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

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1999

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of October 31, 1999 was 76,072,724.

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 1999	December 31, 1998
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 75,490	$ 45,618
Accounts receivable, net (Note 4)	105,459	73,466
Inventories, net	76,057	149,192
Deferred taxes	48,603	51,029
Other current assets	4,651	4,301
Total current assets	310,260	323,606
Property, plant and equipment, net	174,503	172,794
Intangible assets, net	122,276	127,779
Other assets	32,163	31,648
	$639,202	$655,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 28,676	$ 35,928
Line of credit (Note 3)		70,919
Note payable (Note 3)	13,562	12,971
Accrued employee compensation and benefits	28,512	11,083
Accrued warranty expense	37,583	35,815
Accrued restructuring costs	2,515	7,389
Income taxes payable	7,818	9,903
Total current liabilities	118,666	184,008
Long-term liabilities:		
Deferred compensation	9,855	7,606
Accrued restructuring costs	9,791	11,117
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at September 30, 1999 and December 31, 1998		
Common Stock, $.01 par value, 240,000,000 shares authorized, 76,032,724 and 75,095,087 issued and outstanding at September 30, 1999, and December 31, 1998, respectively	760	751
Paid-in capital	275,032	258,015
Unearned compensation	(3,533)	(5,653)
Retained earnings	292,890	252,528
Accumulated other comprehensive income	335	1,780
Less: Grantor Stock Trust (5,300,000 shares) at market	(64,594)	(54,325)
Total stockholders' equity	500,890	453,096
	$639,202	$655,827

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS (UNAUDITED)

(In thousands, except per share data)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	1999		1998		1999		1998	
Net sales	$183,335	100%	$172,944	100%	$598,788	100%	$583,104	100%
Cost of goods sold	93,439	51%	89,859	52%	316,707	53%	307,523	53%
Gross profit	89,896	49%	83,085	48%	282,081	47%	275,581	47%
Operating expenses:								
Selling	32,687	18%	40,285	23%	98,929	17%	118,314	20%
General and administrative	22,911	12%	24,534	14%	67,358	11%	68,718	12%
Research and development	8,672	5%	9,132	5%	25,405	4%	26,209	4%
Restructuring	(65)				431			
Income from operations	25,691	14%	9,134	5%	89,958	15%	62,340	11%
Other income, net	2,934		343		769		303	
Income before income taxes	28,625	16%	9,477	5%	90,727	15%	62,643	11%
Provision for income taxes	11,053		3,641		35,562		24,509	
Net income	$ 17,572	10%	$ 5,836	3%	$ 55,165	9%	$ 38,134	7%
Earnings per common share:								
Basic	$ 0.25		$ 0.08		$ 0.78		$ 0.55	
Diluted	$ 0.25		$ 0.08		$ 0.78		$ 0.53	
Common equivalent shares:								
Basic	70,581		69,610		70,290		69,383	
Diluted	71,094		71,199		71,026		71,323	
Dividends paid per share	$ 0.07		$ 0.07		$ 0.21		$ 0.21	

See accompanying notes to consolidated condensed financial statements.

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

	Nine months ended September 30,	
	1999	1998
Cash flows from operating activities:		
Net income	$ 55,165	$ 38,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,172	21,267
Loss (gain) on disposal of assets	259	(2)
Non-cash compensation	1,145	7,800
Tax benefit from exercise of stock options	1,869	2,036
Deferred taxes	3,590	(4,514)
Non-cash restructuring	158	
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(31,553)	19,397
Inventories, net	72,798	(56,371)
Other assets	(2,412)	(5,385)
Accounts payable and accrued expenses	(6,060)	(1,022)
Accrued employee compensation and benefits	17,302	956
Accrued warranty expense	1,764	6,517
Income taxes payable	(2,088)	14,177
Accrued restructuring costs	(5,032)	
Other liabilities	2,249	(13,744)
Accrued restructuring costs - long term	(1,326)	
Net cash provided by operating activities	137,000	29,246
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(1,998)	(10,973)
Capital expenditures	(47,411)	(52,139)
Sale of assets	5,055	13
Net cash used in investing activities	(44,354)	(63,099)
Cash flows from financing activities:		
Issuance of Common Stock	5,863	4,437
Dividends paid	(14,803)	(14,598)
Retirement of Common Stock		(1,303)
Proceeds from note payable	17,247	
Line of credit, net	(70,919)	50,000
Net cash (used in) provided by financing activities	(62,612)	38,536
Effect of exchange rate changes on cash	(162)	125
Net increase in cash and cash equivalents	29,872	4,808
Cash and cash equivalents at beginning of period	45,618	26,204
Cash and cash equivalents at end of period	$ 75,490	$ 31,012

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	GST	Total	Comprehensive Income
Balance, December 31, 1998	75,095	$751	$258,015	($5,653)	$252,528	$1,780	($54,325)	$453,096	
Exercise of stock options	564	5	2,219					2,224	
Cancellation of Restricted Common Stock	(4)		(108)	110				2	
Tax benefit from exercise of stock options			1,869					1,869	
Compensatory stock and stock options			(867)	2,010				1,143	
Employee stock purchase plan	378	4	3,635					3,639	
Cash dividends					(15,916)			(15,916)	
Dividends on shares held by GST					1,113			1,113	
Adjustment of GST shares to market value			10,269				(10,269)		
Equity adjustment from foreign currency translation						(1,445)		(1,445)	$(1,445)
Net income					55,165			55,165	55,165
Balance, September 30, 1999	76,033	$760	$275,032	($3,533)	$292,890	$ 335	($64,594)	$500,890	$53,720

See accompanying notes to consolidated condensed financial statements.

1. BASIS OF PRESENTATION

The accompanying financial information for the three and nine months ended September 30, 1999 and 1998 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1998. Interim operating results are not necessarily indicative of operating results for the full year.

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

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

2. INVENTORIES

	September 30, 1999	December 31, 1998
	(Unaudited)	
Inventories, net (in thousands):		
Raw materials	$ 45,505	$102,352
Work-in-process	3,735	1,820
Finished goods	49,324	81,868
	98,564	186,040
Less reserve for obsolescence	(22,507)	(36,848)
	$ 76,057	$149,192

3. BANK LINE OF CREDIT AND NOTE PAYABLE

On February 12, 1999, the Company consummated the amendment of its line of credit to increase the revolving credit facility to $120.0 million (the "Amended Credit Agreement"). The Amended Credit Agreement has a five-year term and is secured by substantially all of the assets of the Company. The Amended Credit Agreement bears interest at the Company's election at the London Interbank Offering Rate ("LIBOR") plus a margin or the higher of the base rate on corporate loans at large U.S. money center commercial banks (prime rate) or the Federal Funds Rate plus 50 basis points. The line of credit requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants. As of September 30, 1999, up to $118.8 million of the credit facility remained available for borrowings (including a reduction of $1.2 million for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

Effective as of December 30, 1998, Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, entered into a master lease agreement for the acquisition and lease of approximately $56.0 million of machinery and equipment. This lease program includes an interim finance agreement (the "Finance Agreement"). The Finance Agreement provides pre-lease financing advances for the acquisition and installation costs of the aforementioned machinery and equipment. The Finance Agreement bears interest at LIBOR plus a margin and is secured by the underlying machinery and equipment and a corporate guarantee from the Company. During the third quarter of 1999, the Company converted a portion of Callaway Golf Ball Company's note payable to an operating lease. The Company expects the remaining balance of $13.6 million to be converted to an operating lease before the end of 1999.

