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 March 31, 2001

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.)

2180 Rutherford Road, Carlsbad, CA 92008-8815
(760) 931-1771
(Address, including zip code, and telephone number, including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of April 30, 2001 was 76,757,347.

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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)

	March 31, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,055	$ 102,596
Accounts receivable, net (Note 5)	159,520	58,836
Inventories, net	129,511	133,962
Deferred taxes	27,535	29,354
Other current assets	26,611	17,721
Total current assets	441,232	342,469
Property, plant and equipment, net	130,500	134,712
Intangible assets, net	115,308	112,824
Other assets	36,681	40,929
	$ 723,721	$ 630,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 65,434	$ 44,173
Accrued employee compensation and benefits	20,478	22,574
Accrued warranty expense	39,630	39,363
Income taxes payable	10,242	3,196
Total current liabilities	135,784	109,306
Long-term liabilities	8,428	9,884
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at March 31, 2001 and December 31, 2000		
Common Stock, $.01 par value, 240,000,000 shares authorized, 81,381,054 and 78,958,963 issued at March 31, 2001, and December 31, 2000, respectively	814	790

Paid-in capital	406,249	347,765
Unearned compensation	(978)	(1,214)
Retained earnings	378,474	349,681
Accumulated other comprehensive income	(6,868)	(6,096)
Less: Grantor Stock Trust (5,300,000 shares) at market	(117,713)	(98,713)
	659,978	592,213
Less: Common Stock held in treasury, at cost, 4,815,241 shares at March 31, 2001, and December 31, 2000	(80,469)	(80,469)
Total shareholders' equity	579,509	511,744
	$ 723,721	$ 630,934

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

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

	Three Months Ended March 31,			
	2001		2000	
Net sales	$261,365	100%	$197,406	100%
Cost of goods sold	124,458	48%	109,141	55%
Gross profit	136,907	52%	88,265	45%
Operating expenses:				
Selling	53,246	20%	42,750	22%
General and administrative	19,850	8%	17,507	9%
Research and development	8,933	3%	8,217	4%
Income from operations	54,878	21%	19,791	10%
Other income, net	930		1,585	
Income before income taxes and cumulative effect of accounting change	55,808	21%	21,376	11%
Provision for income taxes	21,733		8,278	
Income before cumulative effect of accounting change	34,075		13,098	
Cumulative effect of accounting change			(957)	
Net income	$ 34,075	13%	$ 12,141	6%
Earnings per common share:				
Basic				
Income before cumulative effect of accounting change	$ 0.49		$ 0.18	
Cumulative effect of accounting change			(0.01)	
Net income	$ 0.49		$ 0.17	
Diluted				
Income before cumulative effect of accounting change	$ 0.47		$ 0.18	
Cumulative effect of accounting change			(0.01)	
Net income	$ 0.47		$ 0.17	
Common equivalent shares:				
Basic	70,010		71,199	
Diluted	72,453		72,482	
Dividends paid per share	$ 0.07		$ 0.07	

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

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

	Three months ended March 31,	
	2001	2000
Cash flows from operating activities:		
Net income	$ 34,075	$ 12,141
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,050	9,798
Loss on disposal of assets	1,018	264
Non-cash compensation	342	363
Tax benefit from exercise of stock options	8,516	477
Net non-cash foreign currency and hedging gains	(1,002)	
Deferred taxes	610	(379)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(103,858)	(49,985)
Inventories, net	1,375	(17,442)
Other assets	9,743	616
Accounts payable and accrued expenses	27,330	7,083
Accrued employee compensation and benefits	(1,819)	(3,624)
Accrued warranty expense	267	2,595
Income taxes payable	7,481	3,068
Accrued restructuring cost-long term		(451)
Deferred compensation	(1,456)	255
Net cash used in operating activities	(8,328)	(35,221)
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(952)	(216)
Capital expenditures	(8,564)	(8,828)
Sale of property and equipment	13	7
Investment in marketable securities	(10,218)	
Net cash used in investing activities	(19,721)	(9,037)
Cash flows from financing activities:		
Issuance of Common Stock	30,886	5,040
Dividends paid	(5,282)	(4,996)
Net cash provided by financing activities	25,604	44
Effect of exchange rate changes on cash	(2,096)	240
Net decrease in cash and cash equivalents	(4,541)	(43,974)
Cash and cash equivalents at beginning of period	102,596	112,602
Cash and cash equivalents at end of period	$ 98,055	$ 68,628

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

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CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS’ EQUITY
(Unaudited)
(In thousands)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income
Balance, December 31, 2000	78,959	$790	$347,765	$(1,214)	$349,681	$(6,096)
Exercise of stock options	2,139	21	27,730			
Tax benefit from exercise of stock options			8,516			
Compensatory stock and stock options			106	236		
Employee stock purchase plan	283	3	3,132			
Cash dividends					(5,282)	
Adjustment of GST shares to market value			19,000			
Equity adjustment from foreign currency translation						(3,412)
Unrealized gain on cash flow hedges, net of tax						2,640
Net income					34,075	
Balance, March 31, 2001	81,381	$814	$406,249	$ (978)	$378,474	$(6,868)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	GST	Treasury Stock Shares	Treasury Stock Amount	Total	Comprehensive Income
Balance, December 31, 2000	$ (98,713)	(4,815)	$(80,469)	$511,744	
Exercise of stock options				27,751	
Tax benefit from exercise of stock options				8,516	
Compensatory stock and stock options				342	
Employee stock purchase plan				3,135	
Cash dividends				(5,282)	
Adjustment of GST shares to market value	(19,000)				
Equity adjustment from foreign currency translation				(3,412)	$ (3,412)
Unrealized gain on cash flow hedges, net of tax				2,640	2,640
Net income				34,075	34,075
Balance, March 31, 2001	$(117,713)	(4,815)	$(80,469)	$579,509	$33,303

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

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CALLAWAY GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying financial information at and for the three months ended March 31, 2001 and 2000 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, 2000. 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 materially from those estimates and assumptions.

2. RECLASSIFICATIONS AND RECENT ACCOUNTING PRONOUNCEMENTS

In July 2000, the Emerging Issues Task Force ("EITF") finalized its consensus on Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." Pursuant to EITF Issue No. 00-10 and the Securities and Exchange Commission's ("SEC") position on this issue, all amounts billed to customers for shipping and handling should be included in "net sales" and costs incurred related to shipping and handling should be included in "cost of goods sold." The Company had previously included shipping and handling revenues and costs in "selling" costs. The Company's Statement of Operations for the three months ended March 31, 2000 has been reclassified from the prior year Form 10-Q filed with the SEC to include an increase in net sales of $1,281,000 and an increase in cost of goods sold of $2,332,000 to reflect the classification required by EITF Issue No. 00-10. There was no effect on operating results as a result of the adoption of EITF Issue No. 00-10.

