SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2000

OR

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

Commission file number 1-10962

CALLAWAY GOLF COMPANY

(Exact name of registrant as specified in its charter)

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

2180 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 Preferred Share Purchase Rights	New York Stock Exchange

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 ☒ 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. ☒

As of February 28, 2001, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was $1,584,995,240 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 and the Company's grantor stock trust without conceding that any of the excluded parties are "affiliates" of the Registrant for purposes of the federal securities laws.

As of March 26, 2001, the number of shares of the Registrant's Common Stock outstanding was 76,546,813, 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, 2000.

Parts I and III incorporate certain information by reference from the Registrant's definitive Proxy Statement for the annual meeting of shareholders to be held on May 2, 2001, as filed with the Commission on March 28, 2001 pursuant to Regulation 14A, which information is incorporated herein by reference.

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Disclaimer: Statements made 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. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties. For details concerning these and other risks and uncertainties, see below Part I, Item 1 — Certain Factors Affecting Callaway Golf Company, as well as the Company's other periodic reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. 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.

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 Europe Ltd., Callaway Golf K.K, Callaway Golf Korea Ltd., Callaway Golf Canada Ltd. and Callaway Golf South Pacific PTY Ltd. During 2000, the Company consolidated its golf ball and golf club operations, and in connection with such consolidation, it merged its wholly-owned subsidiary, Callaway Golf Ball Company, into the Company.

The Company, together with its subsidiaries, designs, develops, manufactures and markets high quality, innovative golf clubs (drivers, fairway woods, irons and putters) and golf balls. The Company also sells golf accessories such as golf bags, towels, headwear, and travel accessories. The Company generally sells its products to golf retailers, directly and through its wholly-owned subsidiaries, and to third party distributors. The Company's products are designed for the enjoyment of both amateur and professional golfers. Golfers generally purchase the Company's products on the basis of performance, ease of use and appearance.

During 2000, the Company introduced some significant additions to its product line. In early 2000, the Company launched its Rule 35® golf balls as well as its new Big Bertha® ERC™ Forged Titanium Drivers, Steelhead Plus™ Stainless Steel Woods and Steelhead™ X-14® Irons and Odyssey® White Hot® Putters. In October of 2000, the Company announced its new Big Bertha® ERC II™ Forged Titanium Drivers, Big Bertha® Hawk Eye® VFT™ Titanium Drivers and Fairway Woods, Steelhead™ X-14® Pro Series Irons, and the Odyssey® TriHot™ line of putters. All of these new products, as well as the Company's other products, are believed to conform to the Rules of Golf as published by the Royal and Ancient Golf Club of St. Andrews ("R&A"). All of the Company's products are believed to conform to the Rules of Golf as published by the United States Golf Association ("USGA"), except for the Company's ERC II™ Forged Titanium Driver and its predecessor the ERC™ Forged Titanium Driver.

On October 18, 2000, the Company announced that it intended to sell its ERC II™ Forged Titanium Driver in the United States despite the fact that is has been ruled to be non-conforming by the USGA. Historically, the Company has only sold products that it believed were conforming with the Rules of Golf as published by both the R&A and the USGA. The Company believes it is the first large, premium brand golf equipment company to sell non-conforming equipment in the United States. By undertaking this approach, the Company hopes to expand participation in the game of golf in the United States by making the game more enjoyable and accessible for more people, including those who play golf primarily for fun, enjoyment and recreation. For further discussion of the risks and benefits of this strategy, see below, "Certain Factors Affecting Callaway Golf Company — Conformance with Rules of Golf."

Golf Ball Company

In 1996, the Company formed Callaway Golf Ball Company for the purpose of designing, manufacturing and selling golf balls. In February 2000, Callaway Golf Ball Company released its new Rule 35® golf balls. These golf balls were the product of more than three years of research and development. The Company

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expended in excess of $170 million dollars to develop its golf balls and the plant in which they are manufactured. During its first year of operations, the Company's golf ball operations had net sales of approximately $34.0 million and a loss of approximately $46.0 million. This loss was greater than the Company had anticipated. The Company believes that higher than expected production costs as a result of yield and other ramp-up issues contributed to these losses but also believes that it has generally resolved those issues. Until the Company's golf ball operations become profitable, the Company may be required to invest a material amount of the Company's assets in its golf ball operations. For additional risks related to the Company's golf ball operations, see below, "Certain Factors Affecting Callaway Golf Company."

Financial Information about Segments and Geographic Areas

Information regarding the Company's segments and geographic areas in which the Company operates is contained in Note 16 to the Consolidated Financial Statements ("Consolidated Financial Statements") in the Company's Annual Report to Shareholders for the year ended December 31, 2000 ("2000 Annual Report to Shareholders"), which note is incorporated herein by this reference and is included as part of Exhibit 13.1 to this Form 10-K.

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. For additional information regarding the actions taken in connection with, and the effect of, such restructuring, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Restructuring" and Note 14 to the Consolidated Financial Statements in the 2000 Annual Report to Shareholders, both of which are incorporated herein by this reference and are included as part of Exhibit 13.1 to this Form 10-K.

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,					
	2000		1999		1998	
Metal Woods	$416,215	50%	$429,011	60%	$389,900	55%
Irons	310,220	37%	221,303	31%	229,112	33%
Balls	33,964	4%	—	0%	—	0%
Putters, accessories and other	77,228	9%	68,724	9%	84,048	12%
Net Sales	$837,627	100%	$719,038	100%	$703,060	100%

* Shipping revenues and expenses have been reclassified in accordance with Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." The Company did not begin selling its golf balls until February 2000 and therefore no amounts are reported for 1999 or 1998.

Variable Face Thickness Technology

All of the Company's current drivers, fairway woods and irons use the Company's patented Variable Face Thickness Technology. This technology allows Callaway Golf designers to adjust the amount of material that is used in key areas of the clubface. The face area is made thickest near the center and thinner around the perimeter. This helps transfer substantially more energy to the ball at impact than clubheads that are not enhanced with this technology.

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The Company's principal products are described below.

Drivers and Fairway Woods

Big Bertha® ERC II™ Forged Titanium Driver

The ERC II™ Forged Titanium Driver is the largest most forgiving driver the Company has ever produced. The ERC II™ incorporates the Company's Variable Face Thickness Technology. It also is nearly as deep as it is wide, which further increases the efficiency provided by this technology and provides a larger "sweet spot." In addition to the Variable Face Thickness Technology, the ERC II™ has a forged "cup face" design which extends the face section of the club into the crown and sole. This forged club face, together with the Variable Face Thickness Technology, results in a more efficient transfer of energy from club to ball and therefore greater ball speed off the club face. The Company offers this driver in lofts ranging from 7 to 12 degrees.

As discussed above, on October 18, 2000 the Company announced it would begin selling its ERC II™ Forged Titanium Driver in the United States despite that the USGA has ruled it to be non-conforming. The ERC II,™ however, does conform to the Rules of Golf as published by the R&A.

Big Bertha® Hawk Eye® VFT™ Drivers and Fairway Woods

On October 18, 2000, the Company introduced its new Big Bertha® Hawk Eye® VFT™ Drivers and Fairway Woods. These were designed to replace the Company's Great Big Bertha® Hawk Eye® Titanium Drivers and Fairway Woods. The new drivers are approximately 15% larger, and have a new clubhead shape, as compared to the original Hawk Eye® Drivers they replace. The new Hawk Eye® Drivers and Fairway Woods incorporate the Company's Variable Face Thickness Technology and are the most forgiving cast titanium metal woods the Company has ever made. They were fine-tuned to meet, but not exceed, the limits imposed by the USGA. The Hawk Eye® VFT™ Drivers are generally offered in lofts ranging from 7 to 12 degrees and the Hawk Eye® VFT™ Fairway Woods are generally offered in a 2-wood, 3-wood, 4-wood, 5-wood, 7-wood and 9-wood. The Hawk Eye® VFT™ Drivers and Fairway Woods are also offered in a Pro Series line.

Big Bertha® Steelhead Plus™ Drivers and Fairway Woods

In January 2000, the Company introduced and began delivery of significant quantities of Big Bertha® Steelhead Plus™ Stainless Steel Drivers and Fairway Woods, which were based upon and designed to replace the Company's Big Bertha® Steelhead™ Stainless Steel Drivers and Fairway Woods. The new Big Bertha® Steelhead Plus™ Stainless Steel Drivers and Fairway Woods also incorporate the Company's Variable Face Thickness Technology. These clubheads are made of a lightweight forged crown plate, a relatively heavy body and a precision-cast weight chip. The weight chip is situated in a specific location for each driver and fairway wood, creating a low deep center of gravity for maximum performance. The Company generally offers the Big Bertha® Steelhead Plus™ Stainless Steel Drivers in lofts ranging from 6 to 12 degrees. Big Bertha® Steelhead Plus™ Stainless Steel Fairway Woods are available in a 2-wood, Strong 3-wood, 3-wood, Strong 4-wood, 4-wood, 5-wood, 7-wood, 9-wood, and 11-wood.

Irons

Big Bertha® Hawk Eye® Tungsten Injected™ Titanium Irons

The Company's Hawk Eye® Tungsten Injected™ Titanium Irons are injected with the Company's Tungsten Weight Matrix, which is a mixture of tungsten spheres and heavy molten metal. The Weight Matrix is fine-tuned in each individual iron to ensure a precisely positioned center of gravity and to create the optimal ball flight for that iron. They also incorporate a modified version of the Variable Face Thickness Technology to provide a better feel and extra forgiveness. The oversized clubheads provide a large effective hitting area. These irons are offered in 1 through 9, and pitch, approach, sand, and lob wedges.

Big Bertha® Steelhead™ X-14® and Steelhead™ X-14® Pro Series Stainless Steel Irons

In January 2000, the Company announced the introduction of its new Big Bertha® Steelhead™ X-14™ Stainless Steel Irons and in October 2000, it introduced its Big Bertha® Steelhead™ X-14® Pro Series Irons. These new irons incorporate the Company's exclusive Variable Face Thickness Technology. Using this technology, the face of the irons is tapered along two planes — from top to bottom and from heel to toe. The thickness variations are optimized in each iron, creating the desired center of gravity for that iron. The Steelhead™ X-14® Pro Series Irons are for golfers who prefer less off-set and prefer to play with irons that are blade-like in appearance. Both the Steelhead™ X-14 and Steelhead™ X-14® Pro Series are offered in 1 through 9, and pitch, approach, sand, and lob wedges.

Putters

The Odyssey® brand putters sold by the Company include the new TriHot™ Putters announced in October 2000, the White Hot® Putters introduced in February 2000, and the Company's classic Dual Force® Putters, including the Rossie® mallet putters and blade style putters. The new TriHot™ and White Hot® Putters feature a high-performance insert made from the proprietary cover material of the Company's Rule 35® golf balls. Through the use of advanced tungsten-weighting technology, the center of gravity in the TriHot™ series of putters has been moved back and away from the face, which creates better ball roll than similar-shaped clubs. The Company's Dual Force® Putters contain a black trapezoidal Stronomic® insert for better feel and forgiveness.

Golf Balls

On February 4, 2000, Callaway Golf Ball Company introduced its highly anticipated new golf balls. The golf balls, named "Rule 35®" come in two models — Firmfeel™ and Softfeel.™ Both balls are solid 3-piece balls that feature a proprietary thermoset urethane cover that is among the thinnest ever produced. The primary difference between the two balls is the feel of the balls when struck. The balls are offered in a five-ball sleeve and a ten-ball pack. On January 26, 2001, the Company announced the addition of its new CB1™ Red golf ball. This ball is a two-piece ball that is designed to provide maximum distance. The CB1™ ball is generally offered in a three-ball sleeve and a 12-ball pack. The Company expects the CB1™ balls to be available in stores in the second quarter of 2001.

Accessories

In addition to its golf clubs and balls, Callaway Golf offers golf-related equipment and supplies manufactured by other companies bearing the Callaway Golf® logo, 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 2000, 1999, and 1998, the Company expended on research and development $34,579,000, $34,002,000, and $36,848,000, respectively. The Company intends to continue to invest substantial amounts in its research and development activities in 2001 and beyond. In addition to development of new golf club equipment, these investments will continue to include, among others, significant expenditures in support of the 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 ("CAD") software, computer aided manufacturing ("CAM") software 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, the 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.

Sales and Marketing

Sales in the United States

Approximately 54%, 58% and 63% of the Company's net sales were derived from sales for distribution within the United States in 2000, 1999 and 1998, respectively. The Company targets both on-course and off-course golf retailers who sell professional quality golf products and provide a level of customer service appropriate for the sale of such products. No one customer that distributes golf clubs or balls in the United States accounted for more than 6% of the Company's revenues in 2000, 1999 or 1998.

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, ball 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. In connection with the Company's consolidation of its golf club and golf ball operations, the Company reorganized its sales force in the United States. Prior to the consolidation, the golf club and ball businesses each had their own sales teams which generally solicited sales from the same customers. As a result of the consolidation, the outside sales representatives are now assigned to a specific geographic territory and now sell both golf clubs and golf balls to the customers in their territory.

In addition, the sales representatives call on corporate customers who want their corporate logo placed on the Company's golf balls or putters. Unlike many of its competitors, the Company does not use third parties to provide the corporate logo products. The Company imprints the logos on its golf balls and putters in the same facility in which it manufactures them, thereby retaining control over the quality of the process and final product. The 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.

The Company also has a separate team of sales, manufacturing and customer service representatives that focus on the Company's custom club sales.

Sales Outside of the United States

Approximately 46%, 42% and 37% of the Company's net sales were derived from sales for distribution outside of the United States in 2000, 1999 and 1998, respectively. The majority of the Company's international sales were made through its foreign subsidiaries and the rest through third party distributors. The Company does business (either directly or through its subsidiaries and distributors) in more than 70 countries around the world. 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 elsewhere around the world. The Company continued this strategy in the beginning of 2001 with the acquisition of distribution rights in Australia, New Zealand, Italy, Portugal and Spain.

As a result of these acquisitions, the Company sells its products throughout Europe through its subsidiary Callaway Golf Europe Ltd. The Company sells its products in Japan through its subsidiary Callaway Golf K.K. The Company sells its products in Korea through its subsidiary Callaway Golf Korea Ltd. The Company currently sells its products in Canada through its subsidiary, Callaway Golf Canada Ltd. The Company sells its products in Australia and New Zealand through its subsidiary Callaway Golf South Pacific PTY Ltd.

In addition to sales through its subsidiaries, the Company also currently has third party distribution arrangements covering sales of the Company's products in over 40 foreign countries, including Singapore and Hong Kong, South Africa and various countries in South America. Prices of golf clubs and balls for sales outside of the United States generally 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. For additional risks related to the Company's international operations, see below, "Certain Factors Affecting Callaway Golf Company — International Distribution."

Advertising and Promotion

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

In addition, the Company establishes relationships with professional golfers in order to promote the Company's products. The Company has entered into endorsement arrangements with members of the various professional tours to promote the Company's golf club and ball products. For certain risks associated with such endorsements, see below, "Certain Factors Affecting Callaway Golf Company — Golf Professional Endorsements."

The Company's advertising, promotional and endorsement related expenses, including compensation to professional golfers, were approximately $77.7 million, $55.4 million and $79.1 million for 2000, 1999 and 1998, respectively.

Competition

The golf club markets in which the Company does business are highly competitive, and are 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 and irons, the Company's major domestic competitors are Taylor Made, Titleist, Spalding and Ping. In 1998, Orlimar and Adams emerged as new competitors. For putters, the Company's major domestic competitors are Ping and Titleist. The Company believes that it is the leader, or one of the leaders, in every golf club market in which it competes.

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 (Srixon), Bridgestone (Precept), Maxfli and others. In addition, there have been several recent entrants into the golf ball market, including Nike. These competitors have established market share in the golf ball business, with Titleist having an estimated market share in excess of 50% of the premium golf ball business. The Company has only been in the golf ball market for approximately one year and therefore does not yet have a substantial market share of the golf ball market.

For both golf clubs and golf balls, the Company generally competes on the basis of technology, price, quality, performance and customer service. For risks relating to competition, see below, "Certain Factors Affecting Callaway Golf — Competition."

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.

Intellectual Property

The Company is the owner of over 1,800 U.S. and foreign trademark registrations and over 600 U.S. and foreign patents relating to the Company's products, product designs, manufacturing processes and research and development concepts. Other patent and trademark applications are pending and await registration. In addition, the Company owns various other protectable rights under copyright, trade dress, and other statutory and common laws. These rights are very important to the Company and the Company seeks to protect its intellectual property rights through the registration of trademarks and utility and design patents, the maintenance of trade secrets and the creation of trade dress. When necessary and appropriate, the Company enforces it rights through litigation against those who are infringing the Company's rights.

In the United States, the Company's patents are generally in effect for up to 20 years from the date of the filing of the patent application. The Company's trademarks are generally valid as long as they are in use and their registrations are properly maintained and have not been found to become generic. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use. See below, "Certain Factors Affecting Callaway Golf Company — Intellectual Property and Proprietary Rights."

Licensing

The Company's brand is very strong in the golf industry and the Company receives requests from time to time from others to license the Company's trademarks for use on other products such as apparel, sunglasses and other items that have some relationship to golf. The Company is very protective of its brand and evaluates such requests carefully. In limited circumstances, the Company grants rights to others to use its trademarks in exchange for a royalty fee.

Employees

As of December 31, 2000, the Company and its subsidiaries had approximately 2,600 full-time employees, including approximately 700 employed in sales and marketing, approximately 200 employed in research and development and product engineering and approximately, 1,100 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.

Certain Factors Affecting Callaway Golf Company

The financial statements incorporated into this report and related discussion report and analyze the Company's financial performance and condition for the periods indicated. For the most part, this information is historical. The Company's prior results, however, are not necessarily indicative of the Company's future performance or financial condition. The Company therefore has included the following discussion of certain factors which could affect the Company's future performance or financial condition. These factors could cause the Company's future performance or financial condition to differ materially from its prior performance or financial condition or from management's expectations or estimates of the Company's future performance or financial condition. These factors, among others, should be considered in assessing the Company's future prospects and prior to making an investment decision with respect to the Company's stock.

Adverse Global Economic Conditions

The Company sells golf clubs, golf balls and golf accessories. These products are recreational in nature and are therefore discretionary purchases for consumers. Consumers are generally more willing to make discretionary purchases of golf products during favorable economic conditions. An adverse change in economic conditions in the United States or in the Company's international markets (which represent almost

half of the Company's total sales), or even a decrease in consumer confidence as a result of anticipated adverse changes in economic conditions, could cause consumers to forgo or to postpone purchasing new golf products. Such forgone or postponed purchases could have a material adverse affect upon the Company.

Growth Opportunities

Golf Clubs. In order for the Company to grow significantly its sales of golf clubs, the Company must either increase its share of the market for golf clubs or the market for golf clubs must grow. The Company already has a significant share of the worldwide premium golf club market and therefore opportunities for additional market share may be limited. Furthermore, the Company believes that since 1997 the overall worldwide premium golf club market has generally not experienced substantial growth in dollar volume from year to year. There is no assurance that the overall dollar volume of the worldwide premium golf club market will grow, or that it will not decline, in the future. The Company's future club sales growth therefore may be limited unless there is growth in the worldwide premium golf club market.

Golf Balls. The Company only began selling its golf balls in February 2000 and therefore it does not have as significant of a market share as it does in the club business. Although opportunities exist for additional market share in the golf ball market, such market share is currently held by some well-established and well-financed competitors. There is no assurance that the Company will be able to increase its market share in this very competitive golf ball market. If the Company is unable to obtain additional market share, its golf ball sales growth may be limited.

Golf Ball Costs

The cost of entering the golf ball business has been higher than the Company first anticipated. Much of these higher costs are attributable to higher than expected production costs as a result of yield and other ramp-up issues. To date, the development of the Company's golf ball business has had a significant negative impact on the Company's cash flows, financial position and results of operations. Although the Company believes it generally has resolved these issues, there is no assurance that the Company will be able to achieve the sales or production efficiencies necessary to make its golf ball business profitable. Until the golf ball business becomes profitable, the Company's results of operations, cash flows and financial position will continue to be negatively affected.

Manufacturing Capacity

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 require significant start-up expenses and/or 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 season, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company invests in manufacturing capacity and 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 less than optimum capacity usage and/or in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance. In addition, if the Company were to experience delays, difficulties or increased costs in its production of golf clubs or golf balls, including production of new products needed to replace current products, the Company's future golf club or golf ball sales could be adversely affected.

Dependence on Energy Resources

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. The State of California is currently experiencing a severe shortage of electricity. The shortage may worsen during the summer months when demand for electricity is at its peak.

Many companies in California have experienced periods of blackouts during which electricity was not available. The Company has experienced one blackout period to date, and expects that it will experience additional blackout periods. If the blackout periods are significant, the Company could experience significant disruptions in its manufacturing operations as the Company would be unable to manufacture any product during such blackout periods. While the Company is taking steps to overcome future blackout periods, there is no assurance that such steps will be successful. Any extended or recurring disruptions could have a material adverse affect upon the Company.

Furthermore, the shortage of electricity is also resulting in increased prices for electricity. The Company has tried to mitigate fluctuations in electricity prices by entering into long-term contracts at fixed rates. The Company's current contract expires this summer and the Company is currently negotiating a new contract. The Company expects that the new contracted rate will be higher than its current rate. If the Company is unable to enter into a new contract for a reasonable rate, the Company's expenses for electricity could increase significantly. Such an increase could have a significant adverse affect upon the Company's cost of goods sold and results of operations.

