SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number ____________

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

Delaware	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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	New York Stock Exchange
Preferred Share Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act:
None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

As of March 6, 2000, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was $1,014,160,323 based on the closing sales price of the Registrant's Common Stock as reported on the New York Stock Exchange. Such amount was calculated by excluding all shares held by directors and executive officers without conceding that all such persons are "affiliates" of the Registrant for purposes of the federal securities laws.

As of March 24, 2000, the number of shares of the Registrant's Common Stock outstanding was 76,746,245, and there were no shares of the Registrant's Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I, II and IV incorporate certain information by reference from the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1999.

Certain of the information required by Part III is incorporated by reference from the Registrant's definitive Proxy Statement for the annual meeting of shareholders to be held on May 3, 2000, as filed with the Commission on March 29, 2000 pursuant to Regulation 14A, which information is incorporated herein by reference.

Note: Statements used in this report 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 review and consider carefully the various disclosures made by the Company in Part I of this report which describe certain factors which affect the Company's business, as well as the Company's other periodic reports on Form 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. Reports issued by securities analysts are not the responsibility of the Company and shareholders should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in such report.

PART I

Item 1. Business.

Callaway Golf Company (the "Company" or "Callaway Golf") was incorporated in California in 1982 and reincorporated in Delaware on July 1, 1999. The Company has the following direct wholly-owned operating subsidiaries: Callaway Golf Sales Company, Callaway Golf Ball Company, CGV, Inc., Callaway Golf Europe Ltd., Callaway Golf K.K. (formerly ERC International Company), Callaway Golf Korea Ltd., Callaway Golf (Germany) GmbH and Callaway Golf Canada Ltd. The Company, together with its subsidiaries, designs, develops, manufactures and markets high quality, innovative golf clubs and golf balls.

The Company's golf clubs are sold at premium prices to both average and skilled golfers on the basis of performance, ease of use and appearance. Callaway Golf's primary golf club products, most of which incorporate the Company's S2H2(R) design concept, currently include Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods and Tungsten Injected(TM) Titanium Irons, Big Bertha(R) Steelhead Plus(TM) Stainless Steel Metal Woods and Steelhead(TM) X-14(TM) Stainless Steel Irons, and Bobby Jones(R) and Carlsbad Series(TM) Putters. Callaway Golf Company also makes and sells Odyssey(R) Putters and Wedges with Stronomic(R) and Lyconite(R) inserts, including the Dual Force(R) and TriForce(TM) Putters, and also the White Hot(TM) Putter with an insert composed of the Rule 35(TM) golf ball cover material.

Callaway Golf Ball Company launched its Rule 35(TM) Firmfeel(TM) and Softfeel(TM) Golf Balls on February 4, 2000. These balls are sold in the premium golf ball market to both average and skilled golfers on the basis of performance and appearance. Both the Firmfeel(TM) and Softfeel(TM) balls are designed to provide complete performance. Golfers will choose between the two balls based upon their subjective preference for a firmer or softer feeling golf ball.

Segments

Information regarding the Company's segments is contained in Note 15 to the Consolidated Financial Statements ("Consolidated Financial Statements") in the Company's Annual Report to Shareholders for the year ended December 31, 1999 ("1999 Annual Report to Shareholders"), which note is incorporated herein by reference.

Restructuring

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included: the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc., into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives were completed during 1999, with the exception of cash outlays related to the assignment of a lease obligation for a facility in New York City that will continue through July 2000. The restructuring charges (shown below in tabular format) primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of the Company's 80% interest in Callaway Golf Media Ventures (see Note 14 to the Consolidated Financial Statements), a loss on the sale of the business of All-American Golf LLC (see Note 14 to the Consolidated Financial Statements), as well as excess lease

costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs.

Employee reductions occurred in almost all areas of the Company, including manufacturing, marketing, sales, and administrative areas. At December 31, 1998, the Company had reduced its non-temporary work force by approximately 750 positions. Although substantially all reductions occurred prior to December 31, 1998, a small number of reductions occurred in the first quarter of 1999.

Details of the one-time charge are as follows (in thousands):

	Cash/ Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98	Activity(1)	Reserve Balance at 12/31/99
Elimination of Job Responsibilities		$11,664	$ 8,473	$ 3,191	$ 3,191	
Severance packages	Cash	11,603	8,412	3,191	3,191	
Other	Non-cash	61	61			
Exiting Certain Non-Core Business Activities		$28,788	$12,015	$16,773	$15,394	$ 1,379
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731	2,731	
Excess lease costs	Cash	12,660	146	12,514	11,135(2)	1,379
Contract cancellation fees	Cash	2,700	1,504	1,196	1,196	
Other	Cash	356	24	332	332	
Consolidation of Operations		$13,783	$ 2,846	$10,937	$10,937	
Loss on impairment/disposition of assets	Non-cash	12,364	2,730	9,634	9,634(3)	
Excess lease costs	Cash	806	4	802	802(4)	
Other	Cash	613	112	501	501	

(1) Includes reversal of reserve totaling $8.6 million, as actual amounts differed from estimates. Significant reversals are noted below in (2) through (4).

(2) Includes reversal of $6.1 million of reserve due to the assignment of lease obligation at terms significantly more favorable than estimated at the establishment of the reserve.

(3) Includes reversal of $1.5 million of reserve related to disposition of two buildings at higher sales prices than estimated.

(4) Includes reversal of $491,000 of reserve due to the sublease of a facility at terms more favorable than estimated at the establishment of the reserve.

During 1999, the Company incurred charges of $1.3 million on the disposition of building improvements eliminated during the consolidation of manufacturing operations, as well as other charges of $671,000. These charges did not meet the criteria for accrual in 1998. Additionally, the Company incurred charges of $749,000 related to asset dispositions and other restructuring activities for which reserves were not established in 1998. Future cash outlays are anticipated to be completed by July 2000.

Products

The following table sets forth the contribution to net sales attributable to the product groups for the periods indicated (dollars in thousands).

	Year Ended December 31,					
	1999		1998		1997	
Metal Woods	$429,011	60%	$389,900	56%	$544,258	64%
Irons	221,303	31%	229,112	33%	233,977	28%
Putters, accessories and other	64,157	9%	78,609	11%	64,692	8%
Net Sales	$714,471		$697,621	100%	$842,927	100%

The Company's brands remained number one in the worldwide market for woods, irons and putters. Sales of the Company's Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods, Big Bertha(R) Steelhead(TM) Metal Woods and Big Bertha(R) X-12(R) Irons were strong in 1999. Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons were introduced in September 1999, and Big Bertha(R) Steelhead Plus(TM) Drivers and Fairway Woods and Big Bertha(R) Steelhead(TM) X-14(TM) Irons were released in January 2000. The initial acceptance of these products has also been strong to date. No assurances can be given, however, that the demand for these products or the Company's other 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.

The Company's principal products are as follows:

Metal Woods

Big Bertha(R) Steelhead Plus(TM) Drivers and Fairway Woods

In January 2000, the Company introduced and began delivery of significant quantities of Big Bertha(R) Steelhead Plus(TM) Stainless Steel Drivers and Fairway Woods, which were based upon and designed to replace the Company's Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods. The new Big Bertha(R) Steelhead Plus(TM) Stainless Steel Drivers and Fairway Woods incorporate the Company's proprietary Variable Face Thickness Technology. This technology allows the Company to make the clubface both thinner and more durable by engineering precise thicknesses at special points across the interior surface of the face area, which increases the efficiency of the clubhead at impact to maximize ball speed. The new clubs also contain a new forged crown plate which lowers the center of gravity in each club. The Company's exclusive Weight Chips have also been repositioned in the new clubs to calibrate the center of gravity for maximum performance. The Company offers the Big Bertha(R) Steelhead Plus(TM) Stainless Steel Drivers in lofts ranging from 6 to 12 degrees. Big Bertha(R) Steelhead Plus(TM) Stainless Steel Fairway Woods are available in a 2-wood (The Deuce(R)), Strong 3-wood, 3-wood, Strong 4-wood, 4-wood, 5-wood, 7-wood (HeavenWood(R)), and 9-wood (Divine Nine(9)), and 11-wood (Ely Would(R)).

Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods

In January 1999, the Company introduced and began delivery of significant quantities of Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods. Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods were designed to replace the Company's Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Drivers and Fairway Woods. Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods incorporate a thin titanium crown plate together with a strong, lightweight titanium body. This design includes a new Tungsten Gravity Screw that is inserted into the sole of the clubhead and produces a low and deep center of gravity. The Company offers Great Big Bertha(R) Hawk Eye(R) Titanium Drivers in lofts ranging from 6 to 12 degrees. Great Big Bertha(R) Hawk Eye(R) Titanium Fairway Woods are available in a 2-wood (The Deuce(R)), Strong 3-wood, 3-wood, Strong 4-wood, 4-wood, 5-wood, 7-wood (HeavenWood(R)), and 9-wood (Divine Nine(R)).

Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods

In August 1998, the Company introduced and began delivery of significant quantities of Big Bertha(R)Steelhead (TM)Stainless Steel Drivers and Fairway Woods. Big Bertha(R) Steelhead (TM)Stainless Steel Drivers and Fairway Woods were designed to replace the Company's Big Bertha(R) Stainless Steel Drivers and Fairway Woods with the War Bird(R) soleplate. The Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods were superseded in January 2000 by the Company's new Big Bertha(R) Steelhead Plus(TM) Stainless Steel Drivers and Fairway Woods (discussed above).

Biggest Big Bertha(R) Titanium Driver

In January 1997, the Company introduced Biggest Big Bertha(R) Titanium Drivers. Biggest Big Bertha(R) Titanium Drivers were superseded by the Company's Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods (discussed above) in January 1999.

Irons

Big Bertha(R) Steelhead(TM) X-14(TM) Stainless Steel Irons

In January 2000, the Company introduced and began delivery of significant quantities of Big Bertha(R) Steelhead(TM) X-14(TM) Stainless Steel Irons, which were based upon and designed to replace the Big Bertha(R) X-12(R) Irons. The new Big Bertha(R) Steelhead(TM) X-14(TM) Stainless Steel Irons incorporate the Company's proprietary Variable Face Thickness Technology. This technology allows the Company to cast the irons with less material in the face area which in turn allows the Company to move more free weight to other areas of the clubhead. In the long irons, this extra weight was placed in the sole of the clubhead to create a lower center of gravity for greater ease in getting the ball airborne. In the short irons and wedges, the weight was shifted slightly higher to provide increased control and additional backspin for precise approach shots. These irons are offered in 1 through 9, and pitch, approach, sand, and lob wedges.

Hawk Eye(R) Tungsten Injected(TM) Titanium Irons

In September 1999, the Company introduced its Hawk Eye(R) Tungsten Injected(TM) Titanium Irons, which were designed to replace the Company's previous line of Great Big Bertha(R) Tungsten.Titanium(TM) Irons. The new Hawk Eye(R) Tungsten Injected(TM) Titanium Irons are injected with the Company's Tungsten Weight Matrix, which is a mixture of tungsten and other materials that creates a precisely placed, extremely low center of gravity to help golfers hit shots with optimum trajectory and maximum forgiveness. These irons are offered in 1 through 9, and pitch, approach, sand, and lob wedges.

Big Bertha(R) X-12(R) Irons

In January 1998, the Company introduced and began delivery of significant quantities of Big Bertha(R) X-12(R) Irons. Big Bertha(R) X-12(R) Irons incorporate a low center of gravity which helps get the ball airborne more easily with the proper trajectory and spin. Using the Company's exclusive proprietary varied 360-degree undercut channel creates a thinner profile, and together with a new shape and a narrower sole, keeps the center of gravity low. The unique multi-layer design in the cavity allows for increased forgiveness on off-center hits. These irons are offered in 1 through 9, and pitch, approach, sand, and lob wedges. They are also offered in a reduced offset version. With the exception of the reduced offset version, these irons have been replaced by the Company's Big Bertha(R) Steelhead(TM) X-14(TM) Stainless Steel Irons. The Company expects to continue selling the reduced offset version of the Big Bertha(R) X-12(R) Irons.

Great Big Bertha(R) Tungsten.Titanium(TM) Irons

In January 1997, the Company introduced Great Big Bertha(R) Tungsten.Titanium(TM) Irons. In 1999, these irons were superseded by the Hawk Eye(R) Tungsten Injected(TM) Titanium Irons.

Putters

The Company has various lines of putters, including the Odyssey(R) line of putters and the Callaway Golf(R) line of putters. Odyssey(R) Putters sold by the Company incorporate a soft, polymer trapezoidal insert designed to provide better feel and forgiveness. The Odyssey(R) line of putters include the new White Hot(Tm) Putters introduced in February 2000, the TriForce(TM) Putters introduced in 1999, and the Dual Force(R) Blade-Style Putters, which are also available in the Rossie(TM) Mallet Style Putter. The TriForce(TM) and Dual Force Putters incorporate a Stronomic(R) Insert(R) that is available in black, green and blue. The new White Hot(TM) Putters feature a white high-performance insert made from the proprietary cover material of the Company's new golf balls. The center of gravity in the TriForce(TM) series of putters has been moved back and away from the face, which creates better ball roll than similarly-shaped clubs. This weight distribution is achieved through having the largest Stronomic(R) insert of any Odyssey(R) putter to date, coupled with a heavy, milled tungsten flange. The Company also has a Callaway Golf(R) line of steel and graphite shafted traditional non-insert putters, including the new Carlsbad Series(TM) putters and Bobby Jones(R) Putters.

Some of these putters incorporate the S2H2(R) concept, including The Tuttle(R) and The Tuttle(R) II putters.

Golf Balls

On February 4, 2000, Callaway Golf Ball Company introduced its highly anticipated new golf balls. The golf balls, named "Rule 35(TM)" come in two models - Firmfeel(TM) and Softfeel(TM). The Company blended distance, control, spin and durability into one golf ball providing "Complete Performance (TM)". The primary difference between the two models is that one is designed for players who prefer a firmer golf ball and the other is designed for players who prefer a softer golf ball. The balls are offered in a five-ball sleeve and a ten-ball pack. The Company expects also to offer the balls in a twenty-pack later in 2000.

Accessories

In addition to its golf clubs and balls, Callaway Golf offers golf-related equipment and supplies manufactured by other companies bearing the Company's trademarks, including golf bags, travel bags, head covers, hats, umbrellas and other accessories.

Product Design and Development

Product design at Callaway Golf is a result of the integrated efforts of its product development, manufacturing and sales departments, all of which work together to generate new ideas for golf equipment. The Company has not limited itself in its research efforts by trying to duplicate designs that are traditional or conventional and believes it has created an environment in which new ideas are valued and explored. In 1999, 1998 and 1997, the Company expended on research and development $34,002,000, $36,848,000 and $30,298,000, respectively. The Company intends to continue to invest substantial amounts in its research and development activities in 2000 and beyond. In addition to development of new golf club equipment, these investments will continue to include, among others, significant expenditures in support of Callaway Golf Ball Company's efforts to develop and market new golf ball products.

Callaway Golf has the ability to create and modify golf club designs by using computer aided design software ("CAD"), computer aided manufacturing software ("CAM") and computer numerical control ("CNC") milling equipment. CAD software enables designers to develop computer models of new clubhead and shaft designs. CAM software is then used by engineers to translate the digital output from CAD computer models so that physical prototypes can be produced. Through the use of this technology, Callaway Golf has been able to greatly accelerate the design, development and testing of new golf clubs. In addition, Callaway Golf Ball Company's sophisticated CAD/CAM design, tooling, ball prototyping and indoor testing equipment, together with the Company's predictive computer modeling capability, allows it to develop and test prototype golf balls in a very short cycle time.

The Company believes that the introduction of new, innovative golf clubs and golf balls is important to its future success. 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, any new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase. New golf club and golf ball products generally seek to 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 golf clubs and golf balls have been found to conform to the Rules of Golf as applied in the jurisdictions where they are sold, 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. For example, 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 advised the Company that none of the Company's current clubs sold in the U.S. are barred by this test. The R&A is considering the adoption of a similar or related test but has not yet done so. Both the USGA and the R&A are reviewing the current regulations of golf, and one or both may change those regulations in the future. Future actions by the USGA or the R&A may adversely impact acceptance of the Company's new products and therefore could have a material adverse effect on the Company's results of operations and cash flows.

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have often resulted in higher prices for the Company's products relative to other products in the marketplace.

The Company's golf balls are premium golf balls and there are many lower priced non-premium golf balls sold by others. There can be no assurance that a significant percentage of the public will always be willing to pay such premium prices for golf equipment or that the Company will be able to continue to design and manufacture premium products that achieve market acceptance in the future.

The rapid introduction of new golf club or golf ball products by the Company could result in close-outs of existing inventories at both the wholesale and retail levels. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices. The Company experienced some of these effects in 1999 with respect to golf clubs and could experience similar effects in future years as the Company from time to time introduces new products or misjudges demand.

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. As in 1998, this could result in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance.

Sales and Marketing

Golf Club Sales in the United States

Approximately 58%, 62%, and 65% of the Company's net sales were derived from sales for distribution within the United States in 1999, 1998 and 1997, respectively. The Company targets those golf retailers (both on-course and off-course) who sell "pro-line" clubs (professional quality golf clubs) and provide a level of customer service appropriate for the sale of premium golf clubs. No one customer that distributes golf clubs in the United States accounted for more than 5% of the Company's revenues in 1999, 1998, or 1997. The Company distributes its products in Hawaii through an exclusive distributor. The Company previously reported that it believed that the dollar volume of the premium golf club market had been declining in certain major markets, including the United States. Although the Company believes that market conditions may have stabilized, there is no assurance that the overall dollar volume of the premium golf club market in the United States will grow significantly, or that it will not decline, in the near future. During 1999, the Company's U. S. revenues decreased 5% compared to 1998. The Company believes that this decrease in United States revenue was due in part to softness in the United States market, lower revenue per club from sales of golf equipment at low or close-out prices, and declines in iron and putter sales due to the maturity of those product lines.

The Company, through its subsidiary Callaway Golf Sales Company, currently employs full-time regional field representatives, in-house telephone salespersons and customer service representatives in connection with golf club and accessory sales. Each geographic region is covered by both a field representative and a telephone salesperson who work together to initiate and maintain relationships with customers through frequent telephone calls and in-person visits. The Company believes that this tandem approach of utilizing field representatives and telephone salespersons provides the Company a competitive advantage over other golf club manufacturers that distribute their golf clubs solely through independent sales representatives rather than employees. Notwithstanding the foregoing, Callaway Golf recognizes that other companies have marketing programs which may be equally or more effective than its own strategy.

Golf Club Sales Outside of the United States

Approximately 42%, 38% and 35% of the Company's net sales were derived from sales for distribution outside of the United States in 1999, 1998, and 1997, respectively. In 1997, the majority of the Company's international sales were made through distributors specializing in the sale and promotion of golf clubs in specific countries or regions around the world. In 1999 and 1998, the majority of the Company's international sales were made through its foreign subsidiaries. During 1999, the Company's international revenues increased 16% compared to 1998. The Company believes that this increase in international revenue is largely attributable to a significant increase in revenue from sales in Korea as a result of the economic recovery of the Korean market and the introduction of higher margin products in Korea in 1999. The Company does not expect that revenue in Korea will continue to increase at a rate comparable to 1999. The Company further believes that some portion of sales to international customers recorded

in 1999 as direct international sales may have formerly been made to the same international customers indirectly through the United States distribution channel. See below "Gray Market."

The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will be an element in the future growth and success of the Company. The Company has been 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 continue to require the dedication of management and other Company resources.

As a result of these acquisitions, the Company sells its products in Great Britain, Belgium, Finland, Denmark, Sweden, Norway, Ireland, France, Germany, Austria, the Netherlands, and Switzerland through its subsidiary Callaway Golf Europe Ltd. The Company sells its products in Korea through its subsidiary Callaway Golf Korea Ltd. The Company sells its products in Canada through its subsidiary, Callaway Golf Canada Ltd.

In addition to sales through its subsidiaries, the Company also currently has distribution arrangements covering sales of the Company's products in over 40 foreign countries, including Singapore, Spain, Italy, Hong Kong, Australia, Argentina and South Africa. Prices of golf clubs for sales outside of the United States receive an export pricing discount to compensate international distributors for selling, advertising and distribution costs. A change in the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales.

The Company appointed Sumitomo Rubber Industries, Ltd. ("Sumitomo") as the sole distributor of Callaway Golf(R) clubs in Japan, through a distribution agreement that ended December 31, 1999. In 1999, 1998 and 1997, sales to Sumitomo accounted for 7%, 8% and 10%, respectively, of the Company's net sales. In the fourth quarter of 1999, the Company successfully completed negotiations with Sumitomo to provide a smooth transition of the Callaway Golf business to the Company. As a result of the transition agreement, the Company recorded a net charge of $8.6 million in the fourth quarter of 1999 for buying certain current inventory, payments for non-current inventory and other transition expenses, including foreign currency transaction losses.

Effective January 1, 2000, the Company began distributing Callaway Golf(R) brand products in Japan through its wholly-owned subsidiary, Callaway Golf K. K., which also distributes Odyssey(R) products and will also distribute Callaway Golf(TM) balls. In addition to the fourth quarter 1999 charges noted above, there will be significant costs and capital expenditures invested in Callaway Golf K. K. before there will be sales sufficient to support such costs. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution of Callaway Golf(R) products in Japan through Callaway Golf K. K. rather than through Sumitomo. These risks include increased delinquent and uncollectible accounts now that the Company will be collecting its receivables from many retailers as opposed to only one distributor. Furthermore, the Sumitomo distribution agreement required that Sumitomo purchase specific minimum quantities from the Company. As a direct distributor, the Company will not have the benefit of these guaranteed minimum purchases going forward. There also is no assurance that the Company will be able to transcend the cultural and other barriers to successful distribution in Japan or that its sales in Japan will be comparable to or exceed its prior sales to Sumitomo. It is possible that these circumstances could have a material adverse effect on the Company's operations and financial performance. There also will be a delay in the recording of revenues for sales in Japan as compared to previous years because revenue will now be recorded upon sale to the retailers and not upon sale to a distributor.

The Company's plan to integrate 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. 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. The integration of foreign distribution 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.

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 have the option of 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 until 2002 when their local currencies will be phased out. The current version of the Company's enterprise-wide business system does not support transactions denominated in euro. During 2000, the Company intends to upgrade its business system. The upgraded version of this business system should

support transactions denominated in euro. The Company intends to enable the euro functionality of its upgraded system no later than its third quarter in 2001. Until such time as the upgrade has occurred and the euro functionality has been enabled, transactions denominated in euro will be processed manually. To date, the Company has not experienced, and does not anticipate in the near future, a large demand from its customers to transact in euro. 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.

Golf Ball Sales

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 had previously licensed the manufacture and distribution of a golf ball in Japan and Korea. The Company also had distributed a golf ball under the trademark "Bobby Jones(R)." These previous golf ball ventures were introduced primarily as promotional efforts and were not commercially successful.

In February 2000, Callaway Golf Ball Company released its new Rule 35(TM) Golf Balls. These golf balls are the product of more than three years of research and development and are manufactured in a new facility built for that purpose. To date, the Company's investment in its golf ball business has exceeded $170 million. The development of the golf ball business, by plan, has had a significant negative impact on the Company's cash flows, financial position and results of operations and will continue to affect the Company's performance in 2000. The success of the Company's new golf ball business could be adversely affected by various risks, including, among others, delays or difficulties in manufacturing or distribution and unanticipated costs. Although initial demand for the Company's golf balls is promising, there is no assurance that such demand will result in a proportionate amount of actual sales or that consumers will enjoy the balls sufficiently to sustain future sales. Furthermore, although the Company expects production of the golf balls to increase as 2000 progresses, there is no assurance that the Company will be able to manufacture enough balls to meet demand or be able to achieve the operational or sales efficiencies necessary to make its golf ball business profitable. Consequently, there can be no assurance as to whether the golf ball will be commercially successful or that a return on the Company's investment will ultimately be realized.

Callaway Golf Ball Company sells its golf balls in the United States through its own dedicated sales team. Its sales representatives are employees and consist of retail sales representatives and corporate sales representatives. The retail sales representatives service both on-course and off-course customers in their assigned geographic territories and are further supported by in-house telephone sales representatives. Both field and in-house telephone corporate sales representatives call on corporate customers who want their corporate logo placed on the Company's golf balls. Unlike many of its competitors, Callaway Golf Ball Company does not use third parties to provide the corporate logo golf balls. Callaway Golf Ball Company imprints the logos on its golf balls in the same facility in which it manufactures the golf balls, thereby retaining control over the quality of the process and final product. Callaway Golf Ball Company also pays an agency fee to certain on- and off-course professionals and retailers with whom it has a relationship for corporate sales that originate through such professionals and retailers. Its international sales will be effected through the Company's international subsidiaries and distributors.

Gross Margin

The Company's gross margin as a percentage of net sales increased to 47% in 1999 from 42% in 1998. This increase primarily resulted from lower obsolescence charges in 1999 (vs. a $30 million excess inventory charge recorded in the fourth quarter of 1998), higher metal wood sales (which carry higher margins) as a percentage of total net sales, as compared to 1998, and from reductions in manufacturing labor and overhead costs realized through the Company's 1998 restructuring, along with reductions in certain component costs. Gross margin as a percentage of net sales would have improved to 49% but for close-out sales of Great Big Bertha(R) Tungsten Titanium(TM) Irons, Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Metal Woods, and Big Bertha(R) War Bird(R) Metal Woods, which had much lower margins. However, consumer acceptance of current and new product introductions, the sale and disposal of non-current products at reduced sales prices and continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin. Furthermore, the Company expects that in 2000 the Company's sales of irons as a percentage of total net sales will increase. This would negatively impact the Company's gross margin as a percentage of net sales because irons generally sell at lower margins than woods.

The Company's margins also could be affected by its golf ball business. During 2000, the Company expects that its margins in the golf ball business will be less than the levels it expects to achieve when the Company can attain a level of operational and sales efficiency that allows it to benefit from certain economies of scale. There is no

assurance, however, that the Company will achieve the economies of scale necessary to maintain or improve its current overall sales margins.

Method of Distribution

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of golf club and golf ball products to its U.S. customers. The Company is continually reviewing alternative methods of ground shipping to supplement its use and reduce its reliance on UPS. To date, a limited number of alternative vendors have been identified and are being used by the Company. Nevertheless, any interruption in UPS services could have a material adverse effect on the Company's sales and results of operations.

Gray Market

Some quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" for the Company's products can undermine authorized retailers and foreign wholesale 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(R) products to unauthorized distributors and/or an increase in sales returns over historical levels. For example, the Company experienced a decline in sales in the United States in 1998, and believes the decline was 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 the United States and abroad, it has not stopped such commerce.

