells the Callaway Golf(R) HX(R) Blue and HX Red balls, the CTU 30(R) Blue and CTU 30 Red balls, the HX 2-Piece Blue and HX 2-Piece Red balls, the CB1(R) Blue and CB1 Red balls, and the Warbird(TM) golf 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)
(unaudited)

Three Months Ended September 30,		Nine Months Ended September 30,	
2002	2001	2002	2001

Net sales	$ 160,003	100%	$ 195,848	100%	$ 668,565	100%	$ 710,868	100%
Cost of goods sold	70,855	44%	100,824	51%	313,496	47%	347,001	49%
Gross profit	89,148	56%	95,024	49%	355,069	53%	363,867	51%
Operating expenses:								
Selling	47,001	29%	45,281	23%	159,168	24%	152,658	21%
General and administrative	13,116	8%	17,473	9%	41,524	6%	57,909	8%
Research and development	8,135	5%	8,025	4%	24,461	4%	25,402	4%
Total operating expenses	68,252	43%	70,779	36%	225,153	34%	235,969	33%
Income from operations	20,896	13%	24,245	12%	129,916	19%	127,898	18%
Other income (expense), net	(749)		(12,708)		782		(15,335)	
Income before income taxes	20,147	13%	11,537	6%	130,698	20%	112,563	16%
Income tax provision	7,757		5,018		50,472		44,994	
Net income	$ 12,390	8%	$ 6,519	3%	$ 80,226	12%	$ 67,569	10%
Earnings per common share:								
Basic	$ 0.19		$ 0.09		$ 1.20		$ 0.96	
Diluted	$ 0.19		$ 0.09		$ 1.19		$ 0.92	
Weighted-average shares oustanding:								
Basic	65,822		69,744		66,691		70,365	
Diluted	66,356		72,611		67,623		73,231	

Callaway Golf Company
Consolidated Condensed Balance Sheet
(In thousands)

	September 30, 2002 (unaudited)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 97,329	$ 84,263
Marketable securities	7,000	6,422
Accounts receivable, net	103,324	48,653
Inventories, net	134,276	167,760
Deferred taxes	23,005	27,266
Other current assets	8,217	20,327
Total current assets	373,151	354,691
Property, plant and equipment, net	175,764	133,250
Intangible assets, net	121,197	121,313
Other assets	36,661	38,348

	$706,773	$647,602
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 58,549	$ 38,261
Accrued employee compensation and benefits	27,093	25,301
Accrued warranty expense	14,833(1)	34,864
Note payable, current portion	2,959	2,374
Income taxes payable	17,813	1,074
Total current liabilities	121,247	101,874
Long-term liabilities	27,483	31,379
Shareholders' equity	558,043	514,349
	$706,773	$647,602

(1) Includes a non-cash warranty reserve reduction of $17,023.

CONTACT:
Callaway Golf Company
Ron Drapeau / Brad Holiday / Larry Dorman
760/931-1771