In addition to electricity, the Company also uses natural gas to run the golf club and golf ball manufacturing facilities. There is currently a shortage of natural gas which has caused prices to increase significantly. The Company expects this shortage to continue at least through the cold weather months when demand for gas is greatest. Although the Company does not expect any interruptions in its supply of natural gas, if the prices continue to increase, such increased prices could have a significant adverse affect upon the Company's cost of goods sold and results of operations.

Dependence on Certain Suppliers and Materials

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

Competition

Golf Clubs. 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, price reductions and "close-outs" by competi-

tors continue to generate increased market competition. 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.

Golf Balls. The premium golf ball business is also highly competitive, and may be becoming even more competitive. There are 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. There are also several recent entrants into the golf ball business, including Nike. Many of these competitors have introduced or will introduce golf ball designs that directly compete with the Company's products. The Company will need to penetrate the market share held by existing competitors while competing with the other new entrants in order 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 be commercially successful.

Market Acceptance of Products

A golf manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including a golf club's and golf ball's look and "feel," and the level of acceptance that a golf club and ball has among professional and recreational golfers. The subjective preferences of golf club and ball purchasers may be subject to rapid and unanticipated changes. There can be no assurance as to how long the Company's golf clubs and balls will maintain market acceptance and therefore no assurance that the demand for the Company's products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

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, in the golf industry, 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.

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 Rule 35® 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 golf club or golf ball products or misjudges demand.

It previously was the Company’s practice to announce its new product line at the beginning of each calendar year. The Company recently departed from that practice and now announces its new product line in the fourth quarter to allow retailers to plan better. Such early announcements of new products could cause golfers, and therefore the Company’s customers, to defer purchasing additional golf equipment until the Company’s new products are available. Such deferments could have a material adverse effect upon sales of the Company’s current products and/or result in close-out sales at reduced prices.

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Conformance with Rules of Golf

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. The USGA rules are generally followed in the United States, Canada and Mexico and the R&A rules are generally followed in most other countries throughout the world.

Currently, the Rules of Golf as published by the R&A and the USGA are virtually the same except with respect to the regulation of “driving clubs.” In 1998, the USGA adopted a so-called “spring-like effect test” that limits the coefficient of restitution (“COR”) of drivers. The R&A has announced that it does not believe that such a limitation is needed or in the best interests of the game of golf, and has not adopted such a test or other performance limitation on drivers.

Some countries, such as Japan and Canada, have local golf associations that exert some control over the game of golf within their jurisdictions. The Royal Canadian Golf Association (“RCGA”) has announced that it will generally follow the USGA with respect to equipment rules. So far, no other local organization within the R&A’s general jurisdiction has deviated from the R&A’s position with respect to equipment rules. Currently, all of the Company’s products are believed to be “conforming” under the Rules of Golf as published by the R&A. In addition, all of the Company’s products with the exception of the Company’s ERC II™ Forged Titanium Driver (together with its predecessor, the ERC™ Forged Titanium Driver, the “ERC Drivers”), are believed to be “conforming” under the Rules of Golf as published by the USGA and RCGA. Although the ERC Drivers conform to all existing R&A equipment rules, and most existing USGA and RCGA equipment rules, they do not conform to the USGA’s so-called “spring-like effect” test protocol. There is no assurance that new designs will satisfy USGA and/or R&A standards, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company’s products.

On October 18, 2000, the Company announced that it intended to sell its ERC II™ Forged Titanium Driver in the U.S. despite the fact that it has been ruled to be non-conforming by the USGA. On December 8, 2000, the USGA announced that scores in rounds played with clubs that do not conform to USGA rules, such as the ERC II™ Forged Titanium Driver, may not be posted for USGA handicap purposes. To the Company’s knowledge, it is the first large, premium brand golf equipment company to sell non-conforming equipment in the U.S. By undertaking this approach, the Company hopes to expand participation in the game of golf in the United States — the source of approximately 54% of the Company’s revenues — by making the game more enjoyable and accessible for more people, including those people who play the game primarily for fun, enjoyment and recreation.

While the Company believes that this is the best strategy for the Company and its shareholders, and one that is good for the game of golf as well, the strategy is not without risk. It is possible that a significant number of U.S. retailers may decline to carry a non-conforming product such as the ERC II™ Driver. It is also possible that a significant number of U.S. golfers may decide that they do not wish to purchase a driver that may not be used in competitions in the U.S. played subject to USGA rules or that may not be used for handicap purposes. Retailer and/or consumer backlash against the introduction of a non-conforming product may injure sales of other, conforming products, or otherwise damage the brand. These negative effects, if they materialize, could materially reduce U.S. sales of ERC II™ Drivers and other products in 2001 and in future years, and could even negatively affect in a material way the strength of the brand and the Company’s business overseas despite the fact that the ERC II™ Driver fully conforms with the R&A’s Rules. On the other hand, if the Company is correct in its belief that there are a large number of American golfers who do not play in tournaments subject to the USGA’s Rules and are prepared to purchase an exceptional non-conforming driver for use in recreational play, and/or the Company’s strategy is successful over time in attracting more people to the game of golf in the U.S., then the beneficial effects could be significant.

Golf Professional Endorsements

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf® and Odyssey® branded products. The Company has entered into endorsement arrangements

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with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour, the PGA European Tour, the Japan Golf Tour and the buy.com 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.

Golf Clubs. 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. The Company previously created cash pools that rewarded such usage. In 2001, the Company is discontinuing these pools, as it believes it is better to allocate these resources to other tour programs. 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. In the past, the Company has experienced an exceptional level of club usage on the world’s major professional tours, and the Company has heavily advertised that fact. The Company’s lack of cash inducements for non-staff golfers could result in a decrease in usage of the Company’s clubs by professional golfers. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company’s products could have a material adverse effect on the Company’s sales and business.

Golf Balls. 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 almost all of the Company's staff professionals, as well as other professionals who are not on the Company's staff, have decided to use the Company's golf balls in play, there is no assurance they will continue to do so. Furthermore, there are many other professionals who are already under contract with other golf ball manufacturers or who, for other reasons, may not choose to play the Company's golf ball products. The Company does not plan to match the endorsement spending levels of the leading manufacturer, 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 its golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf balls, 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.

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 and golf balls. 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 or 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 the Company developed its golf ball products, it attempted to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that competitors will not assert and/or a court will not find that the Company's golf balls infringe certain patent or other rights of competitors. If the Company's golf balls are 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 it could incur substantial costs to redesign them 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 suppliers. 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.

Seasonality and Adverse Weather Conditions

In the golf club and golf ball industries, sales to retailers are generally seasonal due to lower demand in the retail market during cold weather months. The Company's golf club business has generally experienced these seasonal fluctuations and the Company expects this to continue generally for both its golf club and golf ball businesses. Furthermore, unusual or severe weather conditions generally result in less golf rounds played, which generally results in less demand for golf clubs and golf balls. Consequently, sustained adverse weather conditions, especially during the warm weather months, could materially affect the Company's sales.

Product Returns

Golf Clubs. 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 that use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned to date has not been material in relation to the volume of 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.

Golf Balls. The Company has not experienced significant returns of defective golf balls, and in light of the quality control procedures implemented in the production of its golf balls, the Company does not expect a significant amount of defective ball returns. However, if future returns of defective golf balls were significant, it could have a material adverse effect upon the Company's golf ball business.

"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 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 U.S. 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.

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 reorganized a substantial portion 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, employees, 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. 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 and integration of the Company's foreign distribution channels will be successful, and the Company's attempts to do so may adversely affect the Company's business. 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.

Credit Risk

The Company primarily sells its products to golf equipment retailers directly and through wholly-owned domestic and foreign subsidiaries, 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, a downturn in the retail golf equipment market, like the one experienced in 1998 and 1999, primarily in the U.S., could result in increased delinquent or uncollectible accounts for some of the Company's significant customers. In addition, as the Company integrates its foreign distribution its exposure to credit risks increases as it no longer sells to a few wholesalers but rather directly to many retailers. A failure of a significant portion of the Company's customers to meet their obligations to the Company would adversely impact the Company's performance and financial condition.

Information Systems

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. The Company is in the process of upgrading its business systems to support transactions denominated in euro. The Company intends to enable the euro functionality of its upgraded system no later than the end of 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.

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 10 buildings utilized in the Company's Carlsbad operations include corporate offices, manufacturing, research and development, warehousing and distribution facilities, and comprise approximately 769,000 square feet of space. Eight of these properties, representing approximately 604,000 square feet of space, are owned by the Company; an additional two properties, representing approximately 165,000 square feet of space, are leased. In addition, the Company

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and its subsidiaries conduct certain international operations outside of the United States, located in the United Kingdom, Canada, Japan, Australia and Korea, in leased facilities comprising approximately 165,000 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 U.S. 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 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.

On July 24, 2000, Bridgestone Sports Co., Ltd. ("Bridgestone") filed a complaint for patent infringement in the United States District Court for the Northern District of Georgia, Civil Action No. 100-CV-1871, against Callaway Golf Company, Callaway Golf Ball Company (collectively "Callaway Golf"), and a golf retailer located in Georgia (the "U.S. Action"). Bridgestone alleges in the U.S. Action that the manufacture and sale of the Company's Rule 35® golf ball infringes four U.S. golf ball patents owned by Bridgestone. Bridgestone is seeking unspecified damages and injunctive relief. On September 12, 2000, Callaway Golf answered the Complaint, and asserted affirmative counterclaims against Bridgestone seeking a judicial declaration that Callaway Golf does not infringe the Bridgestone patents, that the patents are invalid, and that Bridgestone engaged in inequitable conduct in the United States Patent and Trademark Office. On October 13, 2000, Bridgestone and the retailer defendant entered into a consent judgment discontinuing the action against the retailer. The parties are engaged in discovery. No trial date has been set by the District Court.

On December 14, 2000, Bridgestone filed an action in the Tokyo, Japan District Court asserting patent infringement against Callaway Golf's wholly-owned subsidiary, Callaway Golf K.K., based on its sale of Rule 35® Softfeel™ golf balls in Japan (the "Japan Action"). Only one of the Bridgestone patents at issue in the U.S. Action has issued in Japan. Callaway Golf has denied the claims asserted in the Japan Action and has filed an invalidity proceeding with the Japanese Patent Office to invalidate the Bridgestone Patent.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the Bridgestone matters specifically noted above. 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, 2000. However, management believes, at this time, 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.

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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	81	Founder, Chairman, President and Chief Executive Officer
Ronald A. Drapeau	54	Senior Executive Vice President, Manufacturing
Richard C. Helmstetter	59	Senior Executive Vice President, Chief of New Products
Steven C. McCracken	50	Senior Executive Vice President, Chief Legal Officer and Secretary
Charles J. Yash	52	Vice Chairman and Senior Executive Vice President, Growth in Golf
Bradley J. Holiday	47	Executive Vice President and Chief Financial Officer
Michael W. McCormick	38	Executive Vice President, Global Sales
Ian B. Rowden	41	Executive Vice President, Global Advertising

ELY CALLAWAY, Founder, is Chairman, President and Chief Executive Officer of the Company. He 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. In November 2000, Mr. Callaway was appointed as President of the Company and had previously served as President from October 1998 until August 1999. He was Chief Executive Officer from 1982 to May 1996, and Chief of Advertising, Press and Public Relations from April 1997 to October 1998. Mr. Callaway also currently serves on the Finance Committee and as Chairman of the Stock Option Committee (Non-Employee Plans). 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, is a Director and Senior Executive Vice President, Growth in Golf of the Company. He has served as a Director of the Company since July 1996 and currently serves as Vice Chairman of the Board and as a member of the Finance Committee. He has served as Senior Executive Vice President, Growth in Golf since November 2000. He served as President of the Company from August 1999 to November 2000. 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 also served as President and Chief Executive Officer of Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, from June 1996 until its merger with Callaway Golf Company in 2000. 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, is Senior Executive Vice President, Manufacturing of the Company and has served in such capacity since February 1999. He was President and Chief Executive Officer of Odyssey Golf, Inc., a 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.,

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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, is Senior Executive Vice President, Chief of New Products of the Company and has served his current term in such capacity since August 2000. He served as Senior Executive Vice President, Chief of New Golf Club Products since January 1998 and previously served 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, is Senior Executive Vice President, Chief Legal Officer and Secretary of the Company and has served in such capacity since August 2000. He served as Executive Vice President, Licensing and Chief Legal Officer from April 1997 to August 2000. 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. He has served as Secretary since April 1994. 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, is Executive Vice President, Global Sales of the Company and has served in such capacity since January 10, 2000. Previously, he had been with Nike, Inc. since 1992, serving as Eastern Regional Sales Manager; Director of Golf Sales, Southern Regional Sales Manager; and

Director of National Sales. From 1989 to 1992 he was Vice President Operations and Merchandising for Las Vegas Golf and Tennis, a nationally recognized franchisor of golf club and golf ball retailers. Mr. McCormick owned and operated a golf equipment retail store in Tucson, Arizona, from 1985 to 1988.

BRADLEY J. HOLIDAY, is Executive Vice President and Chief Financial Officer of the Company and has served is such capacity since August 2000. Mr. Holiday most recently served as Vice President — Financial Planning & Analysis for Gateway, Inc. Prior to Gateway, Inc., Mr. Holiday was with Nike, Inc. in various capacities, including Chief Financial Officer — Golf Company, where he directed all global financial initiatives and strategic planning for Nike, Inc.'s golf business. Prior to Nike, Inc., Mr. Holiday served in various financial positions with Pizza Hut, Inc. and General Mills, Inc. Mr. Holiday has an MBA in Finance from the University of St. Thomas and a BS in Accounting from Iowa State University.

IAN B. ROWDEN, is Executive Vice President, Global Advertising of the Company and has served in such capacity since October 16, 2000. Previously Mr. Rowden served as Vice President and Director of Worldwide Advertising for The Coca-Cola Company in Atlanta. Prior to moving to Atlanta with Coca-Cola in 1996, Mr. Rowden served as Vice President of Marketing for Coca-Cola's China Division in Hong Kong from 1993 to 1995. He began his career with the Coca-Cola Company in Australia in the early 1980s, holding various sales and marketing positions. Mr. Rowden left Coca-Cola in 1988 to serve as General Manager, Marketing of the Power Brewing Company in Brisbane and later became a director and managing partner of DDB Needham, Sydney. He returned to Coca-Cola in 1992 as Vice President of Marketing for the Company's South Pacific Region based in Sydney, Australia.

Information with respect to the Company's employment agreements with Messrs. Callaway, Drapeau, Helmstetter, McCormick and Yash is contained on pages 12 – 15 of the Company's definitive Proxy Statement under the caption "Compensation of Executive Officers — Employment Agreements and Termination of Employment Arrangements," as filed with the Securities and Exchange Commission on March 28, 2001 pursuant to Regulation 14A, which information is incorporated herein by this reference. In addition, the Company currently has employment agreements with Messrs. McCracken, Holiday and Rowden for terms expiring on December 31, 2003, December 31, 2002 and December 31, 2003, respectively.

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PART II

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

Information in response to Item 5 is contained on page 43 of the Company's 2000 Annual Report to Shareholders, which information is incorporated herein by this 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 12 of the Company's 2000 Annual Report to Shareholders, which information is incorporated herein by this 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 13 through 23 of the Company's 2000 Annual Report to Shareholders, which information is incorporated herein by this 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 23 of the Company's 2000 Annual Report to Shareholders, which information is incorporated herein by this 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 24 through 43 of the Company's 2000 Annual Report to Shareholders, which information is incorporated herein by this 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 of this Form 10-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and greater than 10% shareholders to file initial reports of ownership (on Form 3) and periodic reports of 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 any amendments to 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 (if any), the Company believes that all such Section 16(a) reports were filed on a timely basis in 2000.

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 28, 2001 pursuant to Regulation 14A, which information is incorporated herein by this reference.

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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," "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 28, 2001 pursuant to Regulation 14A, which information is incorporated herein by this 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 28, 2001 pursuant to Regulation 14A, which information is incorporated herein by this 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 "Compensation of Executive Officers — Compensation Committee Interlocks and Insider Participation" as filed with the Commission on March 28, 2001 pursuant to Regulation 14A, which information is incorporated herein by this reference.

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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 24 through 43 of the 2000 Annual Report to Shareholders:

   Consolidated Balance Sheet at December 31, 2000 and 1999

   Consolidated Statement of Operations for the three years ended December 31, 2000

   Consolidated Statement of Cash Flows for the three years ended December 31, 2000

   Consolidated Statement of Shareholders' Equity for the three years ended December 31, 2000

   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, 2180 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).

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Executive Compensation Contracts/ Plans

10.1	Executive Officer Employment Agreement, entered into as of January 1, 2000, by and between the Company and Ely Callaway, 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, 2000, as filed with the Commission on August 14, 2000 (file no. 1-10962).
10.2	First Amendment to Executive Officer Employment Agreement, effective as of November 13, 2000, by and between the Company and Ely Callaway.†

10.3	Executive Officer Employment Agreement by and between the Company and Richard Helmstetter entered into as of January 1, 1998, incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, as filed with the Commission on March 31, 1998 (file no. 1-10962).
10.4	Executive Officer Employment Agreement, entered into as of September 1, 2000, between the Company and Steven C. McCracken, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.5	Executive Officer Employment Agreement, entered into as of September 1, 2000, between the Company and Ronald A. Drapeau, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.6	Executive Officer Employment Agreement, entered into as of September 1, 2000, between the Company and Michael W. McCormick, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.7	Executive Officer Employment Agreement, entered into as of July 13, 2000, between the Company and Bradley J. Holiday, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.8	Executive Officer Employment Agreement, entered into as of September 1, 2000, between Callaway Golf Europe Ltd., a United Kingdom corporation and wholly-owned subsidiary of the Company, and Ian B. Rowden.†
10.9	Assignment of and First Amendment to Executive Officer Employment Agreement entered into as of October 16, 2000 between the Company and Ian B. Rowden.†
10.10	Executive Officer Employment Agreement, entered into as of January 1, 2000, between the Company and Charles J. Yash, incorporated herein by this reference to the corresponding exhibit in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Commission on December 31, 1999 (file no. 1-10962).
10.11	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 July 11, 1996 (file no. 333-5721).

10.12	Employment Agreement, entered into as of January 1, 2000, between the Company and Bruce Parker, incorporated herein by this reference to the corresponding exhibit in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Commission on December 31, 1999 (file no. 1-10962).
10.13	Resignation Agreement and General Release effective November 23, 1999 between the Company and Frederick R. Port, incorporated herein by this reference to the corresponding exhibit in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Commission on December 31, 1999 (file no. 1-10962).
10.14	Release between Frederick R. Port and the Company, incorporated herein by this reference to the corresponding exhibit in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Commission on December 31, 1999 (file no. 1-10962).
10.15	Agreement between the Company and Donald H. Dye dated as of October 15, 1998, incorporated herein by this reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Commission on March 31, 1998 (file no. 1-10962).
10.16	Consulting Agreement between the Company and Donald H. Dye dated as of October 15, 1998, incorporated herein by this reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Commission on March 31, 1999 (file no. 1-10962).
10.17	Form of Tax Indemnification Agreement, 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).
10.18	Amendment No. 1 to Form of Tax Indemnification Agreement, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996, as filed with the Commission on November 13, 1996 (file no. 1-10962).
10.19	Callaway Golf Company Executive Deferred Compensation Plan (as amended and restated, effective August 22, 2000), incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.20	Callaway Golf Company 1998 Executive Non-Discretionary Bonus Plan, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997, as filed with the Commission on May 15, 1997 (file no. 1-10962).
10.21	1991 Stock Incentive Plan (as amended and restated April 1994), incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, as filed with the Commission on March 31, 1995 (file no. 1-10962).
10.22	Amended and Restated Stock Option Plan effective April 2, 1991, incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, as filed with the Commission on April 1, 1996 (file no. 1-10962).
10.23	Amended and Restated 1996 Stock Option Plan (as amended and restated May 3, 2000), 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, 2000, as filed with the Commission on August 14, 2000 (file no. 1-10962).

10.24	Callaway Golf Company 1998 Stock Incentive Plan, effective February 18, 1998, 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, 1998, as filed with the Commission on August 14, 1998 (file no. 1-10962).
10.25	Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated through August 17, 1999), incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, as filed with the Commission on November 15, 1999 (file no. 1-10962).
10.26	Callaway Golf Company 2001 Non-Employee Directors Stock Option, incorporated herein by this reference to Appendix A to the Company's definitive Proxy Statement on Schedule 14A filed with the Commission on March 27, 2000 (file no. 1-10962).
10.27	Indemnification Agreement by and between Callaway Golf Company and William C. Baker dated as of July 1, 1999, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.28	Indemnification Agreement by and between Callaway Golf Company and Vernon E. Jordan, Jr. dated as of July 1, 1999, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.29	Indemnification Agreement by and between Callaway Golf Company and Yotaro Kobayashi dated as of July 1, 1999, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.30	Indemnification Agreement by and between Callaway Golf Company and Aulana L. Peters dated as of July 1, 1999, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.31	Indemnification Agreement by and between Callaway Golf Company and Richard L. Rosenfield dated as of July 1, 1999, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.32	Indemnification Agreement by and between Callaway Golf Company and William A. Schreyer dated as of July 1, 1999, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
	Other Contracts
10.33	Amended and Restated Credit Agreement dated as of February 10, 1999, among Callaway Golf Company, as Borrower, the other credit parties signatory thereto, as Credit Parties, the Lenders signatory thereto from time to time and General Electric Capital Corporation, as Agent and Lender, 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).
10.34	First Amendment to Amended and Restated Credit Agreement, dated as of April 28, 2000, by and among Callaway Golf Company, the other credit parties signatory to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment, and General Electric Corporation, incorporated herein by this reference to

the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, as filed with the Commission on May 15, 2000 (file no. 1-10962).