4. 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 Corporation ("Golf Funding"). Pursuant to an agreement with a securitization company (the "Accounts Receivable Facility"), Golf Funding, in turn, sells such receivables to the securitization company on an ongoing basis, which yields proceeds of up to $80.0 million at any point in time. Golf Funding's sole business is the purchase of trade receivables from Callaway Golf Sales Company. Golf Funding is a separate corporate entity with its own separate creditors, which in the event of its liquidation will be entitled to be satisfied out of Golf Funding's assets prior to any value in Golf Funding becoming available to the Company. The Accounts Receivable Facility expires in February 2004.

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of September 30, 1999, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with the sale of accounts receivable for the three and nine months ended September 30, 1999 were $77,000 and $749,000, respectively. These fees were recorded as other expense.

5. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three and nine months ended September 30, 1999, and 1998 is presented below.

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	(Unaudited)			
	1999	1998	1999	1998
Net income	$17,572	$ 5,836	$55,165	$38,134
Weighted-average shares outstanding:				
Weighted-average shares outstanding - Basic	70,581	69,610	70,290	69,383
Dilutive securities	513	1,589	736	1,940
Weighted average shares outstanding - Diluted	71,094	71,199	71,026	71,323
Earnings per common share				
Basic	$ 0.25	$ 0.08	$ 0.78	$ 0.55
Diluted	$ 0.25	$ 0.08	$ 0.78	$ 0.53

For the three months ended September 30, 1999 and 1998, 12,024,000 and 12,196,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

6. COMMITMENTS AND CONTINGENCIES

Subject to certain conditions, the Company has committed to purchase titanium golf clubheads costing approximately $6.3 million from one of its vendors. Under the current schedule, the clubheads are expected to be shipped to the Company during the remainder of 1999.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of September 30, 1999. Management believes, however, 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.

7. 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. These initiatives are expected to be completed largely during 1999. 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 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 the first nine months of 1999, the Company incurred charges of $1.2 million on the disposition of building improvements eliminated during the consolidation of manufacturing operations, as well as other charges. These charges did not meet the criteria for accrual in 1998. Additionally, the Company incurred a charge of $0.5 million related to asset dispositions for which a reserve was not established in 1998. These charges were partially offset by gains of $1.5 million on the disposition of two of the Company's buildings included in the restructuring plan, for which an impairment charge was taken in 1998. A total of $0.5 million of the restructuring reserve related to excess lease costs was not required as the facility to which the reserve related was subleased at rates higher than estimated. Other activity during 1999 primarily related to cash payments for severance, disposition of assets, contract cancellation and other items. During the first quarter of 1999, substantially all of the approximately 750 non-temporary work force reductions occurred.

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	Reserve Balance at 9/30/99
ELIMINATION OF JOB RESPONSIBILITIES		$11,664	$ 8,473	$ 3,191	$ 2,930	$ 261
Severance packages	Cash	11,603	8,412	3,191	2,930	261
Other	Non-cash	61	61			
EXITING CERTAIN NON-CORE BUSINESS ACTIVITIES		$28,788	$12,015	$16,773	$ 4,779	$11,994
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731	2,426	305
Excess lease costs	Cash	12,660	146	12,514	973	11,541
Contract cancellation fees	Cash	2,700	1,504	1,196	1,092	104
Other	Cash	356	24	332	288	44
CONSOLIDATION OF OPERATIONS		$13,783	$ 2,846	$10,937	$10,684	$ 253
Loss on impairment/disposition of assets	Non-cash	12,364	2,730	9,634	9,609	25
Excess lease costs	Cash	806	4	802	802	
Other	Cash	613	112	501	273	228

Future cash outlays are anticipated to be completed by the end of 1999, excluding certain lease commitments that continue through February 2013 (see also Note 10).

8. 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 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 to be designed, manufactured, marketed and distributed by the Company. In accordance with its restructuring plan, the Company is no longer pursuing the initiatives previously included in its All Other segment, which included interactive golf sites, golf book publishing, new player development and a driving range venture (Note 7). There are no significant intersegment transactions. The tables below contain information utilized by management to evaluate its operating segments for the interim periods presented.

	Three Months Ended September 30, 1999			1998		
	Net Sales	Income (loss) before tax	Additions to long-lived assets	Net Sales	Income (loss) before tax	Additions to long-lived assets
Golf Clubs	$183,335	$37,833	$ 370	$172,944	$18,963	$ 7,723
Golf Balls		(9,208)	5,585		(6,289)	15,988
All Other					(3,197)	658
Consolidated	$183,335	$28,625	$5,955	$172,944	$ 9,477	$24,369

	Nine Months Ended September 30, 1999			1998		
	Net Sales	Income (loss) before tax	Additions to long-lived assets	Net Sales	Income (loss) before tax	Additions to long-lived assets
Golf Clubs	$598,788	$115,584	$ 4,804	$583,104	$84,817	$24,573
Golf Balls		(24,857)	43,485		(15,811)	26,674
All Other					(6,363)	14,598
Consolidated	$598,788	$ 90,727	$48,289	$583,104	$62,643	$65,845

9. ADOPTION OF NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in income or other comprehensive income, depending on whether the derivatives are designated as hedges and, if so, the types of hedges. SFAS No. 133, as amended by SFAS No. 137, "Deferral of the Effective Date of FAS 133," is effective for all periods beginning after June 15, 2000; the Company elected to early adopt SFAS No. 133 on January 1, 1999.

In the first nine months of 1999, 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 and on payments due from its Japanese distributor. Realized and unrealized gains and losses on these contracts are recorded in income. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. Transaction gains recorded during the nine months ended September 30, 1999 and 1998 were not material At September 30, 1999, the Company had approximately $26.0 million of foreign exchange contracts outstanding. The contracts outstanding at September 30, 1999 mature between October 1999 and June 2000. The Company's net unrealized gains and losses on foreign exchange contracts included in net income for the nine months ended September 30, 1999 and 1998 were not material.

Adoption of this statement did not significantly affect the way in which the Company accounts for derivatives to hedge payments due on intercompany transactions. Accordingly, no cumulative-effect-type adjustments were made. However, the Company expects that it also may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. The forward contracts used to hedge anticipated transactions will be recorded as either assets or liabilities in the balance sheet at fair value. Gains and losses on such contracts will be recorded in other comprehensive income and will be recorded in income when the anticipated transactions occur. The ineffective portion of all hedges will be recognized in current period earnings.

10. SUBSEQUENT EVENTS

On October 5, 1999, the Company entered into an agreement with Sumitomo Rubber Industries Ltd. ("Sumitomo"), its Japanese golf club distributor, providing for the transition of the Company's business from Sumitomo to the Company's wholly-owned Japanese subsidiary. This subsidiary will be directly and solely responsible for the sale of Callaway Golf(R) and Odyssey(R) golf clubs and Callaway Golf(R) balls in Japan beginning January 1, 2000. As a result of this transition agreement, the Company expects a fourth quarter charge of not more than $8.0 million.

On November 12, 1999, the Company entered into an assignment of a lease obligation for a facility in New York for which a restructuring charge was taken in 1998. As a result of this transaction, the Company anticipates it will record as income in the fourth quarter of 1999 approximately $6.0 million due to the reversal of a portion of the restructuring reserve established for this facility.

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

Statements used in this discussion that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers also are urged to carefully review and consider the various disclosures made by the Company which describe certain factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Callaway Golf Company" below, as well as the Company's other periodic reports on Forms 10-K and 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

Readers also should be aware that while the Company communicates with securities analysts, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company, and stockholders should not assume that the Company agrees with any statement or report issued by any analyst.