In the fourth quarter of 2000, the Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") with an effective date of January 1, 2000. SAB No. 101 summarizes the SEC's Division of Corporation Finance Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company's Consolidated Statement of Operations for the three months ended March 31, 2000 has been adjusted from amounts previously reported in the prior year Form 10-Q filed with the SEC to reflect the application of SAB 101. Accordingly, net sales, cost of goods sold and provision for income taxes have been reduced by $10,483,000, $5,370,000 and $2,005,000, respectively, from amounts previously reported. The cumulative effect of accounting change on periods prior to 2000 was $957,000 and is included in the Consolidated Condensed Statement of Operations for the three months ended March 31, 2000.

3. INVENTORIES

	March 31, 2001	December 31, 2000
	(Unaudited)	
Inventories, net (in thousands):		
Raw materials	$ 47,021	$ 56,936
Work-in-process	2,478	1,293
Finished goods	87,015	83,453
	136,514	141,682
Less reserve for obsolescence	(7,003)	(7,720)
	$129,511	$133,962

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4. BANK LINE OF CREDIT

The Company has a revolving credit facility of up to $120.0 million (the "Amended Credit Agreement"). The Amended Credit Agreement is secured by substantially all of the assets of the Company and expires in February 2004. 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 Amended Credit Agreement requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants. As of March 31, 2001, up to $117.6 million of the credit facility remained available for borrowings (including a reduction of $2.4 million for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

5. ACCOUNTS RECEIVABLE SECURITIZATION

The Company's wholly-owned subsidiary, Callaway Golf Sales Company, sells trade receivables on an ongoing basis to its wholly-owned subsidiary, Golf Funding Corporation ("Golf Funding"). Pursuant to an agreement with a securitization company (the "Accounts Receivable Facility"), Golf Funding, in turn, can sell such receivables to the securitization company on an ongoing basis, which could yield 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 would be entitled to be satisfied out of Golf Funding's assets prior to any value in Golf Funding becoming available to the Company. The Accounts Receivable Facility expires in February 2004.

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. During the three months ended March 31, 2001, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with this facility were $76,000 for each of the three month periods ended March 31, 2001, and 2000. These fees were recorded as a reduction to "other income."

6. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three months ended March 31, 2001 and 2000 is presented below.

	Three months ended March 31,	
	2001	2000
(in thousands, except per share data)	(Unaudited)	
Net income	$34,075	$12,141
Weighted-average shares outstanding:		
Weighted-average shares outstanding — Basic	70,010	71,199
Dilutive securities	2,443	1,283
Weighted-average shares outstanding — Diluted	72,453	72,482
Earnings per common share:		
Basic		
Income before cumulative effect of accounting change	$ 0.49	$ 0.18
Cumulative effect of accounting change		$ (0.01)
Net income	$ 0.49	$ 0.17
Diluted		
Income before cumulative effect of accounting change	$ 0.47	$ 0.18
Cumulative effect of accounting change		$ (0.01)
Net income	$ 0.47	$ 0.17

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For the three months ended March 31, 2001 and 2000, 6,187,000, and 9,498,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

7. COMMITMENTS AND CONTINGENCIES

At March 31, 2001, the Company was contingently liable for lease payments relating to a facility in New York City totaling $5.0 million. This contingency is the result of the assignment of an operating lease to a third party and expires in February 2003.

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

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

On April 6, 2001, a complaint was filed against Callaway Golf Company and Callaway Golf Sales Company (collectively, the "Company"), in The Circuit Court of Sevier County, Tennessee, case no. 2001-241-IV. The complaint seeks to assert a class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased selected Callaway Golf products on or after March 30, 2000. Specifically, the complaint alleges that the Company adopted a New Product Introduction Policy governing the introduction of certain of the Company's new products and agreed with retailers to sell those products at particular prices in violation of Tennessee and Kansas antitrust and consumer protection laws. The plaintiff is seeking damages, restitution and punitive damages. The Company intends to defend this matter vigorously.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of March 31, 2001. However, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

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The Company's repurchases of shares of Common Stock are recorded at average cost in "Common Stock held in treasury" and result in a reduction of "Shareholders' equity." At March 31, 2001, retained earnings was restricted in the amount of $80.5 million, representing the cost of 4.8 million shares of Common Stock held in treasury.

8. RESTRUCTURING

In 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 Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey® brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, a golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. The restructuring charges primarily related to 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations, resulting in impairment of assets, losses on disposition of assets and excess lease costs. During 1999, the Company completed its restructuring initiatives. During the three month period ended March 31, 2000, the Company paid $0.5 million related to its restructuring obligations, primarily rents associated with its New York City facility. At March 31, 2001, there was no remaining reserve balance.

9. 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® titanium and stainless steel metal woods and irons, Callaway Golf® and Odyssey® putters and wedges, and related accessories. The Golf Balls segment consists of golf balls that are designed, manufactured, marketed and distributed by the Company. Beginning January 1, 2000, management changed its method of allocating certain corporate costs and other income (expense) used in evaluating segment income (loss) before tax. As a result, certain amounts are attributable to neither segment in the determination of its income (loss) before tax. Additionally, beginning April 1, 2000, management further changed its method of allocating these costs between segments. Prior period amounts have been reclassified to reflect the current allocation methodology. The table below contains information utilized by management to evaluate its operating segments for the interim periods presented.

	Three Months Ended March 31,	
	2001	2000
Net Sales		
Golf Clubs	$249,839	$191,446
Golf Balls	11,526	5,960
	$261,365	$197,406
Income (loss) before tax		
Golf Clubs	$ 74,456	$ 46,260
Golf Balls	(6,067)	(15,300)
Reconciling Items(1)	(12,581)	(9,584)
	$ 55,808	$ 21,376

Additions to long-lived assets		
Golf Clubs	$ 7,519	$ 7,006
Golf Balls	1,045	1,822
	$ 8,564	$ 8,828

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

10. FOREIGN CURRENCY EXCHANGE CONTRACTS

During the three months ended March 31, 2001, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from certain wholly-owned foreign subsidiaries and on certain euro-denominated accounts receivable. 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 do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset the losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At March 31, 2001, the Company had approximately $73.6 million of foreign exchange contracts outstanding. The contracts mature between April and December of 2001. Gains and losses on the contracts are recorded in "other income." The net realized and unrealized gains from foreign exchange contracts for the three months ended March 31, 2001 totaled approximately $2.7 million and $0.3 million, respectively.