10.35	Second Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated December 29, 2000, by Callaway Golf Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Company.†
10.36	Receivables Transfer Agreement dated as of February 10, 1999, by and among Callaway Golf Sales Company and Odyssey Golf, Inc, 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).
10.37	Receivables Transfer Agreement dated as of February 10, 1999, by and among Callaway Golf Company, as Parent Guarantor, Callaway Golf Sales Company, as the CGS Originator and as Servicer, and Golf Funding Corporation, 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).
10.38	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).
10.39	First Amendment to Receivables Transfer Agreement, dated as of April 28, 2000, among Callaway Golf Sales Company, Callaway Golf Company and Golf Funding Corporation, Redwood Receivables Corporation and General Electric Corporation, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, as filed with the Commission on May 15, 2000 (file no. 1-10962).
10.40	Second Amendment and Limited Waiver to Receivables Transfer Agreement and First Amendment to Annex X, dated December 29, 2000, by and among Callaway Golf Sales Company, Callaway Golf Company, Callaway Golf Funding Corporation, Redwood Receivables Corporation, and General Electric Corporation.†
10.41	Trust Agreement between Callaway Golf Company and Sanwa Bank California, as Trustee, for the benefit of participating employees, dated July 14, 1995, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, as filed with the Commission on November 14, 1995 (file no. 1-10962).
10.42	Assignment and Assumption Agreement, effective as of April 24, 2000, by and among Callaway Golf Company, Sanwa Bank California and Arrowhead Trust Incorporated.†
10.43	Loan Forgiveness Agreement effective as of March 8, 1999, by and among Callaway Golf Company and Callaway Golf Media Ventures, LLC., incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Commission on March 31, 1999 (file no. 1-10962).
10.44	Membership Interest Purchase Agreement effective as of March 8, 1999, by and among Callaway Golf Company and Callaway Editions, Inc., incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Commission on March 31, 1999 (file no. 1-10962).

10.45	Loan Termination Agreement effective as of March 10, 1999, by and among Callaway Golf Company and Callaway Golf Media Ventures, LLC., incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Commission on March 31, 1999 (file no. 1-10962).
10.46	Trademark License Agreement effective as of March 9, 1999, by and between Callaway Golf Company and Callaway Golf Media Ventures, LLC., incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Commission on March 31, 1999 (file no. 1-10962).
13.1	Portions of the Company's 2000 Annual Report to Shareholders (with the exception of the information incorporated by reference specifically in this Report on Form 10-K, the 2000 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	Form of Power of Attorney.†

† 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 27, 2001

By: /s/ ELY CALLAWAY

Ely Callaway
Founder, Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities, and as of the dates, indicated.

Signature	Title	Dated as of
Principal Executive Officer:		

/s/ ELY CALLAWAY Ely Callaway	Founder, Chairman, President and Chief Executive Officer and Director	March 27, 2001
Principal Financial Officer and Principal Accounting Officer:		
/s/ BRADLEY J. HOLIDAY Bradley J. Holiday	Executive Vice President and Chief Financial Officer	March 27, 2001
Directors:		
* William C. Baker	Director	March 27, 2001
* Vernon E. Jordan, Jr.	Director	March 27, 2001
* Yotaro Kobayashi	Director	March 27, 2001
* Aulana L. Peters	Director	March 27, 2001
* Richard L. Rosenfield	Director	March 27, 2001
* Charles J. Yash	Vice Chairman, Senior Executive Vice President, Growth in Golf	March 27, 2001
*By: /s/ BRADLEY J. HOLIDAY Bradley J. Holiday, Attorney-in-fact		

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Report of Independent Accountants on

Financial Statement Schedule

To the Board of Directors

of Callaway Golf Company:

Our audits of the consolidated financial statements referred to in our report dated March 19, 2001 appearing in the 2000 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

MARCH 19, 2001

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SCHEDULE II

CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

For the Three Year Period Ended December 31, 2000

Date	Allowance for Doubtful Accounts	Reserve for Obsolete Inventory	Reserve for Warranty Expense	Valuation Allowance for Deferred Tax Asset
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
Provision	4,615	3,372	17,675	135
Write-off, net	(3,679)	(10,646)	(14,417)	(2,971)

Balance, December 31, 2000	$ 6,227	$ 7,720	$ 39,363	$ 1,354

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
	Executive Compensation Contracts/ Plans
10.2	First Amendment to Executive Officer Employment Agreement, effective as of November 13, 2000, by and between the Company and Ely Callaway.†
10.8	Executive Officer Employment Agreement, entered into as of September 1, 2000, between Callaway Golf Europe Ltd., a United Kingdom corporation and wholly-owned subsidiary of the Company, and Ian B. Rowden.†
10.9	Assignment of and First Amendment to Executive Officer Employment Agreement entered into as of October 16, 2000 between the Company and Ian B. Rowden.†
10.35	Second Amendment and Limited Waiver to Amended and Restated Credit Agreement dated December 29, 2000, by Callaway Golf Company, the other credit parties to the Amended and Restated Credit Agreement, the lenders signatory to this Amendment and General Electric Company.†
10.40	Second Amendment and Limited Waiver to Receivables Transfer Agreement and First Amendment to Annex X, dated December 27, 2000, by and among Callaway Golf Sales Company, Callaway Golf Company, Callaway Golf Funding Corporation, Redwood Receivables Corporation, and General Electric Corporation.†
10.42	Assignment and Assumption Agreement, effective as of April 24, 2000, by and Among Callaway Golf Company, Sanwa Bank California and Arrowhead Trust Incorporated.†
13.1	Portions of the Company’s 2000 Annual Report to Shareholders (with the exception of the information incorporated by reference specifically in this Report on Form 10-K, the 2000 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	Form of Power of Attorney.†

† Included in this Report

EXHIBIT 10.2

FIRST AMENDMENT TO
EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This First Amendment to Executive Officer Employment Agreement ("First Amendment") is effective as of November 13, 2000 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 Executive Officer Employment Agreement entered into as of January 1, 2000 (the "Agreement").

B. In light of certain development, 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 2(a) of the Agreement is hereby amended to read as follows:

> (a) Mr. Callaway shall serve as Chief Executive Officer and President of Callaway Golf Company until such time as he chooses to retire from one or both positions. Upon his retirement as Chief Executive Officer of Callaway Golf Company, Mr. Callaway shall assume the title of Founder of Callaway Golf Company and Chief Executive Officer Emeritus. Mr. Callaway's duties shall be the usual and customary duties of the offices in which he serves. As Founder of the Company and CEO Emeritus, Mr. Callaway shall advise and consult with management on such matters as may be requested by the CEO or the Board. Mr. Callaway shall report to the Board of Directors of Callaway Golf Company.

2. This First Amendment is subject to the approval of the Compensation and Management Succession Committee of the Board of Directors of the Company. 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
---------------------------------- Ely Callaway	By: ---------------------------------

EXHIBIT 10.8

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of September 1, 2000, by and between CALLAWAY GOLF EUROPE LTD., a United Kingdom corporation (the "Company") and wholly owned subsidiary of Callaway Golf Company, a Delaware corporation ("Callaway Golf"), and IAN B. ROWDEN ("Employee"). This Agreement is subject to the approval of the Board of Directors of Callaway Golf.

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 September 1, 2000 and terminating December 31, 2003, unless this Agreement is earlier terminated as hereinafter provided. Employee agrees to report to work at the Company on or before September 1, 2000.

2. SERVICES.

(a) Employee shall serve as Executive Vice President, Global Advertising of the Company. Employee's duties shall be the usual and customary duties of the offices in which he serves. Employee shall report to the Managing Director of the Company. The Chief Executive Officer of Callaway Golf Company may change Employee's title, position and/or duties at any time commensurate with Employee's training and experience; provided, however, that such change shall not result in a material diminishment in the title, position, duties, responsibilities or status of the Employee or make it unreasonably difficult for Employee to maintain the principal residence he had immediately preceding the change. It is anticipated that Employee will travel to the United States during the first few months of his employment for training in various areas including corporate procedures, products, and current advertising strategies of Callaway Golf. Employee will assist the Company with the new product launch in mid-October 2000.

(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 Managing Director. 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 Pound Sterling264,920 per year, prorated for the year 2000.

(b) Signing Bonus. Company shall pay Employee a one-time signing bonus of Pound Sterling66,230, which is to be paid to Employee on the date Employee actually commences employment pursuant to this Agreement.

(c) The Company shall provide Employee an opportunity to earn an annual bonus based upon participation in Callaway Golf's officer bonus plan as it may or may not exist from time to time. Employee acknowledges that all bonuses are discretionary, that the current officer bonus plan does not include any nondiscretionary bonus plan, and that the Company does not contemplate establishing any nondiscretionary bonus plan applicable to Employee. For the year 2000, the Company guaranties Employee a minimum bonus of Pound Sterling26,492, to be paid at the time of payment of all officer bonuses for the year 2000. For the year 2001, the Company guaranties Employee a minimum bonus of Pound Sterling66,230, provided bonus payments to officers of the Company are approved for the year 2001 by Callaway Golf's Board of Directors.

(d) Employee is responsible for payment of taxes on income earned while employed by the Company. The Tax Department at Callaway Golf will assist Employee with any tax issues that may arise.

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 Managing Director.

(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 as the same may be modified from time to time;

(ii) if Employee elects to purchase a personal term life insurance policy in the face amount of up to Pound Sterling662,300, and is insurable under usual underwriting standards, the Company will reimburse Employee for the cost of said policy, unless and until the Company can provide term life insurance for the same face amount; and

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

(d) Stock Options. Pursuant to a separate stock option agreement and subject to the approval of the Stock Option Committee (Employee Plans) of the Board of Directors of Callaway Golf ("Stock Option Committee"), Employee shall be provided options to purchase up to 300,000 shares of the common stock of Callaway Golf, which options shall vest, provided Employee is then currently employed by the Company or its affiliates, and not in breach of this Agreement, as follows:

100,000 shares on December 31, 2000;
100,000 shares on December 31, 2001; and
100,000 shares on December 31, 2002.

The options shall be granted as of the date Employee reports to work at the Company. The option price per share shall be the NYSE closing price of Callaway Golf common stock on the date Employee reports to work at the Company. The options will be subject to the terms and conditions of a separate written stock option agreement.

The options will contain such reasonable restrictions as determined by the Stock Option Committee, including without limitation, cancellation of options or forfeiture of gain upon exercise, if Employee discloses the confidential information of the Company or Callaway Golf and its subsidiaries, or competes with the business of the Company or Callaway Golf and its subsidiaries.

6. PENSION. Employee will be permitted to participate in the Company's Pension Scheme as adopted and modified from time to time.

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 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 Managing Director and the Chief Executive Officer or President of Callaway Golf 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 to 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 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 twelve (12) 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 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 of the parent company, Callaway Golf Company, (as defined in Exhibit A 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 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 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 applicable laws and regulations.

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 and/or Callaway Golf 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 Managing Director 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 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) 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 and/or Callaway Golf shall be the sole and exclusive property of the Company and/or Callaway Golf. 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/or Callaway Golf, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents in all Designs, Inventions and Innovations belonging to the Company and/or Callaway Golf.

(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. The Company shall have the right to assign this Agreement to Callaway Golf.

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.

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 at his last known residence address and to the Company, as follows:

Company: Callaway Golf Europe Ltd.
Attention: Patrice Hutin, Managing Director
Units A27
Barwell Business Park
Leatherhead Road
Chessington, Surrey KT92NY

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

18. 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 England and shall be governed and construed in accordance with the laws of England 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.

19. DEFINITION OF AFFILIATES. As defined herein, "affiliate" means any company:

(a) which directly or indirectly controls the Company; or

(b) which is directly or indirectly controlled by the Company; or

(c) which is directly or indirectly controlled by a third party which directly or indirectly controls the Company.

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 and 13;

(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. CONDITIONS UPON TERMINATION OF EMPLOYMENT. It is recognized that during the term of this Agreement, Employee's employment with the Company may be terminated by the Company 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. Upon the termination of Employee's employment, unless either (a) Employee and the Company, or one of the Company's affiliates, have agreed in a signed writing to a continuing employment relationship beyond the term of this Agreement; or (b) the parties have otherwise mutually agreed in a signed writing, the following shall occur:

(a) Employee shall resign as an employee of the Company, effective immediately and will accept four (4) weeks pay as payment in lieu of notice; and

(b) Employee hereby irrevocably waives any right to make a claim for a statutory redundancy payment and/or to make a claim for unfair dismissal.

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

EMPLOYEE	COMPANY
	Callaway Golf Europe Ltd., a United Kingdom corporation
------------------------------	By: -------------------------------------
Ian B. Rowden	Charles J. Yash, Chairman

EXHIBIT A

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 Callaway Golf Company and its affiliates and any employee benefit or stock ownership plan of Callaway Golf Company or its affiliates, and also excluding an underwriter or underwriting syndicate that has acquired Callaway Golf 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 Callaway Golf 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 Callaway Golf Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of Callaway Golf Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf Company of the sale or other disposition by Callaway Golf Company of all or substantially all of Callaway Golf Company's assets or a reorganization or merger or consolidation of Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf Company (or similar transaction) that does

not result in a material change in beneficial ownership of the voting securities of Callaway Golf Company or its successor; or

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

EXHIBIT 10.9

ASSIGNMENT OF AND FIRST AMENDMENT TO EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Assignment of and First Amendment to Executive Officer Employment Agreement ("Assignment") is made effective as of October 16, 2000 by and between CALLAWAY GOLF EUROPE LTD., a United Kingdom corporation ("Callaway Golf Europe"), CALLAWAY GOLF COMPANY, a Delaware corporation ("Callaway Golf"), and IAN B. ROWDEN ("Employee").

A. Callaway Golf Europe and Employee are parties to that certain Executive Officer Employment Agreement entered into as of September 1, 2000 (the "Agreement").

B. On October 16, 2000, Employee resigned his position as Executive Vice President, Global Advertising of Callaway Golf Europe, and accepted a position as Executive Vice President, Global Advertising of Callaway Golf.

C. In order to facilitate Employee's resignation of his former position with Callaway Golf Europe and acceptance of his new position with Callaway Golf, Callaway Golf Europe wishes to assign the Agreement to Callaway Golf, Callaway Golf wishes to accept the assignment of the Agreement, and the parties wish to modify the Agreement accordingly.

ASSIGNMENT

NOW, THEREFORE, in consideration of the foregoing, Callaway Golf Europe, Callaway Golf and Employee hereby agree as follows:

1. Effective Date. All provisions of this Assignment shall be effective as of October 16, 2000.

2. Resignation. Employee hereby resigns as Executive Vice President, Global Advertising of Callaway Golf Europe, and Callaway Golf Europe accepts such resignation.

3. Appointment. The Board of Directors of Callaway Golf has ratified the appointment of Employee as Executive Vice President, Global Advertising of Callaway Golf, and Employee has accepted such appointment.

4. Assignment and Assumption. Callaway Golf Europe hereby assigns to Callaway Golf all of Callaway Golf Europe's right, title and interest in and to the Agreement, and Callaway Golf hereby accepts the assignment and assumes and agrees to keep, perform and fulfill all of the terms, covenants, conditions and obligations required to be kept, performed and fulfilled by the "Company" under the Agreement, as amended. After this assignment, all references to the "Company" in the Agreement, as amended, shall mean Callaway Golf.

AMENDMENT

The Agreement is hereby amended as follows:

5. All references to the "Managing Director" shall be amended to read "Chief Executive Officer".

6. Section 2 of the Agreement is hereby amended to add:

"(c) Nature of Services. The Company and Employee agree that the services being provided by Employee for the Company under the terms of this Agreement are unique and intellectual in character and that the Employee and Company are entering into this Agreement so that the Company will have the exclusive benefit of those services during the entire term of the Agreement and any extensions of the Agreement."

7. Section 4 of the Agreement is hereby amended to read:

"(a) The Company agrees to pay Employee a base salary at the rate of $400,000.00 per year, prorated for the year 2000."

(b) No change.

"(c) The Company shall provide Employee 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. Employee 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 Employee. However, for the year 2000, the Company will pay Employee a minimum bonus of $40,000.00, to be paid at the time of payment of all officer bonuses, if any, for the year 2000. If bonus payments to officers of the Company are approved for the year 2001 by Callaway Golf's Board of Directors, the Company will pay Employee a minimum bonus of $100,000.00."

(d) Delete.

8. Section 5 of the Agreement is hereby amended to read:

(a) No change.

(b) No change.

"(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) 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) No change.

"(e) 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 Employee on the same terms and conditions.

(f) 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."

9. Section 6 of the Agreement is hereby replaced with the following:

"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."

(A true and correct copy of Exhibit A is attached hereto and made a part of the Agreement by this reference.)

10. Section 7(e) of the Agreement is hereby amended to read:

"(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, President or Senior Vice President, Global Press and Public 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."

11. Section 9(a) of the Agreement is hereby amended to read:

"(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."

(A true and correct copy of Exhibit B is attached hereto and made a part of the Agreement by this reference.)

12. Section 11 of the Agreement is hereby amended to read:

"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."

13. Section 13 of the Agreement is hereby amended to read:

(a) No change.

"(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 Chief Executive Officer 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) No change.

14. Section 14 of the Agreement is hereby amended to read:

"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. Section 17 of the Agreement is hereby amended to read:

"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 at his last known residence address and to the Company, as follows:

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Steven C. McCracken
Senior 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."

16. Section 18(c) of the Agreement is hereby amended to read:

"(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."

17. Section 19 of the Agreement is hereby replaced with the following:

"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.

(b) EMPLOYEE AND THE COMPANY AGREE THAT THE ARBITRATOR SHALL HAVE THE AUTHORITY TO ISSUE PROVISIONAL RELIEF. EMPLOYEE AND THE COMPANY FURTHER AGREE THAT EACH HAS THE RIGHT, PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1281.8, TO APPLY TO A COURT FOR A PROVISIONAL REMEDY IN CONNECTION WITH AN ARBITRABLE DISPUTE SO AS TO PREVENT THE ARBITRATION FROM BEING RENDERED INEFFECTIVE.

(c) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE COMMUNICATED TO THE OTHER PARTY PRIOR TO THE EXPIRATION OF THE APPLICABLE STATUTE OF LIMITATIONS.

(d) 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. THE COMPANY SHALL PAY THE COSTS OF THE ARBITRATOR'S FEES.

(e) THE ARBITRATION WILL BE DECIDED UPON A WRITTEN DECISION OF THE ARBITRATOR STATING THE ESSENTIAL FINDINGS AND CONCLUSIONS UPON WHICH THE AWARD IS BASED. THE ARBITRATOR SHALL HAVE THE AUTHORITY TO AWARD DAMAGES, IF ANY, TO THE EXTENT THAT THEY ARE AVAILABLE UNDER APPLICABLE LAW(s). THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. EITHER PARTY MAY SEEK REVIEW PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1286, ET SEQ.

(f) 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 ONLY TO THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO AT LEAST ONE DEPOSITION AND SHALL HAVE ACCESS TO ESSENTIAL DOCUMENTS AND WITNESSES AS DETERMINED BY THE ARBITRATOR.

(g) 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 TO THE SAME EXTENT PERMITTED TO BE AWARDED BY A COURT OF LAW.

(h) 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 SECTION 19 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ (EMPLOYEE) ______ (COMPANY)"

18. Section 20(a) of the Agreement is hereby amended to read:

"(a) Employee's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 19;"

19. Section 21 of the Agreement is hereby replaced with the following:

"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."

20. Further Acts. Callaway Golf Europe, Callaway Golf and Employee agree to execute and deliver, or cause to be executed and delivered, and to do or make or cause to be done or made, any and all instruments, documents, acts or things, supplemental, confirmatory or otherwise, as reasonably may be required by a party for the purposes of perfecting and completing the assignment of the Agreement to Callaway Golf as contemplated herein.

21. No Other Change. Except as set forth herein, all other terms and conditions of the Agreement shall remain unchanged and continue in full force and effect.

IN WITNESS WHEREOF, Callaway Golf Europe, Callaway Golf and Employee have caused this Assignment to be executed effective as of the date set forth above.

CALLAWAY GOLF EUROPE	CALLAWAY GOLF
Callaway Golf Europe Ltd., a United Kingdom corporation	Callaway Golf Company, a Delaware corporation
By: ---------------------------------- Charles J. Yash, Chairman	By: ------------------------------------ Ely Callaway, Chairman and CEO
Dated: November ____, 2000	Dated: November ____, 2000

EMPLOYEE

- ------------------------------
Ian B. Rowden

Dated: November ____, 2000

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Employee's Executive Officer 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.