Credit Risk

The Company primarily sells its products to golf equipment retailers, both in the United States and abroad, and to foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, the recent downturn in the retail golf equipment market, primarily in the United States, has resulted in delinquent or uncollectible accounts for some of the Company's significant customers. As a result, during 1999 the Company wrote off approximately $5.3 million of past due trade accounts receivable against the Company's reserve for uncollectible accounts receivable. Management does not foresee any significant improvement in the U.S. retail golf equipment market during 2000. In addition, the Company's transition in Japan from selling to one distributor to selling directly to many retailers could increase the Company's delinquent or uncollectible accounts. There can be no assurance that failure of the Company's customers to meet their obligations to the Company will not adversely impact the Company's results of operations or cash flows.

Advertising and Promotion

Within the United States, the Company has focused its advertising efforts mainly on a combination of television commercials and printed advertisements in national magazines, such as Golf Digest, Golf Magazine, Golfweek, Golf World and Sports Illustrated's Golf Plus, and in trade publications, such as Golf Shop Operations. Advertising of the Company's golf clubs outside of the United States is typically handled by the Company's wholly-owned subsidiaries as well as distributors and resellers of the products in a particular country.

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf(R) and Odyssey(R) branded products. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour and the PGA European Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If certain of the Company'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 and do not grant any endorsement to the Company. In addition, the Company has created cash pools ("Pools") that reward such usage. However, in 1999, as compared to 1998, the Company significantly reduced these Pools for both Callaway Golf(R) and Odyssey(R) brand products for the PGA and the Senior PGA Tours, and has significantly reduced the Pools for Odyssey(R) brand products and eliminated the Pools for Callaway Golf(R) brand products for the LPGA and buy.com (formerly Nike) tours. The Company expects that the Pools for 2000 will be comparable to 1999. In addition, 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 a result, in 1999, usage of the Company's drivers on the PGA, Senior PGA, LPGA and buy.com tours was substantially reduced compared to 1998. This trend may continue in 2000.

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. While it is not clear to what extent professional usage contributes to retail sales, it is possible that the recent decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

Many golf ball manufacturers, including the leading U.S. manufacturer of premium golf balls, have focused a great deal of their marketing efforts on promoting the fact that tour professionals use their balls. Some of these golf ball competitors spend large amounts of money to secure professional endorsements, and the market leader has obtained a very high degree of tour penetration. While several of the Company's staff professionals have decided to use the Company's golf balls in play, there are others who are already under contract with other golf ball manufacturers or, for other reasons, may not choose to play the Company's products. In addition, several professionals who are not on the Company's staff have expressed an interest in playing the Company's ball, but it is too early to predict if a significant number will actually do so. The Company does not plan to match the endorsement spending levels of the leading manufacturer in 2000, and will instead rely more heavily upon the performance of the ball and other factors to attract professionals to the product. In the future the Company may or may not increase its tour spending in support of the golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf ball, but it is possible that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

To support the promotion of its products at the retail level, the Company offers various promotional programs to its customers. Golf clubs may be purchased at a discount by golf shop professionals, for personal demonstration, test, loan and rental use.

The Company's advertising, promotional and endorsement related expenses, including compensation to professional golfers, were approximately $55.4 million, $79.1 million and $62.4 million in 1999, 1998 and 1997, respectively.

Manufacturing and Sources and Availability of Materials

The manufacturing of the Company's golf clubs and golf balls involves a number of specialized processes required by the unique design of the products.

The Company's metal woods and irons are produced by the Company's manufacturing personnel at its Carlsbad, California facilities using clubheads, shafts and grips supplied by independent vendors. The Company works with a few select casting houses to produce its clubheads. The clubheads used in the production of Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods are manufactured to Callaway Golf's specifications by Cast Alloys, Inc. ("Alloys"), Coastcast Corporation ("Coastcast"), and Fu Sheng. Coastcast and Alloys cast Big Bertha(R) Steelhead Plus(TM) Stainless Steel Drivers and Fairway Woods clubheads. Big Bertha(R) Steelhead(TM) X-14(TM) Stainless Steel Irons are provided by Hitchiner Manufacturing Co. and Coastcast, and Big Bertha(R) X-12(R) reduced offset iron clubheads are provided by Coastcast. Hawkeye(R) Tungsten Injected(TM) Titanium Irons are provided by Coastcast. The Company's principal supplier of clubheads for the Company's putters are provided by Hitchiner Manufacturing Co. The Company works closely with its casting houses, which enables the Company to monitor the quality and reliability of clubhead production. All of these casting houses are currently manufacturing, or are entitled to manufacture, clubheads for competitors of the Company. The Company also works closely with Aldila, True Temper, HST, Graphite Design, Inc., FM Precision, Suntech-Sunwoo Co, Ltd., its principal suppliers of shafts, to develop specialized shafts suited to the S2H2(R) design and the other unique features of the Company's products. The Company's proprietary grip designs are provided by Golf Pride Lamkin and Winn Grips.

The Company is dependent on a limited number of suppliers for its club heads 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 club heads 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 the Company's results of operations.

The Company's golf balls are also produced by the Company's manufacturing personnel at its Carlsbad, California facilities using core and cover materials supplied by independent vendors. The Company is also dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials, including the golf ball cover material, are customized for the Company. The Company has developed supply relationships with

several resin and chemical producers worldwide. It works closely with such suppliers to maintain tight tolerances in the manufacturing processes and also to develop next generation formulations for golf ball research and development. Any delay or interruption in the supply chain could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company's size has made it a large consumer of certain materials, including titanium alloys, carbon fiber and custom blend urethanes. 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 always will 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.

Callaway Golf's own production processes entail rigorous and continual quality control inspection and require the application of significant resources to the manufacturing process. The Company's executive offices and its product development, manufacturing and distribution facilities are housed in facilities leased and owned by the Company in Carlsbad, California.

Handling of Materials

In the ordinary course of its manufacturing process, the Company uses paints and chemical solvents which are stored on-site. The waste created by use of these materials is transported off-site on a regular basis by registered waste haulers. As a standard procedure, a comprehensive audit of the treatment, storage, and disposal facility with which the Company contracts for the disposal of hazardous waste is performed annually by the Company. To date, the Company has not experienced any material environmental compliance problems, although there can be no assurance that such problems will not arise in the future.

Product Warranties

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. In addition, the Company's Biggest Big Bertha(R) Drivers, because of their large club head 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, even though these shafts were among the most expensive to manufacture in the industry. This product was discontinued in 1999. 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(R) clubs that have been sold.

The Company monitors the level and nature of any golf club breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. While the Company believes that it has sufficient reserves for warranty claims, 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.

Intellectual Property

The Company seeks to protect its intellectual property rights, such as product designs, manufacturing processes, new product research and concepts, and trademarks. These rights are protected through the acquisition of utility and design patents, trademark registrations and copyrights, the maintenance of trade secrets, the development of trade dress, and, when necessary and appropriate, litigation against those who are, in the Company's opinion, unfairly competing. In the United States, the Company has applied for or been granted patents for certain features of its golf clubs. Additionally, it has been granted trademark registrations for Callaway Golf(R), Big Bertha(R), Great Big Bertha(R), Hawk Eye(R), S2H2(R), Odyssey(R), Stronomic(R) and several other product names. There is no assurance that during the life of a patent or a trademark, prior to a court of competent jurisdiction validating them, any of these patents or trademarks are enforceable, although the Company believes them to be enforceable.

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 for golf clubs. From time to time others have or may contact the Company to claim that they have proprietary rights that have been infringed by the Company and/or its golf club 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 developed its new golf ball product, it attempted to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that a competitor will not assert and/or a court will not find that the Company's new golf ball products infringe any patent or other rights of competitors. If the Company's new golf ball product is found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and the Company could incur substantial costs to redesign its golf ball products and/or defend legal actions.

The Company has 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. While these efforts are taken seriously, there can be no assurance that these measures will prove adequate in all instances to protect the Company's confidential information.

Licensing

Through a licensing arrangement with Jonesheirs, Inc., Callaway Golf obtained the exclusive, worldwide rights to the use of the Bobby Jones(R) name for golf clubs and golf-related accessories through 2010. The Company receives a royalty from the Hickey-Freeman Company on sales of Bobby Jones(R) Sportswear and certain other products.

Callaway Golf also has an exclusive licensing agreement with Nordstrom, Inc., under which Nordstrom, Inc. designs, produces and sells apparel in the U.S. at its own expense under the "Callaway Golf Apparel by Nordstrom" label. The licensing agreement runs through 2004 with automatic one-year extensions unless terminated by either party. The line includes men's and women's golf apparel, golf footwear and certain other products and is sold at Nordstrom stores throughout the United States.

In 1997, Callaway Golf and Bausch & Lomb Incorporated signed a multi-year agreement to jointly develop and globally market an exclusive line of premium sunglasses specifically for golf enthusiasts. The sunglasses and sunglass cases, co-branded with the Ray-Ban(R), Callaway Golf(R) and Callaway(R) marks, were introduced in 1999 and are available through golf pro shops and other retailers of premium golf equipment, better sporting goods and better department stores, sunglass specialty shops and optical channels. Later in 1999, the Luxottica Group purchased the Bausch & Lomb sunglass business. The Company is currently discussing with Luxottica what effect the acquisition will have on the relationship.

Seasonality

In the golf club and golf ball industries, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the Company's fourth and first quarters. The Company's golf club business has generally followed this seasonal trend and the Company expects this to continue for both its golf club and golf ball businesses. Unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997-1998 may compound or otherwise distort these seasonal effects.

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. With respect to metal woods, the Company's major domestic competitors are Taylor Made, Titleist, Cobra and Ping. In 1998, Orlimar and Adams emerged as new competitors. With respect to irons, the Company's major domestic competitors are Titleist, Cobra, Taylor Made and Ping. For putters, the Company's major domestic competitors are Ping and Titleist. New product introductions and/or price reductions by competitors continue to generate increased market competition. However, the Company believes that it has gained unit and dollar market share for woods in the United States during 1999 as compared to 1998. 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 golf club 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 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.

The premium golf ball business is also highly competitive with a number of well-established and well-financed competitors, including Titleist, Spalding, Sumitomo Rubber Industries, Bridgestone and others. These competitors have established market share in the golf ball business, with one of its competitors having an estimated market share in excess of 50% of the premium golf ball business. The Company will need to penetrate this market share for its golf ball business to be successful. There can be no assurance that the Company's golf balls will obtain the market acceptance necessary to penetrate this established market.

Employees

As of December 31, 1999, the Company and its subsidiaries had 2,526 full-time employees, including 399 employed in sales and marketing, 191 employed in research and development and product engineering and 1,002 employed in production. The remaining full-time employees are administrative and support staff.

The Company considers its employee relations to be good. None of the Company's employees are represented by unions. The Company's commitment to the development of new products and the seasonal nature of its business may result in fluctuations in production levels. The Company attempts to manage these fluctuations to maintain employee morale and avoid disruption. However, it is possible that such fluctuations could strain employee relations in the future.

Item 2. Properties.

The Company and its subsidiaries conduct operations in both owned and leased properties, located primarily near the Company's headquarters in Carlsbad, California. The eleven buildings utilized in the Company's Carlsbad operations include corporate offices, manufacturing, research and development, warehousing and distribution facilities, and comprise approximately 778,000 square feet of space. Eight of these properties, representing approximately 605,000 square feet of space are owned by the Company; an additional three properties, representing approximately 173,000 square feet of space, are leased. In addition, the Company and its subsidiaries conduct certain international operations outside of the United States, located in the United Kingdom, Canada, Japan and Korea, in leased facilities comprising approximately 195,000 square feet. The Company believes that its facilities currently are adequate to meet its requirements.

Item 3. Legal Proceedings.

The Company, incident to its business activities, is often the plaintiff in 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 or may initiate 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. Defendants in these actions may, among other things, contest the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others may assert counterclaims against the Company. Based upon the Company's experience, 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, are parties to a number of legal proceedings, lawsuits and other claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters. However, management believes that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Securities Holders.

None.

Executive Officers of the Registrant

Biographical information concerning certain of the Company's officers is set forth below.

Name	Age	Position(s) Held
Ely Callaway..................	80	Founder, Chairman and Chief Executive Officer
Charles J. Yash...............	51	President and Acting Principal Financial Officer
Ronald A. Drapeau.............	53	Senior Executive Vice President, Manufacturing
Richard C. Helmstetter........	58	Senior Executive Vice President, Chief of New Golf Club Products
Steven C. McCracken...........	49	Executive Vice President, Licensing, Chief Legal Officer and Secretary
Michael W. McCormick..........	37	Executive Vice President, Global Sales

Ely Callaway, Founder, has served his current term as Chief Executive Officer since October 1998, and also has served as Chairman of the Board of the Company since the Company's formation in 1982. Mr. Callaway also currently serves on the Finance Committee and as Chairman of the Stock Option Committee (Non-Employee Plans). He served as President of the Company from October 1998 until August 1999, as Chief Executive Officer from 1982 to May 1996, and Chief of Advertising, Press and Public Relations from April 1997 to October 1998. From 1974 to 1981, Mr. Callaway founded and operated Callaway Vineyard and Winery in Temecula, California, until it was sold. From 1946 to 1973, Mr. Callaway worked in the textile industry, where he served as a Divisional President of several major divisions of Burlington Industries, Inc., and in 1968 was elected Corporate President and Director of Burlington, which at the time was the world's largest textile company. Prior to 1945, Mr. Callaway served a five-year tour of duty in the U.S. Army Quartermaster Corps. Mr. Callaway is a 1940 graduate of Emory University.

Charles J. Yash has served as a Director of the Company since July 1996 and President of the Company since August 1999. Mr. Yash was Senior Executive Vice President of the Company from February 1999 to August 1999 and Executive Vice President from February 1998 to February 1999. He has also served as President and Chief Executive Officer of Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, since June 1996. From 1992 to June 1996, Mr. Yash was President and Chief Executive Officer and a Director of Taylor Made Golf Company. From 1979 to 1992, Mr. Yash was employed in various marketing positions with the golf products division of Spalding Sports Worldwide, including Corporate Vice President and General Manager-Golf Products, from 1988 to 1992. From 1970 to 1975, Mr. Yash served in the United States Navy in various positions. Mr. Yash completed the Advanced Executive Program at the University of Massachusetts in 1982, received his M.B.A. in 1977 from Harvard Business School and graduated with a Bachelor of Science degree from the U.S. Naval Academy in 1970.

Ronald A. Drapeau has served as Senior Executive Vice President, Manufacturing, since February 1999 and as President and Chief Executive Officer of Odyssey Golf, Inc., a former wholly-owned subsidiary of the Company, from August 1997 until its dissolution in December 1999. Mr. Drapeau served as Executive Vice President of the Company from August 1997 to February 1999, and served as a consultant to the Company from November 1996 to August 1997. From April 1993 to September 1996, Mr. Drapeau served as Chief Executive Officer of Lynx Golf, Inc., a subsidiary of Zurn Industries, Inc., and served as Senior Vice President and Chief Financial Officer of Zurn Industries, Inc. from 1992 to 1993. He is a 1969 graduate of Bentley College.

Richard C. Helmstetter has served the Company as Senior Executive Vice President, Chief of New Golf Club Products since January 1998 and as Senior Executive Vice President, Chief of New Products from April 1993 to January 1998. Mr. Helmstetter served as President from 1990 to 1993 and as Executive Vice President from 1986 to 1990. From 1967 to 1986, Mr. Helmstetter served as President of Adam Ltd., a pool cue manufacturing and merchandising company which he founded and operated in Japan. During 1982 and 1983, Mr. Helmstetter also consulted extensively for several Japanese, European and American companies, including Bridgestone Corporation's strategic planning group. Mr. Helmstetter is a 1966 graduate of the University of Wisconsin.

Steven C. McCracken has served as Executive Vice President, Licensing and Chief Legal Officer since April 1997 and as Secretary since April 1994. He has served as an Executive Vice President since April 1996 and served as General Counsel from April 1994 to April 1997. He served as Vice President from April 1994 to April 1996. Prior to joining the Company, Mr. McCracken was a partner at Gibson, Dunn & Crutcher for 11 years, and had been in the private practice of law for over 18 years. During part of that period, he provided legal services to the Company. Mr. McCracken received a B.A., magna cum laude, from the University of California at Irvine in 1972 and a J.D. from the University of Virginia in 1975.

Michael W. McCormick has served as Executive Vice President, Global Sales since January 2000. Prior to joining the Company, Mr. McCormick was with Nike, Inc. since 1992, serving as Eastern Regional Sales Manager, Director of Golf Sales, Southern Regional Sales Manager, and Director of National Sales. He was responsible for more than $2 billion of Nike footwear, apparel and equipment revenues. Prior to Nike, Mr. McCormick was Vice President, Operations for Las Vegas Golf and Tennis from 1989 to 1992.

Information with respect to the Company's employment agreements with Messrs. Callaway, Yash and Helmstetter is contained on pages 15 and 16 of the Company's definitive Proxy Statement under the caption "Compensation of Executive Officers - Employment Agreements and Termination of Employment Agreements" as filed with the Securities and Exchange Commission on March 29, 2000 pursuant to Regulation 14A, which information is incorporated herein by reference. In addition, the Company currently has employment agreements with Messrs. Drapeau, McCracken and McCormick for terms expiring on December 31, 2000, December 31, 2000 and December 31, 2002 respectively.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Information in response to Item 5 is contained on page 48 of the Company's 1999 Annual Report to Shareholders, which information is incorporated herein by reference and is included as part of Exhibit 13.1 to this Form 10-K.

Item 6. Selected Financial Data.

Information in response to Item 6 is contained on page 16 of the Company's 1999 Annual Report to Shareholders, which information is incorporated herein by reference and is included as part of Exhibit 13.1 to this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Information in response to Item 7 is contained on pages 17 through 27 of the Company's 1999 Annual Report to Shareholders, which information is incorporated herein by reference and is included as part of Exhibit 13.1 to this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information in response to Item 7A is contained on page 27 of the Company's 1999 Annual Report to Shareholders, which information is incorporated herein by reference and is included as part of Exhibit 13.1 to this Form 10-K.

Item 8. Financial Statements and Supplementary Data.

Information in response to Item 8 is contained on pages 28 through 48 of the Company's 1999 Annual Report to Shareholders, which information is incorporated herein by reference and is included as part of Exhibit 13.1 to this Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None

PART III

Item 10. Directors and Executive Officers of the Registrant.

Certain information concerning the Company's executive officers is included under the caption "Executive Officers of the Registrant" following Part I, Item 4. Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and greater than 10% shareholders to file initial reports of ownership (on Form 3) and periodic changes in ownership (on Forms 4 and 5) of Company securities with the Securities and Exchange Commission (the "Commission") and the New York Stock Exchange. Based solely on its review of copies of such forms and such written representations regarding compliance with such filing requirements as were received from its executive officers, directors and greater than 10% shareholders, the Company believes that all such Section 16(a) reports were filed on a timely basis in 1999.

Other information required by Item 10 has been included in the Company's definitive Proxy Statement under the caption "Board of Directors" as filed with the Commission on March 29, 2000 pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 11. Executive Compensation.

The Company maintains employee benefit plans and programs in which its executive officers are participants. Copies of certain of these plans and programs are set forth or incorporated by reference as exhibits to this Report. Information required by Item 11 has been included in the Company's definitive Proxy Statement under the captions "Compensation of Executive Officers," "Executive Compensation Report of the Compensation and Management Succession Committee and the Stock Option Committee (Employee Plans) of the Board of Directors," "Performance Graph" and "Board of Directors," as filed with the Commission on March 29, 2000 pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 has been included in the Company's definitive Proxy Statement under the caption "Beneficial Ownership of the Company's Securities," as filed with the Commission on March 29, 2000 pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 has been included in the Company's definitive Proxy Statement under the captions "Certain Transactions," and "Compensation of Executive Officers - Compensation Committee Interlocks and Insider Participation" as filed with the Commission on March 29, 2000 pursuant to Regulation 14A, which information is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as part of this report:

1. Financial Statements. The following consolidated financial statements of Callaway Golf Company and its subsidiaries included in Part II, Item 8, are incorporated by reference to pages 28 through 47 of the 1999 Annual Report to Shareholders:

Consolidated Balance Sheet at December 31, 1999 and 1998

Consolidated Statement of Operations for the three years ended December 31, 1999

Consolidated Statement of Cash Flows for the three years ended December 31, 1999

Consolidated Statement of Shareholders' Equity for the three years ended December 31, 1999

Notes to Consolidated Financial Statements

Report of Independent Accountants

2. Financial Statement Schedule.

Report of Independent Accountants on Financial Statement Schedule

Schedule II - Consolidated Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto

3. Exhibits.

A copy of any of the following exhibits will be furnished to any beneficial owner of the Company's Common Stock, or any person from whom the Company solicits a proxy, upon written request and payment of the Company's reasonable expenses in furnishing any such exhibit. All such requests should be directed to the Company's Director of Investor Relations at Callaway Golf Company, 2285 Rutherford Road, Carlsbad, CA 92008.

3.1 Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission ("Commission") on July 1, 1999 (file no. 1-10962).

3.2 Bylaws, incorporated herein by this reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, as filed with the Commission on July 1, 1999 (file no. 1-10962).

4.1 Dividend Reinvestment and Stock Purchase Plan, incorporated herein by this reference to the Prospectus in the Company's Registration Statement on Form S-3, as filed with the Commission on March 29, 1994 (file no. 33-77024).

4.2 Rights Agreement by and between the Company and Chemical Mellon Shareholder Services as Rights Agent dated as of June 21, 1995, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).

4.3 Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for

the quarter ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).

Executive Compensation Contracts/Plans

10.1 Chairman and Founder Employment Agreement by and between the Company and Ely Callaway entered into as of January 1, 1997, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, as filed with the Commission on August 14, 1997 (file no. 1-10962).

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10.4 Stock Option Agreement by and between the Company and Charles J. Yash dated as of May 10, 1996, incorporated herein by this reference to the corresponding exhibit in the Company's Registration Statement on Form S-8, as filed with the Commission on June 11, 1996 (file no. 333-5721).

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10.34 Receivables Purchase and Servicing Agreement dated as of February 10, 1999, by and among Golf Funding Corporation, as Seller, Redwood Receivables Corporation, as Purchaser, Callaway Golf Sales Company, as Servicer, and General Electric Capital Corporation, as Operating Agent and Collateral Agent, incorporated herein by this reference to the corresponding exhibit to the Company's Current Report on Form 8-K dated February 25, 1999, as filed with the Commission on February 25, 1999 (file no. 1-10962).

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13.1 Portions of the Company's 1999 Annual Report to Shareholders (with the exception of the information incorporated by reference specifically in this Report on Form 10-K, the 1999 Annual Report to Shareholders is not deemed to be filed as a part of this Report on Form 10-K).

21.1 List of Subsidiaries. +

23.1 Consent of Independent Accountants. +

24.1 Powers of Attorney. +

27.1 Financial Data Schedule for the Year Ended December 31, 1999.+

\+ Included in this Report

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 30, 2000

By: /s/ Ely Callaway
Ely Callaway
Founder, Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this report has been signed by the following persons in the capacities and as of the date indicated.

Signature	Title	Dated as of
Principal Executive Officer:		
/s/ Ely Callaway Ely Callaway	Founder, Chairman and Chief Executive Officer and Director	March 30, 2000
Acting Principal Financial Officer:		
/s/ Charles J. Yash Charles J. Yash	President and Director	March 30, 2000
Principal Accounting Officer:		
/s/ Kenneth E. Wolf Kenneth E. Wolf	Senior Vice President, Finance and Controller	March 30, 2000
Directors:		
* William C. Baker	Director	March 30, 2000
* Vernon E. Jordan, Jr.	Director	March 30, 2000
* Yotaro Kobayashi	Director	March 30, 2000
* Aulana L. Peters	Director	March 30, 2000
* Richard Rosenfield	Director	March 30, 2000
* William A. Schreyer	Director	March 30, 2000

* By: /s/ Charles J. Yash
Charles J. Yash,
Attorney-in-fact

Report of Independent Accountants on Financial Statement Schedule

To the Board of Directors and Shareholders
of Callaway Golf Company:

Our audits of the consolidated financial statements referred to in our report dated January 26, 2000, appearing in the 1999 Annual Report to Shareholders of Callaway Golf Company (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

San Diego, California
January 26, 2000

SCHEDULE II

CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
For The Three Year Period Ended December 31, 1999

Date	Allowance for Doubtful Accounts	Allowance for Obsolete Inventory	Allowance for Warranty Costs	Valuation Allowance For Deferred Tax Assets
Balance, December 31, 1996	$ 6,337	$ 5,284	$ 27,303	
Provision	1,354	743	13,726	
Write-off, net	(645)	(353)	(12,970)	
Balance, December 31, 1997	7,046	5,674	28,059	
Provision	4,171	33,214	24,681	$1,759
Write-off, net	(1,278)	(2,040)	(16,925)	
Balance, December 31, 1998	9,939	36,848	35,815	1,759
Provision	655	2,649	18,023	2,919
Write-off, net	(5,303)	(24,503)	(17,733)	(488)
Balance, December 31, 1999	$ 5,291	$ 14,994	$ 36,105	$4,190

EXHIBIT INDEX

EXHIBITS

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24.1 Powers of Attorney.+

27.1 Financial Data Schedule for the Year Ended December 31, 1999.+

+ Included in this Report

(b) Reports on Form 8-K:

None.

EXHIBIT 10.2

FIRST AMENDMENT TO CHAIRMAN AND FOUNDER EMPLOYMENT AGREEMENT

This First Amendment to Chairman and Founder Employment Agreement ("First Amendment") is effective as of December 31, 1999 by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company") and ELY CALLAWAY ("Mr. Callaway").

A. The Company and Mr. Callaway are parties to a certain Chairman and Founder Employment Agreement entered into as of January 1, 1997 (the "Agreement").

B. The Company and Mr. Callaway are in negotiations regarding a new employment agreement, and desire to keep the current Agreement in effect until such time as a new employment agreement is finalized.

C. In light of the foregoing, the Company and Mr. Callaway desire to amend the Agreement pursuant to Section 16 of the Agreement, in the manner set forth herein.

NOW, THEREFORE, in consideration of the foregoing and other consideration, the value and sufficiency of which are hereby acknowledged, the Company and Mr. Callaway hereby agree as follows:

1. Section 1 of the Agreement is hereby amended to read as follows:

> "TERM. The Company hereby employs Mr. Callaway and Mr. Callaway hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating March 31, 2000, unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Mr. Callaway's status shall be one of at will employment."

2. But for the amendment contained herein, and any other written amendments properly executed by the parties, the Agreement shall otherwise remain unchanged.

