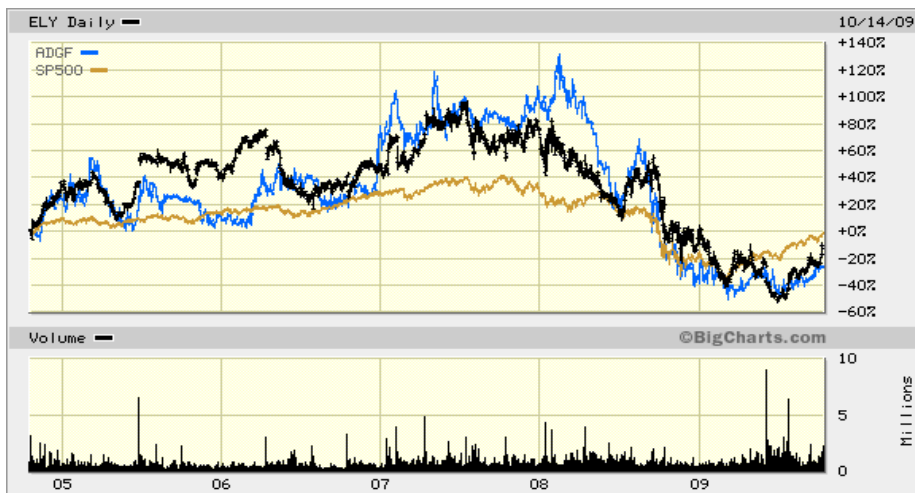


Callaway Golf Co. (ELY) 10/14/09

ELY operates in designing, manufacturing, and selling golf clubs, golf balls, and golf accessories. The company operates under several brand names including; Callaway, Ben Hogan, Top Flite, and Odyssey. The company operates in two business segments, Golf Clubs with 80% of 2007 sales, and Golf Balls with 20%. The company sells its products through retailers, wholesalers, pro-shops, and websites. ELY was founded in 1982 and is headquartered in Carlsbad, California.

Current Price	\$8.80
52 Week High	\$12.40
52 Week Low	\$4.66
One Yr Target	\$8.25
Market Cap (in billions)	\$0.57
P/E (Trailing)	251.07
P/E(1 Yr Forward)	25.21
P/E/G	n/a
ROA	0.31%
ROE	0.41%
EPS	\$0.04
Beta	1.38
Annualized Dividend	\$0.04
Dividend Yield	0.45%
Analyst Consensus	1.90
Debt to Equity	0.38



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Annual EPS

2005	\$0.19	
2006	\$0.34	78.95%
2007	\$0.81	138.24%
2008	\$1.04	28.40%
2009E	\$0.04	-96.63%

Annual Revenue (in millions)

2005	\$998.09	
2006	\$1,017.91	1.99%
2007	\$1,124.59	10.48%
2008	\$1,117.20	-0.66%

Annual Net Income (in millions)

2005	\$13.28	
2006	\$23.29	75.38%
2007	\$54.59	134.39%
2008	\$66.18	21.23%

Free Cash Flows (in millions)

2005	\$36.04	
2006	-\$15.47	-142.92%
2007	\$119.05	869.55%
2008	-\$9.31	-107.82%

Required Rate of Return

12.74%

Dividend Growth Model

Present Value of 2014 Price	\$0.25
Holding Period Return (5 years)	-46.49%

Expected Annualized Return Model

Present Value of 2014 Price	\$0.79
Holding Period Return (5 years)	-43.51%

Residual Income Model

Intrinsic Stock Price	\$10.30
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Analysis

Positives

Liked by analysts and carries little debt

Slightly undervalued stock price according to the RI valuation model

Negatives

Very high P/E ratio suggests stock price is expensive

Low ROA and ROE numbers are not a good sign

Stock price is overvalued according to the DG and EAR valuation models

Financial Statements

Balance Sheet is strong but hasn't shown much growth over past 4 years

Income Statement is decent but has slowed in the past couple years

Cash Flows are volatile and negative for the most recent year

Industry Analysis

Company is one of the only public corporations in its industry

Compared with companies of similar industries, it has average financial numbers

Summary

ELY's financial numbers aren't too great, especially concerning is the very high P/E ratio. Its financial ratios are good but have been stagnant for the past several years. Two of three valuation models have ELY's stock price as overvalued, no doubt a poor sign. The golf products industry is facing declining numbers in annual rounds played and competition for younger players from other sports and entertainment avenues. Sales are very much correlated with how well ELY's sponsored players perform, and also upon the length of the golfing seasons. ELY faces fierce competition from other producers and must spend a great amount on R&D and Capital Expenses to keep products relevant. With all of these factors considered, ELY earns a **sell** rating.