EXECUTION COPY

EXHIBIT 10.35

SECOND AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS SECOND AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT, dated as of December 29, 2000 (this "Amendment") relates to that certain Amended and Restated Credit Agreement dated as of February 10, 1999 (as amended by the First Amendment to Amended and Restated Credit Agreement, dated April 28, 2000 (the "First Amendment"), and as may be further amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement") and is entered into among Callaway Golf Company, a Delaware corporation (the "Borrower"), the other credit parties signatory to the Credit Agreement (including Callaway Golf Ball Company ("Golf Ball") and, together with the Borrower, the "Credit Parties"), the lenders signatory hereto (the "Requisite Lenders") and General Electric Capital Corporation, a New York corporation, as agent for the Lenders (in such capacity, the "Agent"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

W I T N E S S E T H

WHEREAS, the Borrower, the other Credit Parties, Agent and the Lenders have entered into the Credit Agreement and the First Amendment;

WHEREAS, Borrower has notified Agent that it intends to merge with Golf Ball through a tax-free statutory merger (the "Golf Ball Merger") in which Borrower will be the surviving corporation and, immediately after the merger, will transfer its assets and liabilities relating to domestic sales (the "Asset Transfer") to Callaway Golf Sales Company ("Golf Sales");

WHEREAS, Borrower has notified Agent that it intends to form a foreign company ("CG South Pacific") to be a wholly-owned subsidiary of Borrower (as more fully described in Exhibit A attached hereto, the "Subsidiary Formation");

WHEREAS, Borrower has notified Agent that Callaway Golf Europe Ltd. ("CG Europe"), a Material Subsidiary, intends to acquire a Spanish distribution company through the following steps: (a) CG Europe will purchase 100% of the stock of Green Fee, S.A. ("Green Fee"), (b) CG Europe will create a wholly-owned subsidiary ("Spanish Co.") into which Green Fee will be merged, with Spanish Co. as the surviving corporation, and (c) Spanish Co. will be merged with and into CG Europe (as more fully described in Exhibit C attached hereto, "Spanish Co. Acquisition" and, together with the Golf Ball Merger, the Asset Transfer and the Subsidiary Formation, the "Callaway Transactions");

WHEREAS, Borrower has requested that the Credit Agreement be amended to remove Golf Ball as a Credit Party and to make other necessary changes to reflect the Callaway Transactions (the "Amendments");

WHEREAS, Borrower has requested that GE Capital and the Requisite Lenders grant a limited waiver (the "Limited Waivers") to certain provisions of the Credit Agreement with respect to the applicable Callaway Transactions, as follows:

a. Sections 5.1 (Maintenance of Existing and Conduct of Business), 6.1 (Mergers Subsidiaries, Etc.), and 6.4 (Employee Loans and Affiliate Transactions), solely with respect to the Golf Ball Merger;

b. Sections 6.4 (Employee Loans and Affiliate Transactions) and 6.8 (Sale of Stock and Assets), solely with respect to the Asset Transfer;

c. Sections 6.1 (Mergers Subsidiaries, Etc.), 6.2 (Investments; Loans and Advances), 6.3 (Indebtedness) and 6.4 (Employee Loans and Affiliate Transactions), solely with respect to the Subsidiary Formation; and

d. Sections 6.1 (Mergers Subsidiaries, Etc.), 6.2 (Investments; Loans and Advances), 6.3 (Indebtedness), 6.4 (Employee Loans and Affiliate Transactions), 6.7 (Liens) and 6.14 (Restricted Payments), solely with respect to the Spanish Acquisition.

WHEREAS, Section 11.2 of the Credit Agreement requires that the Requisite Lenders consent to the Amendments and the Limited Waivers; and

WHEREAS, Agent, Borrower and Requisite Lenders are willing to so effect the Amendments and provide the Limited Waivers on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the above premises, Borrower, Agent, and the Requisite Lenders agree as follows:

2. Definitions and Usage. Capitalized terms used, but not defined, herein have the meanings ascribed to such terms in the Credit Agreement. Any reference herein to Section, Exhibit or Schedule shall, unless otherwise specified, refer to such Section, Exhibit or Schedule hereof, in its entirety.

3. Amendments to the Credit Agreement. Upon the Effective Date (as defined in Section 6 below), the Credit Agreement is hereby amended as follows:

a. Amendment to Section 1.7. Section 1.7 of the Credit Agreement is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

"Based on the most recent Borrowing Base Certificate delivered by Borrower to Agent and on other information available to Agent, Agent shall in its reasonable judgment determine which Inventory of Borrower shall be "Eligible Inventory" for purposes of this Agreement. In determining whether any particular Inventory constitutes Eligible Inventory, Agent shall not include any such Inventory to which any of the exclusionary criteria set forth below applies. Agent reserves the right, at any time and from time to time after the Effective Date, to adjust any such

criteria, to establish new criteria and to adjust advance rates with respect to Eligible Inventory in its reasonable judgment, subject to the approval of (x) each Lender in the case of an increase in the percentage advance rate and (y) Supermajority Revolving Lenders in the case of any adjustments or new criteria which have the effect of making more credit available. Eligible Inventory shall not include any Inventory of Borrower that:

(a) is not owned by Borrower free and clear of all Liens (other than Permitted Encumbrances described in clause (a), (e) or (i) of the definition thereof) and rights of any other Person (including the rights of a purchaser that has made progress payments and the rights of a surety that has issued a bond to assure Borrower's performance with respect to that Inventory), except the Liens in favor of Agent, on behalf of itself and Lenders;

(b) is (i) not located on premises owned or leased by Borrower or (ii) is stored with a bailee, warehouseman or similar Person, unless Agent has given its prior consent thereto and unless (x) a satisfactory bailee letter or landlord waiver has been delivered to Agent, or (y) Reserves satisfactory to Agent have been established with respect thereto, or (iii) located at any site if the aggregate book value of Inventory at any such location is less than $100,000;

(c) is placed on consignment or is in transit;

(d) is covered by a negotiable document of title, unless such document has been delivered to Agent with all necessary endorsements, free and clear of all Liens except those in favor of Agent and Lenders;

(e) in Agent's reasonable determination, is excess, obsolete, unsalable, shopworn, seconds, damaged, unfit for sale or otherwise no longer used or useful in Borrower's business;

(f) consists of customized product, demonstration equipment, display items or packing or shipping materials, manufacturing supplies, work-in-process Inventory or replacement parts;

(g) consists of goods that have been returned by the buyer;

(h) is not of a type held for sale in the ordinary course of Borrower's business;

(i) as to which Agent's Lien, on behalf of itself and Lenders, therein is not a first priority perfected Lien;

(j) as to which any of the representations or warranties pertaining to Inventory set forth in this Agreement, the Borrower Security Agreement or the Subsidiaries Security Agreement (as applicable) is untrue;

(k) consists of any costs associated with "freight-in" charges;

(l) consists of Hazardous Materials or goods that can be transported or sold only with licenses that are not readily available;

(m) is not covered by casualty insurance acceptable to Agent;

(n) that constitutes Golf Ball Inventory that is not eligible for inclusion in the Borrowing Base in accordance with the proviso to the definition of "Borrowing Base" in Annex A; or

(o) is otherwise unacceptable to Agent in its reasonable judgment."

b. Amendment to Section 3.6. Section 3.6 of the Credit Agreement is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

"3.6 Ownership of Property; Liens. As of the Effective Date, the real estate ("Real Estate") listed on Disclosure Schedule (3.6) constitutes all of the real property owned, leased, subleased, or used by any Credit Party. Each Credit Party owns good and marketable fee simple title (subject to various matters of record) to all of its owned real estate, and valid and marketable leasehold interests in all of its leased Real Estate, all as described on Disclosure Schedule (3.6), and copies of all such leases or a summary of terms thereof satisfactory to Agent have been delivered to Agent. Disclosure Schedule (3.6) further describes any Real Estate with respect to which any Credit Party is a lessor, sublessor or assignor as of the Effective Date. Each Credit Party also has good and marketable title to, or valid leasehold interests in, all of its personal properties and assets, excluding all Receivables Program Assets sold, contributed or otherwise disposed of under the Receivables Documents, and subject to the interests of the lessor under the CEF Lease Facility. As of the Effective Date, none of the properties and assets of any Credit Party are subject to any Liens other than Permitted Encumbrances and Liens arising under the Receivables Documents or under the CEF Lease Facility, and there are no facts, circumstances or conditions known to any Credit Party that may result in any Liens (including Liens arising under Environmental Laws) other than Permitted Encumbrances and Liens arising under the Receivables Documents or under the CEF Lease Facility. Each Credit Party has received all deeds, assignments, waivers, consents, non-disturbance and recognition or similar agreements, bills of sale and other documents, and has duly effected all recordings, filings and other actions necessary to establish, protect and perfect such Credit Party's right, title and interest in and to all such Real Estate and other properties and assets. Disclosure Schedule (3.6) also describes any purchase options, rights of first refusal or other similar contractual rights pertaining to any Real Estate. As of the Effective Date, no portion of any Credit Party's Real

Estate has suffered any material damage by fire or other casualty loss which has not heretofore been repaired and restored in all material respects to its original condition or otherwise remedied and no Credit Party is aware of any latent or patent structural or other significant defect or deficiency in any improvements on any of the Real Estate. As of the Effective Date, all material permits required to have been issued or appropriate to enable the Real Estate to be lawfully occupied and used for all of the purposes for which they are currently occupied and used have been lawfully issued and are in full force and effect."

c. Amendment to Section 3.23. Section 3.23 of the Credit Agreement is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

"Solvency. Both before and after giving effect to (a) the Loans and Letter of Credit Obligations to be made or extended on the Effective Date or such other date as Loans and Letter of Credit Obligations requested hereunder are made or extended, (b) the disbursement of the proceeds of such Loans pursuant to the instructions of Borrower, (c) the Refinancing and (d) the payment and accrual of all transaction costs in connection with the foregoing, each Credit Party is Solvent."

d. Amendment to Section 6.2(h). Section 6.2(h) of the Credit Agreement is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

"[INTENTIONALLY OMITTED];"

e. Amendments to Annex A. Annex A is hereby amended as follows:

i. The definition of "Borrowing Base" is hereby amended by deleting the text of the definition in its entirety and substituting the following in lieu thereof:

"shall mean, as of any date of determination by Agent, from time to time, an amount equal to the sum at such time of:

(a) sixty percent (60%) of the book value of Borrower's Eligible Inventory valued on a first-in, first-out basis (at the lower of cost or market), less any Reserves established by Agent at such time; and

(b) the lesser of :

(i) the Additional Collateral Amount and

(ii) an amount equal to the sum of (x) fifty percent (50%) of the Appraised Value of the Eligible Real Estate, and (y) eighty-five

percent (85%) of the Appraised Value of the Eligible Equipment, less any Reserves established by Agent at such time, minus, the aggregate outstanding principal amount of Indebtedness (including Indebtedness described in clause (i) of Section 6.3, but excluding the Obligations and Indebtedness created or arising under the Receivables Documents) which is secured by any Eligible Equipment;

provided that Golf Ball Inventory shall be included in the Borrowing Base only upon (i) delivery to Agent for the benefit of Lenders of a certificate of the Chief Financial Officer of Borrower as to the matters addressed in Section 3.23 and the other certificates and statements (including without limitation a Fair Salable Balance Sheet) described in paragraph X of Annex D, each in form and substance satisfactory to Agent, (ii) the audit and appraisal of the Golf Ball Inventory, the results of which shall be satisfactory to Agent and Requisite Lenders, and (iii) the review and, where appropriate (in the reasonable judgment of Agent), modification by Agent (subject to the approval of all Lenders or Supermajority Revolving Lenders, to the extent required by Sections 1.7, 1.18 and 1.19) of the criteria and advance rates applicable to the Golf Ball Receivables."

ii. The definition of "Callaway Golf Ball Company" is hereby amended by deleting the definition in its entirety.

iii. The definition of "CEF Lease Facility" is hereby amended by deleting the text of the definition in its entirety and substituting the following in lieu thereof:

"shall mean (i) the Master Lease Agreement dated as of December 30, 1998 between General Electric Capital Corporation, for itself and as agent for certain participants, as lessor, and Callaway Golf Ball Company, as lessee, (ii) the Corporate Guaranty dated December 30, 1998 by Borrower (as guarantor) for the benefit of GE Capital, for itself and as agent for certain participants, (iii) the Interim Finance Agreement dated December 30, 1998 between General Electric Capital Corporation, for itself and as agent for certain participants, as lender, and Callaway Golf Ball Company, as borrower and (iv) all documents delivered under, and relating to, any of the agreements described in clauses (i) through (iii) hereof (including, but not limited to, the Assumption Agreement, dated as of December 29, 2000 by and among General Electric Capital Corporation, for itself and as agent for certain participants, Callaway Golf Ball Company and Borrower), in each case as amended, modified, supplemented or restated from time to time, provided that any amendment, modification, supplement or

restatement which changes the description of the assets subject to the security interests granted by the CEF Lease Facility in a manner which may adversely affect Agent or the Lenders shall not be incorporated in this definition of "CEF Lease Facility" unless the Supermajority Revolving Lenders have consented to its incorporation."

iv. The following definitions are hereby inserted after the definition of "General Intangibles":

(A) "Golf Ball Inventory" shall mean Inventory consisting of golf balls and materials related to their production.

(B) "Golf Ball Receivables" shall mean Receivables arising from the sale of Golf Ball Inventory held by the Borrower designated by the Borrower as such.

v. The definition of "Material Subsidiary" is hereby amended by deleting the text of the definition in its entirety and substituting the following in lieu thereof:

"shall mean Callaway Golf Sales Company, Odyssey Golf, Inc., Special Purpose Corporation, Callaway Golf Europe Ltd., Callaway (Barbados) Foreign Sales Corporation, ERC International Company, Callaway Golf Korea Ltd., Callaway Golf Canada Ltd., Callaway Golf South Pacific Pty Ltd and each Person which becomes a Subsidiary of Borrower after the date of this Agreement."

f. Amendment of Disclosure Schedule 3.8. Disclosure Schedule 3.8 is hereby amended by deleting the text thereof in its entirety and substituting Schedule I, attached hereto, in lieu thereof.

4. Limited Waivers. Upon the Effective Date, and as limited herein, the Requisite Lenders hereby waive the following provisions of the Credit Agreement solely with respect to the matters expressly described below:

a. Sections 5.1 (Maintenance of Existing and Conduct of Business), 6.1 (Mergers Subsidiaries, Etc.), and 6.4 (Employee Loans and Affiliate Transactions), solely with respect to the Golf Ball Merger;

b. Sections 6.4 (Employee Loans and Affiliate Transactions) and 6.8 (Sale of Stock and Assets), solely with respect to the Asset Transfer;

c. Sections 6.1 (Mergers Subsidiaries, Etc.), 6.2 (Investments; Loans and Advances), 6.3 (Indebtedness), and 6.4 (Employee Loans and Affiliate Transactions), solely with respect to the Subsidiary Formation, provided that the Limited Waiver to Section 6.2 permitting an investment in, and/or loan to, CG South Pacific by Borrower

shall be limited to only such investment and/or loan, that in the aggregate does not exceed US $3,000,000 and provided further that the Limited Waiver to Section 6.3 permitting the incurrence or assumption of indebtedness by CG South Pacific shall not apply to any such incurrence or assumption of indebtedness exceeding US $3,000,000;

d. Sections 6.1 (Mergers Subsidiaries, Etc.), 6.2 (Investments; Loans and Advances), 6.3 (Indebtedness), 6.4 (Employee Loans and Affiliate Transactions), 6.7 (Liens) and 6.14 (Restricted Payments), solely with respect to the Spanish Acquisition, provided that the Limited Waiver to Section 6.2 permitting an investment in, and/or loan to, CG Europe by Borrower shall be limited to (i) only such investment and/or loan that does not in the aggregate exceed US $4,000,000 and (ii) if a loan is made, only such loan having a term of no longer than five (5) years, provided further that the Limited Waiver to Section 6.3 permitting the incurrence or assumption of indebtedness by CG Europe shall not apply to any such incurrence or assumption of indebtedness (A) that exceeds US $4,000,000 or (B) the term of which exceeds five (5) years, and provided further that the Limited Waiver to Section 6.14 permitting CG Europe making a Restricted Payment shall not apply to any such payment exceeding US $4,000,000.

e. The Limited Waivers shall be limited to those Events of Default, if any, arising solely from any of the Callaway Transactions as described herein and do not apply to any past, present or future Events of Default caused by any other violation of Sections 5 or 6 or other provisions of the Credit Agreement or any of the Loan Documents.

5. Representations and Warranties. The Credit Parties hereby jointly and severally represent and warrant to the Agent and the Requisite Lenders that, as of the Effective Date and after giving effect to this Amendment:

a. All of the representations and warranties of the Credit Parties contained in this Amendment, the Credit Agreement and the other Loan Documents are true and correct in all material respects on and as of the Effective Date, as if then made (other than representations and warranties which expressly speak as of a different date, which shall be true and correct in all material respects as of that date); and

b. No Default or Event of Default has occurred and is continuing or will result after giving effect to this Amendment, including without limitation, none of the agreements, instruments or other obligations by which any of the Credit Parties or their Subsidiaries will be bound pursuant to the Subsidiary Formation or the Spanish Acquisition will directly or indirectly restrict, prohibit, or require the consent of any Person with respect to the payment of dividends or distribution or the making or repayment of intercompany loans by a Subsidiary of Borrower to Borrower, as provided in Section 6.16 of the Credit Agreement.

6. Effective Date. This Amendment shall become effective as of the date first written above (the "Effective Date") upon the satisfaction of each of the following conditions:

a. The Agent shall have received each of the following documents, in each case in form and substance satisfactory to the Agent:

i. counterparts hereof executed by each of the Credit Parties, the Agent and the Requisite Lenders;

ii. duly executed amendments to the CEF Lease Facility and the Receivables Documents effecting all modifications necessary to permit the Callaway Transactions, together with a certificate of the Chief Financial Officer of the Borrower certifying that all conditions to the effectiveness of the amendments have been satisfied and that the amendments are in full force and effect as of the Effective Date;

iii. the duly executed Pledge Amendment reflecting the Subsidiary Formation accompanied by the share certificate representing the outstanding CG South Pacific Stock being pledged and a stock power for such share certificate executed in blank;

iv. a certificate of the Secretary or Assistant Secretary of each of the Credit Parties dated the Effective Date certifying (A) that the bylaws of such Credit Party have not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary or Assistant Secretary of such Credit Party delivered to the Agent and remain in full force and effect as of the Effective Date, (B) that the charter of such Credit Party has not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary of State of such Credit Party's jurisdiction of incorporation delivered to the Agent and remain in full force and effect as of the Effective Date and (C) that the execution, delivery and performance of this Amendment have been duly authorized by all necessary or proper corporate and shareholder action;

v. a certified copy of the Certificate of Merger filed with the State of California evidencing the Golf Ball Merger;

vi. the additional documentation relating to the Spanish Acquisition as required by Section 6.1(c) of the Credit Agreement; and

vii. such additional documentation as the Agent may reasonably request;

b. No law, regulation, order, judgment or decree of any Governmental Authority shall, and the Agent shall not have received any notice that litigation is pending or threatened which is likely to, enjoin, prohibit or restrain the consummation of the transactions contemplated by this Amendment, except for such laws, regulations, orders or decrees, or pending or threatened litigation, that in the aggregate could not reasonably be expected to have a Material Adverse Effect;

c. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Amendment shall be satisfactory in all respects in form and substance to the Agent; and

d. No Default or Event of Default shall have occurred and be continuing on the Effective Date or will result after giving effect to this Amendment.

7. Reference to and Effect on the Loan Documents.

a. Upon the Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import, and each reference in the other Loan Documents to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended and supplemented hereby.

b. Except to the extent specifically set forth herein, the respective provisions of the Credit Agreement and the other Loan Documents shall not be amended, modified, waived, impaired or otherwise affected hereby, and such documents and the Obligations under each of them are hereby confirmed as being in full force and effect.

c. This Amendment shall be limited solely to the matters expressly set forth herein and shall not (i) constitute an amendment or waiver of any other term or condition of the Credit Agreement or any other Loan Document, (ii) prejudice any right or rights which the Agent or any Lender may now have or may have in the future under or in connection with the Credit Agreement or any other Loan Document, (iii) require the Agent or any Lender to agree to a similar transaction on a future occasion or (iv) create any right herein to another Person or other beneficiary or otherwise, except to the extent specifically provided herein.

8. Miscellaneous. This Amendment is a Loan Document. The headings herein are for convenience of reference only and shall not alter or otherwise affect the meaning hereof.

9. Section Titles. The Section titles in this Amendment are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

10. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

11. GOVERNING LAW. THIS AMENDMENT, AND ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE HEREOF, SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

12. No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Amendment. In the event an ambiguity or question of intent or

interpretation arises, this Amendment shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Amendment.

IN WITNESS WHEREOF, the Credit Parties, the Agent and the Requisite Lenders have caused this Amendment to be executed by their respective officers thereunto duly authorized as of the date first above written.

CALLAWAY GOLF COMPANY,
as Borrower

By:

   Name:
   Title:

Signature Page

CALLAWAY GOLF SALES COMPANY,
as a Credit Party

By:

Name:
Title:

Signature Page

CALLAWAY GOLF BALL COMPANY,
as a Credit Party

By:

Name:
Title:

Signature Page

GENERAL ELECTRIC CAPITAL CORPORATION,
as Agent and Lender

By:

Name: Robert Yasuda
Title: Authorized Signatory
Pro Rata Share: 20.83%

Signature Page

AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO,
as a Lender

By:

Name:
Title:
Pro Rata Share: 17.71%

Signature Page

BANK OF AMERICA, NATIONAL ASSOCIATION,
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

Signature Page

CONGRESS FINANCIAL CORPORATION (WESTERN),
as a Lender

By: ------------------------------
Name:
Title:
Pro Rata Share: 14.17%

Signature Page

KEY CORPORATE CAPITAL INC.,
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

Signature Page

NATIONAL CITY COMMERCIAL FINANCE, INC.,
as a Lender

By:

Name:
Title:
Pro Rata Share: 8.33%

Signature Page

NATIONAL WESTMINSTER BANK PLC,
as a Lender

By:

Name:
Title:
Pro Rata Share: 10.63%

Signature Page

EXHIBIT A

TO

SECOND AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

(see attached)

EXHIBIT B

TO

SECOND AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

(see attached)

SCHEDULE I

TO

SECOND AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

(see attached)

EXHIBIT 10.40

EXECUTION COPY

SECOND AMENDMENT AND LIMITED WAIVER TO RECEIVABLES TRANSFER AGREEMENT

AND

FIRST AMENDMENT TO ANNEX X

THIS SECOND AMENDMENT AND LIMITED WAIVER TO RECEIVABLES TRANSFER AGREEMENT AND FIRST AMENDMENT TO ANNEX X, dated as of December 29, 2000 (this "Second Amendment & Limited Waiver") relates to (i) that certain Receivables Transfer Agreement dated as of February 10, 1999, as amended by the First Amendment to Receivables Transfer Agreement, dated as of April 28, 2000 (the "First Amendment") (as amended by the First Amendment, and as it may be further amended, supplemented, restated or otherwise modified from time to time, the "Transfer Agreement"), and (ii) Annex X to the Transfer Agreement and Receivables Purchase and Servicing Agreement, and is entered into by and among GOLF FUNDING CORPORATION, a Delaware Corporation ("GFC"), CALLAWAY GOLF SALES COMPANY, a California corporation, as the originator (in such capacity, the "CGS Originator") and as the servicer (in such capacity, the "Servicer"), CALLAWAY GOLF COMPANY, a Delaware corporation, as the parent guarantor (the "Parent Guarantor"), REDWOOD RECEIVABLES CORPORATION, as the purchaser (the "Purchaser"), and GENERAL ELECTRIC CAPITAL CORPORATION, as the operating agent and the collateral agent ("GECC"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in Annex X.