IN WITNESS WHEREOF, the Company and Mr. Callaway have caused this First Amendment to be executed effective as of the date set forth above.

MR. CALLAWAY	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Ely Callaway	By: /s/ Charles J. Yash
Ely Callaway	Charles J. Yash, President
Dated: 1/4/00	Dated: 1/7/00

EXHIBIT 10.3

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 2000, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Charles J. Yash ("Mr. Yash").

1. TERM.

(a) The Company hereby employs Mr. Yash and Mr. Yash hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing January 1, 2000 and terminating December 31, 2002 (the "Initial Term"), unless this Agreement is earlier terminated as hereinafter provided.

(b) On January 1, 2002, and on each January 1 thereafter (the "Extension Dates"), the expiration date of this Agreement shall be automatically extended one year, through December 31 of the following year, so long as (a) this Agreement is otherwise still in full force and effect, (b) Mr. Yash is still employed by the Company pursuant to this Agreement, (c) Mr. Yash is not otherwise in breach of this Agreement, and (d) neither the Company nor Mr. Yash has given notice as provided in Section 1(c) of this Agreement.

(c) At any time prior to an Extension Date, either Mr. Yash or the Company may give written notice to the other ("Notice") that the automatic extension of the expiration date of this Agreement pursuant to Section 1(b) shall end with the next extension, which shall be the final such automatic extension of the expiration date of this Agreement. Thus, if either Mr. Yash or the Company gives Notice on or before January 1, 2002, and all other conditions for automatic extension of the expiration date of this Agreement pursuant to Section 1(b) exist, then on January 1, 2002 the expiration date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2002 to December 31, 2003, with this Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

(d) Upon expiration of this Agreement, Mr. Yash's status shall be one of at will employment.

2. SERVICES.

(a) Mr. Yash shall serve as President of Callaway Golf Company and President and Chief Executive Officer of Callaway Golf Ball Company. Upon the retirement of Ely Callaway as Chief Executive Officer of Callaway Golf Company, which is expected to occur on or before January 1, 2001, Mr. Yash shall become Chief Executive Officer of Callaway Golf Company. Mr. Yash's duties shall be the usual and customary duties of the offices in which he serves. Mr. Yash shall report to Mr. Callaway until the time of Mr. Callaway's retirement; thereafter, Mr. Yash shall report to the Board of Directors of Callaway Golf Company.

(b) Mr. Yash shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Mr. Yash agrees to devote his full productive time and best efforts to the performance of Mr. Yash's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors and, as applicable, its Chief Executive Officer. Mr. Yash further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Mr. Yash is employed by the Company or otherwise receiving compensation or other consideration from the Company, Mr. Yash will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Mr. Yash further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require. Nothing herein contained shall be deemed to preclude Mr. Yash from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Mr. Yash's work for the Company.

4. COMPENSATION.

(a) The Company agrees to pay Mr. Yash a base salary at the rate of $700,000.00 per year. On the date Mr. Yash assumes the additional duties of Chief Executive Officer of Callaway Golf Company, his base salary will increase to a rate of $800,000.00 per year.

(b) The Company shall provide Mr. Yash an opportunity to earn an annual bonus based upon participation in the Company's officer bonus plan, as it may or may not exist from time to time. Mr. Yash acknowledges that currently all bonuses are discretionary, that the current officer bonus plan does not include any nondiscretionary bonus plan, and that the Company does not currently contemplate establishing any nondiscretionary bonus plan applicable to Mr. Yash.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Mr. Yash for all reasonable, customary, and necessary expenses incurred in the performance of Mr. Yash's duties hereunder. Mr. Yash shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company.

(b) *Vacation.* Mr. Yash shall receive five (5) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused vacation will be carried forward from year to year. The maximum vacation time Mr. Yash may accrue shall be three times Mr. Yash's annual vacation benefit. The Company reserves the right to pay Mr. Yash for unused, accrued vacation benefits in lieu of providing time off.

(c) *Benefits.* During Mr. Yash's employment with the Company pursuant to this Agreement, the Company shall provide for Mr. Yash to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Mr. Yash is insurable under usual underwriting standards, term life insurance coverage on Mr. Yash's life, payable to whomever Mr. Yash directs, in the face amount of $2,000,000.00, provided that Mr. Yash's physical condition does not prevent Mr. Yash from qualifying for such insurance coverage under reasonable terms and conditions;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time; and

(v) participate in any other benefit plans the Company provides from time to time to senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) *Estate Planning and Other Perquisites.* To the extent the Company provides tax and estate planning and related services, or any other perquisites and personal benefits to other senior executive officers generally from time to time, such services and perquisites shall be made available to Mr. Yash on the same terms and conditions.

(e) *Club Membership.* The Company shall pay the reasonable cost of initiation associated with Mr. Yash gaining privileges at a mutually agreed upon country club. Mr. Yash shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Mr. Yash.

(f) *Stock Options.* Pursuant to separate written stock option agreements and subject to the approval of the Stock Option Committee (Employee Plans) of the Board of Directors of the Company, beginning in January 2001, and continuing in January of each year thereafter that this Agreement is in effect, Mr. Yash shall be granted options to purchase at least

200,000 shares of the Common Stock of the Company. The options shall vest as stated in the respective stock option agreements, provided Mr. Yash is then currently employed by the Company and not in breach of this Agreement. The option price per share shall be the NYSE closing price of Callaway Golf Common Stock on the date of the respective grants. The options will contain such reasonable restrictions as determined by the Stock Option Committee (Employee Plans), including without limitation, cancellation of options or forfeiture of gain upon exercise if Mr. Yash discloses the Company's confidential information or competes with the business of the Company.

6. TAX INDEMNIFICATION. Mr. Yash shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Mr. Yash agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company (including any severance pursuant to Section 8 of this Agreement), Mr. Yash will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his duties hereunder, Mr. Yash shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment while employed by the Company and for a period of one (1) year thereafter.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Mr. Yash shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Mr. Yash shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Mr. Yash's duties and obligations to the Company.

(e) Non-Interference. While employed by the Company, and for one (1) year thereafter, Mr. Yash shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Mr. Yash understands that it is the policy of the Company that the Chief Executive Officer, the

Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business.

8. TERMINATION.

(a) Termination at the Company's Convenience. Mr. Yash's employment under this Agreement may be terminated by the Company at its convenience at any time. In the event of a termination by the Company for its convenience, Mr. Yash shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Mr. Yash as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Mr. Yash shall be entitled to Special Severance equal to (i) severance payments equal to Mr. Yash's then current base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or eighteen (18) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to eighteen (18) months from the date of termination for Mr. Yash and his qualified family members; (iii) the benefits specified in Section 5(d) (Estate Planning and Other Perquisites) for a period of time equal to eighteen (18) months from the date of termination; and (iv) no other severance.

(b) Termination by the Company for Substantial Cause. Mr. Yash's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Mr. Yash shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Mr. Yash to substantially perform his duties, material breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work and/or felony criminal conduct.

(c) Termination by Mr. Yash for Substantial Cause. Mr. Yash's employment under this Agreement may be terminated immediately by Mr. Yash for substantial cause at any time. In the event of a termination by Mr. Yash for substantial cause, Mr. Yash shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Mr. Yash as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Mr. Yash shall be entitled to Special Severance equal to (i) severance payments equal to Mr. Yash's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or eighteen (18) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to eighteen (18) months from the date of termination for Mr. Yash and his qualified family members; (iii) the benefits specified in Section 5(d) (Estate Planning and Other Perquisites) for a period of time equal to eighteen (18) months from the date of termination; and (iv) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Mr. Yash's employment under this Agreement may be terminated immediately by the Company in the event Mr. Yash becomes permanently disabled. Permanent disability shall be defined as Mr. Yash's failure to perform or being unable to perform all or substantially all of Mr. Yash's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Mr. Yash, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Mr. Yash's permanent disability, Mr. Yash shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Mr. Yash's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twelve (12) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Mr. Yash as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Mr. Yash's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination for Mr. Yash and his qualified family members; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Mr. Yash pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Mr. Yash's employment under this Agreement shall be terminated immediately by the Company in the event of Mr. Yash's death. In the event of a termination due to Mr. Yash's death, Mr. Yash's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Mr. Yash's former base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to twelve (12) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Mr. Yash as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Mr. Yash's death; and (iv) no other severance.

(f) Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Mr. Yash shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Mr. Yash pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Mr. Yash is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Mr. Yash hereunder any amounts earned by Mr. Yash in other employment after termination of his employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Mr. Yash in other employment had Mr. Yash sought such other employment. The provisions of this Section 8 shall not limit Mr. Yash's rights under or

pursuant to any other agreement or understanding with the Company regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Mr. Yash is entitled pursuant to the terms of such plan.

(g) Termination By Mutual Agreement of the Parties. Mr. Yash's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(h) Pre-Termination Rights. The Company shall have the right, at its option, to require Mr. Yash to vacate his office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Mr. Yash's employment hereunder, then this Agreement shall be automatically renewed (the "Renewed Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the Initial Term, as specified pursuant to Section 1 of this Agreement, shall be three (3) years commencing with the effective date of the Change in Control, and the Extension Dates shall commence with the second anniversary of the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Mr. Yash shall be treated as if he had been terminated for the convenience of the Company pursuant to Section 8(a), and Mr. Yash shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Renewed Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Mr. Yash described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of Mr. Yash's permanent disability (defined in Section 8(d)), Mr. Yash's death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Mr. Yash had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Mr. Yash under the terms of this Agreement or any other agreement or understanding between the Company and Mr. Yash, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Mr. Yash relocate or any assignment to Mr. Yash of duties that would make it unreasonably difficult for Mr. Yash to maintain the principal residence he had immediately prior to the Change in Control.

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Mr. Yash understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Mr. Yash remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Mr. Yash make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Mr. Yash shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Mr. Yash's employment with the Company.

11. GENERAL RELATIONSHIP. Mr. Yash shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to (i) concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, (ii) the processes, formulae and techniques disclosed by the Company and/or its affiliates to Mr. Yash or observed by Mr. Yash, (iii) the designs, inventions and innovations and related plans, strategies and applications which Mr. Yash develops during the term of this Agreement in connection with the work performed by Mr. Yash for the Company and/or its affiliates; and (iv) third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Mr. Yash; or (iii) information which, subsequent to disclosure or observation, is obtained by Mr. Yash from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Mr. Yash) and who is not required to refrain from disclosing such information to others.

(c) While employed by the Company, Mr. Yash will have access to and become familiar with various Trade Secrets and Confidential Information. Mr. Yash acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Mr. Yash agrees that he will not, at any time, whether during or subsequent to Mr. Yash's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Mr. Yash is compelled to disclose it by governmental process. In the event Mr. Yash believes that he is legally required to disclose any Trade Secrets or Confidential Information, Mr. Yash shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to, execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Mr. Yash in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

(b) As a material part of the terms and understandings of this Agreement, Mr. Yash agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Mr. Yash, alone or with anyone else, in connection with the work performed by Mr. Yash for the Company during his employment with the

Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(c) Mr. Yash agrees to disclose in writing to the Board of Directors and the Chief Legal Officer of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Mr. Yash develops, conceives and/or reduces to practice in connection with any work performed by Mr. Yash for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Mr. Yash shall disclose all Designs, Inventions and Innovations to the Company, even if he does not believe that he is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his interest in such Design, Invention or Innovation to the Company. If the Company and Mr. Yash disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Mr. Yash to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Mr. Yash developed entirely on his own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Mr. Yash for the Company and/or its affiliates.

(e) Mr. Yash agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company 's request, at no expense to Mr. Yash, Mr. Yash shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Mr. Yash in perpetuity.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Mr. Yash shall

have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Mr. Yash.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding as provided in Section 18(f).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Mr. Yash or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Mr. Yash and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Mr. Yash: Charles J. Yash
Post Office Box 2621
Rancho Santa Fe, California 92067

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Ely Callaway
Chairman and Chief Executive Officer

or to such other address as Mr. Yash or the Company may from time to time furnish, in writing, to the other.

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) Mr. Yash and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Mr. Yash's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling

within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes; provided, however, that the parties shall have the right to seek provisional relief in an ancillary court action in connection with an arbitrable dispute.

(b) Any demand for arbitration shall be in writing and must be communicated to the other party within one (1) year after the discovery of the alleged claim or cause of action by the aggrieved party, or, if later, within the time period stated in the applicable statute of limitations.

(c) The arbitration shall be conducted pursuant to the procedural rules stated in the National Rules for Resolution of Employment Disputes of the American Arbitration Association ("AAA"). The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator from the American Arbitration Association will be selected pursuant to the American Arbitration Association National Rules for Resolution of Employment Disputes.

(d) The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to one deposition.

(e) The parties understand and agree that the arbitrator has no authority to award punitive damages.

(f) The prevailing party shall be entitled to an award by the arbitrator of reasonable attorneys' fees and other costs reasonably incurred in connection with the arbitration, including witness fees and expert witness fees, unless the arbitrator for good cause determines otherwise.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ PARAGRAPH 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (Mr. Yash) ______ (Company)

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

(c) Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed and construed in accordance with the laws of said state as to both interpretation and performance.

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

(e) Advertising Waiver. Mr. Yash agrees to permit the Company and/or its affiliates, and persons or other organizations authorized by the Company and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of the Company and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Mr. Yash's name and/or pictures of Mr. Yash taken in the course of his provision of services to the Company and/or its affiliates, appear. Mr. Yash hereby waives and releases any claim or right he may otherwise have arising out of such use, publication or distribution.

(f) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Mr. Yash's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Mr. Yash must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Mr. Yash must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AND TAX INDEMNIFICATION AGREEMENTS. Mr. Yash and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective May 10, 1996 (the "Old Officer Employment Agreement") and a certain Tax Indemnification Agreement (the "Old Tax Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement and the Old Tax Agreement, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement or the Old Tax Agreement and this Agreement, this Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

MR. YASH	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Charles J. Yash	By: /s/ Ely Callaway
Charles J. Yash	Ely Callaway, Chairman and CEO

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Mr. Yash's Employment Agreement ("Section 6"), the Company agrees to indemnify Mr. Yash with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Mr. Yash by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A.

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Mr. Yash shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and

penalties imposed with respect to any such taxes), Mr. Yash shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Mr. Yash shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Mr. Yash regarding the amount of Excise Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Mr. Yash that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Mr. Yash within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Mr. Yash, the Accounting Firm shall furnish Mr. Yash with a written opinion that failure to disclose, report or pay the Excise Tax on Mr. Yash's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Mr. Yash in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Mr. Yash shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that Mr. Yash will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of Mr. Yash, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to Mr. Yash.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Mr. Yash is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Mr. Yash in which case Mr. Yash shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on

behalf of Mr. Yash consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Mr. Yash. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Mr. Yash to the Company within ninety (90) days after written demand to Mr. Yash by the Company, provided, however, that Mr. Yash shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Mr. Yash to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Mr. Yash shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Mr. Yash's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a compete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Mr. Yash shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Mr. Yash to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Mr. Yash shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Mr. Yash gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Mr. Yash that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Mr. Yash in writing that it desires to contest the Claim, Mr. Yash shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Mr. Yash;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Mr. Yash harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as

provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Mr. Yash of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Mr. Yash shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Mr. Yash agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Mr. Yash to pay the Claim and sue for a refund, the Company shall indemnify and hold Mr. Yash harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Mr. Yash which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Mr. Yash shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Mr. Yash receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Mr. Yash with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Mr. Yash shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Mr. Yash shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Mr. Yash with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Mr. Yash shall not be entitled to any refund and the Company does not notify Mr. Yash in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Mr. Yash shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Mr. Yash, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Mr. Yash.

EXHIBIT B

CHANGE IN CONTROL

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

1. Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding the Company and its affiliates and any employee benefit or stock ownership plan of the Company or its affiliates and also excluding an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

2. Individuals who, as of the effective date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by the Company's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

3. Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

(a) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such

reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

(b) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.

EXHIBIT 10.6

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 2000, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Ronald A. Drapeau ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing January 1, 2000 and terminating December 31, 2000 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Senior Executive Vice President, Manufacturing, of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to such person as the Chief Executive Officer shall designate. The Board of Directors and/or the Chief Executive Officer of the Company may change employee's title, position and/or duties at any time.

(b) Employee shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors and its Chief Executive Officer. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Employee further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company.

4. COMPENSATION.

(a) The Company agrees to pay Employee a base salary at the rate of $500,000.00 per year.

(b) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may or may not exist from time to time. Employee acknowledges that all bonuses are discretionary, that the current Executive Bonus Plan does not include any nondiscretionary bonus plan, and that the Company does not contemplate establishing any nondiscretionary bonus plan applicable to Employee.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive four (4) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused vacation will be carried forward from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time; and

(v) participate in any other benefit plans the Company provides from time to time to senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other senior executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(e) Club Membership. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company or any of its affiliates for a period of one (1) year from the date Employee ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

(e) Non-Interference. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees

may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance.

(b) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months

on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the term of this Agreement or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) Termination By Mutual Agreement of the Parties. Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual

agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(h) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date, as specified pursuant to Section 1 of this Agreement, shall be three (3) years from the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Employee understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Employee remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Employee make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Employee shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Employee's employment with the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to (i) concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, (ii) the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, (iii) the designs, inventions and innovations and related plans, strategies and applications which Employee develops during the Term of this Agreement in connection with the work performed by Employee for the Company and/or its affiliates; and (iv) third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and who is not required to refrain from disclosing such information to others.

(c) While employed by the Company, Employee will have access to and become familiar with various Trade Secrets and Confidential Information. Employee acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Employee agrees that Employee will not, at any time, whether during or subsequent to Employee's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Employee is compelled to disclose it by governmental process. In the event Employee believes that Employee is legally required to disclose any Trade Secrets or Confidential Information, Employee shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to, execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

(b) As a material part of the terms and understandings of this Agreement, Employee agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Employee, alone or with anyone else, in connection with the work performed by Employee for the Company during Employee's employment with the Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(c) Employee agrees to disclose in writing to the President and CEO of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Employee develops, conceives and/or reduces to practice in connection with any work performed by Employee for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Employee shall disclose all Designs, Inventions and Innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such Design, Invention or Innovation to the Company. If the Company and Employee disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

(e) Employee agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company 's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding as provided in Section 18(f).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. **NOTICES.** Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Ronald A. Drapeau
405 Bridoon Terrace
Encinitas, California 92024

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Steven C. McCracken
Executive Vice President, Chief Legal Officer

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. **IRREVOCABLE ARBITRATION OF DISPUTES.**

(a) Employee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes; provided, however, that the parties shall have the right to seek provisional relief in an ancillary court action in connection with an arbitrable dispute.

(b) Any demand for arbitration shall be in writing and must be communicated to the other party within one (1) year after the discovery of the alleged claim or cause of action by the aggrieved party, or, if later, within the time period stated in the applicable statute of limitations.

(c) The arbitration shall be conducted pursuant to the procedural rules stated in the National Rules for Resolution of Employment Disputes of the American Arbitration Association ("AAA"). The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator.

If the parties cannot agree on the arbitrator after their best efforts, an arbitrator from the American Arbitration Association will be selected pursuant to the American Arbitration Association National Rules for Resolution of Employment Disputes.

(d) The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to one deposition.

(e) The parties understand and agree that the arbitrator has no authority to award punitive damages.

(f) The prevailing party shall be entitled to an award by the arbitrator of reasonable attorneys' fees and other costs reasonably incurred in connection with the arbitration, including witness fees and expert witness fees, unless the arbitrator for good cause determines otherwise.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ PARAGRAPH 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (Employee)   ______ (Company)

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

(c) Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed and construed in accordance with the laws of said state as to both interpretation and performance.

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

(e) Advertising Waiver. Employee agrees to permit the Company and/or its affiliates, and persons or other organizations authorized by the Company and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of the Company and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Employee's name and/or pictures of Employee taken in the course of Employee's provision of services to the Company and/or its affiliates, appear. Employee hereby waives and releases any claim or right Employee may otherwise have arising out of such use, publication or distribution.

(f) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. POSSIBLE TERMINATION OR CONTINUATION OF EMPLOYMENT. It is recognized that during the term of this Agreement, Employee's employment with the Company may be terminated by the Company pursuant to Subsection 8(a) for any reason, or for no reason, and that there are no representations or understandings regarding future employment, in any capacity, beyond the term of this Agreement. The parties recognize that this Agreement contemplates a period in which both Employee and the Company explore the possibility of an ongoing employment relationship, with neither obligated to offer, accept or otherwise maintain such a future relationship. In light of this uncertainty, and as a special concession to Employee made in lieu of any and all other claims, demands, causes of action, or other damages Employee might have against the Company arising out of this Agreement, the employment relationship created by it, or the termination of that employment relationship for whatever reason, it is agreed as follows:

(a) If the Company has not offered to Employee a new employment agreement in substantially the same form as this Agreement, with the exception that the new employment agreement shall have a term of not less than three (3) years, on or before November 15, 2000, Employee may deem this Agreement to have been terminated by the Company pursuant to Section 8(a).

(b) If the Company elects not to offer Employee a new employment agreement as provided in Subsection 21(a) above on or before November 15, 2000, then Employee must give written notice to the Company of any election to terminate employment pursuant to Subsections 21(a) and 8(a) on or before December 1, 2000. Failure by Employee to deliver such written notice to the Company on or before December 1, 2000 shall constitute a full and complete waiver of Employee's rights pursuant to this Section.

(c) Notwithstanding anything else to the contrary, the parties may agree in a writing, executed on behalf of both Employee and the Company, to extend, modify, delete or otherwise change the provisions of this Section.

22. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AND TAX INDEMNIFICATION AGREEMENTS. Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Executive Officer Employment Agreement effective August 11, 1997, as amended April 1, 1999 (the "Old Officer Employment Agreement") and a certain Tax Indemnification Agreement (the "Old Tax Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement and the Old Tax Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement or the Old Tax Agreement and this Agreement, this Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Ronald A. Drapeau	By: /s/ Ely Callaway
Ronald A. Drapeau	Ely Callaway, Chairman and CEO

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety (90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid

to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a compete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that

if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.

EXHIBIT B

CHANGE IN CONTROL

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

1. Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding the Company and its affiliates and any employee benefit or stock ownership plan of the Company or its affiliates and also excluding an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

2. Individuals who, as of the effective date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by the Company's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

3. Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

(a) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

(b) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.

EXHIBIT 10.7

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 2000, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Steven C. McCracken ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing January 1, 2000 and terminating December 31, 2000 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Executive Vice President, Licensing, Chief Legal Officer and Secretary, of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to such person as the Chief Executive Officer shall designate. The Board of Directors and/or the Chief Executive Officer of the Company may change employee's title, position and/or duties at any time.

(b) Employee shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors and its Chief Executive Officer. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Employee further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company.

4. COMPENSATION.

(a) The Company agrees to pay Employee a base salary at the rate of $450,000.00 per year.

(b) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may or may not exist from time to time. Employee acknowledges that all bonuses are discretionary, that the current Executive Bonus Plan does not include any nondiscretionary bonus plan, and that the Company does not contemplate establishing any nondiscretionary bonus plan applicable to Employee.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive four (4) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused vacation will be carried forward from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time; and

(v) participate in any other benefit plans the Company provides from time to time to senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other senior executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(e) Club Membership. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company or any of its affiliates for a period of one (1) year from the date Employee ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

(e) Non-Interference. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees

may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance.

(b) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months

on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the term of this Agreement or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) Termination By Mutual Agreement of the Parties. Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual

agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(h) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date, as specified pursuant to Section 1 of this Agreement, shall be three (3) years from the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Employee understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Employee remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Employee make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Employee shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Employee's employment with the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to (i) concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, (ii) the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, (iii) the designs, inventions and innovations and related plans, strategies and applications which Employee develops during the Term of this Agreement in connection with the work performed by Employee for the Company and/or its affiliates; and (iv) third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and who is not required to refrain from disclosing such information to others.

(c) While employed by the Company, Employee will have access to and become familiar with various Trade Secrets and Confidential Information. Employee acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Employee agrees that Employee will not, at any time, whether during or subsequent to Employee's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Employee is compelled to disclose it by governmental process. In the event Employee believes that Employee is legally required to disclose any Trade Secrets or Confidential Information, Employee shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to, execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

(b) As a material part of the terms and understandings of this Agreement, Employee agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Employee, alone or with anyone else, in connection with the work performed by Employee for the Company during Employee's employment with the Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(c) Employee agrees to disclose in writing to the President and CEO of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Employee develops, conceives and/or reduces to practice in connection with any work performed by Employee for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Employee shall disclose all Designs, Inventions and Innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such Design, Invention or Innovation to the Company. If the Company and Employee disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

(e) Employee agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company 's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding as provided in Section 18(f).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Steven C. McCracken
5186 Chelterham Terrace
San Diego, California 92130

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Ely Callaway
Chairman and Chief Executive Officer

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) Employee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes; provided, however, that the parties shall have the right to seek provisional relief in an ancillary court action in connection with an arbitrable dispute.

(b) Any demand for arbitration shall be in writing and must be communicated to the other party within one (1) year after the discovery of the alleged claim or cause of action by the aggrieved party, or, if later, within the time period stated in the applicable statute of limitations.

(c) The arbitration shall be conducted pursuant to the procedural rules stated in the National Rules for Resolution of Employment Disputes of the American Arbitration Association ("AAA"). The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator.

If the parties cannot agree on the arbitrator after their best efforts, an arbitrator from the American Arbitration Association will be selected pursuant to the American Arbitration Association National Rules for Resolution of Employment Disputes.

(d) The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to one deposition.

(e) The parties understand and agree that the arbitrator has no authority to award punitive damages.

(f) The prevailing party shall be entitled to an award by the arbitrator of reasonable attorneys' fees and other costs reasonably incurred in connection with the arbitration, including witness fees and expert witness fees, unless the arbitrator for good cause determines otherwise.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ PARAGRAPH 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (Employee)   ______ (Company)

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

(c) Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed and construed in accordance with the laws of said state as to both interpretation and performance.

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

(e) Advertising Waiver. Employee agrees to permit the Company and/or its affiliates, and persons or other organizations authorized by the Company and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of the Company and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Employee's name and/or pictures of Employee taken in the course of Employee's provision of services to the Company and/or its affiliates, appear. Employee hereby waives and releases any claim or right Employee may otherwise have arising out of such use, publication or distribution.

