UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1998

OR

_____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10962

CALLAWAY GOLF COMPANY
(Exact name of registrant as specified in its charter)

CALIFORNIA	95-3797580
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2285 RUTHERFORD ROAD, CARLSBAD, CA 92008-8815
(760) 931-1771
(Address, including zip code and telephone number, including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___.

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of October 31, 1998 was 75,110,837.

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED BALANCE SHEET
(In thousands, except share and per share data)

	September 30, 1998	December 31, 1997
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 31,012	$ 26,204
Accounts receivable, net	117,861	124,470
Inventories, net	162,271	97,094
Deferred taxes	27,376	23,810
Other current assets	9,663	10,208
Total current assets	348,183	281,786
Property, plant and equipment, net	183,370	142,503
Intangible assets, net	123,762	112,141
Other assets	23,455	25,284
	$678,770	$ 561,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 41,191	$ 30,063
Line of credit	50,000	
Accrued employee compensation and benefits	12,632	14,262
Accrued warranty expense	34,576	28,059
Income taxes payable	11,581	
Total current liabilities	149,980	72,384
Long-term liabilities	9,784	7,905
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued outstanding at September 30, 1998 and December 31, 1997, respectively		
Common Stock, $.01 par value, 240,000,000 shares authorized, 75,110,837 and 74,251,664 issued and outstanding at September 30, 1998, and December 31, 1997, respectively	751	743
Paid-in capital	259,859	337,403
Unearned compensation	(7,110)	(3,575)
Retained earnings	320,962	298,728
Accumulated other comprehensive income	516	(559)
Less: Grantor Stock Trust (5,300,000 shares) at market	(55,972)	(151,315)
Total shareholders' equity	519,006	481,425
	$678,770	$ 561,714

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED)
(In thousands, except per share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	1998		1997		1998		1997	
Net sales	$172,944	100%	$257,435	100%	$583,104	100%	$679,540	100%
Cost of goods sold	89,859	52%	118,666	46%	307,523	53%	319,026	47%
Gross profit	83,085	48%	138,769	54%	275,581	47%	360,514	53%
Operating expenses:								
Selling	40,285	23%	32,643	13%	118,314	20%	95,238	14%
General and administrative	24,534	14%	24,716	10%	68,718	12%	57,045	8%
Research and development	9,132	5%	10,640	4%	26,209	4%	24,682	4%
Litigation settlement			12,000	5%			12,000	2%
Income from operations	9,134	5%	58,770	23%	62,340	11%	171,549	25%
Other income, net	343		1,146		303		3,561	
Income before income taxes	9,477	5%	59,916	23%	62,643	11%	175,110	26%
Provision for income taxes	3,641		22,867		24,509		66,773	
Net income	$ 5,836	3%	$ 37,049	14%	$ 38,134	7%	$108,337	16%
Earnings per common share:								
Basic	$ 0.08		$ 0.54		$ 0.55		$ 1.59	
Diluted	$ 0.08		$ 0.52		$ 0.53		$ 1.52	
Common equivalent shares:								
Basic	69,610		68,704		69,383		68,085	
Diluted	71,199		71,648		71,323		71,382	
Dividends paid per share	$ 0.07		$ 0.07		$ 0.21		$ 0.21	

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine months ended September 30,	
	1998	1997
Cash flows from operating activities:		
Net income	$ 38,134	$ 108,337
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,267	12,797
Non-cash compensation	7,800	7,515
Tax benefit from exercise of stock options	2,036	25,946
Deferred taxes	(4,514)	(2,379)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	19,397	(73,431)
Inventories, net	(56,371)	35,989
Other assets	(5,387)	(6,423)
Accounts payable and accrued expenses	(1,022)	1,511
Accrued employee compensation and benefits	956	24,259
Accrued warranty expense	6,517	746
Income taxes payable	14,177	240
Other liabilities	(13,744)	1,653
Net cash provided by operating activities	29,246	136,760
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(10,973)	(129,256)
Capital expenditures	(52,139)	(46,292)
Sale of fixed assets	13	72
Net cash used in investing activities	(63,099)	(175,476)
Cash flows from financing activities:		
Issuance of Common Stock	4,437	19,103
Dividends paid	(14,598)	(14,264)
Retirement of Common Stock	(1,303)	(33,010)
Net proceeds from line of credit	50,000	
Net cash provided by (used in) financing activities	38,536	(28,171)
Effect of exchange rate changes on cash	125	(77)
Net increase (decrease) in cash and cash equivalents	4,808	(66,964)
Cash and cash equivalents at beginning of period	26,204	108,457
Cash and cash equivalents at end of period	$ 31,012	$ 41,493

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY

(UNAUDITED)

(In thousands)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID-IN CAPITAL	UNEARNED COMPENSATION	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	GST	TOTAL	COMPREHENSIVE INCOME TOTAL
Balance, December 31, 1997	74,252	$743	$337,403	($3,575)	$298,728	($559)	($151,315)	$481,425	
Exercise of stock options	384	4	4,433					4,437	
Issuance of Restricted Common Stock	130	1	4,029	(4,030)					
Cancellation of Restricted Common Stock	4		(108)	94				(14)	
Tax benefit from exercise of stock options			2,036					2,036	
Compensatory stock and stock options			1,507	401				1,908	
Employee stock purchase plan	386	4	5,902					5,906	
Stock retirement	(45)	(1)			(1,302)			(1,303)	
Cash dividends					(15,711)			(15,711)	
Dividends on shares held by GST					1,113			1,113	
Adjustment of GST shares to market value			(95,343)				95,343		
Equity adjustment from foreign currency translation						1,075		1,075	$ 1,075
Net income					38,134			38,134	38,134
Balance, September 30, 1998	75,111	$751	$259,859	($7,110)	$320,962	$ 516	($55,972)	$519,006	$39,209

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying financial information for the three and nine months ended September 30, 1998 and 1997 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1997. Interim operating results are not necessarily indicative of operating results for the full year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform with the current period presentation.

2. CASH EQUIVALENTS

Cash equivalents are highly liquid investments purchased with maturities of three months or less. Cash equivalents consist primarily of investments in money market accounts.

3. INVENTORIES

	September 30, 1998	December 31, 1997
	(Unaudited)	
Inventories, net (in thousands):		
Raw materials	$ 89,040	$ 47,780
Work-in-process	2,497	3,083
Finished goods	76,418	51,905
	167,955	102,768
Less reserve for obsolescence	(5,684)	(5,674)
	$162,271	$ 97,094

4. BANK LINE OF CREDIT

The Company has a $150.0 million unsecured line of credit. At September 30, 1998, the amount available under the line of credit was $99.2 million and the weighted-average interest rate of the outstanding borrowings was 5.8%. The line of credit has been primarily utilized to support portions of the Company's operations and the issuance of letters of credit, of which there were $0.8 million outstanding at September 30, 1998.

The line of credit requires the Company to maintain certain financial ratios, including current and debt-to-equity ratios. The Company is also subject to other restrictive covenants under the terms of the credit agreement. As of September 30, 1998, the Company was in compliance with all such covenants.

5. COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." This statement requires that all components of comprehensive income be reported in the financial statements in the period in which they are recognized. The components of comprehensive income for the Company include net income and foreign currency translation adjustments. In accordance with the provisions of APB 23, "Accounting for Income Taxes-- Special Areas," the Company has elected the indefinite reversal criterion, and accordingly, does not accrue income taxes on foreign currency translation adjustments. The financial statements of prior periods presented have been reclassified for comparative purposes.

6. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three and nine months ended September 30, 1998, and 1997 is presented below.

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	1998	1997	1998	1997
	(Unaudited)			
Net income	$ 5,836	$37,049	$38,134	$108,337
Weighted-average shares outstanding:				
Weighted-average shares outstanding - Basic	69,610	68,704	69,383	68,085
Dilutive Securities	1,589	2,944	1,940	3,297
Weighted average shares outstanding - Diluted	71,199	71,648	71,323	71,382
Earnings per common share				
Basic	$ 0.08	$ 0.54	$ 0.55	$ 1.59
Diluted	$ 0.08	$ 0.52	$ 0.53	$ 1.52

For the three months ended September 30, 1998 and 1997, 12,196,000 and 1,070,00, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

7. COMMITMENTS AND CONTINGENCIES

Subject to certain conditions, the Company has committed to purchase titanium golf clubheads costing approximately $36.1 million from one of its vendors. Under the current schedule, the clubheads are to be shipped to the Company in 1998 and 1999.

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of legal proceedings in various stages of development. It is the opinion of the management of the Company that the probable result of these matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

8. RECENTLY ISSUED ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which the Company will be required to adopt beginning January 1, 2000. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company is currently evaluating the impact the adoption of SFAS No. 133 will have on its financial statements, if any.

9. SUBSEQUENT EVENT

On November 11, 1998, the Company announced that it had adopted, with the approval of its Board of Directors, a business plan that includes a number of cost reduction actions and operational improvements. The Company currently estimates that it will incur charges in the fourth quarter of 1998 associated with implementation of this business plan between $70 million and $85 million related to employee severance costs, impairment of assets, excess lease costs, losses on disposition of assets, other exit costs, as well as obsolete or excess inventory charges. If the Company takes actions that vary from those currently expected, actual charges recorded could differ significantly from those estimated above.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements used in this discussion that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. 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. Readers also are urged to carefully review and consider the various disclosures made by the Company which describe certain factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Callaway Golf Company" below, as well as the Company's other periodic reports on Forms 10-K and 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

Readers also should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Further, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

BUSINESS PLAN

On November 11, 1998, the Company announced that it had adopted a business plan that includes a number of cost reduction actions and operational improvements which should better position the Company to achieve greater profitability and shareholder value under difficult market conditions. These actions will include: the consolidation of the operations of its wholly-owned subsidiary, Odyssey Golf, Inc., into the operations of the Company while maintaining the distinct and separate Odyssey brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core businesses, such as the Company's involvement with interactive golf sites, golf book publishing, and driving range ventures; and the re-sizing of the Company's core business to reflect current and expected business conditions. The implementation of the business plan will not impact the current development of the Company's proposed golf ball business. See "Part I. FINANCIAL INFORMATION - Item 2. Certain Factors Affecting Callaway Golf Company - Golf Ball Development."

The Company anticipates that its work force will be reduced in connection with implementation of the business plan. The Company expects that its work force will be reduced by approximately 700 jobs or about 24% of its work force.

As a result of the implementation of this business plan, the Company expects to accrue certain one-time charges in the fourth quarter of 1998. See "Part I. FINANCIAL INFORMATION-Item 1. Financial Statements, Note 9." The Company currently expects a diluted earnings per share loss for 1998 of between $0.25 and $0.40. The Company anticipates the implementation of the business plan will generate savings going forward of approximately $40 million per year, beginning in 1999, including a reduction in employee compensation expense of more than $28 million. In addition, the Company is implementing an ongoing process of reviewing its manufacturing operations and its worldwide supplier network aimed at reducing the cost of goods sold and generating significant savings. However, no assurance can be given that the full amount of the anticipated savings will be realized. See "Part II. OTHER INFORMATION - Item 5. Other Information."

SALES; GROSS MARGIN; SEASONALITY

The Company believes that the growth rate in the worldwide golf equipment market has been declining and that it may continue to decline. The economic turmoil in Southeast Asia and Japan continues to cause contraction in the retail golf markets in these countries and continues to have an adverse effect on the Company's sales and results of operations. The Company expects this situation to continue at least until economic stability returns to these areas.

Sales of the Company's newly introduced Big Bertha(R) Steelhead(TM) Metal Woods remained strong. While it is expected that demand for this new product will be strong for the rest of 1998, sales have been and are expected to continue to be limited by the availability of Big Bertha(R) Steelhead(TM) Metal Woods during the initial ramp up of production. Further, Big Bertha(R) Steelhead(TM) Metal Woods are directly competing with the Company's sale of Big Bertha(R) War Bird(R) Metal Woods and competes with the sale of the Company's titanium metal woods. No assurances can be given that the demand for the Company's existing products or the introduction of new products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

Sales to Japan, which accounted for approximately 10% of the Company's total sales in 1997 and 9% of total sales through September 30, 1998, are expected to decrease in 1999, as the Company's distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"), prepares for the transition of responsibility from it to ERC International Company ("ERC"), a wholly-owned Japanese subsidiary of the Company, in the year 2000. See "Certain Factors Affecting Callaway Golf Company - - -- International distribution."

The Company experienced a decrease in its gross margin as a percentage of net sales during the third quarter of 1998 compared to historical levels. In the third quarter of 1998 this decrease was primarily due to increased sales of irons as a percentage of net sales, which have lower margins than metal woods, a metal woods wholesale price reduction implemented during May 1998, and an increase in warranty expense. In the near term, the Company's gross margin will continue to be affected by the metal woods price reduction implemented in May, or if sales of irons as a percentage of the Company's net sales remain at current levels or continue to rise. The Company also may experience further pressure on its gross margin due to competitive market conditions. Additionally, the Company expects that certain actions contemplated as a result of its current business plan, including the write-down of obsolete and excess inventory, will result in further decreased margins.

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. The Company's business generally follows this seasonal trend and the Company expects this to continue. Unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997-1998 may compound these seasonal effects. The Company believes that seasonality will have a negative effect on the Company's future sales and results of operations, unless overcome by other factors such as successful product introductions.

COMPETITION

The market in which the Company does business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions and/or price reductions by competitors continue to generate increased market competition and the Company believes that such competition has caused it to lose some unit market share and has negatively affected sales. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

A manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including the golf club's look and "feel," and the level of acceptance that the golf club has among professional and other golfers. The subjective preferences of golf club purchasers also may be subject to rapid and unanticipated changes. There can be no assurance as to how long the Company's golf clubs will maintain market acceptance. For example, consumer support for shallow-faced metal woods has risen in 1998, to the benefit of competitors making such products.

NEW PRODUCT INTRODUCTION

The Company believes that the introduction of new, innovative golf equipment is important to its future success. As a result, the Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. Further, new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase. New designs should generally satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. While all of the Company's current products have been found to conform to USGA and R&A rules, there is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products.