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

RESTRUCTURING

In the third quarter of 1999, the Company continued to implement its restructuring in accordance with the plan adopted in the fourth quarter of 1998. See "Restructuring" under "Results of Operations" section below.

SALES; GROSS MARGIN; SEASONALITY

The Company believes that the dollar volume of the premium golf equipment market has been declining in certain major markets, including the United States, and may continue to decline during the foreseeable future. During the first nine months of 1999, the Company's United States revenues decreased 8% and international revenues increased 21% compared to the same period in 1998. The Company believes that this decrease in United States revenue was due in part to softness in the United States market, lower revenue per club from sales of golf equipment at low or close-out prices, and declines in iron and putter sales due to the maturity of those product lines. The Company further believes that some portion of sales to international customers recorded in 1999 as direct international sales may have formerly been made to the same international customers indirectly through the United States distribution channel. See also "Certain Factors Affecting Callaway Golf Company - Gray Market."

Despite the softness in the United States golf market, it is believed that the Company's overall market share for woods increased in the first nine months of 1999 compared to the same period in 1998. See also "Certain Factors Affecting Callaway Golf Company - Competition."

While sales of the Company's Great Big Bertha Hawk Eye Titanium Metal Woods, Big Bertha Steelhead Metal Woods and Big Bertha(R) X-12(R) Irons were strong through the third quarter of 1999, no assurances can be given that the demand for these products or the Company's other existing products, or the introduction of new products, will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future. Great Big Bertha Hawk Eye Tungsten Injected Titanium Irons were introduced in September 1999 and initial acceptance in the marketplace has also been strong to date.

The Company formerly reported that sales to Japan may be lower overall for 1999 as compared to 1998 as the Company's distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"), prepares for the transition of responsibility from it to ERC International Company ("ERC"), a wholly-owned Japanese subsidiary of the Company, by January 1, 2000. This has not been the case through the first nine months of 1999. Sales to Sumitomo were 11% higher for the first nine months of 1999 as compared to the same period in 1998. Sales to Japan, which include sales of Odyssey(R) product through ERC, accounted for approximately 10% of the Company's total sales in 1997, 9% of total sales in 1998 and 10% of total sales for the first nine months of 1999. The Company believes that primarily as a result of amicable negotiations for a smooth transition resulting in the execution of a transition agreement in October 1999, sales to Sumitomo were higher than expected. See also "Certain Factors Affecting Callaway Golf Company - - International Distribution."

The Company's gross margin as a percentage of net sales increased to 49% in the third quarter of 1999 from 48% in the third quarter of 1998. This increase primarily resulted from higher metal wood sales (which carry higher margins) as a percentage of total net sales in the current quarter, as compared to 1998, and continued reductions in manufacturing labor and overhead costs along with reductions in certain component costs. Gross margin as a percentage of net sales would have improved to 52% but for close-out sales of Great Big Bertha Tungsten.Titanium Irons, Great Big Bertha and Biggest Big Bertha Titanium Metal Woods, and Big Bertha War Bird Metal Woods, which have lower margins. For all of 1999, the Company anticipates its gross margin percentage will exceed its 1998 levels. However, consumer acceptance of current and new product introductions, the sale and disposal of non-current products at reduced sales prices and continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin.

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. For several years, the Company's business has generally followed this seasonal trend and the Company expects this to continue. Unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997-1998 may compound these seasonal effects.

COMPETITION

The market in which the Company does business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions and/or price reductions by competitors continue to generate increased market competition. However, the Company believes that it has gained unit and dollar market share for woods in the United States during the first nine months of 1999 as compared to the same period in 1998. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

A manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including the golf club's look and "feel," and the level of acceptance that the golf club has among professional and other golfers. The subjective preferences of golf club purchasers may be subject to rapid and unanticipated changes. There can be no assurance as to how long the Company's golf clubs will maintain market acceptance.

NEW PRODUCT INTRODUCTION

The Company believes that the introduction of new, innovative golf equipment is important to its future success. The Company faces certain risks associated with such a strategy. For example, new models and basic design

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

On November 2, 1998, the USGA announced the adoption of a test protocol to measure the so-called "spring-like effect" in certain golf clubheads. The USGA has advised the Company that none of the Company's current products are barred by this test. The R&A is considering the adoption of a similar or related test. Future actions by the USGA or the R&A may impede the Company's ability to introduce new products and therefore could have a material adverse effect on the Company's results of operations and cash flows.

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

The rapid introduction of new products by the Company can 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.

The Company plans its manufacturing capacity based upon the forecasted demand for its products. Actual demand for such products may exceed or be less than forecasted demand. The Company's unique product designs often require sophisticated manufacturing techniques, which can limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for its products. If the Company is unable to produce sufficient quantities of new products in time to fulfill actual demand, especially during the Company's traditionally busy second and third quarters, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company commits to components and other manufacturing inputs for varying periods of time, which can limit the Company's ability to quickly react if actual demand is less than forecast. As in 1998, this could result in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance.

PRODUCT BREAKAGE

The Company supports all of its golf clubs with a limited two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. In addition, the Company's Biggest Big Bertha Drivers, because of their large clubhead size and extra long, lightweight graphite shafts, have experienced shaft breakage at a rate higher than generally experienced with the Company's other metal woods, even though these shafts are among the most expensive to manufacture in the industry. This product was discontinued in 1999. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned as a result of cracked clubheads, broken graphite shafts, loose medallions and other product problems to date has not been material in relation to the volume of Callaway Golf clubs that have been sold. The Company monitors the level and nature of any product breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. While the Company believes that it has sufficient reserves for warranty claims, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of

breakage or other product problems.

CREDIT RISK

The Company primarily sells its products to golf equipment retailers and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, the recent downturn in the retail golf equipment market, primarily in the United States, has resulted in delinquent or uncollectible accounts for some of the Company's significant customers. As a result, during the first nine months of 1999, the Company wrote off approximately $4.6 million of past due trade accounts receivable against the Company's reserve for uncollectible accounts receivable. The Company considers its remaining reserve for uncollectible accounts receivable to be adequate. Management does not foresee any significant improvement in the golf equipment market during 1999, and thus there can be no assurance that failure of the Company's customers to meet their obligations to the Company will not adversely impact the Company's results of operations or cash flows.

DEPENDENCE ON CERTAIN VENDORS AND MATERIALS

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

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

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

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

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

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

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

"GRAY MARKET" DISTRIBUTION

Some quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" in 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 United States in 1998, and believes the decline was due, in part, to a decline in "gray market" shipments to Asia and Europe. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both U.S. and international markets, it has not stopped such commerce.

GOLF PROFESSIONAL ENDORSEMENTS

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf and Odyssey branded golf clubs. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour and the PGA European Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If certain of Callaway Golf's professional endorsers were to stop using the Company's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so and do not grant any endorsement to the Company. In addition, the Company has created cash pools ("Pools") that reward such usage. During 1998, the Company continued its Pools for the PGA, Senior PGA, LPGA and Nike Tours. The Company believes that its professional endorsements and its Pools contributed to its usage on the professional tours in 1998. However, in 1999, the Company has significantly reduced these Pools for both Callaway Golf and Odyssey(R) brand products for the PGA and the Senior PGA Tours, and has significantly reduced the Pools for Odyssey(R) brand products and eliminated the Pools for Callaway Golf brand products for the LPGA and Nike Tours. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. As a result, in the first nine months of 1999, usage of the Company's drivers on the PGA, Senior PGA, LPGA and Nike Tours was substantially reduced compared to the first nine months of 1998.