(f) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. POSSIBLE TERMINATION OR CONTINUATION OF EMPLOYMENT. It is recognized that during the term of this Agreement, Employee's employment with the Company may be terminated by the Company pursuant to Subsection 8(a) for any reason, or for no reason, and that there are no representations or understandings regarding future employment, in any capacity, beyond the term of this Agreement. The parties recognize that this Agreement contemplates a period in which both Employee and the Company explore the possibility of an ongoing employment relationship, with neither obligated to offer, accept or otherwise maintain such a future relationship. In light of this uncertainty, and as a special concession to Employee made in lieu of any and all other claims, demands, causes of action, or other damages Employee might have against the Company arising out of this Agreement, the employment relationship created by it, or the termination of that employment relationship for whatever reason, it is agreed as follows:

(a) If the Company has not offered to Employee a new employment agreement in substantially the same form as this Agreement, with the exception that the new employment agreement shall have a term of not less than three (3) years, on or before November 15, 2000, Employee may deem this Agreement to have been terminated by the Company pursuant to Section 8(a).

(b) If the Company elects not to offer Employee a new employment agreement as provided in Subsection 21(a) above on or before November 15, 2000, then Employee must give written notice to the Company of any election to terminate employment pursuant to Subsections 21(a) and 8(a) on or before December 1, 2000. Failure by Employee to deliver such written notice to the Company on or before December 1, 2000 shall constitute a full and complete waiver of Employee's rights pursuant to this Section.

(c) Notwithstanding anything else to the contrary, the parties may agree in a writing, executed on behalf of both Employee and the Company, to extend, modify, delete or otherwise change the provisions of this Section.

22. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AND TAX INDEMNIFICATION AGREEMENTS. Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Executive Officer Employment Agreement effective January 1, 1997, as amended April 1, 1999 (the "Old Officer Employment Agreement") and a certain Tax Indemnification Agreement (the "Old Tax Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement and the Old Tax Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement or the Old Tax Agreement and this Agreement, this Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Steven C. McCracken	By: /s/ Ely Callaway
Steven C. McCracken	Ely Callaway, Chairman and CEO

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety (90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid

to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a compete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that

if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.

EXHIBIT B

CHANGE IN CONTROL

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

1. Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding the Company and its affiliates and any employee benefit or stock ownership plan of the Company or its affiliates and also excluding an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

2. Individuals who, as of the effective date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by the Company's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

3. Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

(a) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

(b) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.

EXHIBIT 10.8

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of December 21, 1999, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Mick McCormick ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing January 10, 2000 and terminating December 31, 2002 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Executive Vice President, Global Sales, of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to the Chief Executive Officer or such other person as the Chief Executive Officer shall designate. The Board of Directors and/or the Chief Executive Officer of the Company may change Employee's title, position and/or duties at any time.

(b) Employee shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors and its Chief Executive Officer. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Employee further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company.

4. COMPENSATION.

(a) The Company agrees to pay Employee a base salary at the rate of $450,000.00 per year. Employee's base salary shall be reviewed, and subject to increase but

not decrease at the Company's discretion, as of January 1, 2001.

(b) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may or may not exist from time to time. Employee acknowledges that all bonuses are discretionary, that the current Executive Bonus Plan does not include any nondiscretionary bonus plan, and that the Company does not contemplate establishing any nondiscretionary bonus plan applicable to Employee.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive four (4) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused vacation will be carried forward from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time; and

(v) participate in any other benefit plans the Company provides from

time to time to senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

(d) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other senior executive officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(e) Club Membership. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

(f) Signing Bonus. Company shall pay Employee a one-time signing bonus of $200,000.00, which is to be paid to Employee on the date Employee actually commences employment pursuant to this Agreement.

(g) Stock Options. Pursuant to a separate stock option agreement, and subject to the approval of the Stock Option Committee of the Board of Directors, the Company shall provide to Employee options to purchase up to 200,000 shares of the Common Stock of the Company in accord with the following pricing and vesting schedule ("Start Date" means the date on which Employee actually commences employment with the Company):

SHARES	VESTING DATE	PRICE
50,000	December 31, 2000	Base Price (the closing price on the NYSE on December 21, 1999, as reported in the Wall Street Journal)
50,000	December 31, 2001	Base Price
50,000	December 31, 2002	Base Price
50,000	December 31, 2003	Base Price

All shares of stock that are issuable upon the exercise of such options granted to Employee shall be registered as promptly as possible with the Securities and Exchange Commission, and shall be approved for listing on the New York Stock Exchange upon notice of issuance.

(h) Relocation Expenses. The Company will reimburse Employee for actual and reasonable expenses incurred in connection with the relocation of Employee's principal residence to a location within San Diego County, California, that is within thirty minutes normal driving time of the Company's facilities at Carlsbad, California, including, but not limited to, the actual and reasonable costs of moving household goods (both from his old residence to a temporary residence and from the temporary residence to the new residence); temporary housing costs; commission and closing costs associated with the sale of Employee's old residence; carrying costs associated with the old residence, including all expenses associated with maintaining Employee's old residence until sold; and closing costs and commissions associated with the acquisition of a new primary residence. To the extent any

reimbursement of such expenses pursuant to this section is subject to state or federal taxation imposed upon Employee, the Company shall pay to Employee an additional amount (the "Gross-Up Payment") such that after payment of all state and federal taxes on the reimbursement and the Gross-Up Payment, Employee shall retain an amount equal to the reimbursement. Employee shall fully and completely cooperate with the Company with respect to all matters associated with the taxation or potential taxation of reimbursements made pursuant to this section. Notwithstanding anything else to the contrary, total reimbursement and Gross-Up Payments pursuant to this provision shall not exceed $150,000.00.

6. TAX INDEMNIFICATION. Employee shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company or any of its affiliates for a period of one (1) year from the date Employee ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

(e) Non-Interference. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business, and agrees not to interfere

with the Company's press and public relations by violating this policy.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time. In the event of a termination by the Company for its convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance.

(b) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct.

(c) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the

Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal the greater of the remainder of the term of this Agreement or twelve (12) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to twelve (12) months from the date of termination; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Employee's employment under this Agreement be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's former base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the term of this Agreement or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(f) Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) Termination By Mutual Agreement of the Parties. Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(h) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date, as specified pursuant to Section 1 of this Agreement, shall be three (3) years from the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a), and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Section 8(d)), Employee's death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to

Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Employee understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Employee remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Employee make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Employee shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Employee's employment with the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to (i) concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, (ii) the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, (iii) the designs, inventions and innovations and related plans, strategies and applications which Employee develops during the Term of this Agreement in connection with the work performed by Employee for the Company and/or its affiliates; and (iv) third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and who is not required to refrain from disclosing such information to others.

(c) While employed by the Company, Employee will have access to and

become familiar with various Trade Secrets and Confidential Information. Employee acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Employee agrees that Employee will not, at any time, whether during or subsequent to Employee's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Employee is compelled to disclose it by governmental process. In the event Employee believes that Employee is legally required to disclose any Trade Secrets or Confidential Information, Employee shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to, execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

(b) As a material part of the terms and understandings of this Agreement, Employee agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Employee, alone or with anyone else, in connection with the work performed by Employee for the Company during Employee's employment with the Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(c) Employee agrees to disclose in writing to the President and CEO of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Employee develops, conceives and/or reduces to practice in connection with any work performed by Employee for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Employee shall disclose all Designs, Inventions and Innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such Design, Invention or Innovation to the Company. If the Company and Employee disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign

as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

(e) Employee agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company 's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding as provided in Section 18(f).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5)

days of mailing by certified or registered mail, postage prepaid, to:

Employee: Mick McCormick
14328 SW Mistletoe Drive
Tigard, Oregon 97223

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Steven C. McCracken
Executive Vice President, Chief Legal Officer

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) Employee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes; provided, however, that the parties shall have the right to seek provisional relief in an ancillary court action in connection with an arbitrable dispute.

(b) Any demand for arbitration shall be in writing and must be communicated to the other party within one (1) year after the discovery of the alleged claim or cause of action by the aggrieved party, or, if later, within the time period stated in the applicable statute of limitations.

(c) The arbitration shall be conducted pursuant to the procedural rules stated in the National Rules for Resolution of Employment Disputes of the American Arbitration Association ("AAA"). The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator from the

American Arbitration Association will be selected pursuant to the American Arbitration Association National Rules for Resolution of Employment Disputes.

(d) The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to one deposition.

(e) The parties understand and agree that the arbitrator has no authority to award punitive damages.

(f) The prevailing party shall be entitled to an award by the arbitrator of reasonable attorneys' fees and other costs reasonably incurred in connection with the arbitration, including witness fees and expert witness fees, unless the arbitrator for good cause determines otherwise.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ PARAGRAPH 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (Employee)   ______ (Company)

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

(c) Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed and construed in accordance with the laws of said state as to both interpretation and performance.

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

(e) Advertising Waiver. Employee agrees to permit the Company and/or its affiliates, and persons or other organizations authorized by the Company and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of the Company and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Employee's name and/or pictures of Employee taken in the course of Employee's provision of services to the Company and/or its affiliates, appear. Employee hereby waives and releases any claim or right Employee may otherwise have arising out of such use, publication or distribution.

(f) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. TRADE SECRETS OF OTHERS. It is the understanding of both the Company and Employee that Employee shall not divulge to the Company any confidential information or trade secrets belonging to others, including Employee's former employers, nor shall the Company seek to elicit from Employee any such information. Consistent with the foregoing, Employee shall not provide to the Company, and the Company shall not request, any documents or copies of documents containing such information.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Mick McCormick	By: /s/ Ely Callaway
Mick McCormick	Ely Callaway, Chairman and CEO

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Employment Agreement ("Section 6"), the Company agrees to indemnify Employee with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Employee by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Employee shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with respect to any such taxes), Employee shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Employee shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Employee regarding the amount of Excise Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Employee that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Employee within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Employee, the Accounting Firm shall furnish Employee with a written opinion that failure to disclose, report or pay the Excise Tax on Employee's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Employee in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Employee shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that the Employee will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of the Employee, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to the Employee.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Employee is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Employee in which case Employee shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Employee consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Employee. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Company within ninety

(90) days after written demand to Employee by the Company, provided, however, that Employee shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Employee to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Employee shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Employee's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a compete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Employee shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Employee to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Employee shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Employee gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Employee that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Employee in writing that it desires to contest the Claim, Employee shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Employee;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below, the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Employee of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Employee shall pay the same and sue for a refund or otherwise contest the Claim in any

permissible manner as directed by the Company. Employee agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Employee to pay the Claim and sue for a refund, the Company shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Employee which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Employee receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Employee shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Employee with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Employee shall not be entitled to any refund and the Company does not notify Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Employee shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Employee, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Employee.

EXHIBIT B

CHANGE IN CONTROL

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

1. Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding the Company and its affiliates and any employee benefit or stock ownership plan of the Company or its affiliates and also excluding an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

2. Individuals who, as of the effective date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by the Company's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

3. Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

(a) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

(b) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.

EXHIBIT 10.9

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into as of January 1, 2000, by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company"), and BRUCE PARKER ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing January 1, 2000 and terminating December 31, 2003, unless this Agreement is earlier terminated as hereinafter provided. It is agreed and understood that Employee's employment is for a defined and limited term, as set forth in this Agreement, and that unless such employment is earlier terminated, upon the expiration of this Agreement Employee shall cease to be an employee of the Company.

2. SERVICES.

(a) Employee shall serve as Ambassador. Employee's duties shall be those assigned to him from time to time by the President of the Company, and are expected to involve contact with, and advice concerning, the customers of the Company. Employee shall report to the President of the Company or to such other senior executive as the Chief Executive Officer shall designate.

(b) Employee shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

3. SERVICES TO BE NON-EXCLUSIVE. During the term hereof, Employee agrees to devote his or her best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors and its Chief Executive Officer. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company or otherwise receiving compensation or other consideration from the Company, Employee will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business that competes with the Company or any of its affiliates without the Company's prior written consent. Employee further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require. Nothing herein contained shall be deemed to preclude Employee from providing services to non-competing entities, consistent with the above, or from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that such activities shall in no manner interfere with or derogate from Employee's work for the Company. If Employee undertakes to provides services to non-competing entities during the term of this Agreement, Employee shall notify the Company, in writing, within thirty (30) days.

4. COMPENSATION.

(a) The Company agrees to pay Employee a Base Salary at the rate of $400,000.00 per year for calendar years 2000 and 2001, and at the rate of $300,000.00 per year for calendar years 2002 and 2003. Base Salary shall be payable monthly.

(b) The Company agrees to pay Employee Supplemental Compensation at the rate of $5,000.00 per day for each day Employee performs services for the Company at the Company's request "In Service Days"). Supplemental Compensation shall be paid monthly, with any Base Salary due, in the next month following the month in which it is earned. It is agreed and understood that the Company shall request, and Employee shall provide, a minimum of 120 In Service Days worth $600,000.00 in Supplemental Compensation during the term of this Agreement (the "Total In Service Commitment"). If, through no fault of Employee, the Company fails to use and compensate Employee for at least 30 In Service Days in any calendar year during the term of this Agreement, then on or before December 31 of that calendar year the Company shall pay to Employee a lump sum cash payment equal to the difference between the total Supplemental Compensation paid in that year and the lesser of (i) any remaining and unpaid portion of the Total In Service Commitment and (ii) $150,000. Employee shall provide such records and documentation, including trip reports, as the Company may reasonably request as a condition of receiving Supplemental Compensation. Travel days shall not count as In Service Days, and shall not earn Supplemental Compensation, except that any day on which Employee is required by the Company to travel more than four (4) hours in connection with the performance of his requested duties, and on which no other services are provided by Employee, shall be treated as one half of an In Service Day and shall earn Supplemental Compensation of $2,500.00 for each such day.

(c) The Company shall provide Employee an opportunity to receive an annual bonus based purely upon the Company's discretion, and without regard to any bonus or bonuses paid by the Company to any other employee or employees. Employee acknowledges that all bonuses are discretionary, that he or she has no expectation of any nondiscretionary bonus, and that the Company does not contemplate establishing any nondiscretionary bonus plan applicable to Employee.

(d) All payments to Employee from the Company or subject to applicable state, federal and other tax laws, including any applicable withholding provisions.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer. It is agreed and understood that, wherever practical and reasonable, Employee's air travel in the United States shall be by chartered aircraft,7 and that Employee's

air travel in the United States where chartered aircraft is not practical and reasonable, and on all international trips, shall be First Class where such service is available. Hotel and other travel accommodations shall be of a class of service mutually agreed upon by the Company and Employee.

(b) Vacation. Employee shall not be entitled to receive any paid vacation or similar vacation benefits during the term of this Agreement. The Company agrees to pay Employee, in lieu of providing time off, for any vacation benefits accrued prior to January 1, 2000, on or before January 31, 2000.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $550,000.00, provided that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time; and

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time.

(d) Support. The Company shall make available to Employee for business use office space and secretarial services at the Company's principal place of business in Carlsbad, California, and shall provide, at the Company's expense, for Employee to have the use of a computer, fax and telephone for business use at his home.

(e) Stock Options. Pursuant to a separate stock option agreement and subject to the approval of the Stock Option Committee of the Board of Directors or its authorized representatives, the Company shall provide to Employee options to purchase up to 100,000 shares of the Common Stock of the Company in accord with the following pricing and vesting schedule ("Grant Date" means the date on which the options are officially granted by action of the Company):

SHARES	VESTING DATE	PRICE
20,000	December 31, 2000	Base Price (the closing price on the NYSE on Grant Date, as reported in the Wall Street Journal)
20,000	December 31, 2001	Base Price
20,000	December 31, 2002	Base Price
40,000	December 31, 2003	Base Price

All shares of stock that are issuable upon the exercise of such options granted to Employee shall be registered as promptly as possible with the Securities and Exchange Commission, and shall be approved for listing on the New York Stock Exchange upon notice of issuance. This grant of stock options shall be made at the Company's discretion by no later than March 31, 2000. If the options are not granted on or before March 31, 2000, then Employee shall have until April 10, 2000 to give written notice of his intention to rescind this Agreement.

(f) Medical Consulting. To the extent the Company makes the services of. Joseph A. Capozzi, M.D., F.A.C.S., available to senior officers of the Company, the Company shall also undertake, if Dr. Capozzi agrees, to make such services available to Employee on the same terms and conditions.

6. REQUIRED USE OF COMPANY EQUIPMENT.

(a) It is expected and required that, during the term of this Agreement, Employee shall promote Callaway Golf(R) golf clubs by using the Company's current products whenever he plays golf. The Company shall provide Employee with up to two sets of the current products of the Company, at no cost to Employee, for his personal use ("Personal Use Sets"). Personal Use Sets may be exchanged, in whole or in part, for more current product as reasonably required. Personal Use Sets may not be sold or given to others by Employee.

(b) In addition to any Personal Use Sets, Employee may purchase additional equipment from the Company for his personal use or to be used as gifts. Employee may purchase up to one set of golf clubs, including a bag, each year at half of the published U.S. wholesale price. Additional clubs and/or bags may be purchased at the published U.S. wholesale price, up to a maximum of $10,000.00 in purchases in any one year. No equipment purchased under this policy may be resold or used for barter.

(c) When the Company launches its golf ball, it will be expected and required that, during the term of this Agreement, Employee shall promote the Callaway Golf golf ball by using a current model golf ball whenever he plays golf. The Company and Employee shall agree upon a program for providing Employee with Callaway Golf golf balls for his personal use ("Personal Use Balls").

(d) The availability of Personal Use Sets and Personal Use Balls for Employee shall be subject to the commercial and business needs of the Company, including the needs of its sales departments. The Company, at its option, may provide "demo", blemished,

or refurbished product. At the end of this Agreement, any remaining Personal Use Sets or Personal Use Balls shall be returned to the Company.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company (including any Special Severance), Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company or any of its affiliates for a period of one (1) year from the date Employee ceases to be employed by the Company.

(c) Suppliers. While employed by the Company or otherwise receiving compensation or other consideration from the Company (including any Special Severance), and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

(e) Non-Interference. While employed by the Company or otherwise receiving compensation or other consideration from the Company (including any Special Severance), and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Employee understands that it is the policy of the Company that only the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business, and agrees not to interfere with the Company's press and public relations by violating this policy.

8. TERMINATION.

(a) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for

substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his or her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work, and/or felony criminal conduct. Notwithstanding the foregoing, if the Company elects, in its sole discretion, it may pay Employee additional severance equal to Employee's Base Salary at the same rate and on the same schedule as in effect at the time of termination for a period of time no longer than the remainder of the term of this Agreement. If the Company so elects to pay Special Severance, then Employee shall remain obligated to the Company pursuant to Sections 3, 7, 10, 12, 13, 15, 18, 19, 20 and 21 for the duration of such payments.

(b) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Employee that would have vested had Employee remained employed pursuant to this Agreement for a period of time equal to the remainder of the term of this Agreement. In addition to the foregoing, and subject to the provisions of Section 20, Employee shall be entitled to Special Severance equal to (i) severance payments equal to Employee's former Base Salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the remainder of the term of this Agreement; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the lesser of the remainder of the term of this Agreement or the maximum time allowable under COBRA (currently eighteen (18) months); (iii) a lump sum payment equal to the difference between the total Supplemental Compensation paid Employee pursuant to this Agreement and $600,000.00; and (iv) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(c) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. Permanent disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Employee's Base Salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the lesser of the remainder of the term of this Agreement or six (6) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination;

(iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the lesser of the remainder of the term of this Agreement or the maximum time allowable under COBRA (currently eighteen (18) months); and (vi) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Employee pursuant to disability or other insurance, or similar sources, provided by the Company.

(d) Termination Due to Death. Employee's employment under this Agreement shall be terminated immediately by the Company in the event of Employee's death. In the event of a termination due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Employee's Base Salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the lesser of the remainder of the term of this Agreement or six (6) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's death; and (iv) no other severance.

(e) Termination at End of Term. Upon the expiration of this Agreement at the end of its term on December 31, 2003, Employee shall cease to be employed by the Company in any capacity. There shall be no severance or other payment due Employee at such time, except that Employee shall be paid any accrued an unpaid amounts otherwise due under this Agreement for Base Salary, Supplemental Compensation, and/or reimbursable expenses.

(f) Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(g) Termination By Mutual Agreement of the Parties. Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

9. PRE-TERMINATION RIGHTS. The Company shall have the right, at its

option, to require Employee to vacate his or her office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Employee understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Employee remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Employee make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Employee shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Employee's employment with the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to (i) concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, (ii) the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, (iii) the designs, inventions and innovations and related plans, strategies and applications which Employee develops during the Term of this Agreement in connection with the work performed by Employee for the Company and/or its affiliates; and (iv) third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or (iii) information which, subsequent to disclosure or observation, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and who is not required to refrain from disclosing such information to others.

(c) While employed by the Company, Employee will have access to and become familiar with various Trade Secrets and Confidential Information. Employee acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Employee agrees that Employee will not, at any time, whether during or subsequent to Employee's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Employee is compelled to disclose it by governmental process. In the event Employee believes that Employee is legally required to disclose any Trade Secrets or Confidential Information, Employee shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to, execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

13. ASSIGNMENT OF RIGHTS.

(a) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

(b) As a material part of the terms and understandings of this Agreement, Employee agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Employee, alone or with anyone else, in connection with the work performed by Employee for the Company during Employee's employment with the Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(c) Employee agrees to disclose in writing to the President and CEO of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Employee develops, conceives and/or reduces to practice in connection with any work performed by Employee for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Employee shall disclose all Designs, Inventions and Innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such Design, Invention or Innovation to the Company. If the Company and Employee disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Employee for the Company and/or its affiliates.

(e) Employee agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company 's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding as provided in Section 18(f).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or

permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Bruce Parker
348 Horizon Drive
Encinitas, California 92024

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Steven C. McCracken
Executive Vice President, Chief Legal Officer

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES; PROVIDED, HOWEVER, THAT THE PARTIES SHALL HAVE THE RIGHT TO SEEK PROVISIONAL RELIEF IN AN ANCILLARY COURT ACTION IN CONNECTION WITH AN ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY WITHIN ONE (1) YEAR AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY, OR, IF LATER, WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA"). THE ARBITRATION SHALL BE CONDUCTED IN ORANGE COUNTY BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR.

IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL RULES FOR RESOLUTION OF EMPLOYMENT DISPUTES.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO ONE DEPOSITION.

(e) THE PARTIES UNDERSTAND AND AGREE THAT THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

(g) THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THE AGREEMENT, AND SHALL BE BINDING UPON THE PARTIES.

THE PARTIES HAVE READ PARAGRAPH 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (Employee)   ______ (Company)

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

(c) Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed and construed in accordance with

the laws of said state as to both interpretation and performance.

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

(e) Advertising Waiver. Employee agrees to permit the Company and/or its affiliates, and persons or other organizations authorized by the Company and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of the Company and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Employee's name and/or pictures of Employee taken in the course of Employee's provision of services to the Company and/or its affiliates, appear. Employee hereby waives and releases any claim or right Employee may otherwise have arising out of such use, publication or distribution.

(f) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Employee's continued compliance with the terms and conditions of Sections 3, 7, 10, 12, 13, 15, 18, 19 and 21;

(b) Employee must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Employee must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

21. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AGREEMENT. Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Executive Officer Employment Agreement effective January 1, 1997 (the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement. It is specifically understood that as of January 1, 2000, Employee shall no longer serve as an officer or director

of the Company or any affiliate of the Company, and that the Company is authorized to take all necessary and appropriate steps to implement such intentions.

22. INDEMNIFICATION.

(a) Actions by Employee prior to December 31, 1999. The Company shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware and the Bylaws of the Company, as the same now exist or may hereafter be amended, indemnify Employee against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which Employee was or is a party or is threatened to be made a party by reason of the fact that Employee is or was a director or officer of the Company.

(b) Actions by Employee on or after January 1, 2000. The Company shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware and the Bylaws of the Company, as the same now exist or may hereafter be amended, indemnify Employee against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which Employee was or is a party or is threatened to be made a party by reason of the fact that Employee is or was an employee or agent of the Company.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Bruce Parker	By: /s/ Charles Yash
Bruce Parker	Charles Yash, President

EXHIBIT 10.10

RESIGNATION AGREEMENT AND GENERAL RELEASE

This Resignation Agreement and General Release ("Agreement") is effective November 23, 1999, and is made by and between FREDERICK R. PORT ("Employee") and CALLAWAY GOLF COMPANY (the "Company"), a Delaware corporation. Employee is currently employed by the Company pursuant to an Executive Officer Employment Agreement effective January 1, 1997 and an Amendment to Executive Officer Employment Agreement effective April 1, 1999 (collectively the "Executive Officer Employment Agreement"). The Company and Employee desire to enter into this Agreement pursuant to section 8(h) of the Executive Officer Employment Agreement to establish certain terms relating to Employee's resignation from his employment.

1. Resignation. Employee hereby gives notice of his resignation as an employee of the Company effective February 20, 2000 (the "Resignation Date"). Employee also gives notice of his resignation, effective immediately, as a director of the Company and as a director or officer of the Company's affiliates, including but not limited to Callaway Golf Europe, Ltd., Callaway Golf (Germany) GmbH, Callaway Golf Korea Ltd., Callaway Golf K.K., Callaway Golf Canada, Callaway Golf Europe, S.A., and the Callaway Golf Company Foundation. Employee understands and agrees that at any time between the effective date of this Agreement and the Resignation Date, the CEO of the Company may, in his sole discretion, with or without substantial cause, (a) remove Employee from any or all of Employee's positions with the Company and/or any of its subsidiaries or affiliates, including the positions of Senior Vice President, International Sales and President, Callaway Golf International, and/or (b) direct Employee to cease all further activities and efforts on behalf of the Company or any of its affiliates and/or remain off the premises of the Company and/or its affiliates. It is understood and expected that in no event will Employee retain his positions as Senior Executive Vice President, International Sales and President, Callaway Golf International, beyond December 31, 1999. During the period between the effective date of this Agreement and the Resignation Date, Employee will cooperate with the CEO and the President of the Company to implement a smooth transition of Employee's responsibilities to others designated by the CEO and/or the President. Employee shall be permitted to use his office for some additional time after December 31, 1999, up to January 14, 2000, to transition his affairs, pack his office, and clean up his files. The Company will provide reasonable secretarial support during this period. Employee agrees not to disrupt or interfere with the business of the Company during this period. The Company reserves the right to ask Employee not to come upon Company premises, and may impose reasonable restrictions upon Employee's access and conduct while on Company premises.