On November 2, 1998, the USGA announced the adoption of a test protocol to measure the so-called "spring-like effect" in certain golf clubheads. The USGA has previously advised the Company that none of the Company's current products would be barred by this test, and the Company's own testing confirms that its products comply. The USGA's limitation on future technological advancements, however, may impede the Company's ability to introduce new products and could have a material adverse effect on the Company's results of operations.

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have resulted in increasingly higher prices for the Company's products relative to products already in the marketplace. There can be no assurance that a significant percentage of the public will always be willing to pay such prices for golf equipment. Thus, although the Company has achieved certain successes in the introduction of its golf clubs in the past, no assurances can be given that the Company will be able to continue to design and manufacture golf clubs that achieve market acceptance in the future.

The rapid introduction of new products by the Company can result in close-outs of existing inventories, both at the Company and at retailers. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of the new product, given the availability of older products at lower prices. Historically, the Company has managed such close-outs so as to avoid any material negative impact on the Company's operations, but there can be no assurance that the Company will always be able to do so. Further, the Company expects that certain actions contemplated as a result of its current business plan, including the write-down of obsolete and excess inventory, will result in decreased margins.

The Company plans its manufacturing capacity based upon the forecasted demand for its products. Actual demand for such products may exceed or be less than forecasted demand. The Company's unique product designs often require sophisticated manufacturing techniques, which can limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for its products. If the Company is unable to produce sufficient quantities of new products in time to fulfill actual demand, especially during the Company's traditionally busy second and third quarters, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company commits to components and other manufacturing inputs for varying periods of time, which can limit the Company's ability to quickly react if actual demand is less than forecast. This could result in excess inventories that could adversely affect the Company's financial performance. During the current 1998 fiscal year, the Company has experienced a build-up of excess inventory due to lower than expected demand for its products. As a result, and as part of its current business plan, the Company anticipates a write-down of obsolete and excess inventory in the fourth quarter of 1998.

PRODUCT BREAKAGE

The Company supports all of its golf clubs with a limited two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned as a result of cracked clubheads, broken graphite shafts, loose medallions and other product problems to date has not been material in relation to the volume of Callaway Golf clubs which have been sold. The Company monitors closely the level and nature of any product breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. The Company's Biggest Big Bertha(R) Drivers, because of their large clubhead size and extra long, lightweight graphite shafts, have experienced shaft breakage at a rate higher than generally experienced with the Company's other metal woods. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. The Company believes that it has sufficient reserves for warranty claims; however, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of breakage or other product problems.

DEPENDENCE ON CERTAIN VENDORS AND MATERIALS

The Company is dependent on a limited number of suppliers for its clubheads and shafts. In addition, some of the Company's products require specifically developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. The Company believes that suitable clubheads and shafts could be obtained from other manufacturers in the event its regular suppliers are unable to provide components. However, any significant production delay or disruption caused by the inability of current suppliers to deliver or the transition to other suppliers could have a material adverse impact on results of operations.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic customers. The Company has reviewed and approved alternative methods of ground shipping which the Company anticipates will supplement its use, and reduce its reliance, on UPS. Nevertheless, any interruption in UPS services could have a material adverse effect on the Company's sales and results of operations.

The Company's size has made it a large consumer of certain materials, including titanium and carbon fiber. Callaway Golf does not make these materials itself, and must rely on its ability to obtain adequate supplies in the world marketplace in competition with other users of such materials. While the Company has been successful in obtaining its requirements for such materials thus far, there can be no assurance that it will always be able to do so. An interruption in the supply of such materials or a significant change in costs could have a material adverse effect on the Company.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

The golf club industry, in general, has been characterized by widespread imitation of popular club designs. The Company has an active program of enforcing its proprietary rights against companies and individuals who market or manufacture counterfeits and "knock off" products, and aggressively asserts its rights against infringers of its copyrights, patents, trademarks, and trade dress. However, there is no assurance that these efforts will reduce the level of acceptance obtained by these infringers. Additionally, there can be no assurance that other golf club manufacturers will not be able to produce successful golf clubs which imitate the Company's designs without infringing any of the Company's copyrights, patents, trademarks, or trade dress.

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark, copyright or other protection of their proprietary rights and designs. From time to time others have or may contact the Company to claim that they have proprietary rights which have been infringed by the Company and/or its products. The Company evaluates any such claims and, where appropriate, has obtained or sought to obtain licenses or other business arrangements. To date, there have been no interruptions in the Company's business as a result of any claims of infringement. No assurance can be given, however, that the Company will not be adversely affected in the future by the assertion of intellectual property rights belonging to others. This effect could include alteration of existing products, withdrawal of existing products and delayed introduction of new products.

Various patents have been issued to the Company's competitors in the golf ball industry. As Callaway Golf Ball Company develops a new golf ball product, it must avoid infringing these patents or other intellectual property rights, or it must obtain licenses to use them lawfully. If any new golf ball product is found to infringe on protected technology, the Company could incur substantial costs to redesign its golf ball product or to defend legal actions. Despite its efforts to avoid such infringements, there can be no assurance that Callaway Golf Ball Company will not infringe on the patents or other intellectual property rights of third parties in its development efforts, or that it will be able to obtain licenses to use any such rights, if necessary.

The Company has stringent procedures to maintain the secrecy of its confidential business information. These procedures include criteria for dissemination of information and written confidentiality agreements with employees and vendors. Suppliers, when engaged in joint research projects, are required to enter into additional confidentiality agreements. There can be no assurance that these measures will prove adequate in all instances to protect the Company's confidential information.

"GRAY MARKET" DISTRIBUTION

Some quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" in the Company's products can undermine authorized retailers and distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the other hand, stopping such commerce could result in a potential decrease in sales to those customers who are selling Callaway Golf products to unauthorized distributors and/or an increase in sales returns over historical levels. For example, the Company is experiencing a decline in sales in the United States in 1998, and believes that decline is due, in part, to a decline in "gray market" shipments to Asia and Europe. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both domestic and international markets, it has not stopped such commerce.

PROFESSIONAL ENDORSEMENTS

The Company establishes relationships with professional golfers in order to promote the Callaway Golf brand among both professional and amateur golfers. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior Professional Golf Association's Tour, the Professional Golf Association's Tour, the Ladies Professional Golf Association's Tour, the European Professional Golf Association's Tour and the Nike Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. To date, the Company believes that the cessation of use by professional endorsers of Callaway(R) brand products has not resulted in a significant amount of negative publicity. However, if certain of Callaway Golf's professional endorsers were to stop using the Company's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so. The Company has created cash "pools" that reward such usage. For the last several years, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. There is no assurance that the Company will be able to sustain this level of professional usage. Many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards.

As in past years, during 1998, the Company continued its Big Bertha(R) Players' Pools ("Pools") for the PGA, SPGA, LPGA and Nike Tours. Those professional players participating in the Pools received cash for using Callaway Golf products in professional tournaments, but were not bound to use the products or grant any endorsement to the Company. The Company believes that its professional endorsements and its Pools contributed to its usage on the professional tours in 1998. There is no guarantee, however, that the Company will be able to sustain this level of professional usage, and in some measures this level of usage has been lower on the professional tours in 1998 than in 1997. Further, while it is not clear whether professional endorsements materially contribute to retail sales, it is possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

NEW BUSINESS VENTURES

The Company has invested significant capital in new business ventures. However, in connection with the Company's review of its business, both existing and proposed new business ventures have been evaluated The Company has determined to discontinue, transfer or suspend certain business ventures not directly associated with the Company's core business. See "Part I. FINANCIAL INFORMATION - Item 2. Certain Factors Affecting Callaway Golf Company - Business Plan." The Company will continue development of its golf ball business. See "Part I. FINANCIAL INFORMATION - Item 2. Certain Factors Affecting Callaway Golf Company - Golf Ball Development."