W I T N E S S E T H

WHEREAS, GFC, the CGS Originator, the Servicer and the Parent Guarantor (collectively, the "Parties") have entered into the Transfer Agreement;

WHEREAS, Parent Guarantor has notified the other Parties that it intends to merge with Callaway Golf Ball Company ("Golf Ball") through a tax-free statutory merger in which Parent Guarantor will be the surviving corporation (the "Golf Ball Merger") and, immediately after the merger, will transfer its assets and liabilities relating to domestic sales (the "Asset Transfer") to the CGS Originator;

WHEREAS, Callaway Golf Sales Company desires to sell all Receivables received by it in the Asset Transfer ("Ball Receivables") to GFC pursuant to the Transfer Agreement;

WHEREAS, GFC desires to sell the Ball Receivables as Transferred Receivables to the Purchaser pursuant to the Purchase Agreement;

WHEREAS, Parent Guarantor has notified the other Parties that it intends to form a foreign company ("CG South Pacific") to be a wholly-owned subsidiary of Parent Guarantor (as more fully described in Exhibit A attached hereto, the "Subsidiary Formation");

WHEREAS, Parent Guarantor has notified the other Parties that Callaway Golf Europe Ltd. ("CG Europe") intends to acquire a Spanish distribution company through the following steps: (a) CG Europe will purchase 100% of the stock of Green Fee, S.A. ("Green Fee"), (b) CG Europe will create a wholly-owned subsidiary ("Spanish Co.") into which Green Fee will be merged, with Spanish Co. as the surviving corporation, and (c) Spanish Co. will be merged with and into CG Europe (as more fully described in Exhibit B attached hereto, the "Spanish Acquisition" and, together with the Golf Ball Merger, the Asset Transfer and the Subsidiary Formation, the "Parent Transactions");

WHEREAS, Parent Guarantor has requested that the Transfer Agreement be amended to reflect the Parent Transactions (the "Amendments");

WHEREAS, the Purchaser, the Operating Agent and the Collateral Agent have agreed to such Amendments and have requested that the Parties agree to the amendment of Annex X to provide for a "Reserve" in an amount equal to the Outstanding Balance of the Receivables transferred as part of the Asset Transfer (the "Annex X Amendment");

WHEREAS, Parent Guarantor has requested that the Parties grant a limited waiver (the "Limited Waivers") to certain provisions of the Transfer Agreement with respect to the applicable Parent Transactions, as follows:

a. Section 4.05(c) (Mergers, Subsidiaries, Etc.) solely with respect to the Golf Ball Merger;

b. Section 4.03(a) (Sale of Stock and Assets) solely with respect to the Asset Transfer;

c. Sections 4.05(a) (Restricted Payments), 4.05(b) (Indebtedness) and 4.05(c) (Mergers, Subsidiaries, Etc.) solely with respect to the Subsidiary Formation; and

d. Sections 4.05(a) (Restricted Payments), 4.05(b) (Indebtedness) and 4.05(c) (Mergers, Subsidiaries, Etc.) solely with respect to the Spanish Acquisition.

WHEREAS, the Parties are willing to so effect the Amendments and the Annex X Amendment and provide the Limited Waivers on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the above premises, the Parties, the Purchaser, the Operating Agent, and the Collateral Agent agree as follows:

2. Definitions and Usage. Capitalized terms used, but not defined, herein have the meanings ascribed to such terms in Annex X. Any reference herein to Section, Exhibit or Schedule shall, unless otherwise specified, refer to such Section, Exhibit or Schedule hereof, in its entirety.

3. Amendments to the Transfer Agreement. Upon the Effective Date (as defined in Section 6 below), the Transfer Agreement is hereby amended as follows:

a. Amendment to Annex W. Annex W is hereby amended by deleting the definition of "CEF Lease Facility" in its entirety and substituting the following in lieu thereof:

"`CEF Lease Facility' shall mean (i) the Master Lease Agreement dated as of December 30, 1998 between General Electric Capital Corporation, for itself and as agent for certain participants, as lessor, and Callaway Golf Ball Company, as lessee, (ii) the Corporate Guaranty dated December 30, 1998 by Callaway Golf Company for the benefit of General Electric Capital Corporation, for itself and as agent for certain participants, (iii) the Interim Finance Agreement dated December 30, 1998 between General Electric Capital Corporation, for itself and as agent for certain participants, as lender, and Callaway Golf Ball Company, as borrower and (iv) all documents delivered under, and relating to, any of the agreements described in clauses (i) through (iii) hereof (including, but not limited to, the Assumption Agreement, dated as of December 29, 2000 by and among General Electric Capital Corporation, for itself and as agent for certain participants, Callaway Golf Ball Company and Parent Guarantor), in each case as amended, modified, supplemented or restated from time to time."

b. Amendment to Annex X. Annex X is hereby amended as follows:

i. By deleting the definition of "Credit Agreement" in its entirety and substituting the following in lieu thereof:

"`Credit Agreement' shall mean that certain Amended and Restated Credit Agreement dated as of February 10, 1999, among Callaway Golf Company, as borrower, the lenders party thereto and GE Capital, as agent for itself and the other lenders party thereto, as amended by the First Amendment to Amended and Restated Credit Agreement, dated April 28, 2000 and as further amended by the Second Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of December 29, 2000, together with such further amendments, restatements, supplements or modifications thereto or any refinancings, replacements or refundings thereof as may be agreed to by the Purchaser and the Operating Agent.";

ii. By amending the definition of "Reserves" by inserting the words "CGB Receivable Reserve" after the term "the Extended Term Reserve" and prior to the words "and such other reserves . . ."; and

iii. By adding the following defined term after the definition of "Cash Purchase Price" and prior to the definition of "CGS":

"CGB Receivable Reserve" shall mean the Outstanding Balance of those Receivables that are (a) originated by Callaway Golf Ball Company, (b) transferred by Callaway Golf Ball Company to the Parent Guarantor in a tax-free statutory merger whereby the Parent Guarantor is the surviving corporation and (c) subsequently transferred by the Parent Guarantor to the CGS Originator; provided, that the CGB Receivable Reserve may be eliminated or decreased at any time at the sole discretion of the Operating Agent.

c. Amendment to Schedule 4.01(h). Schedule 4.01(h) to the Transfer Agreement is hereby amended by deleting the text thereof in its entirety and substituting Schedule I, attached hereto, in lieu thereof.

4. Limited Waivers. Upon the Effective Date, and as limited herein, the Parties hereby waive the following provisions of the Transfer Agreement solely with respect to the matters expressly described below:

a. Section 4.05(c) (Mergers, Subsidiaries, Etc.) solely with respect to the Golf Ball Merger;

b. Section 4.03(a) (Sale of Stock and Assets) solely with respect to the Asset Transfer;

c. Sections 4.05(a) (Restricted Payments), 4.05(b) (Indebtedness) and 4.05(c) (Mergers, Subsidiaries, Etc.) solely with respect to the Subsidiary Formation; provided that the Limited Waiver to Section 4.05(a) permitting the Parent Guarantor and CG South Pacific, one of the Parent Guarantor's Subsidiaries, to enter into a lending transaction shall be limited to permit only such lending transaction that in the aggregate does not exceed US $3,000,000 and provided further that the Limited Waver to Section 4.05(b) permitting the incurrence or assumption of indebtedness by CG South Pacific shall not apply to any such incurrence or assumption of indebtedness exceeding US $3,000,000; and

d. Sections 4.05(a) (Restricted Payments), 4.05(b) (Indebtedness) and 4.05(c) (Mergers, Subsidiaries, Etc.) solely with respect to the Spanish Acquisition; provided that the Limited Waiver to Section 4.05(a) permitting the Parent Guarantor and CG Europe, one of the Parent Guarantor's Subsidiaries, to enter into a lending transaction shall be limited to permit only such lending transaction that in the aggregate does not exceed US $4,000,000 and provided further that the Limited Waver to Section 4.05(b) permitting the incurrence or assumption of indebtedness by CG Europe shall not apply to any such incurrence or assumption of indebtedness exceeding US $4,000,000.

5. Representations and Warranties. The Parties hereby jointly and severally represent and warrant to GFC that, as of the Effective Date and after giving effect to this Second Amendment & Limited Waiver:

a. All of the representations and warranties of the Parties contained in this Second Amendment & Limited Waiver, the Transfer Agreement and the other Related Documents are true and correct in all material respects on and as of the Effective Date, as if then made (other than representations and warranties which expressly speak as of a different date, which shall be true and correct in all material respects as of that date); and

b. No Termination Event or Incipient Termination Event has occurred and is continuing or will result after giving effect to this Second Amendment & Limited Waiver.

6. Effective Date. This Second Amendment & Limited Waiver shall become effective as of the date first written above (the "Effective Date") upon the satisfaction of each of the following conditions:

a. GFC shall have received each of the following documents, in each case in form and substance satisfactory to GFC:

i. counterparts hereof executed by each of the Parties;

ii. duly executed amendments to the CEF Lease Facility and the Credit Facility effecting all modifications necessary to permit the Parent Transactions, together with a certificate of the Chief Financial Officer of the Parent Guarantor and the CGS Originator certifying that all conditions to the effectiveness of the amendments have been satisfied and that the amendments are in full force and effect as of the Effective Date;

iii. the duly executed Pledge Amendment reflecting the Subsidiary Formation accompanied by the share certificate representing the outstanding CG South Pacific Stock being pledged and a stock power for such share certificate executed in blank;

iv. a certificate of the Secretary or Assistant Secretary of each of the Parties dated the Effective Date certifying (A) that the bylaws of such Party have not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary or Assistant Secretary of such Party delivered to GFC and remain in full force and effect as of the Effective Date, (B) that the charter of such Party has not been amended or otherwise modified since the date of the most recent certification thereof by the Secretary of State of such Party's jurisdiction of incorporation delivered to GFC and remain in full force and effect as of the Effective Date and (C) that the execution, delivery and performance of this Amendment have been duly authorized by all necessary or proper corporate and shareholder action;

v. a certified copy of the Certificate of Merger filed with the State of California evidencing the Golf Ball Merger; and

vi. such additional documentation as GFC may reasonably request;

b. No law, regulation, order, judgment or decree of any Governmental Authority shall, and GFC shall not have received any notice that litigation is pending or threatened which is likely to, enjoin, prohibit or restrain the consummation of the transactions contemplated by this Amendment, except for such laws, regulations, orders or decrees, or pending or threatened litigation, that in the aggregate could not reasonably be expected to have a Material Adverse Effect;

c. All of the representations and warranties of the Parties contained in this Amendment, the Transfer Agreement and the other Related Documents shall be true and correct in all material respects on and as of the Effective Date, as if then made (other than representations and warranties which expressly speak as of a different date, which shall be true and correct in all material respects as of that date);

d. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Amendment shall be satisfactory in all respects in form and substance to GFC; and

e. No Termination Event or Incipient Termination Event shall have occurred and be continuing on the Effective Date or will result after giving effect to this Amendment.

7. Reference to and Effect on the Related Documents.

a. Upon the Effective Date, each reference in the Transfer Agreement to "this Agreement", "hereunder", "hereof" or words of like import, and each reference in the Loan Documents and the other Related Documents to the Transfer Agreement, shall mean and be a reference to the Transfer Agreement as amended and supplemented hereby.

b. Except to the extent specifically set forth herein, the respective provisions of the Transfer Agreement and the other Related Documents shall not be amended, modified, waived, impaired or otherwise affected hereby, and such documents and the Obligations under each of them are hereby confirmed as being in full force and effect.

c. This Second Amendment & Limited Waiver shall be limited solely to the matters expressly set forth herein and shall not (i) constitute an amendment or waiver of any other term or condition of the Transfer Agreement or any other Related Document, (ii) prejudice any right or rights which any of the Parties may now have or may have in the future under or in connection with the Transfer Agreement or any other Related Document, (iii) require any of the Parties to agree to a similar transaction on a future occasion or (iv) create any right herein to another Person or other beneficiary or otherwise, except to the extent specifically provided herein.

8. Miscellaneous. This Second Amendment & Limited Waiver is a Related Document. The headings herein are for convenience of reference only and shall not alter or otherwise affect the meaning hereof.

9. Section Titles. The Section titles in this Second Amendment & Limited Waiver are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

10. Counterparts. This Second Amendment & Limited Waiver may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

11. GOVERNING LAW. THIS SECOND AMENDMENT & LIMITED WAIVER, AND ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE HEREOF, SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

12. No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Second Amendment & Limited Waiver. In the event an ambiguity or question of intent or interpretation arises, this Second Amendment & Limited Waiver shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Second Amendment & Limited Waiver.

13. Waiver by Parent Guarantor, CGS Originator, the Servicer and GFC. Each of the Parent Guarantor, the CGS Originator, the Servicer and GFC hereby waives any claim, defense, demand, action or suit of any kind or nature whatsoever against the Purchaser, the Operating Agent or the Collateral Agent arising on or prior to the date of this Second Amendment & Limited Waiver in connection with any of the Related Documents or the transactions contemplated thereunder.

* * * *

IN WITNESS WHEREOF, GFC, the CGS Originator, the Servicer, the Parent Guarantor, the Purchaser, the Operating Agent and the Collateral Agent have caused this Second Amendment & Limited Waiver to be executed by their respective officers thereunto duly authorized as of the date first above written.

GOLF FUNDING CORPORATION

By:

Name:
Title:

Signature Page

CALLAWAY GOLF SALES COMPANY,
as CGS Originator and as Servicer

By:

Name:
Title:

Signature Page

CALLAWAY GOLF COMPANY,
as Parent Guarantor

By:

Name:
Title:

Signature Page

REDWOOD RECEIVABLES CORPORATION,
as Purchaser

By:

Name:
Title:

Signature Page

GENERAL ELECTRIC CAPITAL CORPORATION,
as Operating Agent and as Collateral Agent

By:

Name:
Title:

Signature Page

EXHIBIT A

TO

SECOND AMENDMENT AND LIMITED WAIVER TO RECEIVABLES TRANSFER AGREEMENT

(SEE ATTACHED)

EXHIBIT B

TO

SECOND AMENDMENT AND LIMITED WAIVER TO RECEIVABLES TRANSFER AGREEMENT

(SEE ATTACHED)

SCHEDULE I

TO

SECOND AMENDMENT AND LIMITED WAIVER TO RECEIVABLES TRANSFER AGREEMENT

VENTURES, SUBSIDIARIES AND AFFILIATES; OUTSTANDING STOCK

SCHEDULE 4.01(h)

1. (a) Subsidiaries of CGS Originator:

Golf Funding Corporation

(b) Joint Ventures/Partnerships of CGS Originator:

None

(c) CGS Originator is an Affiliate of:

Callaway Golf Company
Golf Funding Corporation
Callaway Golf Ball Company (merged into Callaway Golf Company effective 12/29/00)
CGV, Inc.
Callaway Golf Europe Ltd.
Callaway (Barbados) Foreign Sales Corporation
Callaway Golf (Germany) GmbH
Callaway Golf Ltd. & Co. KG (a German limited partnership; formerly Callaway Golf Trading GmbH, a German Corporation)
Callaway Golf Korea Ltd.
Callaway Golf K.K. (formerly known as ERC International Company)
Callaway Golf Canada Ltd.
All-American Golf LLC
Callaway Golf Shell Company
Callaway Golf South Pacific Pty Ltd

(d) Subsidiaries of Parent Guarantor:

Callaway Golf Sales Company
Callaway Golf Ball Company
CGV, Inc.
Callaway Golf Europe Ltd.
Callaway (Barbados) Foreign Sales Corporation
Callaway Golf (Germany) GmbH
Callaway Golf Ltd. & Co. KG

Callaway Golf Korea Ltd.
Callaway Golf K.K.
Callaway Golf Canada Ltd.
All-American Golf LLC
Golf Funding Corporation
Callaway Golf Shell Company
Callaway Golf South Pacific Pty Ltd.

(e) Joint Ventures/Partnerships of Parent Guarantor:

None

(f) Parent Guarantor is an Affiliate of:

Callaway Golf Sales Company
Callaway Golf Ball Company
CGV, Inc.
Callaway Golf Europe Ltd.
Callaway (Barbados) Foreign Sales Corporation
Callaway Golf (Germany) GmbH
Callaway Golf Ltd. & Co. KG
Callaway Golf Korea Ltd.
Callaway Golf K.K.
Callaway Golf Canada Ltd.
All-American Golf LLC
Golf Funding Corporation
Callaway Golf Shell Company
Callaway Golf South Pacific Pty Ltd.

2. Issued and Outstanding Stock of CGS Originator and Parent Guarantor:

COMPANY	(A) Shareholder/Member	INTEREST HELD	SHARES
Callaway Golf Company	Various (Publicly Held)	100%	74,080,622(1)
Callaway Golf Sales Company	Callaway Golf Company	100%	10,000

3. Outstanding Rights to Purchase, Options, Warrants or Similar Rights or Agreements: See attached report entitled "Callaway Golf Company Stock Options Outstanding and Exercisable as of 12/28/00."

- ----------
(1) As of November 30, 2000.

EXHIBIT 10.42

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement is made effective as of April 24, 2000, by and among Callaway Golf Company, a Delaware corporation ("Callaway Golf"), Sanwa Bank California, a California corporation ("Sanwa") and Arrowhead Trust Incorporated, a California trust company ("Arrowhead").

BACKGROUND

A. On or about July 14, 1995, Callaway Golf and Sanwa entered into that certain Trust Agreement (the "Trust Agreement").

B. On or about September 13, 1995, pursuant to a Stock Purchase Agreement dated July 14, 1995, Sanwa, as trustee under the Trust Agreement, executed and delivered to Callaway Golf a Non-Recourse Promissory Note dated September 13, 1995, made payable to Callaway Golf in the original principal amount of $60,575,000 (the "First Promissory Note"), and in exchange therefor purchased 4,000,000 shares of Callaway Golf Common Stock, as evidenced by Stock Certificate No. NY 17202 (the "First Stock Certificate").

C. On or about December 29, 1995, pursuant to a Stock Purchase Agreement dated December 21, 1995, Sanwa, as trustee under the Trust Agreement, executed and delivered to Callaway Golf a Non-Recourse Promissory Note dated December 29, 1995, made payable to Callaway Golf in the original principal amount of $26,262,600 (the "Second Promissory Note"), and in exchange therefor purchased 1,300,000 shares of Callaway Golf Common Stock, as evidenced by Stock Certificate No. NY 17213 (the "Second Stock Certificate).

D. On or about April 21, 2000, Sanwa sold to Arrowhead a portion of it's trust business, including its rights and obligations with respect to the First Promissory Note and the Second Promissory Note (collectively, the "Notes"), the shares of Callaway Golf Common Stock represented by the First Stock Certificate and the Second Stock Certificate (collectively, the "Acquired Shares"), the Trust Agreement and the Trust Fund.

E. Callaway Golf is willing to consent to the transfer of the Assigned Documents (hereafter defined) to Arrowhead only upon the following terms and conditions:

AGREEMENT

1. Assignment. Sanwa does hereby assign, transfer and convey to Arrowhead all of its right, title and interest in and to (i) the Trust Agreement, (ii) the Notes, (iii) the Acquired Shares, including the First Stock Certificate and the Second Stock Certificate, (iv) the Trust Fund (as such term is used in the Trust Agreement), including all amounts held in the Trust Fund, (v) all reports, documents and other records relating in any manner whatsoever to the Trust Agreement or the Trust Fund

and (vi) any other rights, agreements or instruments relating to any of the items referred to in items (i) through (v) of this sentence (collectively, the "Assigned Documents").

2. Assumption. Arrowhead does hereby accept the assignment set forth in Section 1 and does hereby agree as successor Trustee (as such term is used in the Trust Agreement) to pay, perform and discharge when due all of Sanwa's obligations under the Assigned Documents, including any obligation arising prior to the date hereof which has not been paid, performed or discharged prior to the effectiveness of this Assignment and Assumption Agreement.

3. Consent. Callaway Golf does hereby consent to the assignment and assumption of the Assigned Documents as set forth above in Section 1 and Section 2.

4. Further Assurances. Sanwa and Arrowhead agree to execute and deliver such other agreements, documents and instruments as Callaway Golf may reasonably request to further effect the transfer from Sanwa to Arrowhead of all rights and obligations being assigned and assumed hereunder and all other related rights and obligations.