During the fourth quarter 2000, the Company utilized forward foreign currency exchange rate contracts to hedge cash flows associated with forecasted intercompany sales of inventory. These forward contracts are accounted for as cash flow hedges. The Company only hedges transactions that it deems to be more likely than not to occur. During 2000, the Company hedged only those transactions forecasted to occur by December 31, 2001. As of March 31, 2001, the Company had approximately $70.8 million of cash flow hedges outstanding. The Company assesses the effectiveness of these derivatives using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of "Other income, net." Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the hedging item and the hedging instrument are evaluated using the same spot rate, the Company anticipates hedges of anticipated intercompany inventory sales to be highly effective. The effectiveness of each derivative is assessed monthly. During the first quarter 2001, a gain of $504,000, representing the ineffective portion of the Company's derivative instruments, was recorded in "Other income, net."

The effective portion of the fair value of the derivatives is deferred on the balance sheet in other comprehensive income ("OCI"), a component of "Accumulative other comprehensive income." Amounts recorded in OCI will be released to earnings in the same period that the hedged transaction will impact the Company's consolidated earnings. This transaction date is assumed to occur when the underlying sale of product to a third party occurs. At March 31, 2001, $2,983,000 of deferred net gain is expected to be reclassified into earnings within the next 12 months. During the quarter ended March 31, 2001, no gains or losses were reclassified into earnings as a result of discontinuance of any cash flow hedges.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Disclaimer: Statements made in this report that relate to future plans, events, financial results or performance, including statements regarding its future liquidity, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties. For details concerning these and other risks and uncertainties, see below — *Certain Factors Affecting Callaway Golf Company*, as well as the Company's other periodic reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

Three-month periods ended March 31, 2001 and 2000

For the quarter ended March 31, 2001, net sales increased $64.0 million, or 32%, to $261.4 million from $197.4 million in the quarter ended March 31, 2000. The increase is primarily attributable to a substantial increase in sales of Metal Woods, due to the worldwide launches of the new Big Bertha® ERC™ II Driver and the new Big Bertha® Hawk Eye® VFT™ Woods. In total, sales of Metal Woods increased by about $60.0 million (63%) in the quarter ended March 31, 2001 compared to the same quarter of

2000. The increase in revenues was also the result of growth in the Company's golf ball sales, which increased by about $6.0 million (97%) in the current quarter compared

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to the first quarter of 2000. These increases were offset in part by lower sales of the Company's iron products. Sales of the Company's irons were down by about $13.0 million (17%) in the first quarter compared to the same quarter a year earlier.

The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") in the fourth quarter of 2000 with an effective date of January 1, 2000. SAB No. 101 summarizes the SEC's Division of Corporation Finance Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. As a result of the adoption of SAB No. 101, the Company adjusted amounts previously reported in the prior year Form 10-Q filed with the SEC.

Net sales for the quarter ended March 31, 2000 reflects the effect of a reclassification of shipping revenues from "selling" expenses. This reclassification, which added $1.3 million in both net sales and selling expenses in the first quarter of 2000, was required by the Emerging Issues Task Force Issue No. 00-10 ("EITF 00-10") and did not result in a change in the Company's earnings or earnings per share for the period.

During the first quarter of 2001, sales increased in nearly all regions as compared with the first quarter of 2000. Sales in the United States increased $30.7 million (27%) to $144.4 million during the first quarter of 2001 versus the first quarter of 2000; and sales in Japan increased $21.1 million (105%) to $41.2 million during the same period. Sales in Europe increased $5.6 million (17%) to $39.6 million as compared to the first quarter 2000 and sales in Canada increased $2.3 million in the first quarter 2001 (34%) to $9.1 million as compared to the first quarter 2000. Sales in Rest of Asia (including Korea) increased $2.0 million (12%) to $17.9 million, and sales in the regions comprising Rest of World increased $1.5 million (29%) to $6.5 million in the first quarter 2001 as compared with the first quarter 2000. Australia increased $0.8 million to $2.7 million during the first quarter 2001. The Company acquired its Australian distribution rights in the first quarter of 2001 and therefore began selling directly to retailers rather than a third party distributor.

For the first quarter 2001, gross margin increased to $136.9 million from $88.3 million in the first quarter 2000, and as a percentage of net sales, increased to 52% from 45%. This improvement in gross margin is a result of a shift in club product mix away from lower yielding iron products to higher yielding wood products. The margin was also favorably affected by a reduction in the Company's warranty expense as a percent of net sales in the first quarter 2001 as compared to the first quarter of 2000. Golf ball product margins improved in the first quarter 2001 as compared to the first quarter 2000, associated with increased sales volume and an increase in plant utilization and production yields.

Selling expenses in the first quarter of 2001 increased to $53.2 million from $42.8 million in the comparable period of 2000, or 20% and 22% of net sales, respectively. This dollar increase was primarily due to increased advertising and promotional expenses related to the Company's new product launches.

General and administrative expenses increased to $19.9 million in the first quarter of 2001 from $17.5 million in the comparable period of 2000, or 8% and 9% of net sales, respectively. This dollar increase is mainly attributable to the Company consolidating operating facilities and an increase in the Company's provision for bad debt allowance, partially offset by a decrease in depreciation expense.

Research and development expenses increased to $8.9 million in the first quarter of 2001 from $8.2 million in the first quarter of 2000, or 3% and 4% of net sales, respectively. This dollar increase resulted primarily from increased employee costs.

Other income decreased to $0.9 million in the first quarter of 2001 from $1.6 million in the first quarter of 2000. The $0.7 million decrease is primarily attributable to a decrease in interest income, partially offset by increases in foreign currency gains and other income.

For the first quarter of 2001, the Company recorded a provision for income taxes of $21.7 million and recognized a decrease in deferred taxes of $2.8 million. The provision for income taxes as a percentage of income before taxes remained unchanged at 39% for the three months ended March 31, 2001 and 2000 as compared to 37% for the year ended December 31, 2000. During the first quarter 2001, the Company realized $8.5 million in tax benefits related to the exercise of employee stock options.

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LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, cash and cash equivalents decreased to $98.1 million from $102.6 million at December 31, 2000. This decrease primarily resulted from cash used in investing activities of $19.7 million primarily for investments in marketable equity securities and capital expenditures, combined with $8.3 million used in operating activities. These decreases were offset by $25.6 million provided by financing activities, primarily from the exercise of employee stock options.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's credit facilities. The Company currently expects this to continue. The Company has a revolving credit facility for up to $120.0 million (the "Amended Credit Agreement") and an $80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 4 and 5 to the unaudited Consolidated Condensed Financial Statements). During the first quarter of 2001, the Company did not utilize either its Accounts Receivable Facility or its line of credit under the Amended Credit Agreement. At March 31, 2001, the Company had $117.6 million available, net of outstanding letters of credit, under the Amended Credit Agreement, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at March 31, 2001, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility.