For the last several years, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. While it is not clear whether professional usage materially contributes to retail sales, it is possible that the recent decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

NEW BUSINESS VENTURES

The Company has, in the past, invested significant capital in new business ventures. However, in connection with the Company's 1998 restructuring, the Company discontinued, transferred or suspended certain business ventures not directly associated with the Company's core business. See "Restructuring" under "Results of Operations" section below. The Company continues development of its golf ball business. See "Certain Factors Affecting Callaway Golf Company - Golf Ball Development."

INTERNATIONAL DISTRIBUTION

The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will be an element in the future growth and success of the Company. The Company has been actively pursuing a reorganization of its international operations, including the acquisition of distribution rights in certain key countries in Europe, Asia and North America. These efforts have resulted and will continue to result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. The integration of foreign distribution into the Company's international sales operations will require the dedication of management and other Company resources.

Additionally, the Company's plan to integrate foreign distribution increases the Company's exposure to fluctuations in exchange rates for various foreign currencies which could result in losses and, in turn, could adversely impact the Company's results of operations. There can be no assurance that the Company will be able to mitigate this exposure in the future through its management of foreign currency transactions. The integration of foreign distribution also could result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of some or all of the Company's foreign distribution will be successful, and it is possible that an attempt to do so will adversely affect the Company's business.

In 1993, the Company appointed Sumitomo as the sole distributor, and Sumitomo Corporation as the sole importer, of Callaway Golf golf clubs in Japan through a distributor agreement. This distributor agreement runs through December 31, 1999. The Company notified Sumitomo and Sumitomo Corporation that it will be concluding the distribution agreement on December 31, 1999. In October 1999, the Company entered in an agreement with Sumitomo providing for the transition of the Company's Japanese distribution from Sumitomo to the Company's wholly-owned Japanese subsidiary. The Company anticipates that the fourth quarter 1999 charges resulting from the transition agreement will be not more than $8 million.

Effective November 1, 1999, the corporate name of the Company's wholly-owned Japanese subsidiary was changed to Callaway Golf Kabushiki Kaisha ("Callaway Golf K. K."). Callaway Golf K. K. currently distributes Odyssey products in Japan and will distribute Callaway Golf clubs beginning January 1, 2000 and Callaway Golf balls when ready. In addition to the fourth quarter 1999 charges noted above, there will be significant costs and capital expenditures invested in Callaway Golf K. K. before there will be sales sufficient to support such costs. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution of Callaway Golf products in Japan through Callaway Golf K. K. beginning January 2000, and it is possible that doing so will have a material adverse effect on the Company's operations and financial performance.

GOLF BALL DEVELOPMENT

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

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by creating, developing and manufacturing golf balls in a new plant constructed just for this purpose. The successful implementation of the Company's strategy could be adversely affected by various risks, including, among others, delays in product development, manufacturing delays and unanticipated costs. The Company currently anticipates launching its golf ball in early 2000. However, there can be no assurance as to whether the golf ball developed will be ready by that time, that it will be commercially successful or that a return on the Company's investments will ultimately be realized.

The development of the Company's golf ball business, by plan, has had a significant negative impact on the Company's cash flows and results of operations and will continue to do so through the end of 1999. The Company believes that many of the same factors that affect the golf equipment industry, including growth rate in the golf equipment industry, intellectual property rights of others, seasonality and new product introductions, also apply to the golf ball business. In addition, the golf ball business is highly competitive with a number of well-established and well-financed competitors. These competitors have established market share in the golf ball business, which the Company will need to penetrate for its golf ball business to be successful.

YEAR 2000 ISSUE

Historically, many computer programs have been written using two digits rather than four to define the applicable year, which could result in the program failing to properly recognize a year that begins with "20" instead of "19." This, in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000" or "Y2K" issue.

While the Company's own products do not contain date-based functionality and are not susceptible to the Y2K issue, much of the Company's operations incorporate or are affected by systems which may contain date-based functionality. Therefore, the Company has formulated a Year 2000 Plan to address the Company's Y2K issue. The Company's Year 2000 Plan contemplates four phases -- assessment, remediation, testing and release/installation -- which will overlap to a significant degree. The Company's own internal critical systems and key suppliers are the primary areas of focus. The Company believes critical systems and key suppliers are those systems or suppliers, which, if they are not Y2K compliant, may disrupt the Company's manufacturing, sales or distribution capabilities in a material manner.

The assessment phase, which has been completed, involved an inventory, prioritization and preliminary evaluation of the Y2K compliance of the Company's key systems (e.g., hardware, software and embedded systems) and critical suppliers and customers (e.g., component suppliers, vendors, customers, utilities and other service providers) on which the Company relies to operate its business. During this phase it was determined that over 450 of the Company's key systems were considered critical to the ongoing operations of the Company.

The remediation phase primarily included or will include altering the product or software code, upgrading or replacing the product, recommending changes in how the product is used or retiring the product. The remediation phase has been substantially completed for all systems.

In addition, the Company received information concerning the Y2K compliance status of critical suppliers and customers in response to extensive inquiries aimed at determining the extent to which the Company is vulnerable to those third parties' failure to remediate their own Y2K issues. The Company relies on suppliers for timely delivery of a broad range of goods and services worldwide, including components for its golf clubs. Moreover, the Company's suppliers rely on countless other suppliers, over which the Company has little or no influence regarding Y2K compliance. The level of preparedness of critical suppliers and customers can vary greatly from country to country. The Company believes that critical suppliers and customers present an area of significant risk to the Company in part because of the Company's limited ability to influence actions of third parties, and in part because of the Company's inability to estimate the level and impact of noncompliance of third parties throughout the extended supply chain. The process of evaluating these suppliers and selected customers is continuing and is expected to be completed by the fourth quarter of 1999.

In October 1997, the Company implemented a new business computer system, which runs most of the Company's data processing and financial reporting software applications (including material subsidiaries) and has in part addressed remediation issues Company-wide. The manufacturer of the application software used on the new computer system has represented that the software addresses the Y2K issue, and the Company's own testing of that representation has been completed.

The Company has substantially completed four phases with respect to those systems which are critical to its operations. Some non-critical systems may not be addressed until after January 2000.

The total cost associated with assessment and required modifications to implement the Company's Year 2000 Plan is not expected to be material to the Company's financial position or results of operations. The Company currently estimates that the total cost of implementing its Year 2000 Plan will not exceed $4.0 million. The total amount expended on the Year 2000 Plan through September 1999 was $2,350,000, of which approximately $1,130,000 related to repair or replacing of software and related hardware problems and approximately $1,220,000 related to internal and external labor costs.

If the Company's new business computer system fails due to the Y2K issue, or if any computer hardware or software applications or embedded systems critical to the Company's manufacturing, shipping or other processes are overlooked, there could be a material adverse impact on the business operations and financial performance of the Company. Additionally, there can be no assurance that the Company's critical suppliers and customers will not experience a Y2K-related failure that could have a material adverse effect on the business operations or financial performance of the Company. In particular, if third party suppliers, due to the Y2K issue, fail to provide the Company with components or materials which are necessary to manufacture its products, with sufficient electric power and other utilities to sustain its manufacturing process, or with adequate, reliable means of transporting its products to its customers worldwide, then any such failure could have a material adverse effect on the business operations and financial performance of the Company.