5. Notice. The address to where notice may be given to Arrowhead under any of the Assigned Documents, including but not limited to, any notice provisions thereunder, shall be as follows:

Mable Pascasio, Trust Officer
Employee Benefit Department
Arrowhead Trust Incorporated
24 Executive Park, Suite 125
Irvine, CA 92614
Fax: (949) 263-8026

6. Settlement of Accounts. Sanwa Agrees to provide by September 30, 2000, or such later date as Sanwa and Callaway Golf shall mutually agree, the written account statement required by Section 10.2 of the Trust Agreement.

7. Counterparts. This Assignment and Assumption Agreement may be executed in one or more counterparts all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Assignment and Assumption Agreement as of the date first set forth above.

SANWA BANK CALIFORNIA:

By:

Print Name:
Print Title:

ARROWHEAD TRUST INCORPORATED:

By:

Print Name:
Print Title:

CALLAWAY GOLF COMPANY:

By:

Print Name:
Print Title:

EXHIBIT 13.1

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Financials

SELECTED FINANCIAL DATA(1)

(in thousands, except per share data)

	Year ended December 31,				
	2000	1999	1998	1997	1996
Statement of Operations Data:					
Net sales	$ 837,627	$719,038	$703,060	$848,941	$683,536
Cost of goods sold	440,119	384,265	410,341	408,345	323,364
Gross profit	397,508	334,773	292,719	440,596	360,172
Selling, general and administrative expenses	240,874	221,043	241,775	189,109	154,190
Research and development costs	34,579	34,002	36,848	30,298	16,154
Restructuring costs (Note 14)		(5,894)	54,235		
Sumitomo transition costs (Note 16)		5,713			
Litigation settlement				12,000	
Income (loss) from operations	122,055	79,909	(40,139)	209,189	189,828
Interest and other income, net (Note 11)	8,791	9,182	3,911	4,586	5,804
Interest expense	(1,524)	(3,594)	(2,671)	(10)	(37)
Income (loss) before income taxes and cumulative effect of accounting change	129,322	85,497	(38,899)	213,765	195,595
Income tax provision (benefit)	47,366	30,175	(12,335)	81,061	73,258
Income before cumulative effect of accounting change	81,956	55,322	(26,564)	132,704	122,337
Cumulative effect of accounting change	(957)				
Net income (loss)	$ 80,999	$ 55,322	$(26,564)	$ 132,704	$ 122,337
Earnings (loss) per common share:					
Basic					
Income before cumulative effect of accounting change	$ 1.17	$ 0.79	$ (0.38)	$ 1.94	$ 1.83
Cumulative effect of accounting change	(0.01)				
Net income	$ 1.16	$ 0.79	$ (0.38)	$ 1.94	$ 1.83
Diluted					
Income before cumulative effect of accounting change	$ 1.14	$ 0.78	$ (0.38)	$ 1.85	$ 1.73
Cumulative effect of accounting change	(0.01)				
Net income	$ 1.13	$ 0.78	$ (0.38)	$ 1.85	$ 1.73
Dividends paid per share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.24

(in thousands)

	December 31,				
	2000	1999	1998	1997	1996
Balance Sheet Data:					
Cash and cash equivalents	$102,596	$112,602	$ 45,618	$ 26,204	$108,457
Working capital	$233,163	$205,198	$139,598	$209,402	$250,461
Total assets	$630,934	$616,783	$655,827	$561,714	$428,428
Long-term liabilities	$ 9,884	$ 11,575	$ 18,723	$ 7,905	$ 5,109
Total shareholders' equity	$511,744	$499,934	$453,096	$481,425	$362,267

(1) Shipping revenues and expenses have been reclassified in accordance with Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." See accompanying Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Years Ended December 31, 2000 and 1999

For the year ended December 31, 2000, net sales increased $118.6 million, or 16%, to $837.6 million from $719.0 million in the prior year. The increase is attributable to an increase in sales of irons, golf balls and other products, including putters and accessories, partially offset by a decrease in sales of metal woods. The increase in sales of irons of 40% to $310.2 million represents an increase in both unit and dollar sales and is primarily attributable to sales of Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons, which were not sold in significant quantities during 1999. Also contributing to the increase in sales of irons were sales of Big Bertha(R) Steelhead(TM) X-14(R) Stainless Steel Irons, which were introduced in January 2000, and which generated higher revenues during 2000 than its predecessor, Big Bertha(R) Steelhead(TM) X-12(R) Stainless Steel Irons, did in 1999. This increase includes sales of $34.0 million of its Rule 35(R) golf balls during 2000. This product was not sold during 1999. The overall decrease in sales of metal woods of 3% to $416.2 million represents a decrease in both unit and dollar sales of titanium and non-current metal woods, partially offset by an increase in unit and dollar sales of stainless steel metal woods. The overall decrease in sales of metal woods is primarily attributable to sales of non-current products during 1999, which did not occur in significant quantities during the comparable period of 2000, and to a decrease in sales of Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods during 2000 as compared with 1999, the year in which they were introduced. However, sales of ERC(TM) Forged Titanium Drivers, which began shipping in significant quantities in the second quarter of 2000, and initial shipments of the Company's newly-introduced ERC II(TM) Forged Titanium Drivers and Big Bertha(R) Hawk Eye(R) VFT(TM) Titanium Metal Woods, which began shipping in limited quantities in December 2000, partially offset the decrease in sales of titanium metal woods. Also partially offsetting the decrease in sales of titanium metal woods was an increase in sales of stainless steel metal woods attributable to the January 2000 introduction of Big Bertha(R) Steelhead Plus(TM) Stainless Steel Metal Woods, which generated higher revenue in 2000 than their predecessor, Big Bertha(R) Steelhead(TM) Stainless Steel Metal Woods, did in 1999.

Net sales reflect the effect of a reclassification of shipping revenues from selling expenses. This reclassification, which added $5.5 million to net sales in 2000 and $4.6 million in 1999 was required by Emerging Issues Task Force Issue No. 00-10 ("EITF 00-10"), and did not result in a change in the Company's earnings or earnings per share for any period.

During 2000, sales increased in all regions as compared with 1999. Sales in the United States increased 8% to $451.2 million and sales in Europe also increased 9% to $125.5 million. Sales in Japan increased 118% to $122.0 million largely because the Company now sells directly to customers rather than through a distributor, as in prior years. Sales in the rest of Asia increased 13% to $82.3 million and sales in the rest of the world increased 1% to $56.5 million.

For the year ended December 31, 2000, cost of goods sold increased to $440.1 million from $384.3 million in 1999, and as a percentage of net sales remained constant at 53%. These amounts reflect the reclassification of shipping expense from "selling" expense that resulted from the application of EITF 00-10. This reclassification added $11.2 million to cost of goods sold during 2000 and $7.9 million in 1999. Cost of goods sold was adversely affected in 2000 by costs associated with manufacturing the Company's new golf balls, primarily from low plant utilization and production yields. This effect was offset by improvements in cost of goods sold attributable to golf club products. As a percentage of net sales, cost of goods sold for golf club products improved to 49% in 2000 from 53% in 1999. This improvement is attributable to reductions in manufacturing labor and overhead expenses, a favorable product sales mix primarily related to sales of ERC(TM) Forged Titanium Drivers and the negative effect that close-out sales at substantially reduced prices during 1999 had on that period's cost of goods sold as a percentage of net sales.

Selling expense in 2000 increased to $170.5 million from $128.6 million in 1999, and as a percentage of net sales increased to 20% from 18%. These amounts include the reclassification of shipping revenue and expense, which were previously recorded in "selling" expense. The effect of this reclassification reduced selling expense by $5.7 million in 2000 and $3.3 million in 1999. The overall increase in selling expense was primarily attributable to incremental expenses associated with the launch of the Company's Rule 35(R) golf balls and with expanded golf club sales activity in the Company's Japanese subsidiary. Prior to 2000, Callaway Golf products were sold in Japan through a third party distributor. Expenses related to product endorsement also contributed to the increase.

General and administrative expense decreased to $70.3 million in 2000 from $92.5 million in 1999, and as a percentage of net sales decreased to 8% from 13%. This decrease is primarily attributable to the shifting of costs associated with the Company's golf ball pre-production period from general and administrative expense in 1999 to cost of goods sold in 2000, as these costs were

related to production of golf balls in 2000. Also contributing to the decrease were reductions in legal and consulting fees and in depreciation expense. The overall decrease was partially offset by an increase in bad debt expense associated with the write-off of uncollectible accounts.

Research and development expense was $34.6 million in 2000 as compared with $34.0 million in 1999, and as a percentage of net sales decreased to 4% from 5%. The nominal increase was primarily attributable to an increase in employee compensation and benefits.

Interest and other income decreased to $8.8 million in 2000 from $9.2 million in 1999. This decrease is primarily attributable to the 1999 receipt of insurance proceeds related to the Company's deferred compensation plan. This decrease was partially offset by an increase in royalty income, a decrease in foreign currency transaction losses, and an increase in interest income associated with higher average cash balances in 2000 as compared with 1999.

Interest expense decreased to $1.5 million in 2000 from $3.6 million in 1999, as 1999 reflects interest expense associated with debt balances on the Company's line of credit, interim finance agreement for pre-lease financing advances for the acquisition and installation costs of machinery and equipment, and accounts receivable securitization facilities. The line of credit and accounts receivable securitization facilities were not utilized in 2000 and the interim finance agreement was terminated in 1999.

During 2000, the Company recorded a provision for income taxes of $47.4 million and recognized a decrease in deferred taxes of $4.4 million. During 2000, the Company realized $6.8 million in tax benefits related to the exercise of stock options. The provision for income tax as a percentage of income before taxes was 37% in 2000 as compared with 35% in 1999. The Company's effective tax rate for 2000 reflects a benefit from the consolidation of Callaway Golf Ball Company with the Company.

The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") in the fourth quarter of 2000 with an effective date of January 1, 2000. SAB No. 101 summarizes the SEC's Division of Corporation Finance Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. As a result of the adoption of SAB No. 101, the Company recognized a cumulative effect adjustment of $1.0 million in the Consolidated Statement of Operations for the year ended December 31, 2000.

Years Ended December 31, 1999 and 1998

For the year ended December 31, 1999, net sales increased 2%, to $719.0 million from $703.1 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) Steelhead(TM) X-12(R) Irons, which were introduced in January 1998, partially offset by sales from the August 1999 introduction of Great Big Bertha(R) 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.

Net sales reflect the effect of a reclassification of shipping revenues from "selling" expenses. This reclassification, which added $4.6 million to net sales in 1999 and $5.4 million in 1998, was required by EITF 00-10, and did not result in a change in the Company's earnings or earnings per share for either period.

In terms of net sales by region, sales in the United States decreased 5% to $418.4 million for the year ended December 31, 1999. Net sales in Japan decreased 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 decreased 1% to $115.7 million and net sales to the rest of Asia and the rest of the world increased 114% and 16%, respectively, to $73.1 million and $55.9 million, 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, cost of goods sold improved to $384.3 million from $410.3 million in the prior year, and as a percentage of net sales, improved to 53% from 58%. These amounts include the reclassification of shipping expense from "selling" expense that resulted from the application of EITF 00-10. This reclassification added $7.9 million to cost of goods sold

during 1999 and $8.7 million in 1998. The decrease in cost of goods sold is primarily due to lower obsolescence charges in 1999 versus a $30.0 million excess inventory charge recorded in the

fourth quarter of 1998, and an increase in sales of metal woods. However, cost of goods sold was unfavorably affected by price reductions and 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 $128.6 million in 1999 from $143.7 million in the prior year. As a percentage of net sales, selling expenses decreased to 18% from 20%. These amounts reflect the reclassification of shipping revenue and expense, which were previously recorded in "selling" expense. The effect of this reclassification reduced selling expense by $3.3 million in 1999 and 1998. The decrease in selling expense 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 14 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 the Company. See Note 16 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 securitization 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.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2000, cash and cash equivalents decreased to $102.6 million from $112.6 million at December 31, 1999. The decrease is the result of cash used in financing activities of $70.5 million and cash used in investing activities of $28.6 million, partially offset by cash provided by operating activities of $91.1 million. Cash flows used in financing activities are primarily attributable to the acquisition of 4.8 million shares of the Company's Common Stock and to dividends paid, partially offset by cash flows from the issuance of Common Stock in connection with stock option exercises. Cash flows used in investing activities are primarily attributable to capital expenditures. Cash flows provided by operating activities reflect increases in accounts payable and accrued expenses, accrued warranty expense and income taxes payable, partially offset by increases in accounts receivable and inventory.

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 currently expects this trend to continue. The Company has a revolving credit facility for up to $120.0 million (the "Amended

Credit Agreement") and an $80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 4 and 5 to the Consolidated Financial Statements). During 2000, the Company did not utilize either its Accounts Receivable Facility or

its line of credit under the Amended Credit Agreement. At December 31, 2000, the Company had $117.3 million available, net of outstanding letters of credit, under the Amended Credit Agreement, subject to meeting certain availability requirements under a borrowing base formula and other limitations. In addition, at December 31, 2000, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility.

In May 2000, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $100.0 million. The Company began its repurchase program in May 2000 and through December 31, 2000 has spent $80.5 million to repurchase 4.8 million shares of its Common Stock at an average cost of $16.71 per share. Pursuant to the authority granted in May 2000, the Company may purchase up to $19.5 million in additional shares. If the Company continues to repurchase its Common Stock under this program and/or under any future programs, the Company's liquidity would decrease.

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 $20.2 million, of which $1.4 million occurred in 2000. A portion of certain restructuring reserves totaling $8.6 million was reversed during 1999. At December 31, 2000, the Company had a contingent liability that expires in February 2003 of $5.6 million relating to a facility in New York City (see Note 13 to the Consolidated Financial Statements).

Although the Company's golf club operations are mature and historically have generated cash from operations, the Company's golf ball operations completed the first year of operations in 2000 and to date have not generated cash flows sufficient to fund these operations. The Company does not expect that its golf ball operations will generate sufficient cash to fund these operations in the next 12 months. However, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cashflows, together with its credit facilities, will be sufficient to finance current operating requirements, including planned capital expenditures and purchase commitments. There can be no assurance, however, that future industry specific or other developments, general economic trends or other matters, will not adversely affect the Company's operations or its ability to meeting its future cash requirements (see "Certain Factors Affecting Callaway Golf Company" below).

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. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; 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. The restructuring charges 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 assets, 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. During 1999, the Company completed its restructuring initiatives. At December 31, 2000, there was no remaining reserve balance. The decrease in the reserve balance since December 31, 1999 of $1.4 million represents cash paid for excess lease costs for a facility in New York City. The Company also has a contingent liability related to this facility (see Notes 13 and 14 to the Consolidated Financial Statements).

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

The financial statements included in this report and related discussion report and analyze the Company's financial performance and condition for the periods indicated. For the most part, this information is historical. The Company's prior results, however, are not necessarily indicative of the Company's future performance or financial condition. The Company therefore has included the following discussion of certain factors which could affect the Company's future performance or financial condition. These factors could cause the Company's future performance or financial

condition to differ materially from its prior performance or financial condition or from management's expectations or estimates of the Company's future performance or financial condition. These factors, among others, should be considered in assessing the Company's future prospects and prior to making an investment decision with respect to the Company's stock.

Adverse Global Economic Conditions

The Company sells golf clubs, golf balls and golf accessories. These products are recreational in nature and are therefore discretionary purchases for consumers. Consumers are generally more willing to make discretionary purchases of golf products during favorable economic conditions. An adverse change in economic conditions in the United States or in the Company's international markets (which represent almost half of the Company's total sales), or even a decrease in consumer confidence as a result of anticipated adverse changes in economic conditions, could cause consumers to forgo or to postpone purchasing new golf products. Such forgone or postponed purchases could have a material adverse affect upon the Company.

Growth Opportunities

Golf Clubs. In order for the Company to grow significantly its sales of golf clubs, the Company must either increase its share of the market for golf clubs or the market for golf clubs must grow. The Company already has a significant share of the worldwide premium golf club market and therefore opportunities for additional market share may be limited. Furthermore, the Company believes that since 1997 the overall worldwide premium golf club market has generally not experienced substantial growth in dollar volume from year to year. There is no assurance that the overall dollar volume of the worldwide premium golf club market will grow, or that it will not decline, in the future. The Company's future club sales growth therefore may be limited unless there is growth in the worldwide premium golf club market.

Golf Balls. The Company only began selling its golf balls in February 2000 and therefore it does not have as significant of a market share as it does in the club business. Although opportunities exist for additional market share in the golf ball market, such market share is currently held by some well-established and well-financed competitors. There is no assurance that the Company will be able to increase its market share in this very competitive golf ball market. If the Company is unable to obtain additional market share, its golf ball sales growth may be limited.

Golf Ball Costs

The cost of entering the golf ball business has been higher than the Company first anticipated. Much of these higher costs are attributable to higher than expected production costs as a result of yield and other ramp-up issues. To date, the development of the Company's golf ball business has had a significant negative impact on the Company's cash flows, financial position and results of operations. Although the Company believes it generally has resolved these issues, there is no assurance that the Company will be able to achieve the sales or production efficiencies necessary to make its golf ball business profitable. Until the golf ball business becomes profitable, the Company's results of operations, cash flows and financial position will continue to be negatively affected.

Manufacturing Capacity

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 require significant start-up expenses and/or 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 season, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company invests in manufacturing capacity and 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 less than optimum capacity usage and/or in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance. In addition, if the Company were to experience delays, difficulties or increased costs in its production of golf clubs or golf balls, including production of new products needed to replace current products, the Company's future golf club or golf ball sales could be adversely affected.

Dependence on Energy Resources

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. The State of California is currently experiencing a severe shortage of electricity. The shortage may worsen during the summer months when demand for electricity is at its peak. Many companies in California have experienced periods of black-outs

during

which electricity was not available. Although the Company has not yet experienced any such black-outs, the Company expects that it will experience some black-out periods. If the black-out periods are significant, the Company will experience significant disruptions in its manufacturing operations as the Company would be unable to manufacture any product during such black-out periods. Any extended or recurring disruptions could have a material adverse affect upon the Company.

Furthermore, the shortage of electricity is also resulting in increased prices for electricity. The Company has tried to mitigate fluctuations in electricity prices by entering into long-term contracts at fixed rates. The Company's current contract expires this summer and the Company is currently negotiating a new contract. The Company expects that the new contracted rate will be higher than its current rate. If the Company is unable to enter into a new contract for a reasonable rate, the Company's expenses for electricity could increase significantly. Such an increase could have a significant adverse affect upon the Company's cost of goods sold and results of operations.

In addition to electricity, the Company also uses natural gas to run the golf club and golf ball manufacturing facilities. There is currently a shortage of natural gas which has caused prices to increase significantly. The Company expects this shortage to continue at least through the cold weather months when demand for gas is greatest. Although the Company does not expect any interruptions in its supply of natural gas, if the prices continue to increase, such increased prices could have a significant adverse affect upon the Company's cost of goods sold and results of operations.

Dependence on Certain Vendors and Materials

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

Competition

Golf Clubs. 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, price reductions and "close-outs" by competitors continue to generate increased market competition. 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.

Golf Balls. The premium golf ball business is also highly competitive, and may be becoming even more competitive. There are 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. There are also several recent entrants into the golf ball business, including Nike. Many of these competitors have introduced or will introduce golf ball designs that directly compete with the Company's products.

The Company will need to penetrate the market share held by existing competitors while competing with the other new entrants in order 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 be commercially successful.

Market Acceptance of Products

A golf manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including a golf club's and golf ball's look and "feel," and the level of acceptance that a golf club and ball has among professional and recreational golfers. The subjective preferences of golf club and ball purchasers may be subject to rapid and unanticipated changes. There can be no assurance as to how long the Company's golf clubs and balls will maintain market acceptance and therefore no assurance that the demand for the Company's products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

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, in the golf industry, 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.

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 Rule 35(R) 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 golf club or golf ball products or misjudges demand.

It previously was the Company's practice to announce its new product line at the beginning of each calendar year. The Company recently departed from that practice and now announces its new product line in the fourth quarter to allow retailers to plan better. Such early announcements of new products could cause golfers, and therefore the Company's customers, to defer purchasing additional golf equipment until the Company's new products are available. Such deferments could have a material adverse effect upon sales of the Company's current products and/or result in close-out sales at reduced prices.

Conformance with Rules of Golf

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. The USGA rules are generally followed in the United States, Canada and Mexico and the R&A rules are generally followed in most other countries throughout the world.

Currently, the Rules of Golf as published by the R&A and the USGA are virtually the same except with respect to the regulation of "driving clubs." In 1998, the USGA adopted a so-called "spring-like effect test" that limits the coefficient of restitution ("COR") of drivers. The R&A has announced that it does not believe that such a limitation is needed or in the best interests of the game of golf, and has not adopted such a test or other performance limitation on drivers.

Some countries, such as Japan and Canada, have local golf associations that exert some control over the game of golf within their jurisdictions. The Royal Canadian Golf Association ("RCGA") has announced that it will generally follow the USGA with respect to equipment rules. So far, no other local organization within the R&A's general jurisdiction has deviated from the R&A's position with respect to equipment rules.

Currently, all of the Company's products are believed to be "conforming" under the Rules of Golf as published by the R&A. In addition, all of the

Company's products with the exception of the Company's ERC II(TM) Forged
Titanium Driver (together with its predecessor, the ERC(TM) Forged Titanium
Driver, the "ERC(TM) Drivers"), are

believed to be "conforming" under the Rules of Golf as published by the USGA and RCGA. Although the ERC(TM) Drivers conform to all existing R&A equipment rules, and most existing USGA and RCGA equipment rules, they do not conform to the USGA's so-called "spring-like effect" test protocol. There is no assurance that new designs will satisfy USGA and/or R&A standards, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products.