In May 2000, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $100.0 million. The Company began its repurchase program in May 2000 and through March 31, 2001 has spent $80.5 million to repurchase 4.8 million shares of its Common Stock at an average cost of $16.71 per share. Pursuant to the authority granted in May 2000, the Company can purchase up to $19.5 million in additional shares. If the Company continues to repurchase its Common Stock under this program and/or under any future program, the Company's liquidity would decrease. During the first quarter 2001, the Company did not repurchase its Common Stock under this program.

At March 31, 2001, the Company had a contingent liability that expires in February 2003 of $5.0 million relating to a facility in New York City (see Note 7 to the unaudited Consolidated Condensed Financial Statements).

Although the Company's golf club operations are mature and historically have generated cash from operations, the Company's golf ball operations are relatively new and to date have not generated cash flows sufficient to fund these operations. The Company does not expect that its golf ball operations will generate sufficient cash to fund these operations for the remainder of 2001. However, the Company believes that, based upon its current operating plan, analysis of consolidated financial position and projected future results of operations, it will be able to maintain its current level of consolidated operations, including purchase commitments and planned capital expenditures, for the foreseeable future through operating cash flows and its credit facilities. There can be no assurance, however, that future industry specific or other developments, or general economic trends, will not adversely affect the Company's operations or its ability to meet its future cash requirements.

RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey® brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. The restructuring charges primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs. At March 31, 2001, there was no remaining balance. The Company also has a contingent liability related to a facility in New York City (see Note 7 to the unaudited Consolidated Condensed Financial Statements).

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

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

Adverse Global Economic Conditions

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

Growth Opportunities

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

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

Golf Ball Costs

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

Manufacturing Capacity

The Company plans its manufacturing capacity based upon the forecasted demand for its products. Actual demand for such products may exceed or be less than forecasted demand. The Company's unique product designs often require sophisticated manufacturing techniques, which can require significant start-up expenses and/or limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for its products. If the Company is unable to produce sufficient quantities of new products in time to fulfill actual demand, especially

during the Company's traditionally busy season, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company invests in manufacturing capacity and commits to components and other manufacturing inputs for varying periods of time, which can limit the Company's ability to quickly react if actual demand is less than forecast. This could result in less than optimum capacity usage and/or in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance. In addition, if the Company were to experience delays, difficulties or increased costs in its production of golf clubs or golf balls, including production of new products needed to replace current products, the Company's future golf club or golf ball sales could be adversely affected.

Dependence on Energy Resources

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. The State of California is currently experiencing a severe shortage of electricity. The shortage may worsen during the summer months when demand for electricity is at its peak. Many companies in California have experienced periods of blackouts during which electricity was not available. The Company has experienced one blackout period to date, and expects that it will experience additional blackout periods. The Company has taken certain steps to provide uninterruptible power supplies for its key operations, including the ball and club operations, and believes that these measures will mitigate any impact resulting from future blackouts. However, if the blackout periods are significant and the Company's contingency plans are not effective, the Company could experience significant disruptions in its manufacturing operations because of blackout periods, which could have a material adverse affect upon the Company.

Furthermore, market and regulatory imperfections are also causing increased prices for electricity. The Company has tried to mitigate fluctuations in electricity prices and lower its costs by entering into long-term contracts at fixed rates. The Company recently entered into a new long-term contract for electricity. To obtain a more favorable price and to assure adequate supplies during times of peak loads, the Company agreed to purchase a significantly greater supply of electricity than it expects to use in its business. The Company expects to be able to re-sell some or all of this excess supply and thereby reduce the net price of the electricity it uses in its business. If the Company is unable to re-sell a significant portion of such excess supply at favorable rates, the net cost of the electricity used in the Company's business could increase significantly. Moreover, if the market price for electricity were to drop significantly during the term of the contract, and the Company was unable to revise its commitment, then the Company's costs for electricity could be higher than its competitors'. Either scenario could have a significant adverse affect upon the Company's results of operations.

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

Dependence on Certain Suppliers and Materials

The Company is dependent on a limited number of suppliers for its clubheads and shafts, some of which are single-sourced. In addition, some of the Company's products require specifically developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. The Company believes that suitable clubheads and shafts could be obtained from other manufacturers in the event its regular suppliers are unable to provide components. However, any significant production delay or disruption caused by the inability of current suppliers to deliver or the transition to other suppliers could have a material adverse impact on the Company's results of operations. The Company is also single-sourced or dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials, including the golf ball cover, are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its U.S. customers. The Company is continually reviewing alternative methods of ground shipping to supplement its use and reduce its reliance on UPS. To date, a limited number of alternative suppliers have been identified and are being

used by the Company. Nevertheless, any interruption in UPS services could have a material adverse effect on the Company's sales and results of operations.

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

Competition

Golf Clubs. The worldwide market for premium golf clubs is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions, price reductions and "close-outs" by competitors continue to generate increased market competition. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities or new product introductions by competitors will not negatively impact the Company's future sales.

Golf Balls. The premium golf ball business is also highly competitive, and may be becoming even more competitive. There are a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium golf ball business. There are also several recent entrants into the golf ball business, including Nike. Many of these competitors have introduced or will introduce golf ball designs that directly compete with the Company's products. The Company will need to penetrate the market share held by existing competitors while competing with the other new entrants in order for its golf ball business to be successful. There can be no assurance that the Company's golf balls will obtain the market acceptance necessary to be commercially successful.

Market Acceptance of Products

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

New Product Introduction

The Company believes that the introduction of new, innovative golf clubs and golf balls is important to its future success. A major portion of the Company's revenues is generated by products that are less than two years old. The Company faces certain risks associated with such a strategy. For example, in the golf industry, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. Further, any new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase.

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have often resulted in higher prices for the Company's products relative to other products in the marketplace. For example, the Company's Rule 35® golf balls are premium golf balls and there are many lower priced non-premium golf balls sold by others. There can be no assurance that a significant percentage of the public will always be willing to pay such premium prices for golf equipment or that the Company will be able to continue to design and manufacture premium products that achieve market acceptance in the future.

The rapid introduction of new golf club or golf ball products by the Company could result in close-outs of existing inventories at both the wholesale and retail levels. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices. The

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Company experienced some of these effects in 1999 with respect to golf clubs and could experience similar effects in future years as the Company from time to time introduces new golf club or golf ball products or misjudges demand.