The Company has established contingency plans to address unavoided or unavoidable risks. In particular, with respect to third party component suppliers, the Company has formulated contingency plans to guard against disruptions in the supply of critical components. These plans include booking orders and producing products before potential business disruptions. Even so, judgments regarding contingency plans -- such as how to develop them and to what extent -- are themselves subject to many variables and uncertainties. There can be no assurance that the Company will correctly anticipate the level, impact or duration of noncompliance by suppliers. As a result, there is no certainty that the Company's contingency plans will be sufficient to mitigate the impact of noncompliance by suppliers, and some material adverse effect to the Company may result from one or more third parties regardless of defensive contingency plans.

Estimates of time, cost, and risk are based on currently available information. Developments that could affect estimates include, but are not limited to, the availability and cost of trained personnel; the ability to locate and correct all relevant computer software code and systems; cooperation and remediation success of the Company's suppliers and customers (and their suppliers and customers); and the ability to correctly anticipate risks and implement suitable contingency plans in the event of system failures at the Company or its suppliers and customers (and their suppliers and customers).

EURO CURRENCY

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999 Member States of the EMU have the option of trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships during the transitional period, beginning January 1999 and ending June 2002. The Company has installed a new computer system that supports sales throughout Europe. This new system runs substantially all of the principal data processing and financial reporting software for such sales. The Company anticipates that, after the implementation of an upgrade, the new system will contain the functionality to process transactions in either a country's local currency or euro. The implementation of this upgrade, which is part of a larger plan to update the Company's enterprise-wide software to the manufacturer's current version, is planned to take place during 2000. Until such time as the upgrade has occurred, 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.

RESULTS OF OPERATIONS

THREE-MONTH PERIODS ENDED SEPTEMBER 30, 1999 AND 1998:

Net sales increased 6% to $183.3 million for the three months ended September 30, 1999 compared to $172.9 million for the comparable period in the prior year. Both unit and dollar sales of titanium metal woods increased in the third quarter of 1999 over the third quarter of 1998 largely due to the January 1999 introduction of Great Big Bertha(R) Hawk Eye(R) Metal Woods. Unit and dollar sales of irons also increased slightly during this period, due in part to the September 1999 introduction of the Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons. Sales of the Company's stainless steel metal woods decreased in the third quarter of 1999 as compared to the third quarter of 1998 in both units and dollars. This decrease may be attributed to both the phase-out of Big Bertha(R) War Bird(R) Drivers, which sold at significantly lower volume in both units and dollars in the third quarter of 1999 than in 1998, and the August 1998 introduction of Big Bertha(R) Steelhead(TM) Metal Woods, which generated slightly higher revenues during this period in 1998.

During the third quarter of 1999 versus the third quarter of 1998, sales in the United States decreased $8.2 million (7%). During this same period, sales in Europe and in Japan increased $2.4 million (8%) and $7.9 million (64%), respectively. Sales to the rest of Asia increased $8.1 million (78%) over the same quarter of the prior year and sales to the rest of the world remained relatively constant during this period.

For the three months ended September 30, 1999, gross profit was $89.9 million as compared to $83.1 million for the same period in the prior year. As a percentage of net sales, gross profit increased to 49% from 48% for the quarter ended September 30, 1999 as compared to the same quarter of 1998. This increase primarily resulted from a higher level of metal wood sales (which carry higher margins), particularly titanium metal woods, as a percentage of total net sales in the current quarter, as compared to 1998, and continued reductions in manufacturing labor and overhead costs along with reductions in certain component costs. Gross margin as a percentage of net sales would have improved to 52% but for close-out sales during the current quarter of Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Metal Woods, and Big Bertha(R) War Bird(R) Metal Woods, which have lower margins.

Selling expenses decreased to $32.7 million in the third quarter of 1999 compared to $40.3 million in the third quarter of 1998. As a percentage of net sales, selling expenses decreased to 18% from 23% during the current quarter as compared to the comparable quarter of 1998. The $7.6 million decrease was primarily related to planned reductions in advertising, pro tour and other promotional expenses. This decrease was partially offset by an increase in employee compensation.

General and administrative expenses decreased to $22.9 million for the three months ended September 30, 1999 from $24.5 million for the comparable period in the 1998. As a percentage of net sales, general and administrative expenses in the third quarter of 1999 decreased to 12% from 14% for the same period in 1998. The $1.6 million decrease was primarily related to decreases in consulting, bad debt expense and other general and administrative expenses. These decreases were partially offset by costs associated with the ramp-up of the Company's golf ball operations.

Research and development expenses decreased to $8.7 million in the third quarter of 1999 compared to $9.1 million in the comparable period of the prior year. As a percentage of net sales, research and development remained constant at 5% for the three months ended September 30, 1999 and 1998. The $0.4 million decrease was primarily

the result of the shutdown of the Company's prototype foundry and a decrease in consulting expense, partially offset by an increase in employee compensation.

Other income increased $2.6 million for the quarter ended September 30, 1999 as compared to the same period in 1998. This increase was primarily attributable to larger gains on foreign currency transactions in the third quarter of 1999 as compared to this period in 1998, an increase in interest income due to higher average cash balances during the third quarter of 1999 versus 1998 and a decrease in interest expense as a result of reduced obligations under the Company's credit facilities.

NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1999 AND 1998:

Net sales increased 3% to $598.8 million for the nine months ended September 30, 1999 compared to $583.1 million for the comparable period in the prior year. Both unit and dollar sales of titanium and steel metal woods increased during the current period largely due to sales of Big Bertha(R) Steelhead(TM) Metal Woods, which were introduced in August 1998, and the January 1999 introduction of Great Big Bertha(R) Hawk Eye(R) Metal Woods. Unit and dollar sales of irons decreased during this same period. This decrease was due in part to the January 1998 introduction of the Big Bertha(R) X-12(TM) Irons, which experienced significant retailer pipeline filling during 1998 and the close-out of Great Big Bertha(R) Tungsten.Titanium(TM) Irons during the current year at substantially discounted prices.

During the nine months ended September 30, 1999 versus 1998, sales in the United States decreased $29.3 million (8%). During this same period, sales in Japan and in the rest of Asia increased $8.2 million (16%) and $30.9 million (130%), respectively. Sales to the rest of the world increased $5.5 million (14%) over the same period of the prior year and sales in Europe remained relatively constant during this period. See also "Sales; Gross Margin; Seasonality" under "Certain Factors Affecting Callaway Golf Company" above.

For the nine months ended September 30, 1999, gross profit increased to $282.1 million from $275.6 million for the comparable period in the prior year. As a percentage of net sales, gross profit remained constant at 47% for the nine months ended September 30, 1999 and 1998. Gross margin was favorably affected by an increase in sales of metal woods as a percentage of net sales, which have higher margins than irons. This favorable effect was offset by close-out sales of Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Metal Woods, and Big Bertha(R) War Bird(R) Metal Woods. These products were sold at significantly lower prices, resulting in lower margins.

Selling expenses decreased to $98.9 million in the first nine months of 1999 compared to $118.3 million in the comparable period of 1998. As a percentage of net sales, selling expenses decreased to 17% from 20% during the first nine months of 1999 over the comparable period of 1998. The $19.4 million decrease was primarily related 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 $67.4 million for the nine months ended September 30, 1999 from $68.7 million for the comparable period of the prior year. As a percentage of net sales, general and administrative expenses decreased to 11% from 12% in the nine months ended September 30, 1999 as compared with this same period in 1998. The $1.3 million decrease was largely attributable to decreases in consulting, bad debt expense and other general and administrative expenses. This decrease was partially offset by costs associated with the ramp-up of the Company's golf ball operations and an increase in employee compensation.