On October 18, 2000, the Company announced that it intended to sell its ERC II(TM) Forged Titanium Driver in the U.S. despite the fact that it has been ruled to be non-conforming by the USGA. On December 8, 2000, the USGA announced that scores in rounds played with clubs that do not conform to USGA rules, such as the ERC II(TM) Forged Titanium Driver, may not be posted for USGA handicap purposes. To the Company's knowledge, it is the first large, premium brand golf equipment company to sell non-conforming equipment in the U.S. By undertaking this approach, the Company hopes to expand participation in the game of golf in the United States--the source of approximately 55% of the Company's revenues--by making the game more enjoyable and accessible for more people, including those people who play the game primarily for fun, enjoyment and recreation.

While the Company believes that this is the best strategy for the Company and its shareholders, and one that is good for the game of golf as well, the strategy is not without risk. It is possible that a significant number of U.S. retailers may decline to carry a non-conforming product such as the ERC II(TM) Driver. It is also possible that a significant number of U.S. golfers may decide that they do not wish to purchase a driver that may not be used in competitions in the U.S. played subject to the USGA's rules or that may not be used for handicap purposes. Retailer and/or consumer backlash against the introduction of a non-conforming product may injure sales of other, conforming products, or otherwise damage the brand. These negative effects, if they materialize, could materially reduce U.S. sales of ERC II(TM) Drivers and other products in 2001 and in future years, and could even negatively affect in a material way the strength of the brand and the Company's business overseas despite the fact that the ERC II(TM) Driver fully conforms with the R&A's Rules. On the other hand, if the Company is correct in its belief that there are a large number of American golfers who do not play in tournaments subject to the USGA's Rules and are prepared to purchase an exceptional non-conforming driver for use in recreational play, and/or the Company's strategy is successful over time in attracting more people to the game of golf in the U.S., then the beneficial effects could be significant.

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, the PGA European Tour, the Japan Golf Tour and the buy.com 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.

Golf Clubs. 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. The Company previously created cash pools that rewarded such usage. In 2001, the Company is discontinuing these pools, as it believes it is better to allocate these resources to other tour programs. 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. In the past, the Company has experienced an exceptional level of club usage on the world's major professional tours, and the Company has heavily advertised that fact. The Company's lack of cash inducements for non-staff golfers could result in a decrease in usage of the Company's clubs by professional golfers. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's sales and business.

Golf Balls. 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 almost all of the Company's staff professionals, as well as other professionals who are not on the Company's staff, have decided to use the Company's golf balls in play, there is no assurance they will continue to do so. Furthermore, there are many other professionals who are already under contract with other golf ball manufacturers or who, for other reasons, may not

choose to play the Company's golf ball products. The Company does not plan to match the endorsement spending levels of the leading manufacturer, 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 its golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf balls, 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.

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 and golf balls. 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 or 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 the Company develops its golf ball products, it attempts to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that competitors will not assert and/or a court will not find that the Company's golf balls infringe certain patent or other rights of competitors. If the Company's golf balls are 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 it could incur substantial costs to redesign them 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.

Seasonality and Adverse Weather Conditions

In the golf club and golf ball industries, sales to retailers are generally seasonal due to lower demand in the retail market during cold weather months. The Company's golf club business has generally experienced these seasonal fluctuations and the Company expects this to continue generally for both its golf club and golf ball businesses. Furthermore, unusual or severe weather conditions generally result in less golf rounds played, which generally results in less demand for golf clubs and golf balls. Consequently, sustained adverse weather conditions, especially during the warm weather months, could materially affect the Company's sales.

Product Returns

Golf Clubs. 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 that use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned to date has not been material in relation to the volume of 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.

Golf Balls. The Company has not experienced significant returns of defective golf balls, and in light of the quality control procedures implemented in the production of its golf balls, the Company does not expect a significant amount of defective ball returns. How-ever, if future returns of defective golf balls were significant, it could have a material adverse effect upon the Company's golf ball business.

"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 U.S. 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.

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 reorganized a substantial portion 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, employees, 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. 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 and integration of the Company's foreign distribution channels will be successful, and the Company's attempts to do so may adversely affect the Company's business. 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.

Credit Risk

The Company primarily sells its products to golf equipment retailers, directly and through wholly-owned domestic and foreign subsidiaries, 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, a downturn in the retail golf equipment market, like the one experienced in 1998 and 1999, primarily in the U.S., could result in increased delinquent or uncollectible accounts for some of the Company's significant customers. In addition, as the Company integrates its foreign distribution its exposure to credit risks increases as it no longer sells to a few wholesalers but rather directly to many retailers. A failure of a significant portion of the Company's customers to meet their obligations to the Company would adversely impact the Company's performance and financial condition.

Information Systems

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. The Company is in the process of upgrading its business systems to support transactions denominated in euro. The Company intends to enable the euro functionality of its upgraded system no later than the end of 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. The Company's foreign currency exposures include most European currencies, Japanese yen, Canadian dollars and Korean won. 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, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables. Foreign currency derivatives are 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. During 2000, the Company entered into such contracts on behalf of three of its wholly-owned subsidiaries, Callaway Golf Europe Ltd., Callaway Golf K.K. and Callaway Golf Canada Ltd. The Company also hedged certain euro-denominated accounts receivable in 2000. Also pursuant to its foreign exchange hedging policy, in the fourth quarter of 2000, the Company began hedging anticipated intercompany sales of inventory denominated in foreign currencies using forward foreign currency exchange rate contracts. The effect of these practices 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.

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 and Redwood Receivables Corporation Commercial Paper Rate. No amounts were advanced or outstanding under these facilities at December 31, 2000.

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, 2000 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.

At December 31, 2000, 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 $13.9 million attributable to hedges of anticipated intercompany sales and $0.9 million attributable to hedges of balance sheet exposures. 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, if any, 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, 2000	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102,596	$ 112,602
Accounts receivable, net	58,836	54,252
Inventories, net	133,962	97,938
Deferred taxes	29,354	32,558
Other current assets	17,721	13,122
Total current assets	342,469	310,472
Property, plant and equipment, net	134,712	142,214
Intangible assets, net	112,824	120,143
Other assets	40,929	43,954
	$ 630,934	$ 616,783
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 44,173	$ 46,664
Accrued employee compensation and benefits	22,574	21,126
Accrued warranty expense	39,363	36,105
Accrued restructuring costs		1,379
Income taxes payable	3,196	
Total current liabilities	109,306	105,274
Long-term liabilities:		
Deferred compensation	9,884	11,575
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 2000 and 1999		
Common Stock, $.01 par value, 240,000,000 shares authorized, 78,958,963 and 76,302,196 issued December 31, 2000 and 1999	790	763
Paid-in capital	347,765	307,329
Unearned compensation	(1,214)	(2,784)
Retained earnings	349,681	288,090
Accumulated other comprehensive income	(6,096)	280
Less: Grantor Stock Trust (5,300,000 shares at December 31, 2000 and 1999) at market (Note 8)	(98,713)	(93,744)
	592,213	499,934
Less: Common Stock held in treasury, at cost, 4,815,241 shares at December 31, 2000 and none at December 31, 1999	(80,469)	
Total shareholders' equity	511,744	499,934
	$ 630,934	$ 616,783

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)	Year ended December 31,					
	2000		1999		1998	
Net sales	$837,627	100%	$719,038	100%	$703,060	100%
Cost of goods sold	440,119	53%	384,265	53%	410,341	58%
Gross profit	397,508	47%	334,773	47%	292,719	42%
Selling expenses	170,541	20%	128,565	18%	143,727	20%
General and administrative expenses	70,333	8%	92,478	13%	98,048	14%
Research and development costs	34,579	4%	34,002	5%	36,848	5%
Restructuring costs (Note 14)			(5,894)	(1%)	54,235	8%
Sumitomo transition costs (Note 16)			5,713	1%		
Income (loss) from operations	122,055	15%	79,909	11%	(40,139)	(6%)
Interest and other income, net (Note 11)	8,791		9,182		3,911	
Interest expense	(1,524)		(3,594)		(2,671)	
Income (loss) before income taxes and cumulative effect of accounting change	129,322	16%	85,497	12%	(38,899)	(6%)
Income tax provision (benefit)	47,366		30,175		(12,335)	
Income before cumulative effect of accounting change	81,956		55,322		(26,564)	
Cumulative effect of accounting change	(957)					
Net income (loss)	$ 80,999	10%	$ 55,322	8%	$ (26,564)	(4%)
Earnings (loss) per common share:						
Basic						
Income before cumulative effect of accounting change	$ 1.17		$ 0.79		$ (0.38)	
Cumulative effect of accounting change	(0.01)					
	$ 1.16		$ 0.79		$ (0.38)	
Diluted						
Income before cumulative effect of accounting change	$ 1.14		$ 0.78		$ (0.38)	
Cumulative effect of accounting change	(0.01)					
	$ 1.13		$ 0.78		$ (0.38)	
Common equivalent shares:						
Basic	69,946		70,397		69,463	
Diluted	71,412		71,214		69,463	

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year ended December 31,		
	2000	1999	1998
Cash flows from operating activities:			
Net income (loss)	$ 80,999	$ 55,322	$(26,564)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	40,249	39,877	35,885
Non-cash compensation	2,157	1,390	2,887
Tax benefit from exercise of stock options	6,806	2,377	3,068
Net non-cash foreign currency and hedging gains	(1,410)		
Deferred taxes	4,906	9,971	(36,235)
Non-cash restructuring costs		(8,609)	25,497
Loss on disposal of assets	342	315	1,298
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(9,047)	19,690	51,575
Inventories, net	(39,402)	51,092	(42,665)
Other assets	(3,074)	(12,966)	(12,149)
Accounts payable and accrued expenses	2,638	12,225	(4,357)
Accrued employee compensation and benefits	1,623	9,875	(3,411)
Accrued warranty expense	3,258	286	7,760
Income taxes payable	4,088	(10,001)	9,652
Accrued restructuring costs	(1,379)	(3,476)	7,389
Deferred compensation	(1,691)	3,969	(299)
Accrued restructuring costs - long-term		(5,041)	11,117
Net cash provided by operating activities	91,063	166,296	30,448
Cash flows from investing activities:			
Capital expenditures	(28,386)	(56,244)	(67,859)
Acquisitions, net of cash acquired	(444)	(2,389)	(10,672)
Proceeds from sale of assets	244	5,095	3,417
Net cash used in investing activities	(28,586)	(53,538)	(75,114)
Cash flows from financing activities:			
Net 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	28,233	9,009	10,343
Acquisition of Treasury Stock	(80,469)		
Retirement of Common Stock			(917)
Proceeds from sale-leaseback of equipment	1,268		
Dividends paid, net	(19,538)	(19,760)	(19,485)
Net cash (used in) provided by financing activities	(70,506)	(45,909)	63,458
Effect of exchange rate changes on cash	(1,977)	135	622
Net (decrease) increase in cash and cash equivalents	(10,006)	66,984	19,414
Cash and cash equivalents at beginning of year	112,602	45,618	26,204
Cash and cash equivalents at end of year	$ 102,596	$ 112,602	$ 45,618
Supplemental disclosures:			
Non-cash financing (Note 4)		$ 48,732	
Cash paid for interest and fees	$ 805	$ 3,637	$ 2,162
Cash paid for income taxes	$ 29,245	$ 30,670	$ 8,165

The accompanying notes are an integral part of these 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
Balance, December 31, 1997	74,252	$743	$337,403	$(3,575)	$298,728	$(559)
Exercise of stock options	391	4	4,433			
Tax benefit from exercise of stock options			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		
Employee stock purchase plan	386	4	5,902			
Stock retirement	(45)	(1)	(765)		(151)	
Cash dividends					(20,969)	
Dividends on shares held by GST					1,484	
Adjustment of GST shares to market value			(96,990)			
Equity adjustment from foreign currency translation						2,339
Net income					(26,564)	
Balance, December 31, 1998	75,095	751	258,015	(5,653)	252,528	1,780
Exercise of stock options	851	8	5,362			
Tax benefit from exercise of stock options			2,377			
Cancellation of Restricted Common Stock	(22)		(684)	684		
Compensatory stock and stock options			(795)	2,185		
Employee stock purchase plan	378	4	3,635			
Cash dividends					(21,244)	
Dividends on shares held by GST					1,484	
Adjustment of GST shares to market value			39,419			
Equity adjustment from foreign currency translation						(1,500)
Net income					55,322	
Balance, December 31, 1999	76,302	763	307,329	(2,784)	288,090	280
Exercise of stock options	2,252	23	23,932			
Tax benefit from exercise of stock options			6,806			
Cancellation of Restricted Common Stock	(7)		(217)	217		
Acquisition of Treasury Stock						
Compensatory stock and stock options			804	1,353		
Employee stock purchase plan	412	4	4,274			
Cash dividends					(21,022)	
Dividends on shares held by GST					1,484	
Adjustment of GST shares to market value			4,969			
Equity adjustment from foreign currency translation						(5,422)
Unrealized loss on cash flow hedges, net of tax						(954)
Other			(132)		130	
Net income					80,999	
Balance, December 31, 2000	78,959	$790	$347,765	$(1,214)	$349,681	$(6,096)

(in thousands)

	GST	Treasury Stock Shares	Treasury Stock Amount	Total	Current Year's Comprehensive Income
Balance, December 31, 1997	$(151,315)			$481,425	
Exercise of stock options				4,437	
Tax benefit from exercise of stock options				3,068	
Issuance of Restricted Common Stock					
Cancellation of Restricted					

Common Stock					
Compensatory stock and stock options				2,887	
Employee stock purchase plan				5,906	
Stock retirement				(917)	
Cash dividends				(20,969)	
Dividends on shares held by GST				1,484	
Adjustment of GST shares to market value	96,990				
Equity adjustment from foreign currency translation				2,339	$2,339
Net income				(26,564)	(26,564)
Balance, December 31, 1998	(54,325)			453,096	$(24,225)
Exercise of stock options				5,370	
Tax benefit from exercise of stock options				2,377	
Cancellation of Restricted Common Stock					
Compensatory stock and stock options				1,390	
Employee stock purchase plan				3,639	
Cash dividends				(21,244)	
Dividends on shares held by GST				1,484	
Adjustment of GST shares to market value	(39,419)				
Equity adjustment from foreign currency translation				(1,500)	$(1,500)
Net income				55,322	55,322
Balance, December 31, 1999	(93,744)			499,934	$53,822
Exercise of stock options				23,955	
Tax benefit from exercise of stock options				6,806	
Cancellation of Restricted Common Stock					
Acquisition of Treasury Stock		(4,815)	$(80,469)	(80,469)	
Compensatory stock and stock options				2,157	
Employee stock purchase plan				4,278	
Cash dividends				(21,022)	
Dividends on shares held by GST				1,484	
Adjustment of GST shares to market value	(4,969)				
Equity adjustment from foreign currency translation				(5,422)	$(5,422)
Unrealized loss on cash flow hedges, net of tax				(954)	(954)
Other				(2)	
Net income				80,999	80,999
Balance, December 31, 2000	$(98,713)	(4,815)	$(80,469)	$511,744	$74,623

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

THE COMPANY

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 and golf balls. Callaway Golf's primary products for the periods presented include Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods, ERC(R) Forged Titanium Drivers, Big Bertha(R) Steelhead Plus(TM) and Big Bertha(R) Steelhead(TM) Metal Woods, Biggest Big Bertha(R) Titanium Drivers, Great Big Bertha(R) Titanium Metal Woods, Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons, Steelhead(TM) X-14(R) and X-12(R) Irons, Great Big Bertha(R) Tungsten-Titanium(TM) Irons, Odyssey(R) putters and wedges and Rule 35(R) golf balls.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES

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. Callaway Golf Ball Company and Odyssey were merged with the Company as of December 29, 2000 and December 22, 1999, respectively. The Company sold the business of All-American in 1998 and its interest in CGMV in March 1999 (Note 15). Callaway Golf Europe, S.A. was merged with Callaway Golf Europe Ltd. in 1999 (Note 15).

Financial Statement Preparation

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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 14). Actual results could differ from those estimates, which could materially affect future results of operations.

Revenue Recognition

Sales are recognized net of an allowance for sales returns when title and risk of loss transfers to the customer. The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") in the fourth quarter of 2000 with an effective date of January 1, 2000. SAB No. 101 summarizes the SEC's Division of Corporation Finance Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. As a result of the adoption of SAB No. 101, the Company recognized a cumulative effect adjustment of $957,000 in the Consolidated Statement of Operations for the year ended December 31, 2000 to reflect the change in the Company's revenue recognition policy from shipping point to the time risk of loss transfers to the customer.

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 securitization 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 2000, 1999 and 1998 were $35,100,000, $26,202,000 and $32,944,000, respectively.

Foreign Currency Translation and Transactions

The Company's foreign subsidiaries utilize their local currency as their functional currency. The accounts of these 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 $147,000 and $793,000 in 2000 and 1999, respectively, and transaction gains of $1,598,000 in 1998.

Derivatives and Hedging

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 and effectiveness 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 in Note 6. Accordingly, no cumulative effect adjustments were made. In the fourth quarter of 2000, the Company began hedging anticipated intercompany sales of inventory denominated in foreign currencies using forward foreign currency exchange rate contracts. The purpose of these derivative instruments is to minimize the variability of cash flows associated with the anticipated transactions being hedged. As changes in foreign currency rates impact the United States dollar value of anticipated transactions, the fair value of the forward contracts also changes, providing a synthetic offset to foreign currency rate fluctuations.

The forward contracts used to hedge anticipated transactions are cash flow hedges and are recorded as either assets or liabilities in the balance sheet at fair value. Gains and losses on such contracts are recorded in other comprehensive income and will be recorded in income when the anticipated transactions occur. The ineffective portion of all hedges are recognized in current period earnings.

Additional information about the Company's use of derivative instruments is presented in Note 6.

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 8), options issued pursuant to the Company's stock option plans (Note 10), potential shares related to the Employee Stock Purchase Plan (Note 10) and rights to purchase preferred shares under the Callaway Golf Company Shareholder Rights Plan (Note 10). 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, 2000, 1999 and 1998 is presented in Note 9.

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 for internal use. 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.

In September 2000, the Company completed an extensive upgrade of its enterprise-wide business software system to a more

current release. The upgrade includes improved functionalities and provides the Company the opportunity to build upon its investment in the software. As a result of this upgrade, the Company expects that this business system will have a greater useful life to the Company than originally estimated. Therefore, the Company has extended the estimated useful life of its business system by three years. The effect of this change in accounting estimate reduced depreciation expense by $1,319,000 for the year ended December 31, 2000. The resulting increase in net income increased the Company's earnings per share by $0.01 for the year ended December 31, 2000.

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 14). 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 1997 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 15). Intangible assets are amortized using the straight-line method over periods ranging from three to 40 years. During 2000, 1999 and 1998, amortization of intangible assets was $7,195,000, $7,476,000 and $5,466,000 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 10. 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, unrealized gains or losses on cash flow hedges 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. During 2000, the Company recorded $954,000, net of tax benefit of $645,000, related to net unrealized losses on cash flow hedges. No amounts were reclassified to earnings during 2000.

Segment Information

The Company utilizes the management approach to report segment information. 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. The Company also discloses information about products and services, geographic areas and major customers. This information is presented in Note 16.

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.

The Company operates in the golf equipment industry and primarily sells its products to golf equipment retailers, directly and through wholly-owned domestic and foreign subsidiaries, and to 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 2000, 1999 and 1998, approximately 46%, 42% and 38%, 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 foreign retailers could negatively impact the volume of the Company's international sales and the Company's results of operations, cash flows and financial position.

The Company enters into forward exchange rate contracts for the purpose of hedging foreign exchange rate exposures on existing or anticipated transactions. In the event of a failure to honor one of these forward contracts by one of the banks with which the Company has contracted, management believes any loss would be limited to the exchange rate differential from the time the contract was made until the time it was compensated.

Recent Accounting Pronouncement

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 replaces Statement of Financial Accounting Standards No. 125 ("SFAS No. 125"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." It revises the standards for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most the SFAS No. 125's provisions without reconsideration. SFAS No. 140 is effective for transactions after March 31, 2001, but certain disclosure requirements are effective for periods ending after December 15, 2000. The Company does not expect that SFAS No. 140 will have any effect on its results of operations, financial position or cash flows. Required disclosures are presented in Note 5.

Reclassifications

In July 2000, the Emerging Issues Task Force ("EITF") finalized its consensus on Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." Pursuant to EITF Issue No. 00-10 and the Securities and Exchange Commission's position on this issue, all amounts billed to customers for shipping and handling should be included in "net sales" and costs incurred related to shipping and handling should be included in "cost of goods sold." The Company had previously included shipping and handling revenues and costs in "selling" expenses. The Company's Statement of Operations for all periods presented has been reclassified and reflects the classification required by EITF Issue No. 00-10.