INTERNATIONAL DISTRIBUTION

The Company's management believes that controlling the distribution of its products throughout the world will be an element in the future growth and success of the Company. The Company is actively pursuing a reorganization of its international operations, including the acquisition of distribution rights in certain key countries in Europe, Asia and North America. These efforts have resulted and will continue to result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. The integration of foreign distribution into the Company's international sales operations will require the dedication of management resources which may temporarily detract from attention to the day-to-day business of the Company. Additionally, the integration of foreign distribution increases the Company's exposure to fluctuations in exchange rates for various foreign currencies which could result in losses and, in turn, could adversely impact the Company's results of operations. To date, losses resulting from exchange rate fluctuations have not had a significant adverse impact on the Company's results of operations. However, there can be no assurance that the Company will be able to mitigate this exposure in the future through its management of foreign currency transactions. International reorganization also could result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of some or all of the Company's foreign distribution will be successful, and it is possible that an attempt to do so will adversely affect the Company's business.

The Company, through a distribution agreement, appointed Sumitomo as the sole distributor of the Callaway(R) golf clubs in Japan. The current distribution agreement began in February 1993 and runs through December 31, 1999. The Company does not intend to extend this agreement.

The Company has established ERC, a wholly-owned Japanese corporation, for the purpose of distributing Odyssey(R) products immediately, Callaway Golf balls when ready and Callaway Golf clubs beginning January 1, 2000. There will be significant costs and capital expenditures invested in ERC before there will be sales sufficient to support such costs. However, these costs have not been material to date. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution in Japan through ERC, and it is possible that doing so will have a material adverse effect on the Company's operations and financial performance.

GOLF BALL DEVELOPMENT

In 1996, the Company formed Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, for the purpose of designing, manufacturing and selling golf balls. The Company has previously licensed the manufacture and distribution of a golf ball product in Japan and Korea. The Company also distributed a golf ball under the trademark "Bobby Jones." These golf ball ventures were not commercially successful.

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by developing a new product in a new plant to be constructed just for this purpose. The successful implementation of the Company's strategy could be adversely affected by various risks, including, among others, delays in product development, construction delays and unanticipated costs. There can be no assurance as to if and when a successful golf ball product will be developed or that the Company's investments will ultimately be realized.

The Company's golf ball business is in the early stages of development and has had a negative impact on the Company's cash flows and results of operations and will continue to do so for the next several years. The Company believes that many of the same factors which affect the golf equipment industry, including growth rate in the golf equipment industry, intellectual property rights of others, seasonality and new product introductions, also apply to the golf ball business. In addition, the golf ball business is highly competitive with a number of well-established and well-financed competitors. These competitors have established market share in the golf ball business which will need to be challenged in order for the Company's golf ball business to be successful.

YEAR 2000 ISSUE

Historically, many computer programs have been written using two digits rather than four to define the applicable year, which could result in the program failing to properly recognize a year that begins with "20" instead of "19." This, in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000 issue."

While the Company's own products do not contain date-based functionality and are not susceptible to the year 2000 issue, much of the Company's operations incorporate or are affected by systems which may contain date-based functionality. Therefore, the Company has formulated a Year 2000 Plan to address the Company's Year 2000 issues. The Company's Year 2000 Plan contemplates four phases -- assessment, remediation, testing and release/installation -- which will overlap to a significant degree. The Company's own internal critical systems and key suppliers will be the primary areas of focus. The Company believes critical systems are those systems which, if they are not Year 2000 compliant, may disrupt the Company's manufacturing, sales or distribution capabilities in a material manner.

The assessment phase involves an inventory, prioritization and preliminary evaluation of the Year 2000 compliance of the key tools (e.g., hardware, software, data and embedded systems) and relationships (e.g., with suppliers, customers, utilities and other service providers) on which the Company relies to operate its business. In connection with this phase, the Company has received information concerning the Year 2000 compliance status of critical suppliers and selected customers in response to extensive inquiries initiated in September and October of 1998 to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 issues. The process of evaluating these suppliers and selected customers will continue through the fourth quarter of 1998 and is scheduled for completion by mid-1999, with follow-up reviews scheduled through the remainder of 1999. The Company estimates the assessment phase to be approximately 75% complete.

The Company anticipates commencing the remediation phase during the fourth quarter of 1998. During the remediation phase, the Company will begin to identify remediation options for computer hardware and software and implement such options. Examples of remediation options for computer hardware and software products used by the Company include altering the product or code, upgrading or replacing the product, recommending changes in how the product is used or retiring the product. Examples of remediation options for suppliers, customers and service providers include verifying compliance, developing alternate suppliers, customers or service providers or stocking an additional supply of product components.

In October 1997, the Company implemented a new business computer system which runs most of the Company's data processing and financial reporting software applications and has in part addressed remediation issues company-wide. The manufacturer of the application software used on the new computer system has represented that the software addresses the Year 2000 issue. The information systems of some of the Company's subsidiaries have not yet been converted to the new system, but the Company is in the process of implementing such conversions as needed.

The Company presently plans to have completed the four phases with respect to those systems which are critical to its operations no later than the end of the third quarter of 1999. Some non-critical systems may not be addressed until after January 2000.

The total cost associated with assessment and required modifications to implement the Company's Year 2000 Plan is not expected to be material to the Company's financial position. The Company currently estimates that the total cost of implementing its Year 2000 Plan will not exceed $10.0 million. This preliminary estimate is based on presently available information and will be updated as the Company continues its assessment and proceeds with implementation. In particular, the estimate may need to be increased once the Company has received feedback from suppliers and formulated its contingency plan. The total amount expended on the Year 2000 Plan through September 30, 1998, was $525,000, of which approximately $425,000 related to repair or replacing of software and related hardware problems and approximately $100,000 related to internal and external labor costs.

If the Company's new business computer system fails with respect to the Year 2000 issue, or if any computer hardware or software applications or embedded chips critical to the Company's manufacturing process are overlooked, or if the subsidiary conversions are not made or are not completed timely, there could be a material adverse impact on the business operations and financial performance of the Company. Additionally, there can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the business operations or financial performance of the Company. In particular, if third party providers, due to the Year 2000 issue, fail to provide the Company with components or materials which are necessary to manufacture its products, with sufficient electric power and other utilities to sustain its manufacturing process, or with adequate, reliable means of transporting its products to its customers worldwide, then any such failure could have a material adverse effect on the business operations and financial performance of the Company.

The Company has not yet established a contingency plan, but intends to formulate one to address unavoided or unavoidable risks and expects to have the contingency plan formulated by July 1999.