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

Conformance with the Rules of Golf

New golf club and golf ball products generally seek to satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. The USGA rules are generally followed in the United States, Canada and Mexico, and the R&A rules are generally followed in most other countries throughout the world.

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

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

Currently, all of the Company's products are believed to be "conforming" under the Rules of Golf as published by the R&A. In addition, all of the Company's products with the exception of the Company's ERC™ II Forged Titanium Driver are believed to be "conforming" under the Rules of Golf as published by the USGA and RCGA. Although the ERC™ II Drivers conform to all existing R&A equipment rules, and most existing USGA and RCGA equipment rules, they do not conform to the USGA's so-called "spring-like effect" test protocol. There is no assurance that new designs will satisfy USGA and/or R&A standards, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products. For example, if the R&A were to reverse its current position and rule that the ERC™ II Driver is non-conforming under the Rules of Golf as published by the R&A, then the Company believes its sales of the ERC™ II Driver in the Company's international markets would be significantly adversely affected.

On October 18, 2000, the Company announced that it intended to sell its ERC™ II Forged Titanium Driver in the U.S. despite the fact that it has been ruled to be non-conforming by the USGA. To the Company's knowledge, it is the first large, premium brand golf equipment company to sell non-conforming equipment in the U.S. By undertaking this approach, the Company hopes to expand participation in the game of golf in the United States — the source of more than half of the Company's revenues — by making the game more enjoyable and accessible for more people, including those people who play the game primarily for fun, enjoyment and recreation.

While the Company believes that this is the best strategy for the Company and its shareholders, and one that is good for the game of golf as well, the strategy is not without risk. The USGA has vigorously and openly opposed the sale or use of the ERC™ II Driver. On December 8, 2000, the USGA announced that scores in rounds played with clubs that do not conform to USGA rules, such as the ERC™ II Forged Titanium Driver, may not be posted for USGA handicap purposes. A number of U.S. retailers have declined to carry a non-conforming product such as the ERC™ II Driver, and that number could grow. It is also possible that a significant number of U.S. golfers may decide that they do not wish to purchase a driver that may not be used in competitions in the U.S. played subject to USGA rules or that may not be used for handicap purposes. Retailer and/or consumer backlash against the introduction of a non-conforming product may injure sales of other, conforming products, or otherwise damage the brand. These negative effects, if they materialize, could materially reduce U.S. sales of ERC™ II Drivers and other products in 2001 and

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in future years, and could even negatively affect in a material way the strength of the brand and the Company's business overseas despite the fact that the ERC™ II Driver fully conforms with the R&A's Rules. On the other hand, if the Company is correct in its belief that there are a large number of American golfers who do not play in tournaments subject to the USGA's Rules and who are prepared to purchase an exceptional non-conforming driver for use in recreational play, and/or the Company's strategy is successful over time in attracting more people to the game of golf in the U.S., then the beneficial effects could be significant.

Golf Professional Endorsements

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

Golf Clubs. Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so and do not grant any endorsement to the Company. The Company previously created cash pools that rewarded such usage. In 2001, the Company is discontinuing these pools, as it believes it is better to allocate these resources to other tour programs. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. In the past, the Company has experienced an exceptional level of club usage on the world's major professional tours, and the Company has heavily advertised that fact. The Company's lack of cash inducements for non-staff golfers could result in a decrease in usage of the Company's clubs by professional golfers. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's sales and business.

Golf Balls. Many golf ball manufacturers, including the leading U.S. manufacturer of premium golf balls, have focused a great deal of their marketing efforts on promoting the fact that tour professionals use their balls. Some of these golf ball competitors spend large amounts of money to secure professional endorsements, and the market leader has obtained a very high degree of tour penetration. While almost all of the Company's staff professionals, as well as other professionals who are not on the Company's staff, have decided to use the Company's golf balls in play, there is no assurance they will continue to do so. Furthermore, there are many other professionals who are already under contract with other golf ball manufacturers or who, for other reasons, may not choose to play the Company's golf ball products. The Company does not plan to match the endorsement spending levels of the leading manufacturer, and will instead rely more heavily upon the performance of the ball and other factors to attract professionals to the product. In the future the Company may or may not increase its tour spending in support of its golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf balls, but it is possible that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

Intellectual Property and Proprietary Rights

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

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark, copyright or other protection of their proprietary rights and designs for golf clubs and golf balls. From time to time others have contacted or may contact the Company to claim that they have proprietary rights that have been infringed by the Company and/or its products.

The Company evaluates any such claims and, where appropriate, has obtained or sought to obtain licenses or other business arrangements. To date, there have been no

interruptions in the Company's business as a result of any claims of infringement. No assurance can be given, however, that the Company will not be adversely affected in the future by the assertion of intellectual property rights belonging to others. This effect could include alteration or withdrawal of existing products and delayed introduction of new products.

Various patents have been issued to the Company's competitors in the golf ball industry. As the Company developed its golf ball products, it attempted to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that competitors will not assert and/or a court will not find that the Company's golf balls infringe certain patent or other rights of competitors. If the Company's golf balls are found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and it could incur substantial costs to redesign them and/or defend legal actions.

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

Seasonality and Adverse Weather Conditions

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

The Company believes that overall in the Company's principal markets during the first quarter of 2001 there was unusually adverse weather, which may have affected retail sales of the Company's products and resulted in increased levels of inventory at the retail level. Such excess inventory at the retail level could negatively affect the Company's sales to retailers for the second quarter and the remainder of the year.

Product Returns

Golf Clubs. The Company supports all of its golf clubs with a limited two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors that use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned to date has not been material in relation to the volume of clubs that have been sold.

The Company monitors the level and nature of any golf club breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. While the Company believes that it has sufficient reserves for warranty claims, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of breakage or other product problems.

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

"Gray Market" Distribution

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

International Distribution

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

Additionally, the Company's operation of foreign distribution increases the Company's exposure to fluctuations in exchange rates for various foreign currencies which could result in losses and, in turn, could adversely impact the Company's results of operations. The Company tries to mitigate this risk by engaging in certain hedging transactions. (*see below Item 3. Quantitative and Qualitative Disclosures about Market Risk)*. There can be no assurance that the Company will be able to mitigate this exposure in the future through its management of foreign currency transactions.

Credit Risk

The Company primarily sells its products to golf equipment retailers directly and through wholly-owned domestic and foreign subsidiaries, and to foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, a downturn in the retail golf equipment market could result in increased delinquent or uncollectible accounts for some of the Company's significant customers. In addition, as the Company integrates its foreign distribution its exposure to credit risks increases as it no longer sells to a few wholesalers but rather directly to many retailers. A failure of a significant portion of the Company's customers to meet their obligations to the Company would adversely impact the Company's performance and financial condition.