2. Transition and Severance.

(a) Severance. Unless this Agreement is subsequently terminated for Substantial Cause (as defined in section 7, below), the Company has agreed to provide Employee the following severance when his employment ends on February 20, 2000:

(i) payment of one million two hundred thousand dollars ($1,200,000.00), paid in twenty-four (24) equal monthly payments of fifty thousand dollars ($50,000.00) each, commencing in March 2000 and ending in February 2002;

(ii) subject to the approval of the Stock Option Committee of the Company's Board of Directors, the Company shall accelerate the vesting of all unvested options to purchase the Company's stock which have not vested as of February 20, 2000, such

that those options shall vest on February 20, 2000, the date on which Employee's employment will end. Additionally, and subject to the approval of the Stock Option Committee of the Company's Board of Directors, the expiration date of the stock option grants made to Employee pursuant to stock option agreements dated September 1, 1995 and April 24, 1998, respectively, shall be extended as stated below:

September 1, 1995 Grant:	100,000 shares vested 9/1/98 will expire on 9/1/03
	100,000 shares vested 9/1/99 will expire on 9/1/04
	100,000 shares to vest on 2/20/00 will expire on 2/20/05
April 24, 1998 Grant:	30,000 shares vested on 1/1/99 will expire on 2/20/05
	30,000 shares to vest on 1/1/00 will expire on 2/20/05
	90,000 shares to vest on 2/20/00 will expire on 2/20/05

Notwithstanding the above, the expiration date of the stock option grant to Employee pursuant to the stock option agreement dated February 17, 1999 shall not be extended and those options shall expire on February 19, 2001, one year after Employee's employment with the Company ends. Employee will be provided with a stock option notice that sets forth the vested options and last date to exercise;

(iii) payment of premiums for group health insurance for Employee under the Company's currently existing group health insurance policy, or under an individual health insurance policy consistent with the Company's currently existing group health insurance coverage for Employee to the extent such coverage is available, through February 20, 2002;

(iv) payment of premiums for disability insurance for Employee under the Company's currently existing group disability policy, or under an individual disability policy or policies consistent with the Company's currently existing group disability coverage for Employee to the extent such coverage is available, through February 20, 2002; and

(v) payment of premiums for life insurance for Employee under the Company's currently existing group term life insurance policy, or under an individual term life insurance policy or policies consistent with the Company's currently existing life insurance coverage for Employee ($3,000,000.00 total coverage) to the extent such coverage is available, through February 20, 2002.

(b) Transition Benefits. At Employee's election, Employee may participate in the Callaway Golf Company 401k Pension Plan, ESPP, and Executive Deferred Compensation plan through February 20, 2000, when Employee's employment will end, at which time participation in these programs will cease pursuant to the terms of the respective plans.

(c) Country Club Membership. Employee's right to use the Company's Del Mar Country Club membership will end on February 20, 2000. Employee will cooperate with the Company to implement the return of the membership privileges to the Company.

(d) Cooperation. Employee agrees, if requested, to cooperate with the Company regarding any federal, state or local tax issues arising out of Employee's employment or this Agreement.

(e) Option to Change Severance. In lieu of the insurance benefits provided for in subsections 2(iii), (iv) and (v) above, Employee may elect in a writing delivered to the Company's Chief Legal Officer on or before February 15, 2000, to surrender those benefits and receive instead:

(i) a lump sum cash payment of sixty-thousand five hundred dollars ($60,500.00); and

(ii) payment of premiums for group health insurance for Employee under the Company's employee plan for eighteen (18) months following the Resignation Date pursuant to COBRA.

3. Non-Compete During Severance Period. Employee acknowledges and reaffirms that while he is receiving severance or other consideration from the Company he will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund. Employee acknowledges that he will be receiving consideration from the Company, in the form of severance payments and other benefits as set forth in section 2 above, until February 20, 2002.

4. Injunction. Employee understands and agrees that the nature of damages for breach of this Agreement or the Executive Officer Employment Agreement may be such that an injunction is the only remedy that will protect the Company from a breach. Employee hereby agrees to the entry of such an injunction by an appropriate court of competent jurisdiction or an arbitrator (including enforcement of any arbitration award by a Court) to enjoin any breach of any obligation owed by Employee to Company.

5. Releases.

(a) Employee's General Release. In consideration for the Severance Payment described in section 2 and the other obligations agreed to by the Company pursuant to this Agreement, Employee hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and each and every past, present and future officer, director, employee, representative and attorney of the Company, its, predecessors, successors, subsidiaries, affiliates and benefit plans, and their successors and assigns (collectively referred to herein as the "Company Releasees"), from any, every, and all charges, complaints, claims, causes of action, and lawsuits of any kind whatsoever, including, to the extent permitted under the law, all claims which Employee has against the Company Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Employee's employment by the Company, including but not limited to, harassment, discrimination, retaliation, failure to progressively discipline Employee, termination of Employee's employment, and/or breach of Executive Officer Employment Agreement, together with any and all other claims based on the Company's employment of Employee, or any other event occurring prior to the date of this Agreement. EMPLOYEE ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT EMPLOYEE IS

WAIVING ANY RIGHT TO RECOVERY AGAINST THE COMPANY RELEASEES BASED ON STATE OR FEDERAL, SEX, PREGNANCY, RACE, COLOR, NATIONAL ORIGIN, MARITAL STATUS, RELIGION, VETERAN STATUS, DISABILITY, SEXUAL ORIENTATION, MEDICAL CONDITION OR OTHER ANTI-DISCRIMINATION LAWS, INCLUDING WITHOUT LIMITATION, TITLE VII, THE AMERICANS WITH DISABILITIES ACT, AND THE CALIFORNIA FAIR HOUSING AND EMPLOYMENT ACT, OR BASED ON THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OR THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, ALL AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY EMPLOYEE OR A GOVERNMENTAL AGENCY. Provided. however, that nothing in the foregoing or otherwise in this Agreement is intended to waive any of Employee's rights to have the Company defend and/or indemnify him in accordance with the General Corporation Law of Delaware and the Bylaws of the Company, as the same now exist or may hereafter be amended, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which Employee was or is a party or is threatened to be made a party by reason of the fact that Employee is or was a director or officer of the Company.

(b) Company's Limited Release. In consideration for the obligations agreed to by the Employee pursuant to this Agreement, the Company hereby irrevocably and unconditionally releases and forever discharges Employee, his successors and assigns (collectively referred to herein as the "Employee Releasees"), from any, every and all charges, complaints, claims, causes of action, and lawsuits of any kind that the Company now knows it has or may have against Employee Releasees, including, to the extent permitted under the law, all claims which the Company has against the Employee Releasees, or any of them, arising from or in any way related to known circumstances or events arising out of Employee's employment by the Company, together with any and all other known claims based on the Company's employment of Employee, or any other known event occurring prior to the date of this Agreement. THE COMPANY ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT IT IS WAIVING ANY RIGHT TO RECOVERY AGAINST EMPLOYEE RELEASEES BASED ON STATE OR FEDERAL, SEX, PREGNANCY, RACE, COLOR, NATIONAL ORIGIN, MARITAL STATUS, RELIGION, VETERAN STATUS, DISABILITY, SEXUAL ORIENTATION, MEDICAL CONDITION OR OTHER ANTI- DISCRIMINATION LAWS, INCLUDING WITHOUT LIMITATION, TITLE VII, THE AMERICANS WITH DISABILITIES ACT, AND THE CALIFORNIA FAIR HOUSING AND EMPLOYMENT ACT, OR BASED ON THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OR THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, ALL AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY THE COMPANY OR A GOVERNMENTAL AGENCY.

6. Waiver. Employee waives all rights under section 1542 of the Civil Code of the State of California. Section 1542 provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

7. Substantial Cause. Employee understands that the Company retains its right to terminate this Agreement at any time for Substantial Cause. "Substantial Cause" shall mean, for purposes of this Agreement, failure by Employee to substantially perform his obligations hereunder or other material breach of this Agreement, including, without limitation, any breach

of sections 3 or 12 of this Agreement.

8. Entire Agreement. This Agreement and the Executive Officer Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and may not be modified or amended, except by written agreement signed by all parties. This Agreement and the Executive Officer Employment Agreement shall be deemed to be consistent with each other, and this Agreement shall be deemed to be "another instrument in writing executed by the parties," pursuant to section 16 of the Executive Officer Employment Agreement.

9. No Admission of Liability. This Agreement and the release contained herein affect the settlement of potential or existing claims which are denied and contested, and nothing contained herein shall be construed as an admission by a party of any liability of any kind to the other party.

10. Governing Law. This Agreement shall be construed and enforced in accordance with the internal laws of the State of California.

11. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

12. The Company's Proprietary Information and Inventions. Employee acknowledges and understands that sections 12 and 13 of the Executive Officer Employment Agreement extend beyond the terms of Employee's employment with the Company. Employee agrees to comply with such terms. Employee understands that his failure to adhere to sections 12 and 13 of the Executive Officer Employment Agreement shall be a material breach of this Agreement, as well as the Executive Officer Employment Agreement, and that all benefits under this Agreement and the Executive Officer Employment Agreement will be forfeited in the event of such a breach.

13. No Disparagement.

(a) For a period of two years following the Resignation Date, Employee agrees not to make any statement disparaging the Company, its current or former employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations. Employee understands that this is a material obligation under this Agreement.

(b) For a period of two years following the Resignation Date, the Company agrees to use reasonable efforts to avoid any statement or action by the Directors or the members of the OCEO that might be disparaging of Employee, subject to the legal and other disclosure obligations of the Company. Notwithstanding the above, the Company shall not be responsible for the unauthorised statements or actions of its directors, officers or employees.

14. Return of Company Property. Employee acknowledges that Employee is obligated to and will return all Company property by February 20, 2000, including all computers, facsimile machines, and telephones provided for business use in Employee's homes.

15. Knowing and Voluntary Agreement. Employee and the Company have carefully read and fully understand all of the provisions of this Agreement. Employee and the Company knowingly and voluntarily agree to all the terms set forth in this Agreement. Employee and the Company knowingly and voluntarily intend to be legally bound by the same.

16. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES; PROVIDED, HOWEVER, THAT THE PARTIES SHALL HAVE THE RIGHT TO SEEK PROVISIONAL RELIEF IN AN ANCILLARY COURT ACTION IN CONNECTION WITH AN ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY WITHIN ONE (1) YEAR, OR WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS, WHICHEVER IS LONGER, AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE AMERICAN ARBITRATION ASSOCIATION ("AAA") CALIFORNIA EMPLOYMENT DISPUTE RESOLUTION RULES. THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWERS TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION CALIFORNIA EMPLOYMENT DISPUTE RESOLUTION RULES.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO ONE DEPOSITION.

(e) THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

I HAVE READ SECTION 16 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

__________ __________

(Employee's initials) (Company's initials)

17. Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

18. Advice of Counsel. The Company hereby advises Employee in writing to discuss this Agreement with an attorney before executing it, and Employee acknowledges that he has done so with Attorney Howard Hay.

19. Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates set forth below, to be effective as of the date first written above.

Employee	Company
	CALLAWAY GOLF COMPANY, a Delaware Corporation
/s/ Frederick R. Port	By: /s/ Ely Callaway
------------------------	------------------------
Frederick R. Port	Ely Callaway Chairman and CEO
Dated: ------------------	Dated: -------------------

EXHIBIT 10.11

RELEASE

This Release ("Release") is effective as of the date provided for in section 10 below, and is made by and between FREDERICK R. PORT ("Employee") and CALLAWAY GOLF COMPANY (the "Company"), a Delaware corporation. Effective February 20, 2000, Employee's employment with the Company will terminate pursuant to the terms of a Resignation Agreement and General Release entered into effective November 23, 1999. The Company and Employee also enter into this Release relating to Employee's resignation.

1. Payment.

(a) In consideration for the release of claims as set forth in section 2 herein and Employee's execution of this Release, the Company hereby agrees to pay Employee an amount equal to Employee's pro rata share of the 1999 Officer Bonus Pool. Employee understands and agrees that the final aggregate bonus pool for officers pursuant to the 1999 Officer Bonus Pool will not be determined until the Company's performance is measured against the standards set forth in the 1999 Officer Bonus Pool, and that such evaluation shall not take place until early in the year 2000. The payment (less applicable withholding and other taxes) if any, will be paid to Employee in early 2000, when payment is made to officers receiving bonuses from the pool.

(b) If the Company elects to provide some form of bonus compensation, in the form of cash, stock, stock options, or otherwise, based upon performance in 1999 to its officers other than Ely Callaway, its CEO, and/or Chuck Yash, its President, in addition to the 1999 Officer Bonus Pool, then Employee shall be entitled to receive a payment equal to what would have been his pro rata share of such bonus compensation in addition to any payment he would otherwise receive pursuant to subsection 1(a) above. In clarification of the foregoing, it is understood that the Company may provide bonus compensation for 1999 in addition to any payments from the 1999 Officer Bonus Pool to Mr. Callaway and/or Mr. Yash without creating additional payment obligations to Employee pursuant to this subsection. Any payment pursuant to this subsection (less applicable withholding and other taxes), if any, will be paid to Employee when payment is made to officers receiving such bonus compensation.

(c) For purposes of subsection 1(a), "pro rata share" shall be a fraction, the numerator of which shall be six hundred thousand dollars ($600,000.00), and the denominator of which shall be the aggregate base salary paid to the officers of the Company in 1999. For purposes of subsection 1(b), "pro rata share" shall be a fraction, the numerator of which shall be six hundred thousand dollars ($600,000.00), and the denominator of which shall be the aggregate base salary paid to the officers of the Company in 1999 other than Mr. Callaway and Mr. Yash.

(d) Employee acknowledges, understands and agrees that payment of any bonus to Employee pursuant to the 1999 Officer Bonus Pool or otherwise would have been purely at the discretion of the Company, and that Employee had no right or entitlement to a bonus from the Company or any of its affiliates for services rendered in 1999, pursuant to the 1999 Officer Bonus Pool or otherwise.

2. Release. In consideration for the Payment described in section 1 above, Employee hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and each and every past, present and future officer, director, employee, representative and attorney of the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and their successors and assigns (collectively referred to herein as the "Releasees"), from any, every, and all charges, complaints, claims, causes of action, and lawsuits of any kind whatsoever, including, to the extent permitted under the law, all claims which Employee has against Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Employee's employment by the Company. EMPLOYEE ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT EMPLOYEE IS WAIVING ANY RIGHT TO RECOVERY AGAINST RELEASEES BASED ON STATE OR FEDERAL AGE ANTI-DISCRIMINATION LAWS, INCLUDING WITHOUT LIMITATION, THE AGE DISCRIMINATION AND EMPLOYMENT ACT OF 1967, AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY EMPLOYEE OR A GOVERNMENTAL AGENCY. Provided, however, that nothing in the foregoing or otherwise in this Agreement is intended to waive any of Employee's rights to have the Company defend and/or indemnify him in accordance with the General Corporation Law of Delaware and the Bylaws of the Company, as the same now exist or may hereafter be amended, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which Employee was or is a party or is threatened to be made a party by reason of the fact that Employee is or was a director or officer of the Company.

3. Waiver. Employee waives all rights under section 1542 of the Civil Code of the State of California. Section 1542 provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

4. Governing Law. This Release shall be construed and enforced in accordance with the internal laws of the State of California.

5. Binding Effect. This Release shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

6. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) EMPLOYEE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS RELEASE, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO EMPLOYEE'S EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT

ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ARBITRABLE DISPUTES; PROVIDED, HOWEVER, THAT THE PARTIES SHALL HAVE THE RIGHT TO SEEK PROVISIONAL RELIEF IN AN ANCILLARY COURT ACTION IN CONNECTION WITH AN ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY WITHIN ONE (1) YEAR, OR WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS, WHICHEVER IS LONGER, AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE AMERICAN ARBITRATION ASSOCIATION ("AAA") CALIFORNIA EMPLOYMENT DISPUTE RESOLUTION RULES. THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWERS TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION CALIFORNIA EMPLOYMENT DISPUTE RESOLUTION RULES.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO ONE DEPOSITION.

(e) THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

I HAVE READ SECTION 6 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

_______________ _______________
(Employee's initials) (Company's initials)

7. Counterparts. This Release may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

8. Advice of Counsel. The Company hereby advises Employee in writing to discuss this Release with an attorney before executing it, and Employee acknowledges that he has

done so with Attorney Howard Hay. Employee further acknowledges that the Company will provide Employee twenty-one (21) days within which to review and consider this Release before signing it. Should Employee decide not to use the full twenty-one (21) days, then Employee knowingly and voluntarily waives any claims that he was not in fact given that period of time or did not use the entire twenty-one (21) days to consult an attorney and/or consider this Release.

9. Right to Revoke. The parties acknowledge and agree that Employee may revoke this Release for up to seven (7) calendar days following Employee's execution of this Release and that it shall not become effective or enforceable until the revocation period has expired. The parties further acknowledge and agree that such revocation must be in writing addressed to Ely Callaway, Chairman and Chief Executive Officer of Callaway Golf Company (at the address shown below) and received by Ely Callaway not later than midnight on the seventh day following the execution of this Release by Employee. If Employee revokes this Release under this section, it shall not be effective or enforceable, and Employee will not receive the Payment described in section 1 above.

Ely Callaway
Chairman and Chief Executive Officer
Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008

10. Effective Date. If Employee does not revoke this Release in the timeframe specified in section 9 above, the Release shall become effective at 12:01 a.m. on the eighth day after it is fully executed by the parties.

11. Severability. In the event any provision or provisions of this Release is or are held invalid, the remaining provisions of this Release shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Release on the dates set forth below, to be effective as of the date first written above.

Employee	Company CALLAWAY GOLF COMPANY, a Delaware Corporation
/s/ Frederick R. Port	By: /s/ Ely Callaway
Frederick R. Port	Ely Callaway, Chairman and CEO
Dated: ____________________	Dated: ______________________________

EXHIBIT 13.1

Selected Financial Data

(in thousands, except per share data)	Year ended December 31,				
	1999	1998	1997	1996	1995
Statement of Operations Data:					
Net sales	$714,471	$697,621	$842,927	$678,512	$553,287
Cost of goods sold	376,405	401,607	400,127	317,353	270,125
Gross profit	338,066	296,014	442,800	361,159	283,162
Selling, general and administrative expenses	224,336	245,070	191,313	155,177	120,201
Research and development costs	34,002	36,848	30,298	16,154	8,577
Restructuring costs (Note 12)	(5,894)	54,235			
Sumitomo transition costs (Note 15)	5,713				
Litigation settlement			12,000		
Income (loss) from operations	79,909	(40,139)	209,189	189,828	154,384
Interest and other income, net (Note 9)	9,182	3,911	4,586	5,804	4,038
Interest expense	(3,594)	(2,671)	(10)	(37)	(21)
Income (loss) before income taxes	85,497	(38,899)	213,765	195,595	158,401
Income tax provision (benefit)	30,175	(12,335)	81,061	73,258	60,665
Net income (loss)	$55,322	($26,564)	$132,704	$122,337	$97,736
Earnings (loss) per common share:					
Basic	$0.79	($0.38)	$1.94	$1.83	$1.47
Diluted	$0.78	($0.38)	$1.85	$1.73	$1.40
Dividends paid per share	$0.28	$0.28	$0.28	$0.24	$0.20

(in thousands)	December 31,				
	1999	1998	1997	1996	1995
Balance Sheet Data:					
Cash and cash equivalents	$112,602	$ 45,618	$ 26,204	$108,457	$ 59,157
Working capital	$205,198	$139,598	$209,402	$250,461	$146,871
Total assets	$616,783	$655,827	$561,714	$428,428	$289,975
Long-term liabilities	$ 11,575	$ 18,723	$ 7,905	$ 5,109	$ 2,207
Total shareholders' equity	$499,934	$453,096	$481,425	$362,267	$224,934

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1999 AND 1998

For the year ended December 31, 1999, net sales increased $16.9 million, or 2%, to $714.5 million from $697.6 million in the prior year. The increase is attributable to an increase in sales of metal woods, particularly titanium metal woods, partially offset by a decrease in sales of irons and by sales of non-current product through a managed close-out process at substantially reduced prices. The increase in metal woods sales of $39.1 million (10%) is largely attributable to the January 1999 introduction of Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods and increases in sales of Big Bertha(R) Steelhead(TM) Metal Woods, which were introduced in August 1998. Sales of irons decreased $7.8 million, primarily as a result of a $27.6 million decrease in sales of Big Bertha(R) X-12(R) Irons, which were introduced in January 1998, partially offset by sales from the August 1999 introduction of Hawk Eye(R) Tungsten Injected(TM) Titanium Irons of $27.7 million. Sales of Odyssey(R) and Callaway Golf(R) putters decreased $7.5 million (14%). Sales of other products decreased $6.9 million (30%).Also included in 1999 net sales were $56.6 million in sales of non-current product, most of which were sold at close-out prices.

In terms of net sales by region, sales in the United States decreased $23.5 million (5%) to $414.1 million for the year ended December 31, 1999. Net sales in Japan decreased $5.5 million (9%) to $55.9 million, as net purchases by the Company's distributor declined in anticipation of the transition of distribution of Callaway Golf(R) products from it to the Company's wholly-owned Japanese subsidiary. Net sales to Europe remained relatively constant at $115.7 million and net sales to the rest of Asia and the rest of the world increased $38.9 million (114%) and $7.6 million (16%), respectively. Sales to the rest of Asia increased in 1999 over 1998 due largely to the economic recovery of the Korean market in 1999 and the introduction of higher- margin products in Korea during 1999. The Company does not expect that revenue in Korea will continue to increase at a rate comparable to 1999.

For the year ended December 31, 1999, gross profit increased to $338.1 million from $296.0 million in the prior year, and as a percentage of net sales increased to 47% from 42%. The increase is primarily due to lower obsolescence charges in 1999 vs. a $30.0 million excess inventory charge recorded in the fourth quarter of 1998, and an increase in sales of metal woods (which carry higher margins). However, gross profit was unfavorably affected by price reductions on the sales of non- current products through the Company's managed close-out program and an increase in distribution costs associated with the Company's foreign subsidiaries.

Selling expenses decreased to $131.9 million in 1999 from $147.0 million in the prior year. As a percentage of net sales, selling expenses decreased to 18% from 21%. This decrease is primarily attributable to planned reductions in advertising, pro tour and other promotional expenses, partially offset by an increase in employee compensation.

General and administrative expenses decreased to $92.5 million in 1999 from $98.0 million in 1998, or 13% and 14% of net sales, respectively. This decrease is largely due to decreases in consulting, bad debt expense and supplies expense, as well as a decrease in building-related costs associated with the Company's 1998 restructuring program. These amounts were partially offset by increases in costs associated with the ramp-up of the Company's golf ball operations and increased depreciation and amortization expense related to the Company's foreign operations.

Research and development expenses decreased to $34.0 million (5% of net sales) in 1999 from $36.8 million (5% of net sales) in 1998. This decrease was primarily the result of the shut-down of the Company's prototype foundry and a decrease in consulting fees, partially offset by increases in employee compensation and component prototype costs.

Restructuring income primarily relates to the reversal of a restructuring reserve recorded in 1998 for a lease obligation in New York City that was subsequently assigned to a third party. See Note 12 to the Consolidated Financial Statements for a discussion of this and other restructuring transactions.

Sumitomo Rubber Industries, Ltd. ("Sumitomo") transition costs represent payments for non-current product which were associated with the transition of the distribution of Callaway Golf(R) products from Sumitomo to a wholly-owned subsidiary of the Company. See "Certain Factors Affecting Callaway Golf Company - International Distribution" below and Note 15 to the Consolidated Financial Statements for a discussion of this transaction.

Interest and other income increased to $9.2 million from $3.9 million for the year ended December 31, 1999 as compared with the prior year. This increase is primarily attributable to an increase in interest income resulting from higher average cash and deferred compensation investment balances during 1999 as compared with 1998, an increase in royalty income and an increase in other income due to the receipt of insurance proceeds related to the Company's deferred compensation plan.

Interest expense increased to $3.6 million in 1999 from $2.7 million in 1998. This increase is largely related to

interest on the Company's interim finance agreement for pre-lease financing advances for the acquisition and installation costs of machinery and equipment. Also contributing to the increase was an increase in interest expense related to the Company's line of credit and accounts receivable securitiza-tion facilities associated with higher interest and yield rates and related fees.

During 1999, the Company recorded a tax provision of $30.2 million and recognized a decrease in deferred taxes of $9.6 million. During 1999, the Company realized tax benefits of $2.4 million related to the exercise of stock options, $1.4 million related to non-taxable income from insurance proceeds related to the Company's deferred compensation plan and $1.0 million related to the reorganization of a foreign subsidiary.

YEARS ENDED DECEMBER 31, 1998 AND 1997

For the year ended December 31, 1998, net sales were $697.6 million, a 17% decrease from the prior year. This decrease was primarily due to fewer metal woods sales, particularly titanium metal woods, along with lower average sales prices as a result of a metal wood wholesale price reduction on Big Bertha(R) War Bird(R) Stainless Steel Metal Woods and Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Metal Woods, both domestically and in many major international markets. In terms of product sales, the decrease was attributable to decreases in metal woods sales of $154.4 million, iron sales of $4.9 million and other product sales of $14.9 million, partially offset by an increase in Odyssey(R) product sales of $28.9 million, as only five months of Odyssey Golf, Inc.'s ("Odyssey") results were included in the prior year's consolidated results (see Note 14 to the Consolidated Financial Statements). The decrease in metal woods sales was composed of decreases in Great Big Bertha(R) Metal Woods of $96.8 million, Big Bertha(R) War Bird(R) Metal Woods of $77.7 million and Biggest Big Bertha(R) Drivers of $57.9 million, which was partially offset by sales of Big Bertha(R) Steelhead(TM) Metal Woods, which contributed $78.0 million to sales. The decrease in sales of irons was attributable to decreases in Big Bertha(R) Irons of $137.6 million, Big Bertha Gold(R) Irons of $28.3 million and Great Big Bertha(R) Irons of $31.1 million, which was partially offset by a $192.4 million increase in Big Bertha(R) X-12(R) Irons.

In terms of net sales by region, United States sales decreased $109.6 million (20%) for the year ended December 31, 1998 as compared with 1997. Net sales in Japan and the rest of Asia decreased $23.2 million (27%) and $19.8 million (37%), respectively, during 1998, while net sales in Europe and Canada increased by $7.7 million (7%) and $7.7 million (44%), respectively, during this period.

The Company believes the diversion of consumer purchases to the Company's new Big Bertha(R) Steelhead(TM) Metal Woods and Big Bertha(R) X-12(R) Irons from its higher priced titanium metal woods and irons, and marketplace anticipation of the introduction of the Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods in January 1999, also contributed to the decrease in sales in 1998. Additionally, the Company believes that competition has caused the Company to lose some market share domestically partly because of pricing strategies implemented by certain competitors. In addition, the economic turmoil in Southeast Asia and Japan had an adverse effect on the Company's sales and results of operations. Sales earlier in the year also were adversely affected by unusual "El Nino" weather conditions in the United States. The Company also believes that certain actions by the United States Golf Association in 1998 contributed to the drop in metal wood sales.