EURO CURRENCY

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999 Member States of the EMU may begin trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships during the transitional period, beginning January 1999 and ending June 2002. As noted above, the Company is in the process of installing a new computer system at its subsidiaries. This new system will run substantially all of the principal data processing and financial reporting software of the subsidiaries. The Company anticipates that, after the implementation of an upgrade, the new system will contain the functionality to process transactions in either a country's local currency or euro. Until such time as the upgrade has occurred, transactions denominated in euro will be processed manually. The Company does not anticipate a large demand from its customers to transact in euros. Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

RESULTS OF OPERATIONS

THREE-MONTH PERIODS ENDED SEPTEMBER 30, 1998 AND 1997:

Net sales decreased 33% to $172.9 million for the three months ended September 30, 1998 compared to $257.4 million for the comparable period in the prior year. This decrease was largely attributable to a decrease in metal wood sales of $94.8 million for the three months ended September 30, 1998 versus 1997. This decrease was partially offset by sales of the Big Bertha (R) Steelhead (TM) metal woods, which were introduced in the third quarter of 1998 and contributed $33.1 million to sales. Also contributing to the decrease was an overall decrease in sales of irons of $17.4 million during the third quarter of 1998 versus 1997. Soft metal woods sales, particularly titanium metal wood sales, continued both domestically and abroad. Competition has caused the Company to lose some unit market share domestically partly because of pricing strategies implemented by certain large competitors. The Company also believes that certain actions by the USGA earlier this year contributed to the drop in metal wood sales. During the third quarter of 1998, sales to Japan and to the rest of Asia (excluding Japan) decreased $14.3 million (53%) and $7.6 million (42%), respectively over the same quarter of the prior year. Sales domestically and in Europe also decreased $52.8 million (32%) and $5.3 million (16%), respectively during the three months ended September 30, 1998 as compared to the same period in the prior year.

For the three months ended September 30, 1998, gross profit decreased 40% to $83.1 million from $138.8 million for the comparable period in the prior year. As a percentage of net sales, gross profit decreased to 48% from 54% for the quarter ended September 30, 1998 as compared to the same quarter of the prior year, primarily as a result of higher cost of sales due to an increase in sales of irons (which have lower margins than metal woods) as a percentage of total dollar and unit sales, a metal wood wholesale price reduction implemented in May 1998 and an increase in warranty expense. These increases were partially offset by a reduction in employee compensation expense during the quarter ended September 30, 1998 over the comparable quarter in 1997.

Selling expenses increased to $40.3 million in the third quarter of 1998 compared to $32.6 million in the third quarter of 1997. As a percentage of net sales, selling expenses increased to 23% from 13% during the third quarter of 1998 over the third quarter of 1997. The $7.7 million increase was primarily the result of selling expenses related to Odyssey, which the Company purchased in August 1997, and newly acquired foreign distribution and domestic subsidiaries. Also contributing to the increase were increased advertising, promotional, staffing and overhead expenses in certain foreign subsidiaries. The increase was partially offset by a reduction in employee compensation expense during the quarter ended September 30, 1998 over the quarter ended September 30, 1997.

General and administrative expenses decreased to $24.5 million for the three months ended September 30, 1998 from $24.7 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the third quarter of 1998 increased to 14% from 10%. The $0.2 million decrease was largely attributable to decreases in employee compensation expense and outside legal fees. This decrease was partially offset by costs associated with operations of Callaway Golf Ball Company, primarily non-capitalized construction costs of its new facility, as well as depreciation and other costs related to the implementation of the Company's new computer software system. Costs also increasing in the third quarter of 1998 were those related to Odyssey, including amortization of intangibles associated with the purchase of substantially all of the assets and certain liabilities of Odyssey, costs related to other subsidiaries which the Company did not own in the comparable period of 1997, and costs related to golf development and new player programs which were formed in the first quarter of 1998.

Research and development expenses decreased to $9.1 million in the third quarter of 1998 compared to $10.6 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the third quarter of 1998 increased to 5% from 4% in the third quarter of 1997. The $1.5 million decrease was primarily the result of a decrease in employee compensation expense. This decrease was partially offset by increased costs associated with development and testing of golf balls and costs related to Odyssey.

Other income decreased $0.8 million for the quarter ended September 30, 1998 over the comparable period of the prior year. This decrease was attributable to a decrease of interest income resulting from lower cash balances during three months ended September 30, 1998 versus 1997 as well as interest expense incurred during the three months ended September 30, 1998 related to draws on the Company's line of credit. This decrease was partially offset by net gains on foreign currency transactions in the third quarter of 1998 as compared with a net loss for the same period in 1997.

NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1998 AND 1997:

Net sales decreased 96.4% to $583.1 million for the nine months ended September 30, 1998 compared to $679.5 million for the comparable period in the prior year. This decrease was largely attributable to a decrease in sales of metal woods of $165.1 million for the nine months ended September 30, 1998 versus 1997. This decrease was partially offset by sales of the Big Bertha(R) Steelhead(TM) metal woods, which were introduced in the third quarter of 1998 and contributed $33.1 million to sales. Soft metal woods sales, particularly, titanium metal woods sales, continued both domestically and abroad. Competition has caused the Company to lose some unit market share domestically partly because of pricing strategies implemented by certain large competitors. In addition, sales earlier in the year were adversely affected by unusual "El Nino" weather conditions in the United States. The Company also believes that certain actions by the USGA earlier this year contributed to the drop in metal wood sales. Soft metal woods sales abroad may be attributed to continued economic problems in Asia. Sales to Japan and to the rest of Asia (excluding Japan) decreased $14.5 million (22%) and $21.5 million (47%), respectively, and domestic sales also decreased $71.5 million (16%) during the nine months ended September 30, 1998 as compared to the same period in the prior year. These decreases were offset by increases in sales to Europe of $10.1 million (11%) and Canada of $7.1 million (46%). Sales of irons also showed an increase during the first nine months of 1998 ($16.9 million), primarily the result of sales of Big Bertha(R) X-12(TM) Irons, which the Company introduced in January 1998. Sales of Odyssey(R) products contributed an increase of $24.9 million to sales for the nine months ended September 1998.

For the nine months ended September 30, 1998, gross profit decreased 24% to $275.6 million from $360.5 million for the comparable period in the prior year. As a percentage of net sales, gross profit decreased to 47% from 53% for the nine months ended September 30, 1998 as compared to the same period of the prior year, primarily as a result of higher cost of sales due to an increase in sales of irons, (which have lower margins than metal woods) as a percentage of total dollar and unit sales, a metal wood wholesale price reduction implemented in May 1998 and an increase in warranty expense. These increases were partially offset by a reduction in employee compensation expense during the nine months ended September 30, 1998 over the nine months ended September 30, 1997.

Selling expenses increased to $118.3 million for the nine months ended September 30, 1998 compared to $95.2 million for the comparable period in the prior year. As a percentage of net sales, selling expenses in the first nine months of 1998 increased to 20% from 14% for the comparable period in 1997. The $23.1 million increase was primarily the result of selling expenses related to Odyssey, which the Company acquired in August 1997 and newly acquired of foreign distribution and domestic subsidiaries. Also contributing to the increase were increases in advertising and promotional costs, as well as increased pro tour expenses primarily resulting from tour signage contracts. The Company also experienced increased advertising, promotional, staffing and overhead expenses in certain foreign subsidiaries. The increase was partially offset by a reduction in employee compensation expense during the nine months ended September 30, 1998 over the comparable period in 1997.