Information Systems

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999, Member States of the EMU have the option of trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships until 2002 when their local currencies will be phased out. The current version of the Company's enterprise-wide business system currently supports single transactions denominated in euro. At the end of 2001, the Company expects to convert the customers who are in the EMU groups from their national currency to the euro. Until such time as the conversion 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.

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 foreign exchange hedging policy, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables. During the three months ended March 31, 2001,

the Company entered into such contracts on behalf of three of its wholly-owned subsidiaries, Callaway Golf Europe Ltd., Callaway Golf K.K. and Callaway Golf Canada Ltd. The Company also hedged certain euro-denominated accounts receivable during the three months ended March 31, 2001. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

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

Additionally, the Company is exposed to interest rate risk from its Amended Credit Agreement and Accounts Receivable Facility (see Notes 4 and 5 to the Company's unaudited Consolidated Condensed Financial Statements) which are indexed to the LIBOR and Redwood Receivables Corporation Commercial Paper Rate. No amounts were advanced or outstanding under these facilities at March 31, 2001.

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 March 31, 2001 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 $3.4 million at March 31, 2001. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

Notes 4 and 5 to the unaudited Consolidated Condensed Financial Statements outline the principal amounts, if any, 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 legal proceedings, both domestically and abroad, in various stages of development. In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated or may initiate actions against alleged infringers under the intellectual property laws of various countries, including, for example, the U.S. Lanham Act, the U.S. Patent Act, and other pertinent laws. Defendants in these actions may, among other things, contest the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others may assert counterclaims against the Company. Based upon the Company's experience, the Company believes that the outcome of these matters individually and in the aggregate will not have a material adverse effect upon the financial position or results of operations of the Company. It is possible, however, that in the future one or more defenses or claims asserted by defendants in one or more of those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company or some other loss to the Company. One or more of these results could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the marketplace.

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

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

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

On April 6, 2001, a complaint was filed against Callaway Golf Company and Callaway Golf Sales Company (collectively, the "Company"), in The Circuit Court of Sevier County, Tennessee, case no. 2001-241-IV. The complaint seeks to assert a class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased selected Callaway Golf products on or after March 30, 2000. Specifically, the complaint alleges that the Company adopted a New Product Introduction Policy governing the introduction of certain of the Company's new products and agreed with retailers to sell those products at particular prices in violation of Tennessee and Kansas antitrust and consumer protection laws. The plaintiff is seeking damages, restitution and punitive damages. The Company intends to defend this matter vigorously.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of March 31, 2001. However, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

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

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Item 6. Exhibits and Reports on Form 8-K:

a. Exhibits

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

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

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

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

4.3 Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock, incorporated herein by this reference to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).

10.47 First Amendment to Executive Officer Employment Agreement, effective November 13, 2000, by and between the Company and Charles J. Yash. (†)

10.48 Limited Waiver to Receivables Transfer Agreement, dated as of March 19, 2001, by and among Callaway Golf Funding, the Company, Callaway Golf Sales Company, Redwood Receivables Corporation, and General Electric Capital Corporation.(†)

10.49 Third Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of March 19, 2001, by and among the Company, the other parties to the Credit Agreement, the lenders signatory to the amendment, and General Electric Capital Corporation.(†)

b. Reports on Form 8-K

Form 8-K, dated March 19, 2001, reporting the issuance of a press release of even date therewith, which press release was captioned, "Callaway Golf Company Retroactively Implements SEC Staff Accounting Bulletin 101. Revises 2000 fourth quarter and full year results. Raises FY 2001 diluted EPS expectations by $0.03."

(†) Included with this Report.

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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: May 14, 2001

By: /s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit	Description
10.47	First Amendment to Executive Officers Employment Agreement, effective November 13, 2000, by and between the Company and Charles J. Yash.
10.48	Limited Waiver to Receivables Transfer Agreement, dated as of March 19, 2001, by and among Callaway Golf Funding, the Company, Callaway Golf Sales Company, Redwood Receivables Corporation, and General Electric Capital Corporation.
10.49	Third Amendment and Limited Waiver to Amended and Restated Credit Agreement, dated as of March 19, 2001, by and among the Company, the other parties to the Credit Agreement, the lenders signatory to the amendment, and General Electric Capital Corporation.

EXHIBIT 10.47

FIRST AMENDMENT TO
EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This First Amendment to Executive Officer Employment Agreement ("First Amendment") is effective as of November 13, 2000 by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company") and CHARLES J. YASH ("Mr. Yash").

A. The Company and Mr. Yash are parties to a certain Executive Officer Employment Agreement entered into as of January 1, 2000 (the "Agreement").

B. In light of various changed circumstances, the Company and Mr. Yash desire to amend the Agreement, pursuant to Section 16 of the Agreement, in the manner set forth herein.

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

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

1. TERM.

(a) The Company hereby employs Mr. Yash and Mr. Yash hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing November 13, 2000 and terminating December 31, 2003 (the "Initial Term"), unless this Agreement is earlier terminated as hereinafter provided.

(b) On December 31, 2003, and on each December 31 thereafter (the "Extension Dates"), the expiration date of this Agreement shall be automatically extended one (1) year, through December 31 of the following year, so long as (a) this Agreement is otherwise still in full force and effect, (b) Mr. Yash is still employed by the Company pursuant to this Agreement, (c) Mr. Yash is not otherwise in breach of this Agreement, and (d) neither the Company nor Mr. Yash has given notice as provided in Section 1(c) of this Agreement.

(c) At any time prior to an Extension Date, either Mr. Yash or the Company may give written notice to the other ("Notice") that the next automatic extension of the expiration date of this Agreement pursuant to Section 1(b) shall be the final such automatic extension of the expiration date of this Agreement. Thus, if either Mr. Yash or the Company gives Notice on or before December 31, 2003, and all other conditions for automatic extension of the expiration date of this Agreement pursuant to Section 1(b) exist, then on December 31, 2003, the expiration date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2003 to December 31, 2004, with this Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

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

2. Section 2 of the Agreement is hereby amended to read as follows:

2. SERVICES.

(a) Mr. Yash shall serve as Senior Executive Vice President, Growth in Golf, of the Company. Mr. Yash's duties shall be the usual and customary duties of the offices in which Mr. Yash serves. At the discretion of the Board of Directors, Mr.