For the year ended December 31, 1998, gross profit decreased to $296.0 million from $442.8 million in the prior year, and gross margin decreased to 42% from 53%. This decrease was primarily attributable to additions to the reserve for excess inventory of $30.0 million in the fourth quarter, lower average sales prices as a result of a metal wood wholesale price reduction on Big Bertha(R) War Bird(R) Stainless Steel Metal Woods and Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Metal Woods and the accompanying customer compensation, an increase in warranty expense, and increased manufacturing labor and overhead costs.

Selling expenses increased to $147.0 million in 1998 from $120.6 million in 1997. This increase was primarily attributable to costs associated with Odyssey's putter operations, which the Company acquired in August 1997, and foreign and domestic subsidiaries acquired during 1998, as well as an increase in international advertising and other marketing expenses. This increase was partially offset by a decrease in domestic promotional and endorsement expenses.

General and administrative expenses increased to $98.0 million in 1998 from $70.7 million in 1997. This increase was due to pre-production and non-capitalized construction costs of the new golf ball facility, expenses associated with foreign and domestic subsidiaries acquired during 1998, expenses associated with the consolidation of the Company's European operations, expenses associated with Odyssey's putter operations, including amortization of goodwill, and an increase in the reserve for uncollectable accounts receivable.

Research and development expenses increased to $36.8 million in 1998 from $30.3 million in 1997. This increase was primarily attributable to increased product design costs related to increased employee compensation, consulting and other

overhead expenses, including those associated with Callaway Golf Ball Company and Odyssey's putter operations.

Charges of $54.2 million were recorded in the fourth quarter of 1998 related to the Company's cost reduction actions (see "Restructuring" below). These charges were primarily composed of $28.7 million for asset impairments, excess lease costs, and costs to exit various non-core business activities, including venues, new player development, interactive golf and publishing, $13.8 million for impairment of assets due to the consolidation of continuing operations and $11.7 million for employee separation costs.

Other income decreased to $3.9 million in 1998 from $4.6 million in 1997. This decrease was due to a decrease in interest income resulting from lower cash balances during 1998 versus 1997 and losses on dispositions of assets in 1998. This decrease was partially offset by net gains on foreign currency transactions in 1998 of $1.6 million, as compared with net losses in 1997 of $0.9 million.

Interest expense increased to $2.7 million in 1998 resulting from draws on the Company's line of credit. The line of credit was not used during 1997.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1999, cash and cash equivalents increased to $112.6 million from $45.6 million at December 31, 1998. For the year ended December 31, 1999, cash provided by operations of $166.3 million was partially offset by cash used in investing activities of $53.5 million and cash used in financing activities of $45.9 million. Cash flows used in investing activities resulted from capital expenditures, primarily associated with the ramp-up of golf ball operations and deferred purchase acquisition payments, partially offset by proceeds from the sale of fixed assets. Of the capital expenditures for 1999, $50.0 million were sold and leased back pursuant to terms of an equipment financing and lease agreement (see Note 4 to the Consolidated Financial Statements). Cash flows used in financing activities are primarily due to the repayment of loan advances and dividends paid, partially offset by proceeds from an equipment financing agreement (see Note 4 to the Consolidated Financial Statements) and the issuance of Common Stock.

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 credit facilities. The Company expects this trend to continue even though sales increased only slightly in 1999 and the Company does not foresee any significant improvement in sales during the near term. On February 12, 1999, the Company consummated the amendment of its line of credit to increase the revolving credit facility to up to $120.0 million (the "Amended Credit Agreement") and entered into an $80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 4 and 5 to the Consolidated Financial Statements). During the first quarter of 1999, the Company utilized its Accounts Receivable Facility and borrowed against its line of credit under the Amended Credit Agreement to fund operations and finance capital expenditures. At December 31, 1999, the Company had repaid the outstanding balance of the Amended Credit Agreement with cash flow from operations and had $115.7 million available, net of outstanding letters of credit, under this credit facility, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at December 31, 1999, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility. Further, in the third and fourth quarters of 1999, the Company converted its note payable under the Finance Agreement to an operating lease (see Note 4 to the Consolidated Financial Statements).

As a result of the implementation of its plan to improve operating efficiencies (see "Restructuring" below), the Company incurred charges of $54.2 million in the fourth quarter of 1998. Of these charges, $25.5 million were estimated to be non-cash. Since the adoption of this restructuring plan in the fourth quarter of 1998, the Company has made cash outlays for employee termination costs, contract cancellation fees, excess lease costs and other expenses totaling $18.8 million, of which $8.5 million occurred in 1999. As a result of the reversal of a portion of certain restructuring reserves totaling $8.6 million during 1999, due primarily to the assignment of a lease and the sale of certain of the Company's buildings at terms more favorable than estimated, expected future cash outlays for restructuring activities have been reduced and are estimated to be $1.4 million (see Note 12 to the Consolidated Financial Statements). This amount is expected to be paid by July 2000. These cash outlays will be funded by cash flows from operations and, if necessary, the Company's credit facilities. If the actual actions taken by the Company differ from the plans on which these estimates are based, actual losses recorded and resulting cash outlays made by the Company could differ significantly.

Although the Company's golf club operations are mature and historically have generated cash from operations, the Company's golf ball operations are in a developmental stage. Therefore, the Company does not expect that its golf ball operations will generate sufficient cash to fund its operations in 2000. However, 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 its consolidated operations including purchase commitments and planned capital expenditures for the foreseeable future, through operating cash flows and its credit facilities. There can be no assurance, however, that future industry specific or other developments, or general economic trends, will not adversely affect the Company's operations or its ability to meet its future cash requirements.

RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included: the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey, into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives were completed during 1999, with the exception of cash outlays related to the assignment of a lease obligation for a facility in New York City that will continue through July 2000. The restructuring charges (shown below in tabular format) primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of the Company's 80% interest in Callaway Golf Media Ventures (See Note 14 to the Consolidated Financial Statements), a loss on the sale of the business of All-American (See Note 14 to the Consolidated Financial Statements), as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs.

Employee reductions occurred in almost all areas of the Company, including manufacturing, marketing, sales, and administrative areas. At December 31, 1998, the Company had reduced its non-temporary work force by approximately 750 positions. Although substantially all reductions occurred prior to December 31, 1998, a small number of reductions occurred in the first quarter of 1999.

Details of the one-time charge are as follows:
(in thousands)

	Cash/ Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98	Activity(1)	Reserve Balance at 12/31/99
ELIMINATION OF JOB RESPONSIBILITIES		$11,664	$ 8,473	$ 3,191	$ 3,191	
Severance packages	Cash	11,603	8,412	3,191	3,191	
Other	Non-cash	61	61			
EXITING CERTAIN NON-CORE BUSINESS ACTIVITIES		$28,788	$12,015	$16,773	$15,394	$ 1,379
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731	2,731	
Excess lease costs	Cash	12,660	146	12,514	11,135(2)	1,379
Contract cancellation fees	Cash	2,700	1,504	1,196	1,196	
Other	Cash	356	24	332	332	
CONSOLIDATION OF OPERATIONS		$13,783	$ 2,846	$10,937	$10,937	
Loss on impairment/disposition of assets	Non-cash	12,364	2,730	9,634	9,634(3)	
Excess lease costs	Cash	806	4	802	802(4)	
Other	Cash	613	112	501	501	

(1) Includes reversal of reserve totaling $8.6 million, as actual amounts differed from estimates. Significant reversals are noted below in (2) through (4).

(2) Includes reversal of $6.1 million of reserve due to the assignment of lease obligation at terms significantly more favorable than estimated at the establishment of the reserve.

(3) Includes reversal of $1.5 million of reserve related to disposition of two buildings at higher sales prices than estimated.

(4) Includes reversal of $491,000 of reserve due to the sublease of a facility at terms more favorable than estimated at the establishment of the reserve.

During 1999, the Company incurred charges of $1.3 million on the disposition of building improvements eliminated during the consolidation of manufacturing operations, as well as other charges of $671,000. These charges did not meet the criteria for accru- al in 1998. Additionally, the Company incurred charges of $749,000 related to asset dispositions and other restructuring activities for which reserves were not established in 1998. Future cash outlays are anticipated to be completed by July 2000.

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

RESTRUCTURING

During 1999, as planned, the Company completed the restructuring of its operations that it announced during the fourth quarter of 1998. See "Restructuring" under "Results of Operations" discussed above. Although the Company was pleased with the restructuring results in 1999, there can be no assurance that the Company will continue to realize the benefits of the restructuring.

SALES

Golf Clubs. The Company previously reported that it believed that the dollar volume of the premium golf club market had been declining in certain major markets, including the United States.Although the Company believes that market conditions may have stabilized, there is no assurance that the overall dollar volume of the premium golf club market in the U.S. will grow significantly, or that it will not decline, in the near future. During 1999, the Company's United States revenues decreased 5% while international revenues increased 16% compared to 1998. The Company believes that this decrease in United States revenue was due in part to softness in the United States market, lower revenue per club from sales of golf equipment at low or close-out prices, and declines in iron and putter sales due to the maturity of those product lines. The Company believes that the increase in international revenue is largely attributable to a significant increase in revenue from sales in Korea as a result of the economic recovery of the Korean market and the introduction of higher margin products in Korea in 1999. The Company does not expect that revenue in Korea will continue to increase at a rate comparable to 1999. The Company further believes that some portion of sales to international customers recorded in 1999 as direct international sales may have formerly been made to the same international customers indirectly through the United States distribution channel. See also "Certain Factors Affecting Callaway Golf Company - Gray Market Distribution."

The Company's brands remained number one in the U.S. and the worldwide market for woods, irons and putters in 1999. See also "Certain Factors Affecting Callaway Golf Company - Competition."

Sales of the Company's Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods, Big Bertha(R) Steelhead(TM) Metal Woods and Big Bertha(R) X-12(R) Irons were strong in 1999. Hawk Eye(R) Tungsten Injected(TM) Titanium Irons were introduced in September 1999, and Big Bertha(R) Steelhead Plus(TM) Drivers and Fairway Woods, Big Bertha(R) Steelhead(TM) X- 14(TM) Irons and Odyssey(R) White Hot(TM) Putters were released in January 2000. The initial acceptance of these products has also been strong to date. No assurances can be given, however, that the demand for these products or the Company's other 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.

The Company formerly reported that golf club sales to Japan might be lower overall for 1999 as compared to 1998 as the Company's distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"), prepared for the transition of responsibility from it to the Company's wholly-owned Japanese subsidiary, Callaway Golf Kabushiki Kaisha ("Callaway Golf K. K."), formerly named ERC International Company. Although the Company subsequently reported that sales were not lower through the first nine months of 1999, sales in Japan for all of 1999 were down 9% compared with 1998, with the reduction largely because net purchases by Sumitomo, as expected, declined in anticipation of the transition. In 1999, 1998 and 1997, sales to Sumitomo accounted for 7%, 8% and 10%, respectively, of the Company's total net sales. The Sumitomo distribution agreement required that Sumitomo purchase specific minimum quantities from the Company. As a direct distributor, the Company will not have the benefit of these guaranteed minimum purchases going forward. Furthermore, there is no assurance that the Company will be able to transcend the cultural and other barriers to successful distribution in Japan or that its sales in Japan will be comparable to or exceed its prior sales to Sumitomo. There also will be a delay in the recording of revenues for sales in Japan as compared to previous years because revenue will now be recorded upon sale to retailers and not upon sale to a distributor. See also "Certain Factors Affecting Callaway Golf Company - International Distribution."

Golf Balls. 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 had previously licensed the manufacture and distribution of a golf ball in Japan and Korea. The Company also had distributed a golf ball under the trademark "Bobby Jones(R)." These previous golf ball ventures were introduced primarily as promotional efforts and were not commercially successful.

In February 2000, the Company released its new Rule 35(TM) Golf Balls. These golf balls are the product of more than three years of research and development and are manufactured in a new facility built by the Company for that purpose. To date, the Company's investment in its golf ball business has exceeded $170 million. The development of the Company's golf ball business, by plan, has had a significant negative impact on the Company's cash flows, financial position and results of

operations and will continue to affect the Company's performance in 2000. The success of the Company's new golf ball business could be adversely affected by various risks, including, among others, delays or difficulties in manufacturing or distribution and unanticipated costs. Although initial demand for the Company's golf balls is promising, there is no assurance that such demand will result in a proportionate amount of actual sales or that consumers will enjoy the balls sufficiently to sustain future sales. Furthermore, although the Company expects production of the golf balls to increase as the year 2000 progresses, there is no assurance that the Company will be able to manufacture enough balls to meet demand or be able to achieve the operational or sales efficiencies necessary to make its golf ball business profitable. Consequently, there can be no assurance as to whether the golf ball will be commercially successful or that a return on the Company's investment will ultimately be realized.

GROSS MARGIN

The Company's gross margin as a percentage of net sales increased to 47% in 1999 from 42% in 1998. This increase primarily resulted from lower obsolescence charges in 1999 (vs. a $30.0 million excess inventory charge recorded in the fourth quarter of 1998), higher metal wood sales (which carry higher margins) as a percentage of total net sales, as compared to 1998, and from reductions in manufacturing labor and overhead costs realized through the Company's 1998 restructuring, along with reductions in certain component costs. Gross margin as a percentage of net sales would have improved to 49% but for close-out sales of Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Metal Woods, and Big Bertha(R) War Bird(R) Metal Woods, which had much lower margins. However, consumer acceptance of current and new product introductions, the sale and disposal of non-current products at reduced sales prices and continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin. Furthermore, the Company expects that in 2000 the Company's sales of irons as a percentage of total net sales will increase. This would negatively impact the Company's gross margin as a percentage of net sales because irons generally sell at lower margins than woods.

The Company's margins also could be affected by its golf ball business. During the year 2000, the Company expects that its margins in the golf ball business will be less than the levels it expects to achieve when the Company attains a level of operational and sales efficiency that allows it to benefit from certain economies of scale. There is no assurance, however, that the Company will achieve the economies of scale necessary to maintain or improve its current overall sales margins.

SEASONALITY

In the golf club and golf ball industries, 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 golf club business has generally followed this seasonal trend and the Company expects this to continue for both its golf club and golf ball businesses. Unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997-1998 may compound or otherwise distort these seasonal effects.

COMPETITION

The worldwide market for premium golf clubs 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. However, the Company believes that it has gained unit and dollar market share for woods in the United States during 1999 as compared to 1998. 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 golf club 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 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.

The premium golf ball business is also highly competitive with a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium golf ball business. These competitors have established market share in the golf ball business, which the Company will need to penetrate for its golf ball business to be successful. There can be no assurance that the Company's golf balls will obtain the market acceptance necessary to penetrate this established market.

NEW PRODUCT INTRODUCTION

The Company believes that the introduction of new, innovative golf clubs and golf balls is important to its future success. 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, any new products

that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase.

New golf club and golf ball products generally seek to 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 golf clubs and golf balls have been found to conform to the Rules of Golf as applied in the jurisdictions where they are sold, 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. For example, 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 advised the Company that none of the Company's current clubs sold in the U.S. are barred by this test. The R&A is considering the adoption of a similar or related test, but has not yet done so. Both the USGA and the R&A are reviewing the current regulations of golf, and one or both may change those regulations in the future. Future actions by the USGA or the R&A may impede the Company's ability to introduce new products and therefore could have a material adverse effect on the Company's results of operations and cash flows.

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have often resulted in higher prices for the Company's products relative to other products in the marketplace. For example, the Company's golf balls are premium golf balls and there are many lower priced non-premium golf balls sold by others. There can be no assurance that a significant percentage of the public will always be willing to pay such premium prices for golf equipment or that the Company will be able to continue to design and manufacture premium products that achieve market acceptance in the future.

The rapid introduction of new golf club or golf ball products by the Company could result in close-outs of existing inventories at both the wholesale and retail levels. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices. The Company experienced some of these effects in 1999 with respect to golf clubs and could experience similar effects in future years as the Company from time to time introduces new products or misjudges demand.

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. As in 1998, this could result in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance.

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. In addition, the Company's Biggest Big Bertha(R) Drivers, because of their large club head 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, even though these shafts were among the most expensive to manufacture in the industry. This product was discontinued in 1999. 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(R) clubs that have been sold.

The Company monitors the level and nature of any golf club breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. While the Company believes that it has sufficient reserves for warranty claims, 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.

CREDIT RISK

The Company primarily sells its products to golf equipment retailers, wholly-owned domestic and foreign subsidiaries and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally

requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, the recent downturn in the retail golf equipment market, primarily in the United States, has resulted in delinquent or uncollectible accounts for some of the Company's significant customers. As a result, during 1999 the Company wrote off approximately $5.3 million of past due trade accounts receivable against the Company's reserve for uncollectible accounts receivable. Management does not foresee any significant improvement in the U.S. retail golf equipment market during 2000. In addition, the Company's transition in Japan from selling to one distributor to selling directly to many retailers could increase the Company's delinquent or uncollectible accounts. There can be no assurance that failure of the Company's customers to meet their obligations to the Company will not adversely impact the Company's results of operations or cash flows.

DEPENDENCE ON CERTAIN VENDORS AND MATERIALS

The Company is dependent on a limited number of suppliers for its club heads 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 club heads 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 the Company's results of operations.

The Company is also dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials, including the golf ball cover, are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its U.S. customers. The Company is continually reviewing alternative methods of ground shipping to supplement its use and reduce its reliance on UPS. To date, a limited number of alternative vendors have been identified and are being used by the Company. 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 alloys and carbon fiber. The Company 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 always will 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 for golf clubs. From time to time others have or may contact the Company to claim that they have proprietary rights that 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 developed its new golf ball product, it attempted to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that a competitor will not assert and/or a court will not find that the Company's new golf ball products infringe any patent or other rights of competitors. If the Company's new golf ball product is found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and the Company could incur

substantial costs to redesign its golf ball product and/or defend legal actions.

The Company has 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. While these efforts are taken seriously, 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" for the Company's products can undermine authorized retailers and foreign wholesale 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(R) products to unauthorized distributors and/or an increase in sales returns over historical levels. For example, the Company experienced a decline in sales in the United States in 1998, and believes the decline was 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 the U.S. and abroad, it has not stopped such commerce.

GOLF PROFESSIONAL ENDORSEMENTS

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf(R) and Odyssey(R) branded products. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour and the PGA European Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If certain of the Company'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 and do not grant any endorsement to the Company. In addition, the Company has created cash pools ("Pools") that reward such usage. However, in 1999, as compared to 1998, the Company significantly reduced these Pools for both Callaway Golf(R) and Odyssey(R) brand products for the PGA and the Senior PGA Tours, and has significantly reduced the Pools for Odyssey(R) brand products and eliminated the Pools for Callaway Golf(R) brand products for the LPGA and buy.com (formerly Nike) tours. The Company expects that the Pools for 2000 will be comparable to 1999. In addition, 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 a result, in 1999, usage of the Company's drivers on the PGA, Senior PGA, LPGA and buy.com tours was substantially reduced compared to 1998. This trend may continue in the year 2000.

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. While it is not clear to what extent professional usage contributes to retail sales, it is possible that the recent decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

Many golf ball manufacturers, including the leading U.S. manufacturer of premium golf balls, have focused a great deal of their marketing efforts on promoting the fact that tour professionals use their balls. Some of these golf ball competitors spend large amounts of money to secure professional endorsements, and the market leader has obtained a very high degree of tour penetration. While several of the Company's staff professionals have decided to use the Company's golf balls in play, there are others who are already under contract with other golf ball manufacturers or, for other reasons, may not choose to play the Company's products. In addition, several professionals who are not on the Company's staff have expressed an interest in playing the Company's ball, but it is too early to predict if a significant number will actually do so. The Company does not plan to match the endorsement spending levels of the leading manufacturer in 2000, and will instead rely more heavily upon the performance of the ball and other factors to attract professionals to the product. In the future the Company may or may not increase its tour spending in support of the golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf ball, but it is possible that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

INTERNATIONAL DISTRIBUTION

The Company's management believes that controlling the distribution of its products in certain major markets in the world

has been and will be an element in the future growth and success of the Company. The Company has been 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 continue to require the dedication of management and other Company resources.

Additionally, the Company's plan to integrate 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. 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. The integration of foreign distribution 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 appointed Sumitomo as the sole distributor of Callaway Golf(R) clubs in Japan, through a distribution agreement that ended December 31, 1999. In 1999, 1998 and 1997, sales to Sumitomo accounted for 7%, 8% and 10%, respectively, of the Company's net sales. In the fourth quarter of 1999, the Company successfully completed negotiations with Sumitomo to provide a smooth transition of its business. As a result of the transition agreement, the Company recorded a net charge of $8.6 million in the fourth quarter of 1999 for buying certain current inventory, payments for non-current inventory and other transition expenses, including foreign currency transaction losses.

Effective January 1, 2000, the Company began distributing Callaway Golf(R) brand products through Callaway Golf K. K., which also distributes Odyssey(R) products and will also distribute Callaway Golf(TM) balls. In addition to the fourth quarter 1999 charges noted above, there will be significant costs and capital expenditures invested in Callaway Golf K. K. before there will be sales sufficient to support such costs. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution of Callaway Golf(R) products in Japan through Callaway Golf K. K. rather than through Sumitomo. Some of these risks include increased delinquent and uncollectible accounts now that the Company will be collecting its receivables from many retailers as opposed to only one distributor. Furthermore, the Company will no longer have the benefit of the minimum purchases that Sumitomo was required to make. It is possible that these circumstances could have a material adverse effect on the Company's operations and financial performance. There also will be a delay in the recording of revenues for sales in Japan as compared to previous years because revenue now will be recorded upon sale to retailers and not upon sale to a distributor.

YEAR 2000 ISSUE

The Y2K issue is the name given to the computer program problem whereby two digits rather than four were used 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" or "Y2K" issue. A more detailed description of the risks associated with the Y2K issue as applied to the Company and the Company's remedial actions and contingency plans for the Y2K issue are contained in certain of the Company's prior filings with the Securities and Exchange Commission, including its Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

The Y2K issue has not had, and is not expected to have, any material adverse effect on the Company. In 1998 and 1999 the Company formulated and implemented a Year 2000 Plan to address the Company's Y2K issue. To date, the Company's computer systems and manufacturing facilities have operated without any significant Year 2000 problems and appear to be Year 2000 compliant. The Company is not aware that any of its major third party suppliers have experienced any significant Year 2000 problems. The Company currently does not expect any significant future disruptions in its operations as a result of the Y2K issue. Nevertheless, since it is impossible to predict all future outcomes, there could be circumstances in which the Company could be adversely affected.

The total cost associated with the assessment and required modifications to implement the Company's Year 2000 Plan to date has not been material to the Company's financial position or results of operations. The Company does not expect to incur any significant future expenses related to the Y2K issue. The total amount expended on the Year 2000 plan through December 1999 was $2.7 million, of which approximately $1.2 million related to repair or replacement of software and related hardware problems and approximately $1.5 million related to internal and external labor costs.

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 have the option of 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 until 2002 when their local currencies will be phased out. The current version of the Company's enterprise-wide business system does not support transactions denominated in euro. During 2000, the Company intends to upgrade its business system. The upgraded version of this business system should support transactions denominated in euro. The Company intends to enable the euro functionality of its upgraded system no later than its third quarter in 2001. Until such time as the upgrade has occurred and the euro functionality has been enabled, transactions denominated in euro will be processed manually. To date, the Company has not experienced, and does not anticipate in the near future, a large demand from its customers to transact in euro. 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.

MARKET RISK

The Company is exposed to the impact of foreign currency fluctuations due to its international operations and certain export sales. The Company is exposed to both transactional currency/functional currency and functional currency/reporting currency exchange rate risks. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in the value of foreign currencies. Pursuant to its foreign exchange hedging policy, beginning in January 1999, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables with its foreign subsidiaries. During 1999, the Company entered into such contracts on behalf of two of its wholly-owned subsidiaries, Callaway Golf Europe Ltd. and Callaway Golf Canada Ltd. The Company also hedged certain yen-denominated transactions with its Japanese distributor. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

Also pursuant to its foreign exchange hedging policy, the Company expects that it also may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives will be used only to the extent considered necessary to meet the Company's objectives and the Company does not enter into forward contracts for speculative purposes. The Company's foreign currency exposures include most European currencies, Japanese yen, Canadian dollars and Korean won.

Additionally, the Company is exposed to interest rate risk from its Accounts Receivable Facility and Amended Credit Agreement (see Notes 4 and 5 to the Company's Consolidated Financial Statements) which are indexed to the London Interbank Offering Rate ("LIBOR") and Redwood Receivables Corporation Commercial Paper Rate. No amounts were outstanding or advanced under these facilities at December 31, 1999.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at December 31, 1999 through its derivative financial instruments.