General and administrative expenses increased to $68.7 million for the nine months ended September 30, 1998 from $57.0 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the first nine months of 1998 increased to 12% from 8%. The $11.7 million increase was largely attributable to costs associated with operations of Callaway Golf Ball Company, primarily non-capitalized construction costs of its new facility, as well as depreciation and other costs related to the implementation of the Company's new computer software system. Also contributing to the increase were costs related to Odyssey, including amortization of intangibles associated with the purchase of substantially all of the assets and certain liabilities of Odyssey, costs related to other subsidiaries which the Company did not own in the comparable period of 1997, and costs related to golf development and new player programs which were formed in the first quarter of 1998. This increase was partially offset by decreases in employee compensation expense and outside legal fees.

Research and development expenses increased to $26.2 million in the first nine months of 1998 compared to $24.7 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the first nine months of 1998 remained constant at 4%. The $1.5 million increase was primarily the result of costs associated with the development and testing of golf balls, increased product design, engineering and casting technology costs and costs related to Odyssey. This increase was partially offset by a decrease in employee compensation expense.

Other income decreased $3.3 million for the nine months ended September 30, 1998 over the comparable period of the prior year. This decrease was attributable to a decrease of interest income resulting from lower cash balances during nine months ended September 30, 1998 versus 1997 as well as interest expense incurred during the first nine months of 1998 related to draws on the Company's line of credit. This decrease was partially offset by net gains on foreign currency transactions in the first nine months of 1998 as compared with a net loss for the same period in 1997.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1998, cash and cash equivalents increased to $31.0 million from $26.2 million at December 31, 1997 primarily as a result of $29.2 million provided by operations and $38.5 million provided by financing activities. Cash flows from operations was primarily attributable to net income, increases in income taxes payable and accrued warranty expense and a decrease in accounts receivable, partially offset by an increase in inventories and a decrease in other liabilities. Cash provided by financing activities was primarily due to net proceeds from the Company's revolving line of credit as well as issuance of Common Stock, partially offset by dividends paid.

Cash used in investing activities totaled $63.1 million and resulted primarily from capital expenditures for building improvements, production and research and development machinery and computer equipment. Of these capital expenditures, $26.7 million related to Callaway Golf Ball Company. The acquisition of the Company's distributors in Korea, Belgium, Denmark, Canada and France and the purchase of the remaining 80% interest of All-American Golf LLC also contributed to cash used in investing activities.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's line of credit facility. The Company expects this trend to continue although sales in 1998 have declined from those in the prior year and the Company does not foresee any significant improvement in sales over the next several quarters. The Company increased its line of credit facility from $50.0 million to $150.0 million in February 1998. The Company has borrowed against its line of credit to supplement cash flow used in operations based upon the Company's need to increase its inventory levels and finance additional operational activities as well as finance capital expenditures during the nine months ended September 30, 1998. At September 30, 1998, the Company had available $99.2 million on its line of credit. The Company intends to repay its borrowings on its existing line of credit with cash flow from operations.

The implementation of the business plan discussed in Note 9 of the financial statements and in Management's Discussion and Analysis above contemplates the Company renegotiating certain loan covenants under its existing line of credit or securing a new line of credit or other loan facility by December 31, 1998. If the Company is unsuccessful in these efforts, and is otherwise unable to modify its business plan to avoid violating certain loan covenants in its existing line of credit, there could be a material adverse affect on the Company's operations.

As a result of the implementation of the business plan, the Company currently estimates that it will incur charges in the fourth quarter of 1998 of between $70 million and $85 million related to employee severance costs, impairment of assets, excess lease costs, losses on disposition of assets, other exit costs, as well as obsolete or excess inventory charges. If the Company takes actions that vary from those currently expected, actual charges recorded could differ significantly from those estimated above.

The Company believes that, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, it will be able to maintain its current level of operations, including purchase commitments and planned capital expenditures for the foreseeable future, through operating cash flows and available borrowings under its line of credit. There can be no assurance, however, that future industry specific developments or general economic trends will not adversely affect the Company's operations or its ability to meet its cash requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company, incident to its business activities, is the plaintiff in several legal proceedings, both domestically and abroad, in various stages of development. In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated a number of actions against alleged infringers under the intellectual property laws of various countries, including, for example, the United States Lanham Act, the U.S. Patent Act, and other pertinent laws. Some defendants in these actions have, among other things, contested the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others have asserted counterclaims against the Company. The Company believes that the outcome of these matters individually and in the aggregate will not have a material adverse effect upon the financial position or results of operations of the Company. It is possible, however, that in the future one or more defenses or claims asserted by defendants in one or more of those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company, or some other loss to the Company. One or more of these results could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the marketplace.

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. To date, the Company has not experienced any material expense or disruption associated with any such potential infringement matters. It is possible, however, that in the future one or more claims of potential infringement could lead to litigation, the need to obtain additional licenses, the need to alter a product to avoid infringement, or some other action or loss by the Company.

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of other legal proceedings in various stages of development. It is the opinion of the management of the Company that the probable result of these other matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION:

October and November 1998 Press Releases

The Company issued three press releases, the first of which reported its third quarter 1998 sales and earnings and the anticipation of continued adverse impact of market conditions on its sales and earnings in the fourth quarter of 1998, the second of which announced the consolidation of Odyssey Golf, Inc. with the Company and the third of which reported the plan adopted by the Company pursuant to its review of business elements. Copies of these press releases are attached hereto as Exhibits 99.1, 99.2 and 99.3, respectively, and are incorporated herein by reference.

Shareholder Proposal Notice Deadline

Shareholders who wish to bring proposals for action at the Company's 1999 Annual Meeting of Shareholders must give written notice of such proposal to the Company's Secretary no later than March 5, 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K:

a. Exhibits:

3.1 Articles of Incorporation (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 33-85692), as filed with the Securities and Exchange Commission (the "Commission") on October 28, 1994, and incorporated herein by this reference.)

3.2 Certificate of Amendment of Articles of Incorporation of the Company (filed as Exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, as filed with the Commission on March 31, 1995, and incorporated herein by this reference.)

3.3 By-laws (as amended through May 10, 1996) (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-8 (No. 333-5719), as filed with the Commission on June 11, 1996, and incorporated herein by this reference.)

27 Financial Data Schedule/(+)/
99.1 Press Release dated October 21, 1998/(+)/
99.2 Press Release dated October 27, 1998/(+)/
99.3 Press Release dated November 11, 1998/(+)/

/(+)/ Included with this Report.

b. Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALLAWAY GOLF COMPANY

Date: November 16, 1998 /s/ ELY CALLAWAY

Ely Callaway
Chairman, President and
Chief Executive Officer

/s/ DAVID A. RANE

David A. Rane
Executive Vice President, Planning
and Administration and Chief Financial Officer

EXHIBIT INDEX

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99.3	Press Release dated November 11, 1998/(+)/

/(+)/ Included with this Report.