Yash shall report to Ely Callaway so long as he is the Chief Executive Officer; to Mr. Callaway's successor as Chief Executive Officer; or to the President of the Company. Consistent with the foregoing, the Board of Directors and/or the Chief Executive Officer of the Company may change Mr. Yash's title, position and/or duties at any time.

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

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

(d) The Company agrees to propose to the Board of Directors of the Company that Mr. Yash be elected to the position of Vice Chairman of the Board. It is understood, however, that whether Mr. Yash is elected to that position or, if so elected, remains in that position, will be at the complete discretion of the Board, and the Board's failure to elect Mr. Yash to be Vice Chairman of the Board, or the Board's later removal of that title from Mr. Yash, shall not constitute a breach of this Agreement.

3. Section 3 of the Agreement is hereby amended to read as follows:

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

4. Section 4(a) of the Agreement is hereby amended to read as follows:

(a) The Company agrees to pay Mr. Yash a base salary at the rate of $700,000.00 per year.

5. Section 5(e) of the Agreement is hereby deleted in its entirety.

6. Section 5(f) of the Agreement is hereby renumbered as Section 5(e) and amended to read as follows:

(e) Stock Options. Pursuant to a separate written stock option agreement and subject to the approval of the Stock Option Committee (Employee Plans) of the Board of Directors of the Company, in January 2001 Mr. Yash shall be granted options to purchase at least 50,000 shares of the Common Stock of the Company. The options shall vest as stated in the stock option agreement, provided Mr. Yash is then currently employed by the Company and not in breach of this Agreement. The option price per share shall be the NYSE closing price of Callaway Golf Common Stock on the date of the grant. The options will contain such reasonable restrictions as determined by the Stock Option Committee (Employee Plans), including without limitation, cancellation of options or forfeiture of gain upon exercise if Mr. Yash discloses the Company's confidential information or competes with the business of the Company. Thereafter, Mr. Yash shall be considered for new stock option grants from time to time, consistent with the treatment of other senior officers.

7. Section 8 of the Agreement is hereby amended to read as follows:

8. TERMINATION.

(a) Termination at the Company's Convenience. Mr. Yash's employment under this Agreement may be terminated by the Company at its convenience at any time. In the event of a termination by the Company for its convenience, Mr. Yash shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Mr. Yash as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Mr. Yash shall be entitled to Special Severance equal to (i) severance payments equal to Mr. Yash's then current base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; (iii) the benefits specified in Section 5(d) (Estate Planning and Other Perquisites) for a period of time equal to twenty-four (24) months from the date of severance; and (iv) no other severance.

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

(c) Termination by Mr. Yash for Substantial Cause. Mr. Yash's employment under this Agreement may be terminated immediately by Mr. Yash for substantial cause at any time. In the event of a termination by Mr. Yash for substantial cause, Mr. Yash shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Mr. Yash as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Mr. Yash shall be entitled to Special Severance equal to (i) severance payments equal to Mr. Yash's then current base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; (iii) the benefits specified in Section 5(d) (Estate Planning and Other Perquisites) for a period of time equal to twenty-four (24) months from the date of severance; and (iv) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Mr. Yash's employment under this Agreement may be terminated immediately by the Company in the event Mr. Yash becomes permanently disabled. Permanent disability shall be defined as Mr. Yash's failure to perform or being unable to perform all or substantially all of Mr. Yash's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Mr. Yash, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Mr. Yash's permanent disability, Mr. Yash shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Mr. Yash's then current base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to twenty-four (24) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Mr. Yash as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Mr. Yash's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to the maximum time allowable under COBRA (currently eighteen (18) months), but not to exceed twenty-four (24) months under any circumstances; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Mr. Yash pursuant to disability or other insurance, or similar sources, provided by the Company.

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

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

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

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

8. This First Amendment is subject to the approval of the Compensation and Management Succession Committee of the Board of Directors of the Company. But for the amendments contained herein, and any other written amendments properly executed by the parties, the Agreement shall otherwise remain unchanged.

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

MR. YASH	COMPANY
	Callaway Golf Company, a Delaware corporation
	By:
-----------------------	---
Charles J. Yash	Ely Callaway, Chairman & Chief Executive Officer

EXHIBIT 10.48

LIMITED WAIVER
TO
RECEIVABLES TRANSFER AGREEMENT

THIS LIMITED WAIVER TO RECEIVABLES TRANSFER AGREEMENT, dated as of March 19, 2001 (this "Limited Waiver") relates to that certain Receivables Transfer Agreement dated as of February 10, 1999 (as amended by the First Amendment to Receivables Transfer Agreement, dated as of April 28, 2000 (the "First Amendment"), as further amended by the Second Amendment to Receivables Transfer Agreement, dated as of December 29, 2000 (the "Second Amendment") and as it may be further amended, supplemented, restated or otherwise modified from time to time, the "Transfer Agreement") and is entered into by and among GOLF FUNDING CORPORATION, a Delaware Corporation ("GFC"), CALLAWAY GOLF SALES COMPANY, a California corporation, as the originator (in such capacity, the "CGS Originator") and as the servicer (in such capacity, the "Servicer"), CALLAWAY GOLF COMPANY, a Delaware corporation, as the parent guarantor (the "Parent Guarantor"), REDWOOD RECEIVABLES CORPORATION, as the purchaser (the "Purchaser"), and GENERAL ELECTRIC CAPITAL CORPORATION, as the operating agent and the collateral agent ("GECC").

W I T N E S S E T H

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

WHEREAS, Parent Guarantor has notified the other Parties that it has formed a domestic company ("Shell Co.") to be a wholly-owned subsidiary of Borrower (the "Subsidiary Formation");

WHEREAS, Parent Guarantor has notified the other Parties that the bank guaranty currently provided by Callaway Golf Europe, Ltd. ("CG Europe") to ensure the deferment of United Kingdom ("U.K.") customs and excise duties applied to products imported to the U.K., needs to be increased and, in connection therewith, Parent Guarantor will provide a letter of comfort to support such bank guaranty (as more fully described in Exhibit A attached hereto, the "Bank Guaranty");

WHEREAS, Parent Guarantor has requested that the Parties grant a limited waiver (the "Limited Waivers" and each, a "Limited Waiver") to Section 4.05(c) (Mergers, Subsidiaries, Etc.) of the Transfer Agreement solely with respect to the Subsidiary Formation;

WHEREAS, Parent Guarantor has requested that the Parties grant a Limited Waiver to Sections 4.05(a) (Restricted Payments) and 4.05(b) (Indebtedness) solely with respect to the Bank Guaranty; and

WHEREAS, the Parties are willing to so provide the Limited Waivers on the terms and conditions set forth herein.