Research and development expenses decreased to $25.4 million for the nine months ended September 30, 1999 compared to $26.2 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses remained constant at 4% for the nine months ended September 30, 1999 and 1998. The $0.8 million decrease was primarily the result of the shut-down of the Company's prototype foundry and a decrease in consulting fees, partially offset by an increase in employee compensation and an increase in component prototype costs.

Other income increased $0.5 million for the nine months ended September 30, 1999 over the comparable period of 1998. This increase was attributable to increases in interest income due to higher average cash balances during the period and to an increase in royalty income. This increase was partially offset by an increase in interest expense incurred during the first nine months of 1999 related to the Company's credit facilities due primarily to higher interest and yield rates and related fees.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1999, cash and cash equivalents increased to $75.5 million from $45.6 million at December 31, 1998 primarily as a result of cash provided by operations of $137.0 million, inclusive of a $41.0 million reduction in advances under the Accounts Receivable facility, which was reflected as a reduction of Accounts Receivable (see Note 4 to the Company's unaudited Consolidated Condensed Financial Statements). This increase was partially offset by cash used in investing activities of $44.4 million and cash used in financing activities of $62.6 million, Cash flows used in investing activities resulted from capital expenditures, primarily associated with the ramp-up of golf ball operations, partially offset by proceeds from the sale of fixed assets, largely those related to the Company's restructuring. Cash flows used in financing activities are primarily attributed to the repayment of loan advances and dividends paid, partially offset by proceeds from the Finance Agreement.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's credit facilities. The Company expects this trend to continue even though sales declined in 1998 and the Company does not foresee any significant improvement in sales during the near term. On February 12, 1999, the Company consummated the amendment of its line of credit to increase the revolving credit facility to up to $120.0 million and entered into an $80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 3 and 4 to the unaudited Consolidated Condensed Financial Statements). During the first quarter of 1999, the Company utilized its Accounts Receivable Facility and borrowed against its line of credit under the Amended Credit Agreement to fund operations and finance capital expenditures. At September 30, 1999, the Company had repaid the outstanding balance of the Amended Credit Agreement with cash flow from operations and had $118.8 million available, net of outstanding letters of credit, under this credit facility, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at September 30, 1999, advances under the Accounts Receivable Facility had been reduced, leaving up to $80.0 million available under this facility. Further, in the third quarter of 1999, the Company converted a portion of its note payable under the Finance Agreement to an operating lease, leaving a remaining balance of $13.6 million. The Company anticipates the remainder of this note payable to be converted to an operating lease before the end of 1999 (see Note 3 to the unaudited Consolidated Condensed Financial Statements).

As a result of the implementation of its plan to improve operating efficiencies (see "Restructuring"), the Company incurred charges of $54.2 million in the fourth quarter of 1998. Of these charges, $25.5 million were non-cash. Since the adoption of this restructuring plan in the fourth quarter of 1998, cash outlays for employee termination costs, contract cancellation fees, excess lease costs and other expenses have been $16.3 million. Due to the assignment of a lease obligation (see Note 10 to the Consolidated Condensed Financial Statements), expected future cash outlays for such costs have been reduced and are estimated to be $6.1 million. Of this amount, approximately $4.8 million is anticipated to occur during the fourth quarter of 1999, while the remainder, is expected to be paid during 2000. These cash outlays will be funded by cash flows from operations and, if necessary, the Company's credit facilities. If the actual actions taken by the Company differ from the plans on which these estimates are based, actual losses recorded and resulting cash outlays made by the Company could differ significantly.

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

RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey 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. These initiatives are expected to be completed largely during 1999. 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 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 the first nine months of 1999, the Company incurred charges of $1.2 million on the disposition of building improvements eliminated during the consolidation of manufacturing operations, as well as other charges. These charges did not meet the criteria for accrual in 1998. Additionally, the Company incurred a charge of $0.5 million related to asset dispositions for which a reserve was not established in 1998 These charges were partially offset by gains of $1.5 million on the disposition of two of the Company's buildings included in the restructuring plan, for which an impairment charge was taken in 1998. A total of $0.5 million of the restructuring reserve related to excess lease costs was not required as the facility to which the reserve related was subleased at rates higher than estimated. Other activity during 1999 primarily related to cash payments for severance, disposition of assets, contract cancellation and other items. During the first quarter of 1999, substantially all of the approximately 750 non-temporary work force reductions occurred.

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	Reserve Balance at 9/30/99
ELIMINATION OF JOB RESPONSIBILITIES		$11,664	$ 8,473	$ 3,191	$ 2,930	$ 261
Severance packages	Cash	11,603	8,412	3,191	2,930	261
Other	Non-cash	61	61			
EXITING CERTAIN NON-CORE BUSINESS ACTIVITIES		$28,788	$12,015	$16,773	$ 4,779	$11,994
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731	2,426	305
Excess lease costs	Cash	12,660	146	12,514	973	11,541
Contract cancellation fees	Cash	2,700	1,504	1,196	1,092	104
Other	Cash	356	24	332	288	44
CONSOLIDATION OF OPERATIONS		$13,783	$ 2,846	$10,937	$10,684	$ 253
Loss on impairment/disposition of assets	Non-cash	12,364	2,730	9,634	9,609	25
Excess lease costs	Cash	806	4	802	802	
Other	Cash	613	112	501	273	228

See "Liquidity on Capital Resources" section above for a discussion of future cash outlays.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of foreign currency fluctuations due to its international operations and certain export sales. The Company is exposed to both transactional currency/functional currency and functional currency/reporting currency exchange rate risks. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in the value of foreign currencies. Pursuant to its new foreign exchange hedging policy, beginning in January 1999, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables with its foreign subsidiaries. During the first nine months of 1999, the Company entered into such contracts on behalf of two of its wholly-owned subsidiaries, Callaway Golf Europe Ltd. and Callaway Golf Canada Ltd. The Company also hedged certain yen-denominated transactions with its Japanese distributor. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

Also pursuant to its new foreign exchange hedging policy, the Company expects that it also may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives will be used only to the extent considered necessary to meet the Company's objectives and the Company does not enter into forward contracts for speculative purposes. The Company's foreign currency exposures include most European currencies, Japanese yen, Canadian dollars and Korean won.

Additionally, the Company is exposed to interest rate risk from its Accounts Receivable Facility and Amended Credit Agreement (see Notes 3 and 4 to the Company's unaudited Consolidated Condensed Financial Statements) which are indexed to the LIBOR and Redwood Receivables Corporation Commercial Paper Rate.

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 September 30, 1999 through its derivative financial instruments.

The sensitivity analysis model is a risk analysis tool and does not purport to represent actual losses in earnings that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market rates. It also does not represent the maximum possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in earnings from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $3.1 million at September 30, 1999. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

Notes 3 and 4 to the unaudited Consolidated Condensed Financial Statements outline the principal amounts, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including those discussed 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 that may be covered by insurance, or the financial impact with respect to these matters. Management believes, however, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

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

a. Exhibits:

3.1 Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission (the "Commission") on July 1, 1999, and incorporated herein by this reference)

3.2 Bylaws (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the Commission on July 1, 1999, and incorporated herein be this reference)

10.1 Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated August 17, 1999)(+)

27 Financial Data Schedule(+)

b. Reports on Form 8-K:

(1) On July 1, 1999, the Company filed a Current Report on Form 8-K reporting that the Company had completed its reincorporation from a California corporation to a Delaware corporation.

(2) Effective on August 17, 1999, the Company filed a Current Report on Form 8-K reporting that Chuck Yash had been appointed as President of Callaway Golf Company. The Company further reported that Mr. Yash has been designated to succeed Ely Callaway as Chief Executive Officer of the Company by December 31, 2000 or when Mr. Callaway ceases to be involved in active management of the Company--whichever comes earlier.