The sensitivity analysis model is a risk analysis tool and does not purport to represent actual losses in earnings that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market rates. It also does not represent the maximum possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in earnings from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $112,000 at December 31, 1999. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

Notes 4 and 5 to the Consolidated Financial Statements outline the principal amounts, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)	December 31, 1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 112,602	$ 45,618
Accounts receivable, net	54,252	73,466
Inventories, net	97,938	149,192
Deferred taxes	32,558	51,029
Other current assets	13,122	4,301
Total current assets	310,472	323,606
Property, plant and equipment, net	142,214	172,794
Intangible assets, net	120,143	127,779
Other assets	43,954	31,648
	$ 616,783	$ 655,827
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 46,664	$ 35,928
Accrued employee compensation and benefits	21,126	11,083
Accrued warranty expense	36,105	35,815
Line of credit		70,919
Note payable		12,971
Accrued restructuring costs	1,379	7,389
Income taxes payable		9,903
Total current liabilities	105,274	184,008
Long-term liabilities:		
Deferred compensation	11,575	7,606
Accrued restructuring costs		11,117
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 1999 and 1998		
Common Stock, $.01 par value, 240,000,000 shares authorized, 76,302,196 and 75,095,087 issued and outstanding at December 31, 1999 and 1998	763	751
Paid-in capital	307,329	258,015
Unearned compensation	(2,784)	(5,653)
Retained earnings	288,090	252,528
Accumulated other comprehensive income	280	1,780
Less: Grantor Stock Trust (5,300,000 shares at December 31, 1999 and 1998) at market (Note 6)	(93,744)	(54,325)
Total shareholders' equity	499,934	453,096
	$ 616,783	$ 655,827

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)	Year ended December 31, 1999		1998		1997	
Net sales	$ 714,471	100%	$ 697,621	100%	$ 842,927	100%
Cost of goods sold	376,405	53%	401,607	58%	400,127	47%
Gross profit	338,066	47%	296,014	42%	442,800	53%
Selling expenses	131,858	18%	147,022	21%	120,589	14%
General and administrative expenses	92,478	13%	98,048	14%	70,724	8%
Research and development costs	34,002	5%	36,848	5%	30,298	4%
Restructuring costs (Note 12)	(5,894)	(1%)	54,235	8%		
Sumitomo transition costs (Note 15)	5,713	1%				
Litigation settlement					12,000	1%
Income (loss) from operations	79,909	11%	(40,139)	(6%)	209,189	25%
Interest and other income, net (Note 9)	9,182		3,911		4,586	
Interest expense	(3,594)		(2,671)		(10)	
Income (loss) before income taxes	85,497	12%	(38,899)	(6%)	213,765	25%
Income tax provision (benefit)	30,175		(12,335)		81,061	
Net income (loss)	$ 55,322	8%	($ 26,564)	(4%)	$ 132,704	16%
Earnings (loss) per common share:						
Basic	$ 0.79		($ 0.38)		$ 1.94	
Diluted	$ 0.78		($ 0.38)		$ 1.85	
Common equivalent shares:						
Basic	70,397		69,463		68,407	
Diluted	71,214		69,463		71,698	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year ended December 31, 1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$ 55,322	($ 26,564)	$ 132,704
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	39,877	35,885	19,408
Non-cash compensation	1,390	2,887	2,041
Tax benefit from exercise of stock options	2,377	3,068	29,786
Deferred taxes	9,971	(36,235)	1,030
Non-cash restructuring costs	(8,609)	25,497	
Loss on disposal of assets	315	1,298	2
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	19,690	51,575	(36,936)
Inventories, net	51,092	(42,665)	6,271
Other assets	(12,966)	(12,149)	(6,818)
Accounts payable and accrued expenses	12,225	(4,357)	13,529
Accrued employee compensation and benefits	9,875	(3,411)	(2,437)
Accrued warranty expense	286	7,760	756
Income taxes payable	(10,001)	9,652	(2,636)
Accrued restructuring costs	(3,476)	7,389	
Deferred compensation	3,969	(299)	2,796
Accrued restructuring costs - long-term	(5,041)	11,117	
Net cash provided by operating activities	166,296	30,448	159,496
Cash flows from investing activities:			
Capital expenditures	(56,244)	(67,859)	(67,938)
Acquisitions, net of cash acquired	(2,389)	(10,672)	(129,256)
Proceeds from sale of assets	5,095	3,417	72
Net cash used in investing activities	(53,538)	(75,114)	(197,122)
Cash flows from financing activities:			
Net (payments on) proceeds from line of credit	(70,919)	70,919	
Proceeds from note payable	35,761	12,971	
Short-term debt retirement		(10,373)	
Issuance of Common Stock	9,009	10,343	27,530
Retirement of Common Stock		(917)	(52,985)
Dividends paid, net	(19,760)	(19,485)	(19,123)
Net cash (used in) provided by financing activities	(45,909)	63,458	(44,578)
Effect of exchange rate changes on cash	135	622	(49)
Net increase (decrease) in cash and cash equivalents	66,984	19,414	(82,253)
Cash and cash equivalents at beginning of year	45,618	26,204	108,457
Cash and cash equivalents at end of year	$ 112,602	$ 45,618	$ 26,204
Supplemental disclosures:			
Non-cash financing (Note 4)	$ 48,732		
Cash paid for interest and fees	$ 3,637	$ 2,162	$ 10
Cash paid for income taxes	$ 30,670	$ 8,165	$ 54,358

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	GST	Total	Current Year's Comprehensive Income
Balance, December 31, 1996	72,855	$729	$278,669	$(3,105)	$ 238,113	$ 236	$(152,375)	$ 362,267	
Exercise of stock options	2,877	29	21,529					21,558	
Tax benefit from exercise of stock options			29,786					29,786	
Compensatory stock options			2,511	(470)				2,041	
Employee stock purchase plan	372	4	5,968					5,972	
Stock retirement	(1,852)	(19)			(52,966)			(52,985)	
Cash dividends					(20,607)			(20,607)	
Dividends on shares held by GST					1,484			1,484	
Adjustment of GSTshares to market value			(1,060)				1,060		
Equity adjustment from foreign currency translation						(795)		(795)	$ (795)
Net income					132,704			132,704	132,704
Balance, December 31, 1997	74,252	743	337,403	(3,575)	298,728	(559)	(151,315)	481,425	$ 131,909
Exercise of stock options	391	4	4,433					4,437	
Tax benefit from exercise of stock options			3,068					3,068	
Issuance of Restricted Common Stock	130	1	4,029	(4,030)					
Cancellation of Restricted Common Stock	(19)		(597)	597					
Compensatory stock and stock options			1,532	1,355				2,887	
Employee stock purchase plan	386	4	5,902					5,906	
Stock retirement	(45)	(1)	(765)		(151)			(917)	
Cash dividends					(20,969)			(20,969)	
Dividends on shares held by GST					1,484			1,484	
Adjustment of GSTshares to market value			(96,990)				96,990		
Equity adjustment from foreign currency translation						2,339		2,339	$ 2,339
Net loss					(26,564)			(26,564)	(26,564)
Balance, December 31, 1998	75,095	751	258,015	(5,653)	252,528	1,780	(54,325)	453,096	$ (24,225)
Exercise of stock options	851	8	5,362					5,370	
Tax benefit from exercise of stock options			2,377					2,377	
Cancellation of Restricted Common Stock	(22)		(684)	684					
Compensatory stock and stock options			(795)	2,185				1,390	
Employee stock purchase plan	378	4	3,635					3,639	
Cash dividends					(21,244)			(21,244)	
Dividends on shares held by GST					1,484			1,484	
Adjustment of GSTshares to market value			39,419				(39,419)		
Equity adjustment from foreign currency translation						(1,500)		(1,500)	$ (1,500)
Net income					55,322			55,322	55,322
Balance, December 31, 1999	76,302	$763	$307,329	$(2,784)	$288,090	$ 280	$(93,744)	$499,934	$ 53,822

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1
THE COMPANY
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Callaway Golf Company ("Callaway Golf" or the "Company") was incorporated in California in 1982 and was reincorporated in Delaware in 1999. The Company designs, develops, manufactures and markets high-quality, innovative golf clubs. Callaway Golf's primary products for the periods presented include Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods, Big Bertha(R) Steelhead(TM) Metal Woods, Biggest Big Bertha(R) Titanium Drivers, Great Big Bertha(R) Titanium Metal Woods, Big Bertha(R) Metal Woods with the War Bird(R) soleplate, Great Big Bertha(R) Tungsten Injected(TM) Titanium Irons, Big Bertha(R) X-12(R) Irons, Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Big Bertha(R) Irons, Odyssey(R) putters and wedges and various other putters.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES
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PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the periods presented include the accounts of the Company and its subsidiaries, Callaway Golf Sales Company, Golf Funding Corporation ("Golf Funding"), Callaway Golf Ball Company, Odyssey Golf, Inc. ("Odyssey"), CGV, Inc., All-American Golf LLC ("All-American"), Callaway Golf Media Ventures ("CGMV"), Callaway Golf Europe Ltd., Callaway Golf Europe, S.A., Callaway Golf K.K. (formerly named ERC International Company), Callaway Golf (Germany) GmbH, Callaway Golf Canada Ltd. and Callaway Golf Korea, Ltd.. All significant intercompany transactions and balances have been eliminated. The Company sold the business ofAll-American in 1998 and its interest in CGMV in March 1999 (Note 14). Callaway Golf Europe, S.A. was merged with Callaway Golf Europe Ltd. in 1999 (Note 14).

FINANCIAL STATEMENT PREPARATION

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. Examples of such estimates include provisions for warranty, uncollectible accounts receivable, inventory obsolescence and restructuring costs (Note 12). Actual results could differ from those estimates, which could materially affect future results of operations.

REVENUE RECOGNITION

Sales are recognized at the time goods are shipped, net of an allowance for sales returns.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade receivables and payables, forward foreign currency exchange contracts, its revolving line of credit and note payable (Note 4) and its accounts receivable securitiza-tion facility (Note 5). The carrying amounts of these instruments approximate fair value because of their short maturities and variable interest rates.

ADVERTISING COSTS

The Company advertises primarily through television and print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 1999, 1998 and 1997 were $26,202,000, $32,944,000 and $20,320,000 respectively.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The accounts of the Company's foreign subsidiaries have been translated into United States dollars at appropriate rates of exchange. Cumulative translation gains or losses are recorded as accumulated other comprehensive income in shareholders' equity. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in the consolidated statement of operations. The Company recorded transaction losses of $793,000 in 1999, transaction gains of $1,598,000 in 1998 and transaction losses of $940,000 in 1997.

During 1999, 1998 and 1997, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions by certain of its wholly-owned foreign subsidiaries. The Company also hedged certain yen-denominated transactions with its Japanese distributor. Realized and unrealized gains and losses on these contracts are recorded in income. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercom-pany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At December 31, 1999, 1998 and 1997, the Company had approximately $7,117,000, $11,543,000 and $2,575,000, respectively, of foreign exchange contracts outstanding. The contracts outstanding at

December 31, 1999 mature between January and June of 2000. The Company had net realized and unrealized gains on foreign exchange contracts of $358,000, $57,000 and $261,000 in 1999, 1998 and 1997, respectively.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in income or other comprehensive income, depending on whether the derivatives are designated as hedges and, if so, the types of hedges. SFAS No. 133 is effective for all periods beginning after June 15, 2000; the Company elected to adopt early SFAS No. 133 on January 1, 1999.

Adoption of this statement did not significantly affect the way in which the Company currently accounts for derivatives to hedge payments due on intercompany transactions, as described above. Accordingly, no cumulative effect adjustments were made. However, the Company expects that it also may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. The forward contracts used to hedge anticipated transactions will be recorded as either assets or liabilities in the balance sheet at fair value. Gains and losses on such contracts will be recorded in other comprehensive income and will be recorded in income when the anticipated transactions occur. The ineffective portion of all hedges will be recognized in current period earnings.

EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period, increased by dilutive potential common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include shares owned by the Callaway Golf Company Grantor Stock Trust (Note 6), options issued pursuant to the Company's stock option plans (Note 8), potential shares related to the Employee Stock Purchase Plan (Note 8) and rights to purchase preferred shares under the Callaway Golf Company Shareholder Rights Plan (Note 8). Dilutive securities related to the Callaway Golf Company Grantor Stock Trust and the Company's stock option plans are included in the calculation of diluted earnings per common share using the treasury stock method. Dilutive securities related to the Employee Stock Purchase Plan are calculated by dividing the average withholdings during the period by 85% of the lower of the offering period price or the market value at the end of the period. The dilutive effect of rights to purchase preferred shares under the Callaway Golf Shareholder Rights Plan have not been included as dilutive securities because the conditions necessary to cause these rights to be redeemed were not met. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the years ended December 31, 1999, 1998 and 1997 is presented in Note 7.

CASH EQUIVALENTS

Cash equivalents are highly liquid investments purchased with maturities of three months or less.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of two to 30 years. The Company's property, plant and equipment generally are depreciated over the following periods:

Buildings and improvements	10-30 years
Machinery and equipment	5-15 years
Furniture, computers and equipment	3-5 years
Production molds	2 years

Normal repairs and maintenance are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Replacements are capitalized and the property, plant, and equipment accounts are relieved of the items being replaced. The related costs and accumulated depreciation of disposed assets are eliminated and any resulting gain or loss on disposition is included in income.

The Company capitalizes certain software development and implementation costs. Development and implementation costs are expensed until management has determined that the software will result in probable future economic benefit and management has committed to funding the project. Thereafter, all direct external implementation costs, as well as purchased software costs, are capitalized and amortized using the straight-line method over the remaining estimated useful lives, not exceeding five years.

LONG-LIVED ASSETS

The Company assesses potential impairments of its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future net cash flows is less than the carrying amount of the asset. During the fourth quarter of 1998, the Company implemented a restructuring plan that included a number of cost reduction actions and operational improvements (Note 12). As a result of this plan, impairment losses were recorded in 1998 for certain of the Company's long-lived assets.

INTANGIBLE ASSETS

Intangible assets consist primarily of trade name, trademark, trade dress, patents and goodwill resulting from the purchase of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. and goodwill associated with the purchase of certain foreign distributors (Note 14). Intangible assets are amortized using the straight-line method over periods ranging from three to 40 years. During 1999, 1998 and 1997, amortization of intangible assets was $7,476,000, $5,466,000 and $1,778,000 respectively.

STOCK-BASED COMPENSATION

The Company measures compensation expense for its stock-based employee compensation awards using the intrinsic value method. Pro forma disclosures of net income and earnings per share, as if the fair value-based method had been applied in measuring compensation expense, are presented in Note 8. Compensation expense for non-employee stock-based compensation awards is measured using the fair-value method.

INCOME TAXES

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future consequences resulting from differences in the financial reporting and tax bases of assets and liabilities. Deferred income tax expense (benefit) is the net change during the year in the deferred income tax asset or liability.

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries since such amounts are expected to be reinvested indefinitely. The Company provides a valuation allowance for its deferred tax assets when, in the opinion of management, it is more likely than not that such assets will not be realized.

COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income," 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. Since the Company has met the indefinite reversal criterion, it does not accrue income taxes on foreign currency translation adjustments.

SEGMENT INFORMATION

In 1998, the Company adopted SFAS No. 131, "Diclosures about Segments of an Enterprise and Related Information." SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the industry segment approach with the management approach. The management approach designates the international organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of this standard did not affect the Company's results of operations, financial position or cash flows. This information is presented in Note 15.

DIVERSIFICATION OF CREDIT RISK

The Company's financial instruments that are subject to concentrations of credit risk consist primarily of cash equivalents and trade receivables.

The Company may invest its excess cash in money market accounts and U.S. Government securities and has established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. During 1999 and 1998, no investments in U.S. Government securities were held.

The Company operates in the golf equipment industry and primarily sells its products to golf equipment retailers and foreign distributors. The Company performs ongoing credit evaluations of its customers'financial condition and generally requires no collateral from these customers. The Company maintains reserves for potential credit losses, which it considers adequate to cover any such losses.

During 1999, 1998, and 1997, approximately 42%, 38% and 35%, respectively, of the Company's net sales were made to foreign customers. An adverse change in either economic conditions abroad or the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales and the Company's results of operations, cash flows and financial position.

RECLASSIFICATIONS

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

NOTE 3
SELECTED FINANCIAL STATEMENT INFORMATION

(in thousands)	December 31, 1999	December 31, 1998
Cash and cash equivalents:		
Cash, interest bearing	$ 110,157	$ 41,689
Cash, non-interest bearing	2,445	3,929
	$ 112,602	$ 45,618
Accounts receivable, net:		
Trade accounts receivable	$ 59,543	$ 83,405
Allowance for doubtful accounts	(5,291)	(9,939)
	$ 54,252	$ 73,466
Inventories, net:		
Raw materials	$ 45,868	$ 102,352
Work-in-process	1,403	1,820
Finished goods	65,661	81,868
	112,932	186,040
Reserve for obsolescence	(14,994)	(36,848)
	$ 97,938	$ 149,192
Property, plant and equipment, net:		
Land	$ 12,358	$ 13,375
Buildings and improvements	87,910	55,307
Machinery and equipment	50,942	57,334
Furniture, computers and equipment	64,334	55,629
Production molds	22,714	17,472
Construction-in-process	5,032	52,920
	243,290	252,037
Accumulated depreciation	(101,076)	(79,243)
	$ 142,214	$ 172,794
Intangible assets:		
Trade name	$ 69,629	$ 69,629
Trademark and trade dress	29,841	29,841
Patents, goodwill and other	34,911	35,765
	134,381	135,235
Accumulated amortization	(14,238)	(7,456)
	$ 120,143	$ 127,779
Accounts payable and accrued expenses:		
Accounts payable	$ 11,297	$ 10,341
Note to related party (Note 16)		6,766
Accrued expenses	35,367	18,821
	$ 46,664	$ 35,928
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$ 15,303	$ 6,178
Accrued vacation and sick pay	4,571	4,423
Accrued commissions	1,252	482
	$ 21,126	$ 11,083

NOTE 4
BANK LINE OF CREDIT AND NOTE PAYABLE

On February 12, 1999, the Company consummated the amendment of its credit facility to increase the facility to up to $120,000,000 (the "Amended Credit Agreement"). The Amended Credit Agreement has a five-year term and is secured by substantially all of the assets of the Company. The Amended Credit Agreement bears interest at the Company's election at the London Interbank Offering Rate ("LIBOR") plus a margin or the higher of the base rate on corporate loans at large U.S. money center commercial banks (prime rate) or the Federal Funds Rate plus 50 basis points. The line of credit requires the Company to maintain certain minimum financial ratios, including a fixed charge coverage ratio, as well as other restrictive covenants. As of December 31, 1999, up to $115,739,000 of the credit facility remained available for borrowings (including a reduction of $4,261,000 for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

On December 30, 1998, Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, entered into a master lease agreement for the acquisition and lease of up to $56,000,000 of machinery and equipment. As of December 31, 1999, the Company had finalized its lease program and leased $50,000,000 of equipment pursuant to the master lease agreement. This lease program includes a interim finance agreement (the "Finance Agreement"). The Finance Agreement provides pre-lease financing advances for the acquisition and installation costs of the aforementioned machinery and equipment. The Finance Agreement bears interest at LIBOR plus a margin and is secured by the underlying machinery and equipment and a corporate guarantee from the Company. During the third and fourth quarters of 1999, the Company converted the balance of this note payable to the operating lease discussed above. As of December 31, 1999, no amount was outstanding under this facility.

NOTE 5
ACCOUNTS RECEIVABLE SECURITIZATION

The Company's wholly-owned subsidiary, Callaway Golf Sales Company, sells trade receivables on an ongoing basis to its wholly-owned subsidiary, Golf Funding. Pursuant to an agreement effective February 12, 1999 with a securitization company (the "Accounts Receivable Facility"), Golf Funding, in turn, sells such receivables to the securitization company on an ongoing basis, which yields proceeds of up to $80.0 million at any point in time. Golf Funding's sole business is the purchase of trade receivables from Callaway Golf Sales Company. Golf Funding is a separate corporate entity with its own separate creditors, which in the event of its liquidation will be entitled to be satisfied out of Golf Funding's assets prior to any value in Golf Funding becoming available to the Company. The Accounts Receivable Facility expires in February 2004.

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of December 31, 1999, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with the sale of accounts receivable for year ended December 31, 1999 were $923,000 and were recorded as interest expense.

NOTE 6
GRANTOR STOCK TRUST

In July 1995, the Company established the Callaway Golf Company Grantor Stock Trust (the "GST"). In conjunction with the formation of the GST, the Company sold 4,000,000 shares of newly issued Common Stock to the GSTat a purchase price of $60,575,000 ($15.14 per share). In December 1995, the Company sold an additional 1,300,000 shares of newly issued Common Stock to the GSTat a purchase price of $26,263,000 ($20.20 per share). The sale of these shares had no net impact on shareholders'equity. During the term of the GST, shares in the GSTmay be used to fund the Company's obligations with respect to one or more of the Company's non- qualified or qualified employee benefit plans.

Shares owned by the GST are accounted for as a reduction to shareholders'equity until used in connection with employee benefits. Each period, the shares owned by the GST are valued at the closing market price, with corresponding changes in the GSTbalance reflected in capital in excess of par value.

NOTE 7
EARNINGS PER COMMON SHARE

The schedule below summarizes the elements included in the calculation of basic and diluted earnings (loss) per common share for the years ended December 31, 1999, 1998 and 1997.

For the years ended December 31, 1999 and 1997, 10,979,000 and 917,000 options, respectively, were excluded from the calculations, as their effect would have been antidilutive. For the year ended December 31, 1998, all dilutive securities were excluded from the calculation of diluted loss per share, as their effect would have been antidulutive.

(in thousands, except per share data)	Year ended December 31, 1999	1998	1997
Net income (loss)	$55,322	($26,564)	$132,704
Weighted-average shares outstanding:			
Weighted-average shares outstanding - Basic	70,397	69,463	68,407
Dilutive securities	817		3,291
Weighted-average shares outstanding - Diluted	71,214	69,463	71,698
Earnings (loss) per common share:			
Basic	$ 0.79	($ 0.38)	$ 1.94
Diluted	$ 0.78	($ 0.38)	$ 1.85

NOTE 8
STOCK OPTIONS AND RIGHTS

The Company had the following fixed stock option plans, under which shares were available for grant at December 31, 1999: the 1991 Stock Incentive Plan (the "1991 Plan"), the 1995 Employee Stock Incentive Plan (the "1995 Plan"), the 1996 Stock Option Plan (the "1996 Plan"), the 1998 Stock Incentive Plan (the "1998 Plan"), the Promotion, Marketing and Endorsement Stock Incentive Plan (the "Promotion Plan") and the Non-Employee Directors Stock Option Plan (the "Directors Plan").

The 1991 Plan, the 1996 Plan and the 1998 Plan permit the granting of options or other stock awards to the Company's officers, employees and consultants. Under the 1991 Plan, option prices may be less than the market value at the date of grant, while under the 1996 Plan and the 1998 Plan options may not be granted at option prices that are less than fair market value at the date of grant. The 1995 Plan permits the granting of options or other stock awards to only employees and consultants of the Company at option prices that may be less than market value at the date of grant. The 1995 Plan was amended in 1999 to increase the maximum number of shares of Common Stock to be issued upon exercise of an option to 7,100,000 shares.

During 1996 and 1995, the Company granted options to purchase shares to two key officers, under separate plans, in conjunction with terms of their initial employment (the "Key Officer Plans"). The 1990 Amended and Restated Stock Option Plan (the "1990 Plan") permitted the granting of options to officers, employees and consultants. No shares are available for grant under the Key Officer Plans or the 1990 Plan.

Under the Promotion Plan, shares of Common Stock may be granted in the form of options or other stock awards to golf professionals and other endorsers at prices that may be less than the market value of the stock at the grant date. The Directors Plan permits the granting of options to purchase shares of Common Stock to Directors of the Company who are not employees, at prices based on a non-discretionary formula, which may not be less than the market value of the stock at the date of grant.

The following table presents shares authorized, available for future grant and outstanding under each of the Company's plans as of December 31, 1999:

(in thousands)

Plan	Authorized	Available	Outstanding
1990 Plan	4,920		100
1991 Plan	10,000	188	2,693
Promotion Plan	3,560	879	1,006
1995 Plan	7,100	1,647	5,249
1996 Plan	6,000	575	5,395
1998 Plan	500	500	
Key Officer Plans	1,100		820
Directors Plan	840	64	484
Total	34,020	3,853	15,747

Under the Company's stock option plans, outstanding options vest over periods ranging from zero to five years from the grant date and expire up to ten years after the grant date.

The following summarizes stock option transactions for the years ended December 31, 1999, 1998 and 1997:

(in thousands, except per share data)	1999 Shares	1999 Weighted-Average Exercise Price	1998 Shares	1998 Weighted-Average Exercise Price	1997 Shares	1997 Weighted-Average Exercise Price
Outstanding at beginning of year	13,637	$22.62	11,257	$22.41	10,800	$15.03
Granted	4,012	$11.30	4,020	$25.04	3,406	$33.79
Exercised	(851)	$ 6.40	(441)	$10.16	(2,877)	$ 7.81
Canceled	(1,051)	$24.95	(1,199)	$34.86	(72)	$28.81
Outstanding at end of year	15,747	$20.46	13,637	$22.62	11,257	$22.41
Options exercisable at end of year	11,066	$18.64	6,039	$17.78	3,453	$12.17
Price range of outstanding options	$0.44-$40.00		$0.44-$40		$0.44-$40.00	

The following tables summarize additional information about outstanding stock options at December 31, 1999 and options and other stock awards granted during 1999:

OPTIONS OUTSTANDING AND EXERCISABLE BY PRICE RANGE AS OF DECEMBER 31, 1999:

Range of Exercise Prices	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price (in thousands)
$0 - $10	762	2.21	$ 3.17	742	$ 3.01
$10 - $15	5,294	3.92	$11.54	4,841	$10.54
$15 - $25	2,642	4.75	$18.52	1,643	$18.75
$25 - $40	7,049	5.41	$29.75	3,840	$30.57
$0 - $40	15,747	4.64	$20.46	11,066	$18.64

OPTIONS AND OTHER STOCK AWARDS GRANTED DURING 1999:

	Number (in thousands)	Weighted-Average Exercise Price
Exercise price = market value	3,921	$ 11.16
Exercise price (greater than) market value	80	$ 18.88
Exercise price (less than) market value	11	$ 8.56
	4,012	$ 11.30

During 1999, the Company, at its discretion, extended the expiration terms of 1,532,000 options held by certain employees and officers. At the time of modification, the exercise prices of the options were in excess of the then-current market price and accordingly this action did not result in compensation expense for the Company.

During 1998, the Company modified certain terms of 720,000 options held by directors, certain officers and employees. These modifications, which largely resulted from the Company's restructuring plan, included acceleration of vesting and extension of expiration terms at the Company's discretion. At the time of modification, the exercise prices of the options were in excess of the then- current market price and accordingly this action did not result in compensation expense for the Company.

Also during 1998, the Company canceled 150,000 options held by non-employees with option prices in excess of the then-current market price of the Company's stock. The Company then reissued an equivalent number of options to these non- employees at the then-current market price and extended certain expiration terms, and recorded the related compensation expense of $71,000. An additional $195,000 was recorded in unearned compensation, and is being amortized over the remaining vesting periods.

RIGHTS

The Company has granted officers, consultants, and employees rights to receive an aggregate of 826,800 shares of Common Stock for services or other consideration. During 1998, 80,000 rights were exercised while none were granted. No rights were granted or exercised during 1999 or 1997. At December 31, 1999, no rights to receive shares of Common Stock remained outstanding.

The Company has a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding Common Stock carries one right to purchase one one-thousandth of a share of the Company's Series "A" Junior Participating Preferred Stock (the "Right"). The Right entitles the holder, under certain circumstances, to purchase Common Stock of Callaway Golf Company or of the acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding Common Stock. The Rights are redeemable by the Company at $.01 per Right and expire in 2005.

RESTRICTED COMMON STOCK

During 1998, the Company granted 130,000 shares of Restricted Common Stock to 26 officers of the Company. Of these shares, 41,250 shares have been canceled due to the service requirement not being met. The shares, which are restricted as to sale or transfer until vesting, will vest on January 1, 2003. The related net compensation expense of $2,751,000 is being recognized ratably over the vesting period, based on the difference between the exercise price and market value of the stock on the measurement date.

EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan ("ESPP") whereby eligible employees may purchase shares of Common Stock at 85% of the lower of the fair market value on the first day of a two year offering period or the last day of each six month exercise period. Employees may authorize the Company to withhold compensation during any offering period, subject to certain limitations. During 1997, the ESPP was amended to increase the maximum number of shares of the Company's Common Stock that employees may acquire under this plan to 1,500,000 shares. During 1999, 1998 and 1997, the ESPP purchased approximately 378,000, 386,000 and 372,000 shares, respectively, of the Company's Common Stock. As of December 31, 1999, 195,000 shares were reserved for future issuance and will be purchased on the January 31, 2000 exercise period, resulting in the termination of the ESPP.

In May 1999, the Company's shareholders approved a new ESPP(the "1999 ESPP") with substantially the same terms as the ESPP. There are 2,000,000 shares reserved for issuance under the 1999 ESPP. This plan will be effective February 1, 2000 upon the termination of the ESPP.

COMPENSATION EXPENSE

During 1999, 1998, and 1997, the Company recorded $1,370,000, $2,321,000 and $2,041,000, respectively, in compensation expense for Restricted Common Stock and certain options to purchase shares of Common Stock granted to employees, officers and consultants of the Company. The valuation of options granted to non-employees is estimated using the Black-Scholes option pricing model.

Unearned compensation has been charged for the value of options granted to both employees and non-employees on the measurement date based on the valuation methods described above. These amounts are amortized over the vesting period. The unamortized portion of unearned compensation is shown as a reduction of shareholders' equity in the accompanying consolidated balance sheet.

PRO FORMA DISCLOSURES

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for employee awards under these plans, the Company's net income (loss) and earnings (loss) per share would be changed to the pro forma amounts indicated below:

(in thousands, except per share data)	Year ended December 31, 1999	1998	1997
Net income (loss):			
As reported	$ 55,322	($26,564)	$ 132,704
Pro forma	$ 34,422	($46,847)	$ 124,978
Earnings (loss) per common share:			
As reported			
Basic	$ 0.79	($0.38)	$ 1.94
Diluted	$ 0.78	($0.38)	$ 1.85
Pro forma			
Basic	$ 0.49	($0.67)	$ 1.83
Diluted	$ 0.48	($0.67)	$ 1.77

The pro forma amounts reflected above may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense as the options vest and additional options may be granted in future years. The fair value of employee stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for the years ended December 31, 1999, 1998, and 1997, respectively:

	Year ended December 31, 1999	1998	1997
Dividend yield	1.4%	1.9%	0.9%
Expected volatility	45.6%	42.0%	31.5%
Risk free interest rates	5.36%-6.24%	4.66-4.72%	5.64-5.89%
Expected lives	3-4 years	3-6 years	3-6 years

The weighted-average grant-date fair value of options granted during 1999 was $3.57 per share. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of grants under the Company's employee stock-based compensation plans.

NOTE 9
EMPLOYEE BENEFIT PLANS

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to 10% of annual compensation, up to the maximum permitted under federal law, and the Company is obligated to contribute annually an amount equal to 100% of the participant's contribution up to 6% of that participant's annual compensation. Employees contributed to the 401(k) Plan $5,486,000, $5,601,000 and $5,384,000 in 1999, 1998 and 1997, respectively. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $4,510,000, $4,673,000 and $4,495,000 during 1999, 1998 and 1997, respectively. Additionally, the Company can make discretionary contributions based on the profitability of the Company. For the year ended December 31, 1999, the Company recorded compensation expense for discretionary contributions of $3,605,000. No discretionary contributions were made for the years ended December 31, 1998 and 1997.

The Company also has an unfunded, nonqualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. For the years ended December 31, 1999, 1998 and 1997, the total participant deferrals, which are reflected in long-term liabilities, were $997,000, $908,000 and $1,166,000, respectively. Included in other income during 1999 were net proceeds from an insurance policy related to the deferred compensation plan of $3,622,000.

NOTE 10
INCOME TAXES

The Company's income (loss) before income tax provision (benefit) was subject to taxes in the following jurisdictions for the following periods:

(in thousands)	Year ended December 31, 1999	1998	1997
Domestic	$ 75,799	($ 34,555)	$ 212,453

Foreign	9,698	(4,344)	1,312
	$ 85,497	($ 38,899)	$ 213,765

The provision (benefit) for income taxes is as follows:

(in thousands)	Year ended December 31, 1999	1998	1997
Current tax provision (benefit):			
United States	$ 14,779	$ 21,345	$ 66,462
State	2,774	2,296	12,419
Foreign	3,044	250	1,150
Deferred tax expense (benefit):			
United States	8,956	(31,173)	1,042
State	1,162	(4,847)	50
Foreign	(540)	(206)	(62)
Income tax provision (benefit)	$ 30,175	($12,335)	$ 81,061

During 1999, 1998 and 1997, the Company recognized certain tax benefits related to stock option plans in the amount of $2,377,000, $3,068,000 and $29,786,000 respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in additional paid-in capital.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 1999 and 1998 are as follows:

(in thousands)	December 31, 1999	1998
Deferred tax assets:		
Reserves and allowances	$ 28,052	$ 36,229
Depreciation and amortization	16,601	7,963
Deferred compensation	4,678	3,100
Effect of inventory overhead adjustment	1,977	4,062
Compensatory stock options and rights	2,573	2,327
Foreign net operating loss carryforwards	798	1,074
Other	2,773	3,979
Restructuring charges		
Long-lived asset impairment	1,740	1,755
Rental/lease arrangements	557	5,472
Estimated losses on assets held for disposal		4,335
Capital loss carryforward	829	685
Other		52
Tax credit carryforwards	2,827	
Total deferred tax assets	63,405	71,033
Valuation allowance for deferred tax assets	(4,190)	(1,759)
Deferred tax assets, net of valuation allowance	59,215	69,274
Deferred tax liabilities:		
State taxes, net of federal income tax benefit	(2,128)	(2,608)
Net deferred tax assets	$ 57,087	$ 66,666

At December 31, 1999, the Company had tax credit carry-forwards primarily relating to state investment tax credits which have expiration dates beginning with December 31, 2006.

A valuation allowance has been established due to the uncertainty of realizing certain tax credits, carryforwards, and a portion of other deferred tax assets. The valuation allowance was increased by $2,431,000 during 1999, of which $2,073,000 was attributable to state research and investment tax credits. Based on management's assessment, it is more likely than not that all the net deferred tax assets will be realized through future earnings or implementation of tax planning strategies.

A reconciliation of income taxes computed by applying the statutory U.S. income tax rate to the Company's income (loss) before income taxes to the income tax provision (benefit) is as follows:

(in thousands)	Year ended December 31, 1999	1998	1997
Amounts computed at statutory U.S. tax rate	$ 29,924	($13,615)	$ 74,816
State income taxes, net U.S. tax benefit	3,046	(1,501)	8,105
State tax credits, net of U.S. tax benefit	(2,075)		
Nondeductible foreign losses	(476)	1,226	
Expenses with no tax benefit	814	1,064	
Nondeductible capital losses	130	588	
Foreign sales corporation tax benefits	(1,471)	(236)	(2,519)
Nontaxable insurance proceeds	(1,408)		
Change in tax valuation allowance	2,431		
Other	(740)	139	659
Income tax provision (benefit)	$ 30,175	($12,335)	$ 81,061

U.S. tax return examinations have been completed for the years through

1994. Management believes adequate provisions for income tax have been recorded for all years.

NOTE 11
COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of December 31, 1999. However, management believes that the final resolution of these matters, individually and in the aggregate, will not have

a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

The Company leases certain warehouse, distribution and office facilities, as well as office and manufacturing equipment under operating leases. Lease terms range from one to 10 years with options to renew at varying terms. Callaway Golf Ball Company has guaranteed the residual value of equipment leased pursuant to an operating lease which is subject to renewal. The residual value guarantee, which approximates estimated fair market value of the equipment at each option period, is reduced over time. Commitments for minimum lease payments under non- cancelable operating leases having initial or remaining non-cancelable terms in excess of one year as of December 31, 1999 are as follows:

(in thousands)	
2000	$11,128
2001	9,755
2002	6,612
2003	1,972
2004	1,904
Thereafter	7,926
	$39,297

Future minimum lease payments have not been reduced by future minimum sublease rentals of $2,207,000 under an operating lease. At December 31, 1999, the Company is contingently liable for $6,563,000 through February 2003 under an operating lease that was assigned to a third party (Note 12). Rent expense for the years ended December 31, 1999, 1998 and 1997 was $2,315,000, $17,654,000 and $1,760,000, respectively. Rent expense for 1999 does not include a credit of $6,076,000 related to the reversal of a restructuring reserve for excess lease costs (Note 12). Rent expense for 1998 includes $13,466,000 in excess lease costs related to the Company's restructuring activities (Note 12). The Company had no capital leases at December 31, 1999.

NOTE 12
RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54,235,000 resulting from a number of cost reduction actions and operational improvements. These actions included: the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey, into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives were completed during 1999, with the exception of cash outlays related to the assignment of a lease obligation for a facility in New York City that will continue through July 2000. The restructuring charges (shown below in tabular format) primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of the Company's 80% interest in CGMV (Note 14), a loss on the sale of the business of All-American (Note 14), as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs.

Employee reductions occurred in almost all areas of the Company, including manufacturing, marketing, sales, and administrative areas. At December 31, 1998, the Company had reduced its non-temporary work force by approximately 750 positions. Although substantially all reductions occurred prior to December 31, 1998, a small number of reductions occurred in the first quarter of 1999.

During the restructuring, the Company consolidated its operations and sold certain of its buildings, which housed a portion of its manufacturing and research and development activities. Other write-downs were recorded during 1998 for idle assets, assets whose manner of use had changed significantly and equipment replaced as a result of capital improvements. The impaired assets included buildings, building improvements, and machinery and equipment used in certain of the Company's manufacturing and research and development activities.

The projected future cash flows from these assets were less than the carrying values of the assets. The carrying values of the assets held for sale and the assets to be held and used were reduced to their estimated fair values based on independent appraisals of selling values and values of similar assets sold, less costs to sell. In 1998, the Company recorded losses from impairment of assets of $12,634,000, which were recorded as restructuring costs. The Company completed the dispositions in 1999. At December 31, 1998, subsequent to the write-down for impairments, the carrying amount of the assets held for disposal and assets to be held and used was $13,678,000 and $4,582,000, respectively. The Company continued to depreciate the assets that were held and used but did not further depreciate the assets held for disposition. The effect on depreciation for the year ended December 31, 1999 did not materially impact the Company's results of operations and management does not expect this effect to materially impact future results of operations.

Details of the one-time charge are as follows (in thousands):

	Cash/ Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98	Activity(1)	Reserve Balance at 12/31/99
ELIMINATION OF JOB RESPONSIBILITIES		$11,664	$ 8,473	$ 3,191	$ 3,191	
Severance packages	Cash	11,603	8,412	3,191	3,191	
Other	Non-cash	61	61			
EXITING CERTAIN NON-CORE BUSINESS ACTIVITIES		$28,788	$12,015	$16,773	$15,394	$ 1,379
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731	2,731(2)	
Excess lease costs	Cash	12,660	146	12,514	11,135	1,379
Contract cancellation fees	Cash	2,700	1,504	1,196	1,196	
Other	Cash	356	24	332	332	
CONSOLIDATION OF OPERATIONS		$13,783	$ 2,846	$10,937	$10,937	
Loss on impairment/disposition of assets	Non-cash	12,364	2,730	9,634	9,634(3)	
Excess lease costs	Cash	806	4	802	802(4)	
Other	Cash	613	112	501	501	

(1) Includes reversal of reserve totaling $8,609,000, as actual amounts differed from estimates. Significant reversals are noted below in (2) through(4)

(2) Includes reversal of $6,076,000 of reserve due to the assignment of lease obligation at terms significantly more favorable than estimated at the establishment of the reserve.

(3) Includes reversal of $1,470,000 of reserve related to disposition of two buildings at higher sales prices than estimated. (4) Includes reversal of $491,000 of reserve due to the sublease of a facility at terms more favorable than estimated at the establishment of the reserve.

During 1999, the Company incurred charges of $1,295,000 on the disposition of building improvements eliminated during the consolidation of manufacturing operations, as well as other charges of $671,000. These charges did not meet the criteria for accrual in 1998. Additionally, the Company incurred charges of $749,000 related to asset dispositions and other restructuring activities for which reserves were not established in 1998. Future cash outlays are anticipated to be completed by July 2000.

NOTE 13
LITIGATION SETTLEMENT

In 1997, the Company settled a lawsuit brought against it and certain officers of the Company by a former officer of the Company with the payment of $12,000,000.

The Company filed suit against certain of its insurers and an insurance agent seeking coverage for the costs of defending and settling the above lawsuit (the "coverage litigation"). The insurers and the insurance agent settled with the Company in 1998 for an amount that was not material. This settlement was recorded in general and administrative expenses as a reduction of legal fees.

NOTE 14
AQUISITIONS AND REORGANIZATIONS

During 1999, the Company acquired distribution rights and substantially all of the assets from its distributor in Ireland for $810,000. Also in 1999, the Company merged its subsidiary, Callaway Golf Europe, S.A., with another of its subsidiaries, Callaway Golf Europe, Ltd. and now operates in France through a satellite office. During 1998, the Company acquired distribution rights and substantially all of the assets from its distributors in Korea, Canada, France, Belgium, Norway and Denmark, as well as the remaining 20% interest in Callaway Golf Trading GmbH (Note 16), the results of which are consolidated in the results of Callaway Golf (Germany) GmbH. The aggregate purchase price for these transactions was $27,229,000, excluding the assumption and subsequent retirement of short-term debt

obligations of $10,373,000. The excess of the purchase price over net assets acquired of $20,935,000 was allocated to goodwill and is being amortized over estimated useful lives of three to 10 years. These acquisitions, along with the acquisition of the remaining 80% interest in All-American (discussed below) are not considered significant business combinations. Accordingly, pro forma financial information is not presented.

In May 1998, the Company acquired for $4,526,000 the remaining 80% interest in All-American, which operates a nine-hole golf course, performance center, training facility and driving range located in Las Vegas, Nevada. On December 30, 1998, as part of its business plan to discontinue certain non-core business activities, the Company sold the business of All-American in exchange for barter trade credits, which were recorded at the fair market value of the asset exchanged. The Company recorded a loss on the disposition of this business of $10,341,000 in December 1998 (Note 12).

On August 8, 1997, the Company consummated its acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc., by its wholly-owned subsidiary, Odyssey, subject to certain adjustments as of the time of closing. Odyssey's results of operations have been included in the Company's consolidated results of operations since August 8, 1997. Odyssey manufactured and marketed the Odyssey(R) line of putters and wedges with Stronomic(R) and Lyconite(R) face inserts. During 1998, as part of its restructuring plan, the operations of Odyssey were consolidated into that of the Company, while maintaining the distinct and separate Odyssey(R) brand. In 1999, Odyssey was dissolved as a corporate entity and as a subsidiary.

The cost to acquire substantially all of the assets and certain liabilities of Odyssey Sports, Inc., including professional fees directly related to the acquisition, was approximately $129,256,000 and has been accounted for using the purchase method of accounting. Amounts allocated to trade name, trademark, trade dress and goodwill are being amortized on the straight-line basis over 40 years. The amounts allocated to the process patent and covenant not to compete are being amortized on the straight- line basis over 16 and three years, respectively.

The following unaudited pro forma net sales, net income and earnings per share data for the year ended December 31, 1997 are based on the respective historical financial statements of the Company and Odyssey Sports, Inc. The pro forma data presented for the year ended December 31, 1997 combines the results of operations of the Company for the year ended December 31, 1997 with the results of operations of Odyssey Sports, Inc. for the ten months ended August 7, 1997 and the results of Odyssey for the two months ended September 30, 1997 and assumes that the acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. occurred on January 1, 1997.

The pro forma financial data presented are not necessarily indicative of the Company's results of operations that might have occurred had the transaction been completed at the beginning of the period specified, and do not purport to represent what the Company's consolidated results of operations might be for any future period.

(in thousands, except per share data)	Year Ended December 31, 1997 (unaudited)
Net sales	$884,840
Net income	$134,512
Earnings per common share:	
Basic	$ 1.97
Diluted	$ 1.88

NOTE 15
SEGMENT INFORMATION

The Company's operating segments are organized on the basis of products and include golf clubs and golf balls. The Golf Clubs segment consists of Callaway Golf(R) titanium and stainless steel metal woods and irons, Callaway Golf(R) and Odyssey(R) putters and wedges, and sales of related accessories. The Golf Balls segment consists of golf balls that are designed and manufactured, and will be marketed and distributed by the Company's wholly-owned subsidiary, Callaway Golf Ball Company. All Other segments, including interactive golf sites, golf book publishing, new player development and a driving range venture, are aggregated as they do not meet requirements for separate disclosure set forth in SFAS No. 131. In accordance with its restructuring plan, the Company is no longer pursuing these initiatives (Note 12). There are no significant intersegment transactions. The table below contains information utilized by management to evaluate its operating segments.

(in thousands)

1999	Golf Clubs	Golf Balls	All Other	Consolidated
Net sales	$ 714,471			$ 714,471
Income (loss) before tax	123,922	($ 38,425)		85,497
Interest income	5,463			5,463
Interest expense	(2,222)	(1,372)		(3,594)
Depreciation and amortization	36,151	3,726		39,877
Additions to long-lived assets	10,210	46,912(1)		57,122
1998	**Golf Clubs**	**Golf Balls**	**All Other**	**Consolidated**
Net sales	$ 697,621			$ 697,621
Income (loss) before tax	9,182	($ 22,426)	($ 25,655)	(38,899)
Interest income	1,564		7	1,571
Interest expense	(2,252)		(419)	(2,671)
Depreciation and amortization	34,121	1,072	692	35,885
Additions to long-lived assets	39,854	47,721(1)	1,408	88,983
1997	**Golf Clubs**	**Golf Balls**	**All Other**	**Consolidated**
Net sales	$ 842,927			$ 842,927
Income (loss) before tax	222,771	($ 9,013)	$ 7	213,765
Interest income	4,703			4,703
Interest expense	(10)			(10)
Depreciation and amortization	19,219	84	105	19,408
Additions to long-lived assets	166,461	10,263	823	177,547

(1) Includes an aggregate of $50,000,000 converted to an operating lease in 1999 (Note 4).

The Company markets its products domestically and internationally, with its principal international markets being Asia and Europe. The table below contains information about the geographical areas in which the Company operates. Revenues are attributed to the location to which the product was shipped. Long-lived assets are based on location of domicile.

The Company, through a distribution agreement, had appointed Sumitomo as the sole distributor of Callaway Golf(R) clubs in Japan. The distribution agreement, which began in February 1993 and ended on December 31, 1999, required Sumitomo to purchase specified minimum quantities. In 1999, 1998, and 1997, sales to Sumitomo accounted for 7%, 8% and 10%, respectively, of the Company's net sales. In the fourth quarter of 1999, the Company successfully completed negotiations with Sumitomo to provide a smooth transition of its business. As a result of this transition agreement, the Company recorded a net charge of $8.6 million in the fourth quarter of 1999 for buying certain current inventory, payments for non-current inventory and other transition expenses, including foreign currency transaction losses. Odyssey(R) brand products are sold through the Company's wholly-owned Japanese subsidiary, Callaway Golf K.K., and beginning January 1, 2000, Callaway Golf(R) brand products also will be sold through this subsidiary.

(In thousands)

1999	Sales	Long-Lived Assets
United States	$414,136	$241,241
Europe	115,673	14,027
Japan	55,928	2,634
Rest of Asia	73,121	974
Other foreign countries	55,613	3,481
Total	$714,471	$262,357

1998	Sales	Long-Lived Assets
United States	$437,627	$277,611
Europe	116,354	17,789
Japan	61,460	857
Rest of Asia	34,189	1,194
Other foreign countries	47,991	3,122
Total	$697,621	$300,573

1997	Sales	Long-Lived Assets
United States	$547,256	$250,548
Europe	108,659	4,035
Japan	84,634	61
Rest of Asia	54,029	
Other foreign countries	48,349	
Total	$842,927	$254,644

NOTE 16

TRANSACTIONS WITH RELATED PARTIES

During 1998, the Company entered into an agreement with Callaway Editions, Inc. to form CGMV, a limited liability company that was owned 80% by the Company and 20% by Callaway Editions, Inc. ("Callaway Editions"). Callaway Editions is a publishing and media company which is owned 9% by Ely Callaway, Chairman and Chief Executive Officer of the Company, and 81% by his son, Nicholas Callaway. CGMV was formed to produce print and other media products that relate to the game of golf. Pursuant to the agreement, the Company agreed to loan CGMV up to $20,000,000 for working capital, subject to CGMV's achievement of certain milestones to the satisfaction of the Company in its sole discretion. Also pursuant to the agreement, CGMV was obligated to pay an annual management fee of $450,000 to Callaway Editions. In conjunction with the Company's restructuring plan, the Company committed to sell or assign its interest in CGMV to Callaway Editions. Accordingly, the Company recorded a charge in operations to December 1998 based on the December 31, 1998 book value of CGMV (Note 12).

During 1999, the Company forgave the existing loan balance from CGMV of approximately $2,142,000, sold its interest to Callaway Editions for a nominal amount and paid $1,000,000 as consideration for release from its obligation to loan CGMV up to $20,000,000. These transactions did not result in a charge in 1999, as they were adequately accrued in the 1998 restructuring reserve (Note 12).

In December 1998, the Company purchased the remaining 20% interest in Callaway Golf Trading GmbH, the Company's former German distributor, for $6,766,000. The purchase price was in the form of a note payable bearing interest at 7%, due in June 1999 to the seller, who is an officer of a wholly-owned subsidiary of Company. The note payable was included in accounts payable and accrued expenses at December 31, 1998 and was paid in February 1999.

REPORT OF INDEPENDENT ACCOUNTANTS

[LOGO APPEARS HERE]

To the Board of Directors and Shareholders of Callaway Golf Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of shareholders'equity present fairly, in all material respects, the financial position of Callaway Golf Company and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP
San Diego, California
January 26, 2000

SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except per share data)	Fiscal Year 1999 Quarters 1st	2nd	3rd	4th	Total
Net sales	$185,744	$229,708	$183,335	$115,684	$714,471
Gross profit	$ 83,520	$108,664	$ 89,896	$ 55,986	$338,066
Net income	$ 12,823	$ 24,771	$ 17,572	$ 156	$ 55,322
Earnings per common share*					
Basic	$ 0.18	$ 0.35	$ 0.25	$ 0.00	$ 0.79
Diluted	$ 0.18	$ 0.35	$ 0.25	$ 0.00	$ 0.78

	Fiscal Year 1998 Quarters 1st	2nd	3rd	4th	Total
Net sales	$ 176,908	$ 233,251	$ 172,944	$ 114,518	$ 697,621
Gross profit	$ 83,705	$ 108,790	$ 83,085	$ 20,434	$ 296,014
Net income(loss)	$ 11,160	$ 21,137	$ 5,836	($ 64,697)	($ 26,564)
Earnings(loss) per common share*					
Basic	$ 0.16	$ 0.30	$ 0.08	($ 0.93)	($ 0.38)
Diluted	$ 0.16	$ 0.30	$ 0.08	($ 0.93)	($ 0.38)

* Earnings per share is computed individually for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not necessarily equal the total for the year.

MARKET FOR COMMON SHARES AND RELATED SHAREHOLDER MATTERS

The Company's Common Shares are traded on the New York Stock Exchange (NYSE). The Company's symbol for its Common Shares is "ELY."

As of March 6, 2000, the approximate number of holders of record of the Company's Common Stock was 9,415.

STOCK PRICE INFORMATION

	Year ended December 31, 1999			1998		
Period:	High	Low	Dividend	High	Low	Dividend
First Quarter	$11.44	$10.00	$0.07	$33.25	$26.50	$0.07
Second Quarter	$16.69	$12.19	$0.07	$29.44	$17.94	$0.07
Third Quarter	$14.63	$ 9.31	$0.07	$20.50	$ 9.56	$0.07
Fourth Quarter	$18.00	$11.69	$0.07	$13.56	$ 9.81	$0.07

EXHIBIT 21.1

CALLAWAY GOLF COMPANY
SUBSIDIARIES

All-American Golf LLC

Callaway (Barbados) Foreign Sales Corporation

Callaway Golf (Germany) GmbH

Callaway Golf Ball Company

Callaway Golf Canada Ltd.

Callaway Golf Europe Ltd.

Callaway Golf K.K.

Callaway Golf Korea Ltd.

Callaway Golf Sales Company

Callaway Golf Shell Company

CGV, Inc.

Golf Funding Corporation

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-77024) and in the Registration Statements on Form S-8 (No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 33-92302, No. 333-242, No. 333-5719, No. 333-5721, No. 333-24207, No. 333-27089, No. 333-27091, No. 333-39093, No. 333-39095, No. 333-61889, No. 333-95601 and No. 333-95603) of Callaway Golf Company of our report dated January 26, 2000 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 26, 2000 relating to the financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

San Diego, California
March 28, 2000

Exhibit 24.1

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, William C. Baker, a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Charles J. Yash and Steven C. McCracken, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney as of February 17, 2000.

/s/ WILLIAM C. BAKER

William C. Baker

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, Vernon E. Jordan, Jr., a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Charles J. Yash and Steven C. McCracken, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney as of February 17, 2000.

/s/ VERNON E. JORDAN, JR.

Vernon E. Jordan, Jr.

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, Yotaro Kobayashi, a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Charles J. Yash and Steven C. McCracken, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney as of February 17, 2000.

/s/ YOTARO KOBAYASHI

Yotaro Kobayashi

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, Aulana L. Peters, a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Charles J. Yash and Steven C. McCracken, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney as of February 17, 2000.

/s/ AULANA L. PETERS

Aulana L. Peters

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, Richard L. Rosenfield, a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Charles J. Yash and Steven C. McCracken, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney as of February 17, 2000.

/s/ RICHARD L. ROSENFIELD

Richard L. Rosenfield

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, William A. Schreyer, a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Charles J. Yash and Steven C. McCracken, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney as of February 17, 2000.

/s/ WILLIAM A. SCHREYER

William A. Schreyer

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This Schedule contains summary financial information extracted from the Callaway Golf Company Consolidated Balance Sheet and Consolidated Statement of Operations at December 31, 1999 and for the year then ended and is qualified in its entirety by reference to such financial statements.

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DEC-31-1999
DEC-31-1999
112,602
0
59,513
5,291
112,932
310,472
243,290
101,076
616,783
105,274
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0
763
499,171
616,783
714,471
714,471
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376,405
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85,497
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55,322
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55,322
0.79
0.78