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

NOTE 3

SELECTED FINANCIAL STATEMENT INFORMATION

(in thousands)	December 31, 2000	December 31, 1999
Accounts receivable, net:		
Trade accounts receivable	$ 65,063	$ 59,543
Allowance for doubtful accounts	(6,227)	(5,291)
	$ 58,836	$ 54,252
Inventories, net:		
Raw materials	$ 56,936	$ 45,868
Work-in-process	1,293	1,403
Finished goods	83,453	65,661
	141,682	112,932
Reserve for obsolescence	(7,720)	(14,994)
	$ 133,962	$ 97,938
Property, plant and equipment, net:		
Land	$ 12,358	$ 12,358
Buildings and improvements	90,301	87,910
Machinery and equipment	60,399	50,942
Furniture, computers and equipment	65,140	64,334
Production molds	25,610	22,714
Construction-in-process	5,766	5,032
	259,574	243,290
Accumulated depreciation	(124,862)	(101,076)

	$ 134,712	$ 142,214
Intangible assets, net:		
Trade name	$ 69,629	$ 69,629
Trademark and trade dress	29,841	29,841
Patents, goodwill and other	33,759	34,911
	133,229	134,381
Accumulated amortization	(20,405)	(14,238)
	$ 112,824	$ 120,143
Accounts payable and accrued expenses:		
Accounts payable	$ 5,552	$ 11,297
Accrued expenses	38,621	35,367
	$ 44,173	$ 46,664
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$ 16,178	$ 15,303
Accrued vacation and sick pay	5,111	4,571
Accrued commissions	1,285	1,252
	$ 22,574	$ 21,126

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4

BANK LINE OF CREDIT AND NOTE PAYABLE

In February 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 expires in February 2004 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, 2000, up to $117,276,000 of the credit facility remained available for borrowings (including a reduction of $2,724,000 for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

In December 1998, Callaway Golf Ball Company, then 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. By 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 included an interim finance agreement (the "Finance Agreement"). The Finance Agreement provided pre-lease financing advances for the acquisition and installation costs of the aforementioned machinery and equipment. The Finance Agreement bore interest at LIBOR plus a margin and was 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. On December 29, 2000, pursuant to an assumption agreement, the Company assumed all of the rights, title, interest and obligations of Callaway Golf Ball Company under the master lease agreement.

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 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. During 2000 and as of December 31, 2000, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with the facility and discounts associated with the sale of accounts receivable for years ended December 31, 2000 and 1999 were $303,000 and $923,000 and were recorded as interest expense.

NOTE 6

DERIVATIVES AND HEDGING

During 2000, 1999 and 1998, 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 in 1999 and 1998. 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 intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At December 31, 2000, 1999 and 1998, the Company had approximately $10,457,000, $7,117,000 and $11,543,000, respectively, of these foreign exchange contracts outstanding. The contracts outstanding at December 31, 2000 mature between January and March of 2001. The Company had net realized and unrealized gains on foreign exchange contracts of $5,299,000, $358,000 and $57,000 in 2000, 1999 and 1998, respectively.

During the fourth quarter of 2000, the Company utilized forward foreign

currency exchange rate contracts to hedge cash flows associated with forecasted intercompany sales of inventory. These forward contracts are accounted for as cash flow hedges. The Company only hedges transactions that it deems to be more likely than not to occur. During 2000, the Company hedged only those transactions forecasted to occur by December 31, 2001. As of December 31, 2000, the Company had approximately $107,779,000 of cash flow hedges outstanding. The Company assesses the effectiveness of these derivatives using the spot rate. Changes in the spot-forward differential are excluded from the test of hedge effectiveness and are recorded currently in earnings as a component of "Interest and other income, net." Assessments of hedge effectiveness are performed using the dollar offset method and applying a

hedge effectiveness ratio of between 80% and 125%. Given that both the hedged item and the hedged instrument are evaluated using the same spot rate, the Company anticipates hedges of anticipated intercompany inventory sales to be highly effective. The effectiveness of each derivative is assessed monthly. During 2000, a loss of $174,000, representing the ineffective portion of the Company's derivative instruments, was recorded in earnings.

The effective portion of the fair value of the derivatives is deferred on the balance sheet in other comprehensive income ("OCI"), a component of "Accumulated other comprehensive income." Amounts recorded in OCI will be released to earnings in the same period that the hedged transaction will impact the Company's consolidated earnings. This transaction date is assumed to occur when the underlying sale of product to a third party occurs. At December 31, 2000, $1,599,000 of deferred net losses is expected to be reclassified into earnings within the next 12 months. During 2000, no gains or losses were reclassified into earnings as a result of the discontinuance of any cash flow hedges.

NOTE 7

TREASURY STOCK

On May 3, 2000, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $100,000,000. The Company began its repurchase program in May 2000. During 2000, the Company spent $80,469,000 to repurchase 4,815,000 shares of its Common Stock at an average cost of $16.71 per share.

The Company's repurchases of shares of Common Stock are recorded at average cost in "Common Stock held in treasury" and result in a reduction of "Shareholders' equity". At December 31, 2000, retained earnings was restricted in the amount of $80,469,000 million, representing the cost of 4,815,000 shares of Common Stock held in treasury.

NOTE 8

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 GST at 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 GST at 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 GST may 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 GST balance reflected in capital in excess of par value.

NOTE 9

EARNINGS PER COMMON SHARE

For the years ended December 31, 2000 and 1999, 8,931,000 and 10,979,000 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 antidilutive.

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, 2000, 1999 and 1998.

(in thousands, except per share data)	Year Ended December 31,		
	2000	1999	1998
Net income (loss)	$ 80,999	$ 55,322	$(26,564)
Weighted-average shares outstanding:			
Weighted-average shares outstanding - Basic	69,946	70,397	69,463

Dilutive securities	1,466	817	
Weighted-average shares outstanding - Diluted	71,412	71,214	69,463
Earnings (loss) per common share:			
Basic			
Income before cumulative effect of accounting change	$ 1.17	$ 0.79	$ (0.38)
Cumulative effect of accounting change	(0.01)		
	$ 1.16	$ 0.79	$ (0.38)
Diluted			
Income before cumulative effect of accounting change	$ 1.14	$ 0.78	$ (0.38)
Cumulative effect of accounting change	(0.01)		
	$ 1.13	$ 0.78	$ (0.38)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10

STOCK OPTIONS AND RIGHTS

Options

The Company had the following fixed stock option plans, under which shares were available for grant at December 31, 2000: 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 non-executive officer employees and consultants of the Company at option prices that may be less than market value at the date of grant. The 1995 Plan and 1996 Plan were amended in 2000 to increase the maximum number of shares of Common Stock to be issued upon exercise of an option to 9,300,000 and 9,000,000 shares respectively.

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"). No shares are available for grant under the Key Officer Plans as of December 31, 2000.

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, 2000:

(in thousands)	Authorized	Available	Outstanding
1991 Plan	10,000	60	2,076
Promotion Plan	3,560	816	1,014
1995 Plan	9,300	2,363	6,135
1996 Plan	9,000	2,275	5,967
1998 Plan	500	250	250
Key Officer Plans	1,100		820
Directors Plan	840	52	496
TOTAL	34,300	5,816	16,758

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 12 years after the grant date.

The following summarizes stock option transactions for the years ended December 31, 2000, 1999 and 1998:

(in thousands, except per share data)	Year ended December 31,					
	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	15,747	$20.46	13,637	$22.62	11,257	$22.41
Granted	4,461	$13.71	4,012	$11.30	4,020	$25.04
Exercised	(2,252)	$10.64	(851)	$ 6.40	(441)	$10.16

Canceled	(1,198)	$25.01	(1,051)	$24.95	(1,199)	$34.86
Outstanding at end of year	16,758	$19.66	15,747	$20.46	13,637	$22.62
Options exercisable at end of year	12,394	$19.99	11,066	$18.64	6,039	$17.78
Price range of outstanding options	$2.50 - $40.00		$0.44 - $40.00		$0.44 - $40.00	

The exercise price of all options granted during 2000 was equal to the market value on the date of grant. The following table summarizes additional information about outstanding stock options at December 31, 2000:

OPTIONS OUTSTANDING AND EXERCISABLE BY PRICE RANGE AS OF DECEMBER 31, 2000:

Range of Exercise Price	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life - Years	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
$2.50 - $10	494	1.53	$ 3.39	482	$ 3.22
$10 - $15	7,145	6.17	$12.50	4,915	$12.12
$15 - $25	2,916	5.05	$18.20	2,185	$18.46
$25 - $40	6,203	4.50	$29.88	4,812	$30.39
$2.50 - $40	16,758	5.22	$19.66	12,394	$19.99

During 2000, the Company, at its discretion, extended the expiration terms or accelerated the vesting of 622,000 options held by certain employees and officers. Also, 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 the modifications, 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 2000 or 1999. At December 31, 2000, 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, 68,250 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 $1,914,000 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. In May

1999, the Company's shareholders approved a new ESPP (the "1999 ESPP") with substantially the same terms as the ESPP. This plan was effective February 1, 2000 upon the termination of the ESPP.

During 2000, 1999 and 1998, approximately 412,000, 378,000 and 386,000 shares, respectively, of the Company's Common Stock were purchased under the 1999 ESPP or the ESPP. As of December 31, 2000, 1,588,000 shares were reserved for future issuance under the 1999 ESPP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compensation Expense

During 2000, 1999 and 1998, the Company recorded $2,162,000, $1,370,000 and $2,321,000, respectively, in compensation expense for Restricted Common Stock and certain options to purchase shares of Common Stock granted to employees, officers, professional endorsers 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,		
	2000	1999	1998
Net income (loss):			
As reported	$80,999	$55,322	$(26,564)
Pro forma	$58,761	$34,422	$(46,847)
Earnings (loss) per common share:			
As reported			
Basic	$1.16	$0.79	$(0.38)
Diluted	$1.13	$0.78	$(0.38)
Pro forma			
Basic	$0.84	$0.49	$(0.67)
Diluted	$0.83	$0.48	$(0.67)

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:

	Year Ended December 31,		
	2000	1999	1998
Dividend yield	1.1%	1.4%	1.9%
Expected volatility	53.0%	45.6%	42.0%
Risk free interest rates	5.18% - 5.56%	5.36% - 6.24%	4.66% - 4.72%
Expected lives	3 - 4 years	3 - 4 years	3 - 6 years

The weighted-average grant-date fair value of options granted during 2000 was $6.91 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 11

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 $6,119,000, $5,486,000 and $5,601,000 to the 401(k) Plan in 2000, 1999 and 1998, respectively. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $4,706,000, $4,510,000 and $4,673,000 during 2000, 1999 and 1998, respectively. Additionally, the Company can make discretionary contributions based on the profitability of the Company. For the years ended December 31, 2000 and 1999, the Company recorded compensation expense for discretionary contributions of $3,799,000 and $3,605,000. No discretionary contributions were made for the year ended December 31, 1998.

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, 2000, 1999 and 1998, the total participant deferrals, which are reflected in long-term liabilities, were $843,000, $997,000 and $908,000, 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 12

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,		
	2000	1999	1998
United States	$101,890	$75,799	$(34,555)
Foreign	27,432	9,698	(4,344)
	$129,322	$85,497	$(38,899)

The provision (benefit) for income taxes is as follows:

(in thousands)	Year Ended December 31,		
	2000	1999	1998
Current tax provision:			
United States	$26,616	$14,779	$21,345
State	5,130	2,774	2,296
Foreign	10,623	3,044	250
Deferred tax expense (benefit):			
United States	7,463	8,956	(31,173)
State	(1,596)	1,162	(4,847)
Foreign	(870)	(540)	(206)
Income tax provision (benefit):	$47,366	$30,175	$(12,335)

During 2000, 1999 and 1998, the Company recognized certain tax benefits related to stock option plans in the amount of $6,806,000, $2,377,000 and $3,068,000, 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, 2000 and 1999 are as follows:

(in thousands)	December 31,	
	2000	1999
Deferred tax assets:		
Reserves and allowances	$ 22,365	$ 28,052
Depreciation and amortization	12,225	16,601
Compensation and benefits	7,208	7,010
Effect of inventory overhead adjustment	1,934	1,977
Compensatory stock options and rights	3,473	2,573
Foreign net operating loss carryforwards	107	798
Revenue recognition	1,320	
Other	1,793	441
Restructuring charges		
Long-lived asset impairment	1,738	1,740
Rental/lease arrangements		557
Capital loss carryforward	834	829
Tax credit carryforwards	3,200	2,827
Total deferred tax assets	56,197	63,405
Valuation allowance for deferred tax assets	(1,354)	(4,190)
Deferred tax assets, net of valuation allowance	54,843	59,215
Deferred tax liabilities:		
State taxes, net of federal income tax benefit	(2,157)	(2,128)
Net deferred tax assets	$ 52,686	$ 57,087

At December 31, 2000, the Company had tax credit carryforwards 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 decreased by $2,836,000 during 2000, of which $2,373,000 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,		
	2000	1999	1998
Amounts computed at statutory U.S. tax rate	$ 45,263	$ 29,924	$(13,615)
State income taxes, net of U.S. tax benefit	4,112	3,046	(1,501)
State tax credits, net of U.S. tax benefit	(325)	(2,075)	
Nondeductible foreign losses	65	(476)	1,226
Expenses with no tax benefit	931	814	1,064
Nondeductible capital losses		130	588
Foreign sales corporation tax benefits	(1,487)	(1,471)	(236)
Nontaxable insurance proceeds		(1,408)	
Change in tax valuation allowance	(2,836)	2,431	
Other	1,643	(740)	139
Income tax provision (benefit)	$ 47,366	$ 30,175	$(12,335)

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 13

COMMITMENTS AND CONTINGENCIES

On July 24, 2000, Bridgestone Sports Co., Ltd. ("Bridgestone") filed a complaint for patent infringement in the United States District Court for the Northern District of Georgia, Civil Action No.100-CV-1871, against Callaway Golf Company, Callaway Golf Ball Company (collectively "Callaway Golf"), and a golf retailer located in Georgia (the "U.S. Action"). Bridgestone alleges in the U.S. Action that the manufacture and sale of the Company's Rule 35(R) golf ball infringes four U.S. golf ball patents owned by Bridgestone. Bridgestone is seeking unspecified damages and

injunctive relief. On September 12, 2000, Callaway Golf answered the complaint and asserted affirmative counterclaims against Bridgestone seeking a judicial declaration that Callaway Golf does not infringe the Bridgestone patents, that the patents are invalid, and that Bridgestone engaged in inequitable conduct in the United States Patent and Trademark Office. On October 13, 2000, Bridgestone and the retailer defendant entered into a consent judgment discontinuing the U.S. Action against the retailer. The parties are engaged in discovery. No trial date has been set by the District Court.

On December 14, 2000, Bridgestone filed an action in the Tokyo, Japan, District Court asserting patent infringement against Callaway Golf's wholly-owned subsidiary, Callaway Golf K.K., based on its sale of Rule 35(R) golf balls in Japan (the "Japan Action"). Only one of the Bridgestone golf ball patents at issue in the U.S. Action has issued in Japan. Callaway Golf K.K. has denied the claims asserted in the Japan Action.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other potential 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, 2000. 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. The 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, 2000 are as follows:

(in thousands)	
2001	$12,264
2002	7,114
2003	2,041
2004	1,889
2005	1,744
Thereafter	4,113
	$29,165

Future minimum lease payments have not been reduced by future minimum sublease rentals of $1,928,000 under an operating lease. At December 31, 2000, the Company is contingently liable for $5,625,000 through February 2003 under an operating lease that was assigned to a third party (Note 14). Rent expense for the years ended December 31, 2000, 1999 and 1998 was $3,197,000, $2,315,000 and $17,654,000, 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 14). Rent expense for 1998 includes $13,466,000 in excess lease costs related to the Company's restructuring activities (Note 14). The Company had no capital leases at December 31, 2000.

NOTE 14

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 continued 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 15), a loss on the sale of the business of All-American (Note 15), 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 years ended December 31, 2000 and 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	Activity	Reserve Balance at 12/31/00
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	$1,379	
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731	2,731(2)	1,379	1,379	
Excess lease costs	Cash	12,660	146	12,514	11,135			
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, in 1999, the Company incurred charges of $749,000 related to asset dispositions and other restructuring activities for which reserves were not established in 1998. No charges were incurred during 2000.

Notes to Consolidated Financial Statements

Note 15

ACQUISITIONS AND REORGANIZATIONS

On December 29, 2000, the Company consolidated a wholly-owned subsidiary, Callaway Golf Ball Company, with the Company. 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 17), 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 14).

Note 16

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 related accessories. The Golf Balls segment consists of golf balls that are designed, manufactured, marketed and distributed by the 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, the Company is no longer pursuing these initiatives (Note 14). There are no significant intersegment transactions. In 2000, management changed its method of allocating certain corporate costs and other income (expense) used in evaluating segment income (loss) before tax. As a result, certain amounts are not attributable to the segments in the determination of segment income (loss) before tax. Prior period amounts have been reclassified to reflect the current allocation methodology. The tables below contain information utilized by management to evaluate its operating segments.

(in thousands)	2000	1999	1998
Net sales			
Golf Clubs	$ 803,663	$ 719,038	$ 703,060
Golf Balls	33,964		
All Other			
	$ 837,627	$ 719,038	$ 703,060
Income (loss) before tax			
Golf Clubs	$ 213,786	$ 175,794	$ 47,493
Golf Balls	(45,918)	(36,097)	(21,826)
All Other			(26,089)
Reconciling items(1)	(38,546)	(54,200)	(38,477)
	$ 129,322	$ 85,497	$ (38,899)
Depreciation and amortization			
Golf Clubs	$ 34,326	$ 36,151	$ 34,121
Golf Balls	5,923	3,726	1,072
All Other			692
	$ 40,249	$ 39,877	$ 35,885
Additions to long-lived assets			
Golf Clubs	$ 24,703	$ 10,210	$ 39,854
Golf Balls	3,683	46,912(2)	47,721
All Other			1,408

$ 28,386	$ 57,122	$ 88,983

(1) Represents corporate general and administrative expenses and other income (expense) not utilized by management in determining segment profitability.

(2) Includes amounts converted to an operating lease in 1999.

The Company markets its products domestically and internationally, with its principal international markets being Asia and Europe. The tables below contain 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 and 1998, sales to Sumitomo

accounted for 7% and 8%, 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 were sold through this subsidiary.

(in thousands)	Sales	Long-Lived Assets
2000		
United States	$451,264	$228,920
Europe	125,511	11,229
Japan	122,003	3,229
Rest of Asia	82,371	994
Other foreign countries	56,478	3,164
Total	$837,627	$247,536
1999		
United States	$418,397	$241,241
Europe	115,673	14,027
Japan	55,927	2,634
Rest of Asia	73,121	974
Other foreign countries	55,920	3,481
Total	$719,038	$262,357
1998		
United States	$442,043	$277,611
Europe	117,107	17,789
Japan	61,460	857
Rest of Asia	34,189	1,194
Other foreign countries	48,261	3,122
Total	$703,060	$300,573

Note 17

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, President 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 14).

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 14).

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 was then an officer of a wholly-owned subsidiary of the 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

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its revenue recognition policy effective January 1, 2000.

PricewaterhouseCoopers LLP

San Diego, California
March 19, 2001

SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)(1)

(in thousands, except per share data)	Fiscal Year 2000 Quarters(3)				
	1st	2nd	3rd	4th	Total
Net sales	$197,406	$289,922	$208,081	$142,218	$837,627
Gross profit	$ 88,265	$144,507	$102,031	$ 62,705	$397,508
Net income	$ 12,141	$ 44,189	$ 20,055	$ 4,614	$ 80,999
Earnings per common share(2)					
Basic	$ 0.17	$ 0.63	$ 0.29	$ 0.07	$ 1.16
Diluted	$ 0.17	$ 0.61	$ 0.29	$ 0.07	$ 1.13

	Fiscal Year 1999 Quarters				
	1st	2nd	3rd	4th	Total
Net sales	$186,747	$231,205	$184,488	$116,598	$719,038
Gross profit	$ 82,868	$107,479	$ 89,545	$ 55,881	$334,773
Net income	$ 12,823	$ 24,771	$ 17,572	$ 156	$ 55,322
Earnings per common share(2)					
Basic	$ 0.18	$ 0.35	$ 0.25	$ 0.00	$ 0.79
Diluted	$ 0.18	$ 0.35	$ 0.25	$ 0.00	$ 0.78

(1) Shipping revenues and expenses have been reclassified in accordance with Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs."

(2) 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.

(3) Effective January 1, 2000, Callaway Golf adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". Accordingly, Callaway Golf has restated its results for all quarters of the year ended December 31, 2000.

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 5, 2001, the approximate number of holders of record of the Company's Common Stock was 9,000.

STOCK PRICE INFORMATION

	Year ended December 31, 2000			1999		
Period:	High	Low	Dividend	High	Low	Dividend
First Quarter	$17.75	$11.00	$0.07	$11.44	$10.00	$0.07
Second Quarter	$20.56	$14.81	$0.07	$16.69	$12.19	$0.07
Third Quarter	$16.69	$12.44	$0.07	$14.63	$ 9.31	$0.07
Fourth Quarter	$19.56	$14.50	$0.07	$18.00	$11.69	$0.07

Exhibit 21.1

CALLAWAY GOLF COMPANY
SUBSIDIARIES

All-American Golf LLC

Callaway (Barbados) Foreign Sales Corporation

Callaway Golf (Germany) GmbH

Callaway Golf Canada Ltd.

Callaway Golf Europe Ltd.

Callaway Golf K.K.

Callaway Golf Korea Ltd.

Callaway Golf Sales Company

Callaway Golf South Pacific Pty Ltd

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 Registration Statement on Form S-3 (No. 33-77024) and in the Registration Statements on Form S-8 (No. 333-43756, No. 333-52020, 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 March 19, 2001 relating to the consolidated 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 March 19, 2001 relating to the financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

San Diego, California
March 29, 2001

FORM OF POWER OF ATTORNEY

Each of William C. Baker, Vernon E. Jordan, Yotaro Kobayashi, Aulana L. Peters and Richard L. Rosenfield executed the following power of attorney, except that his/her name was inserted where "[name of director]" appears.

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, [NAME OF DIRECTOR], 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 Steven C. McCracken and Bradley J. Holiday, 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, 2000, 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 March 20, 2001.

[name of director]