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(+)Included with this Report.

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: November 12, 1999 /s/ ELY CALLAWAY

Ely Callaway
Chairman and
Chief Executive Officer

/s/ DAVID A. RANE

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

EXHIBIT INDEX

Exhibit	Description
3.1	Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission (the "Commission") on July 1, 1999, and incorporated herein by this reference)
3.2	Bylaws (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the Commission on July 1, 1999, and incorporated herein be this reference)
10.1	Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated August 17, 1999)(+)
27	Financial Data Schedule(+)

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(+)Included with this Report.

CALLAWAY GOLF COMPANY
NON-EMPLOYEE DIRECTORS STOCK OPTION PLAN

(AS AMENDED AND RESTATED AUGUST 17, 1999)

ARTICLE I
GENERAL

1. ADOPTION. This Callaway Golf Company Non-Employee Directors Stock Option Plan (the "PLAN") is effective as of September 1, 1992, subject to approval by the Board of Directors and shareholders of Callaway Golf Company (the "COMPANY").

2. PURPOSE. The Plan is designed to promote the interests of the Company and its shareholders by using investment interests in the Company to attract and retain highly qualified independent directors.

3. ADMINISTRATION. The Plan shall be administered by the Company, which shall have the power to construe the Plan, to determine all questions arising under the Plan, to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable, and otherwise to carry out the terms of the Plan. The interpretation and construction by the administrator of any provisions of the Plan or of any option granted under the Plan shall be final. Notwithstanding the foregoing, the administrator shall have no authority or discretion as to the selection of persons eligible to receive options granted under the Plan, the number of shares covered by options granted under the Plan, the timing of such grants, or the exercise price of options granted under the Plan, which matters are specifically governed by the provisions of the Plan.

4. ELIGIBLE DIRECTORS. A person shall be eligible to receive grants of options under this Plan (an "ELIGIBLE DIRECTOR") if, at the time of the option's grant, he or she is a duly elected or appointed member of the Company's Board of Directors, but is not then otherwise an employee of the Company or any of its subsidiaries or affiliates and has not been an employee of the Company or any of its subsidiaries or affiliates since the beginning of the Company's preceding fiscal year.

5. SHARES OF COMMON STOCK SUBJECT TO THE PLAN AND GRANT LIMIT. The shares that may be issued upon exercise of options granted under the Plan shall be authorized and unissued shares of the Company's Common Stock. The aggregate number of shares that may be issued upon exercise of options granted under the Plan shall not exceed 840,000 shares of Common Stock, subject to adjustment in accordance with Article III, and no individual may receive options under the Plan to purchase more than 120,000 shares of the Company's Common Stock, subject to adjustment in accordance with Article III.

6. AMENDMENT OF THE PLAN. The Company's Board of Directors may, insofar as permitted by law, from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever, except that no such amendment shall alter or impair or diminish any rights or obligations under any option theretofore granted under the Plan without the consent of the person to whom such option was granted. In addition, without further shareholder approval, the Plan may not be amended so as to increase the number of shares subject to the Plan (as adjusted under Article III), increase the number of shares for which an option or options may be granted to any optionee (as adjusted under Article III), change the class of persons eligible to receive options under the Plan, provide for the grant of options having an exercise price per option share less than the exercise price specified in the Plan, or extend the final date upon which options may be granted under the Plan. Under no circumstances may the provisions of the Plan that provide for the amounts, price, and timing of option grants be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, ERISA, or the rules thereunder.

7. TERM OF PLAN. Options may be granted under the Plan until September 1, 2002, whereupon the Plan will terminate. Notwithstanding the foregoing, each option granted under the Plan shall remain in effect until such option has been exercised or terminated in accordance with its terms and the terms of the Plan.

8. GRANTS BEFORE SHAREHOLDER APPROVAL. Option grants made before this Plan has been approved by the Company's shareholders shall be made subject to and effective only upon such approval.

9. RESTRICTIONS. All options granted under the Plan shall be subject to the requirement that, if at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares subject to options granted under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such an option or the issuance, if any, or purchase of shares in connection therewith, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

10. NONASSIGNABILITY. No option granted under the Plan shall be assignable or transferable by the grantee except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order (as defined by the Internal Revenue Code of 1986, as amended). During the lifetime of the optionee, the option shall be exercisable only by the optionee, and no other person shall acquire any rights therein.

11. WITHHOLDING TAXES. Whenever shares of Common Stock are to be issued upon exercise of an option granted under the Plan, the administrator shall have the right to require the optionee to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. The administrator may, in the exercise of its discretion, allow satisfaction of tax withholding requirements by accepting delivery of stock of the Company or by withholding a portion of the Common Stock otherwise issuable upon exercise of an option.

12. DEFINITION OF "FAIR MARKET VALUE." For purposes of the Plan, the term "FAIR MARKET VALUE," when used in reference to the value of a share of the Company's Common Stock on the date an option is granted under the Plan, shall be: (a) if the Common Stock is listed on an established stock exchange or exchanges, the mean between the highest and lowest sale prices of the Common Stock quoted in the Transactions Index of each such exchange as averaged with such mean price as reported on any and all other exchanges, as published in "The Wall Street Journal" and determined by the Company, or, if no sale price was quoted in any such Index for such date, then as of the next preceding date on which such a sale price was quoted, provided that the mean on such preceding date is not less than 100% of the fair market value of the Common Stock on the date the option is granted; or, (b) if the Common Stock is not then listed on an exchange, the average of the closing bid and asked prices per share for the Common Stock in the over-the-counter market as quoted on NASDAQ on such date; or, (c) if the Common Stock is not then listed on an exchange or quoted on NASDAQ, an amount determined in good faith by the Company.

13. RIGHTS AS A SHAREHOLDER. An optionee or a transferee of an option shall have no rights as a shareholder with respect to any shares issuable or issued upon exercise of the option until the date of the receipt by the Company of all amounts payable in connection with exercise of the option, including the exercise price and any amounts required by the Company pursuant to Section 11 of Article I.

14. PURCHASE FOR INVESTMENT. Unless the shares of Common Stock to be issued upon exercise of an option granted under the Plan have been effectively registered under the Securities Act of 1933 as now in force or hereafter amended, the Company shall be under no obligation to issue any shares of Common Stock covered by any option unless the person who exercises such option, in whole or in part, shall give a written representation and undertaking to the Company which is satisfactory in form and scope to counsel to the Company and upon which, in the opinion of such counsel, the Company may reasonably rely, that he or she is acquiring the shares of Common Stock issued to him or her pursuant to such exercise of the option for his or her own

account as an investment and not with a view to, or for sale in connection with, the distribution of any such shares of Common Stock, and that he or she will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act of 1933, or any other applicable law, and that if shares of Common Stock are issued without such registration, a legend to this effect may be endorsed upon the securities so issued.

ARTICLE II
STOCK OPTIONS

1. GRANTS OF INITIAL OPTIONS.

(a) Each Eligible Director who becomes an Eligible Director in 1992 shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 80,000 shares of the Company's Common Stock at an exercise price of $2.50 per share, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(b) Each Eligible Director who becomes an Eligible Director from January 1, 1993 through April 17, 1996 shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 80,000 shares of the Company's Common Stock at an exercise price per share equal to 75% of the fair market value of the Company's Common Stock on the date of his or her election to the Board, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(c) Each Eligible Director who becomes an Eligible Director from April 18, 1996 through August 17, 1999 shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 80,000 shares of the Company's Common Stock at an exercise price per share equal to the fair market value of the Company's Common Stock on the date of his or her election to the Board, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(d) Each Eligible Director who becomes an Eligible Director after August 17, 1999 shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 20,000 shares of the Company's Common Stock at an exercise price per share equal to the fair market value of the Company's Common Stock on the date of his or her election to the Board, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(e) Options granted under Sections 1(a) through 1(d) of this Article II are "INITIAL OPTIONS" for purposes hereof.