5

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED) AND CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED) AT SEPTEMBER 30, 1998 AND FOR THE NINE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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DEC-31-1998
SEP-30-1998
31,012
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126,126
8,265
167,955
348,183
256,795
73,425
678,770
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751
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307,523
307,523
0
2,218
1,796
62,643
24,509
38,134
0
0
0
38,134
0.55
0.53

EXHIBIT 99.1

Contact: David Rane
Krista Mallory
(760) 931-1771

CALLAWAY GOLF REPORTS THIRD QUARTER SALES AND EARNINGS

CARLSBAD, Calif./October 21, 1998/Callaway Golf Company (NYSE:ELY) today reported net sales of $172.9 million for the third quarter ended September 30, 1998, a 32.8% decrease from net sales of $257.4 million reported in the third quarter of 1997. Net income decreased 84.2% to $5.8 million in the third quarter of 1998 from $37.0 million in the comparable quarter of 1997, and diluted earnings per share decreased 84.6% to $0.08 in the third quarter of 1998 from $0.52 in the third quarter of 1997.

For the nine months ended September 30, 1998, net sales decreased 14.2% to $583.1 million from $679.5 million for the same period in 1997. Net income decreased 64.8% to $38.1 million ($0.53 per diluted share) from $108.3 million ($1.52 per diluted share) for the nine months ended September 30, 1998 and 1997, respectively.

Net sales of $172.9 million for the third quarter were comprised of: revenues of $55.4 million from sales of titanium metal woods; $44.0 million from sales of stainless steel metal woods; $55.5 million from sales of irons; $14.4 million from Odyssey Golf, Inc. product sales; and $ 3.6 million from other sales.

Net sales of $583.1 million for the nine months ended September 30, 1998, were comprised of: revenues of $215.8 million from sales of titanium metal woods; $103.9 million from sales of stainless steel metal woods; $197.8 million from sales of irons; $39.5 million from Odyssey Golf, Inc. product sales; and $26.1 million from other sales.

Included in operating expenses for the three months and the nine months ended September 30, 1998 were expenses related to golf ball development of $6.1 million and $15.3 million, respectively, and expenses for other non-golf club related activities of $4.2 million and $8.6 million, respectively. The combined impact against earnings is the equivalent of $0.09 and $0.21 per share, respectively, for the three-month and nine-month periods.

Cost of goods sold as a percentage of net sales increased to 52% from 46% in the third quarter of the previous year. This increase was primarily due to lower sales revenue associated with a metal wood wholesale price reduction implemented in May, 1998, increased sales of irons, which carry a lower margin, and an increase in warranty expense.

Selling expenses in the third quarter increased to $40.3 million from $32.6 million in the comparable prior year's quarter. This increase was attributable mainly to increased selling expenses associated with Odyssey Golf which the Company purchased in August 1997, and expenses related to newly acquired foreign and domestic distribution subsidiaries.

General and administrative expenses for the third quarter of 1998 were $24.5 million compared to $24.7 million for the third quarter of 1997. These expenses were affected by a reduction in employee bonus accrual expenses and lower legal expenses, offset by an increase in Callaway Golf Ball Company expenses related to non-capitalized construction costs of its new facility and increased staffing costs, expenses associated with newly acquired foreign and domestic distribution subsidiaries, and increased software, hardware and personnel costs related to the Company's new computer system.

"Overall sales continued to be soft in the third quarter even though our Big Bertha(R) Metal Woods and Irons continued to be the market leaders in units and in dollars, and even though the recent Big Bertha(R) Steelhead(TM) Metal Wood launch has been the most successful product launch in our history," said Ely Callaway, Chairman, President and CEO of Callaway Golf. "Sales of our more profitable titanium metal woods remain soft domestically and abroad. Competition has caused us to lose some unit market share domestically, partly because of lower pricing strategies implemented by certain large competitors. Revenues continued to fall well below our plan for the year. We do not see any significant improvement in sales in the next several quarters, and various factors beyond our control, including changes in international economies, competition, and possible regulatory action by the United States Golf Association could result in a further softening of the golf equipment market."

The Board of Directors will be meeting over the next few days to discuss a broad restructuring plan. At some point during the next two weeks the Company expects to announce the basics of its plan, and the charges that will be incurred during the fourth quarter with respect to that plan. Although the Board has not yet met nor approved a restructuring plan, it is anticipated that the restructuring charges expected to be incurred will be greater than those announced in the Company's second quarter earnings release (dated July 22, 1998).

"We believe that we are acting prudently under very difficult market conditions and that we will maintain the Company's core strengths while gradually improving profitability," said Mr. Callaway. "We believe we will complete 1998 having been by far the #1 seller of premium golf clubs throughout the world. We also think the successful introduction of the Big Bertha(R) Steelhead(TM) Metal Woods during the past 8 weeks shows that we are capable of continuing to do what it takes to lead the industry in product innovation and performance enhancement golf clubs which benefit the average golfer as well as the professional. While we believe that we can implement a plan during the fourth quarter that will gradually improve profitability and shareholder value, we do not intend to do anything that will jeopardize these strengths."

It was also announced that the Board of Directors approved a quarterly dividend of $.07 per share payable November 24, 1998, to shareholders of record as of November 4, 1998. Future payments of dividends will be reviewed as part of the business plan being undertaken.

Callaway Golf makes and sells Big Bertha(R) Metal Woods and Irons, including Big Bertha(R) War Bird(R) and Steelhead(TM) Stainless Steel Metal Woods, Great Big Bertha(R) Titanium Metal Woods, Biggest Big Bertha(R) Titanium Drivers, Great Big Bertha(R) Tungsten.Titanium(TM) Irons and Big Bertha(R) X-12(TM) Irons. Callaway Golf's wholly-owned subsidiary, Odyssey Golf, Inc., makes and sells Odyssey(R) putters and wedges with Stronomic(R) and Lyconite(TM) inserts.

Statements used in this press release that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. 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, competitive pressures, and investment risks, costs and potential disruption of business as a result of the restructuring of operations, 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 filed 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.

For more information about Callaway Golf Company, please visit our web site on the Internet at www.callawaygolf.com

Callaway Golf Company
Consolidated Condensed Income Statement (Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	1998		1997		1998		1997	
Net sales	$172,944	100%	$257,435	100%	$583,104	100%	$679,540	100%
Cost of goods sold	89,859	52%	118,666	46%	307,523	53%	319,026	47%
Gross profit	83,085	48%	138,769	54%	275,581	47%	360,514	53%
Operating expenses:								
Selling	40,285	23%	32,643	13%	118,314	20%	95,238	14%
General and administrative	24,534	14%	24,716	10%	68,718	12%	57,045	8%
Research and development	9,132	5%	10,640	4%	26,209	4%	24,682	4%
Litigation settlement			12,000	5%			12,000	2%
Income from operations	9,134	5%	58,770	23%	62,340	11%	171,549	25%
Other income, net	343		1,146		303		3,561	
Income before income taxes	9,477	5%	59,916	23%	62,643	11%	175,110	26%
Provision for income taxes	3,641		22,867		24,509		66,773	
Net income	$ 5,836	3%	$ 37,049	14%	$ 38,134	7%	$108,337	16%
Earnings per common share:								
Basic	$0.08		$0.54		$0.55		$1.59	
Diluted	$0.08		$0.52		$0.53		$1.52	
Common equivalent shares:								
Basic	69,610		68,704		69,383		68,085	
Diluted	71,199		71,648		71,323		71,382	

Callaway Golf Company
Consolidated Condensed Balance Sheet
(In thousands)

	September 30, 1998	December 31, 1997
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 31,012	$ 26,204
Accounts receivable, net	117,861	124,470
Inventories, net	162,271	97,094
Deferred taxes	27,376	23,810
Other current assets	9,663	10,208
Total current assets	348,183	281,786
Property, plant and equipment, net	183,370	142,503
Intangible assets, net	123,762	112,141
Other assets	23,455	25,284
	$678,770	$561,714

	September 30, 1998	December 31, 1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 41,191	$ 30,063
Line of credit	50,000	
Accrued employee compensation and benefits	12,632	14,262
Accrued warranty expense	34,576	28,059
Income taxes payable	11,581	
Total current liabilities	149,980	72,384
Long-term liabilities	9,784	7,905
Shareholders' equity	519,006	481,425
	$678,770	$561,714

EXHIBIT 99.2

Contact: Larry Dorman
Krista Mallory
(760) 931-1771

ODYSSEY GOLF TO MAINTAIN SEPARATE IDENTITY IN COMBINING OPERATIONS WITH CALLAWAY GOLF

CARLSBAD, CALIF., October 27, 1998 - Ely Callaway, Chairman and CEO of Callaway Golf (NYSE:ELY) today announced the combining of operations of Odyssey(R) Golf, Inc., with Callaway Golf to achieve available efficiencies while maintaining Odyssey's position as the #1 putter brand in golf. Odyssey will maintain a distinctive sales force and a separate advertising strategy, under the direction of Bruce Parker, Senior Executive Vice President of Domestic Sales and Chief Merchant of Callaway Golf. The separate and distinct Odyssey tour program and separate Odyssey tour reps will be retained and will be directed by Mike Galeski, Senior Vice President of Pro Tour Relations.

"This integration of operations is being effected to take advantage of certain of Callaway Golf's strengths in manufacturing and sales as well as in administrative service areas, such as accounting, legal and human resources," Mr. Callaway said. "We will continue to stress the product development, sales and marketing distinctions and the very strong Odyssey brand identity that have been so instrumental in bringing Odyssey putters to the No. 1 position in the putter market and on the tours."

Manufacturing of Odyssey products will be moved into the Callaway manufacturing organization under Ron Drapeau, who has been president and CEO of Odyssey since its acquisition by Callaway Golf on August 4, 1997.

Callaway Golf makes and sells Big Bertha(R) metal woods and irons, including Big Bertha(R) Steelhead(TM) Metal Woods, Great Big Bertha(R) Titanium Metal Woods, Biggest Big Bertha(TM) Titanium Drivers, Big Bertha(R) X-12(TM) Irons and Great Big Bertha(R) Tungsten.Titanium(TM) Irons. Callaway Golf's wholly-owned subsidiary, Odyssey Golf, Inc., makes and sells Odyssey(R) putters and wedges with Stronomic(R) and Lyconite(TM) inserts.

For more information about Callaway Golf Company, please visit our web site at www/callawaygolf.com.

EXHIBIT 99.3

Contact: Ely Callaway
David Rane
Krista Mallory
(760) 931-1771

CALLAWAY GOLF COMPANY ANNOUNCES ACTIONS TO FOCUS ON
CORE BUSINESSES AND IMPROVE PROFITABILITY;
REVISES EARNINGS OUTLOOK FOR 1998

CARLSBAD, California/ November 11, 1998/ Callaway Golf Company (NYSE:ELY) announced today that it has adopted a business plan that includes a number of cost reduction actions and operational improvements. Certain one-time charges associated with the moves will have a significant negative effect on fourth quarter and year-end earnings, but the cost savings and efficiencies should better position the Company to achieve greater profitability and shareholder value under difficult market conditions.

The Company will immediately implement several significant cost saving initiatives. These actions will include: the consolidation of the operations of its wholly-owned subsidiary, Odyssey Golf, Inc., into the operations of the parent while maintaining the distinct and separate Odyssey brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core businesses, such as the Company's involvement with interactive golf sites, golf book publishing, and driving range ventures; and the re-sizing of the Company's core business to reflect current and expected business conditions. As part of this process, the Company expects by the end of the year to have reduced its non-temporary work force by approximately 700 jobs, a reduction of about 24%, from July 1998 levels. The Company previously had eliminated approximately 300 temporary positions in July.

"We believe that these initiatives and changes will add to our strengths and permit us to operate more profitably in an increasingly challenging worldwide market," announced Ely Callaway, Founder, Chairman and CEO. "With these changes, we believe that we can face 1999 with cautious optimism for our shareholders, customers and employees. While we recognize that much of the worldwide marketplace remains weak and unpredictable, the future of the game of golf appears to us to be healthy. We are confident that our brand name, our products, and our team of talented people remain the strongest and the best in the business, and that we will substantially benefit from these strengths with our new focus."

The Company currently estimates that it will incur charges of between seventy million dollars ($70 million) and eighty five million dollars ($85 million) before income tax benefit in the fourth quarter of 1998. These charges include: employee severance costs; charges for impairment of assets; excess lease costs; losses on the disposition of assets, and other exit costs, as well as obsolete or excess inventory charges. Forty-five million dollars ($45 million) to sixty million dollars ($60 million) of these charges will be non-cash charges. The Company currently expects a diluted earnings per share loss for 1998 of between $0.25 and $0.40.

It is expected that these steps will result in annual cost savings beginning in 1999 of more than forty million dollars ($40 million) per year, including a reduction in employee compensation expense of more than twenty-eight million dollars ($28 million). In addition, the Company is implementing an ongoing process of reviewing its manufacturing operations and its worldwide supplier network aimed at reducing the cost of goods sold and generating significant savings.

The Company intends to continue to invest heavily in its core businesses: premium golf clubs and golf balls. It will maintain its strong commitment to its long successful efforts in golf club product research and development and merchandising efforts such as advertising and promotions, pro tour relations and market research. The Company will also continue to invest in the design, development and manufacture of its proposed line of golf balls, expected to be introduced in late 1999 or early 2000.

"Our ability to capture a premium share of the global golf club business since we went public in 1992 permitted us to exceed expectations and provided an umbrella under which we could explore ventures outside of our core business as areas for possible future growth," Mr. Callaway continued. "However, the current market -- which has been declining worldwide -- will not support such a diversified business plan. We must now focus our attention on creating, producing and selling superior and distinctive golf clubs and golf balls. This is how we can best use our name, our products and our expertise to retain our leadership position. By dropping these other activities and streamlining our core business, we are cautiously optimistic that we have re-created our business such that it can generate earnings going forward that will be more in line with our realistic hopes and desires."

Callaway Golf makes and sells Big Bertha(R) Metal Woods and Irons, including Big Bertha(R) Steelhead and War Bird(R) Stainless Steel Metal Woods, Great Big Bertha(R) Titanium Metal Woods, Biggest Big Bertha(R) Titanium Drivers, Big Bertha(R) X-12 Irons, Great Big Bertha(R) Tungsten.Titanium Irons, and

Callaway putters. Callaway Golf also makes and sells Odyssey(R) putters and wedges with Stronomic(R) and Lyconite(TM) inserts.

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