2. GRANTS OF ADDITIONAL AND SPECIAL OPTIONS.

(a) Prior to January 1, 2000, on each even-numbered (i.e. 2nd, 4th, 6th, 8th, 10th) anniversary of an Eligible Director's election to the Board, if the Eligible Director has served as a director since his or her election and is continuing as a director for at least another year, such Eligible Director shall automatically be granted an "ADDITIONAL OPTION" to purchase up to 8,000 shares of the Company's Common Stock at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(b) Beginning January 1, 2000, on each anniversary of an Eligible Director's election to the Board, if the Eligible Director has served as a director since his or her election and is continuing as a director for at least another year, such Eligible Director shall automatically be granted an "ADDITIONAL OPTION" to purchase up to 4,000 shares of the Company's Common Stock at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant, subject to (i) vesting as set forth in Section 4 of Article II and (ii) adjustment as set forth in Article III.

(c) Each Eligible Director who has an odd-numbered (i.e. 1st, 3rd, 5th, 7th) anniversary in 1999 shall receive a "SPECIAL OPTION" on August 17, 1999 to purchase up to 4,000 shares of the Company's Common Stock at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(d) No individual may receive aggregate Additional Options and Special Options to purchase more than 40,000 shares of the Company's Common Stock pursuant to this Section.

3. EXERCISE PRICE. The option exercise price shall be payable upon the exercise of an option in legal tender of the United States or such other consideration as the administrator may deem acceptable, including without limitation stock of the Company (delivered by or on behalf of the person exercising the option or retained by the Company from the Common Stock otherwise issuable upon exercise), provided, however, that the administrator may, in the exercise of its discretion, (i) allow exercise of an option in a broker-assisted or similar transaction in which the exercise price is not received by the Company until immediately after exercise, and/or (ii) allow the Company to loan the exercise price to the person entitled to exercise the option, if the exercise will be followed by an immediate sale of some or all of the underlying shares and a portion of the sales proceeds is dedicated to full payment of the exercise price. Upon proper exercise, the Company shall deliver to the person entitled to

exercise the option or his or her designee a certificate or certificates for the shares of Common Stock to which the option pertains.

4. VESTING AND EXERCISE.

(a) Initial Options shall vest and become exercisable 50% upon the first anniversary of the grant date, if the optionee has remained an Eligible Director for the entire period from the date of grant to the first anniversary thereof, and 50% upon the second anniversary of the grant date, if the optionee has remained an Eligible Director for the entire period from the date of grant to the second anniversary thereof.

(b) Prior to January 1, 2000, Additional Options shall vest and become exercisable 50% upon the first anniversary of the grant date, if the optionee has remained an Eligible Director for the entire period from the date of grant to the first anniversary thereof, and 50% upon the second anniversary of the grant date, if the optionee has remained an Eligible Director for the entire period from the date of grant to the second anniversary thereof. Beginning January 1, 2000, Additional Options shall vest and become exercisable 100% two years from the grant date if the optionee has remained an Eligible Director for the entire period from the date of grant to the vesting date.

(c) Each Special Option shall vest and become exercisable 100% on the second anniversary date of the Eligible Director's election to the Board that occurs following the grant date if the optionee has remained an Eligible Director for the entire period from the date of grant to the vesting date.

5. OPTION AGREEMENTS. Each option granted under the Plan shall be evidenced by an option agreement duly executed on behalf of the Company and by the Eligible Director to whom such option is granted and stating the number of shares of Common Stock issuable upon exercise of the option, the exercise price, the time during which the option is exercisable, and the times at which the options vest and become exercisable. Such option agreements may but need not be identical and shall comply with and be subject to the terms and conditions of the Plan, a copy of which shall be provided to each option recipient and incorporated by reference into each option agreement. Each option agreement may contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the administrator.

6. TERM OF OPTIONS AND EFFECT OF TERMINATION. Notwithstanding any other provision of the Plan, no Initial Options, Additional Options or Special Options shall be exercisable after the expiration of ten years from the effective date of their grant. In the event that any outstanding option under the Plan expires by reason of lapse of time or is otherwise terminated without exercise for any reason, then the shares of Common Stock subject to

any such option which have not been issued pursuant to the exercise of the option shall again become available in the pool of shares of Common Stock for which options may be granted under the Plan. In the event that the holder of any option granted under this Plan shall cease to be a director of the Company for any reason, all options granted under this Plan to such holder shall be exercisable, to the extent already exercisable at the date such holder ceases to be a director, for a period of one year after that date (or, if sooner, until the expiration of the option according to its terms), and shall then terminate. In the event of the death of an optionee while such optionee is a director of the Company or within the period after termination of such status during which he or she is permitted to exercise an option, such option may be exercised by any person or persons designated by the optionee on a Beneficiary Designation Form adopted by the administrator for such purpose or, if there is no effective Beneficiary Designation Form on file with the Company, by the executors or administrators of the optionee's estate or by any person or persons who shall have acquired the option directly from the optionee by his or her will or the applicable laws of descent and distribution.

ARTICLE III
RECAPITALIZATIONS AND REORGANIZATIONS

1. ANTI-DILUTION ADJUSTMENTS. The number of shares of Common Stock available for issuance upon exercise of options granted under the Plan, the maximum number of shares for which options granted under the Plan may be exercised by any individual, the number of shares for which each option (issued and unissued) can be exercised, and the exercise price per share of options (issued and unissued) shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of issued and outstanding shares of Common Stock effected without receipt of consideration by the Company. All share amounts and exercise prices set forth in this amended plan document have been restated to take into account, and give full effect to, any and all stock splits implemented since the adoption and approval of the Plan by shareholders on April 29, 1993 and before April 17, 1996.

2. CORPORATE TRANSACTIONS. If the Company shall be the surviving corporation in any merger or consolidation, each outstanding option shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are subject to that option would have been entitled. A dissolution or liquidation or change in control of the Company, or a merger or consolidation in which the Company is not the surviving corporation, shall cause each outstanding option to terminate, unless the agreement of merger or consolidation shall otherwise provide; provided that, in the event such

dissolution, liquidation, change in control, merger or consolidation will cause outstanding options to terminate, each optionee shall have the right immediately prior to such dissolution, liquidation, merger or consolidation or upon such change in control to exercise his or her option or options in whole or in part without regard to any vesting requirements. For purposes hereof, a "change in control" shall be the acquisition by any person or entity of beneficial ownership of 50% or more of the Company's outstanding voting securities.

3. DETERMINATION BY THE COMPANY. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the administrator, whose determination in that respect shall be final, binding and conclusive. The grant of an option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all of any part of its business or assets.

5

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEET AND UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS AT SEPTEMBER 30, 1999 AND FOR THE NINE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
DEC-31-1999
JAN-01-1999
SEP-30-1999
75,490
0
111,299
5,840
98,564
310,260
267,128
92,625
639,202
118,666
0
0
0
760
500,130
639,202
598,788
598,788
316,707
316,707
0
513
2,855
90,727
35,562
55,165
0
0
0
55,165
$0.78
$0.78