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

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

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

a. Section 4.05(c) (Mergers, Subsidiaries, Etc.) solely with respect to the Subsidiary Formation; provided that should (i) Parent Guarantor make an investment in, and/or loan to, Shell Co. or (ii) Shell Co. incur or assume any indebtedness, Parent Guarantor shall promptly notify the other parties in writing of the details and terms of such investment, loan or indebtedness.

b. Sections 4.05(a) (Restricted Payments), 4.05(b) (Indebtedness) solely with respect to the Bank Guaranty, provided that the Limited Waiver to Section 4.05(a) permitting Parent Guarantor and/or CG Europe to enter into any lending or borrowing transaction relating to the Bank Guaranty shall be limited to only such lending or borrowing transactions that in the aggregate does not exceed U.S. $7,000,000, and provided further that the Limited Waiver to Section 4.05(b) permitting Parent Guarantor and/or CG Europe to create, incur, assume or permit to exist Debt relating to the Bank Guaranty shall be limited to only such Debt that in the aggregate does not exceed U.S. $7,000,000.

c. The Limited Waivers shall be limited to those Events of Default, if any, arising solely from the Subsidiary Formation and Bank Guaranty as described herein and do not apply to any past, present or future Events of Default caused by any other violation of Sections 4.02 or 4.03 or other provisions of the Transfer Agreement or any of the Related Documents.

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

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

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

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

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

i. counterparts hereof executed by each of the Parties;

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

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

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

v. such additional documentation as GFC may reasonably request;

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

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

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

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

5. Reference to and Effect on the Related Documents.

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

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

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

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

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

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

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

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

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

* * * *

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

GOLF FUNDING CORPORATION

By:

Name:
Title:

CALLAWAY GOLF SALES COMPANY,
as CGS Originator and as Servicer

By:

Name:
Title:

CALLAWAY GOLF COMPANY,
as Parent Guarantor

By:

Name:
Title:

REDWOOD RECEIVABLES CORPORATION,
as Purchaser

By:

Name:
Title:

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

By:

Name:
Title:

Signature Page

EXHIBIT A

TO

LIMITED WAIVER TO RECEIVABLES TRANSFER AGREEMENT

(SEE ATTACHED)

EXHIBIT 10.49

THIRD AMENDMENT AND LIMITED WAIVER
TO
AMENDED AND RESTATED CREDIT AGREEMENT

THIS THIRD AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT, dated as of March 19, 2001 (this "Third Amendment & Limited Waiver") relates to that certain Amended and Restated Credit Agreement dated as of February 10, 1999 (as amended by both the First Amendment to Amended and Restated Credit Agreement, dated April 28, 2000 (the "First Amendment") and the Second Amendment to Amended and Restated Credit Agreement, dated as of December 29, 2000 (the "Second Amendment"), and as may be further amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement") and is entered into among Callaway Golf Company, a Delaware corporation (the "Borrower"), the other credit parties signatory to the Credit Agreement, the lenders signatory hereto (the "Requisite Lenders") and General Electric Capital Corporation, a New York corporation, as agent for the Lenders (in such capacity, the "Agent"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

W I T N E S S E T H

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

WHEREAS, Borrower has notified Agent that it has formed a California corporation, Callaway Golf Shell Company ("Shell Co.") to be a wholly-owned subsidiary of Borrower (the "Subsidiary Formation");

WHEREAS, Borrower has notified Agent that the bank guaranty currently provided by Callaway Golf Europe, Ltd. ("CG Europe"), a Material Subsidiary, to ensure the deferment of United Kingdom ("U.K.") customs and excise duties applied to products imported to the U.K. (as more fully described in Exhibit A attached hereto, the "Bank Guaranty"), needs to be increased and, in connection therewith, the Borrower will provide a letter of comfort to ensure that the Bank Guaranty is paid in full (the "Letter of Comfort", a form of which is attached as Exhibit B hereto, and, together with the Bank Guaranty, the "Duty Deferment");

WHEREAS, Borrower has requested that the Credit Agreement be amended to reflect the Subsidiary Formation (the "Amendments");

WHEREAS, Borrower has requested that GE Capital and the Requisite Lenders grant a limited waiver (the "Limited Waivers" and each, a "Limited Waiver") to certain provisions of the Credit Agreement with respect to the Subsidiary Formation and the Duty Deferment, as follows:

a. Section 6.1 (Mergers Subsidiaries, Etc.), solely with respect to the Subsidiary Formation; and

b. Sections 6.3(xv) (Other Unsecured Indebtedness), and 6.6 (Guaranteed Indebtedness), solely with respect to the Duty Deferment.

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

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

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

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

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

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

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

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

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

(b) the lesser of:

(i) the Additional Collateral Amount and

(ii) an amount equal to the sum of (x) fifty percent (50%) of the Appraised Value of the Eligible Real Estate, and (y) eighty-five percent (85%) of the Appraised Value of the Eligible Equipment, less any Reserves established by Agent at such time, minus, the aggregate outstanding principal amount of Indebtedness (including Indebtedness described in clause (i) of Section 6.3, but excluding the Obligations and Indebtedness created or arising under the Receivables Documents) which is secured by any Eligible Equipment;

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

ii. The following definition shall be inserted after the definition of "General Intangibles" and before the definition of "Golf Ball Inventory":

"Golf Ball Equipment" shall mean all Equipment related to the production of golf balls.

iii. The definition of "Golf Ball Receivables" is hereby amended by deleting the definition in its entirety.

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

"shall mean Callaway Golf Sales Company, Special Purpose Corporation, Callaway Golf Europe Ltd., Callaway (Barbados) Foreign Sales Corporation, Callaway Golf K.K., Callaway Golf Korea Ltd., Callaway Golf Canada Ltd., Callaway Golf South Pacific Pty Ltd and each Person which becomes a Subsidiary of Borrower after the date of this Agreement, provided that Callaway Golf Shell Company shall be excluded from this definition, and shall not be deemed a Material Subsidiary, unless and until such time as it shall acquire at least $100,000 in assets."

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

a. Section 6.1 (Mergers Subsidiaries, Etc.) solely with respect to the Subsidiary Formation, provided that should (i) the Borrower make an investment in, and/or loan to, Shell Co. or (ii) Shell Co. incur or assume any indebtedness, Borrower shall promptly notify Agent in writing of the details and terms of such investment, loan or indebtedness;

b. Sections 6.3(xv) (Other Unsecured Indebtedness) and 6.6 (Guaranteed Indebtedness) solely with respect to the Duty Deferment, provided that the Limited Waiver to Section 6.3(xv) permitting Borrower and/or CG Europe to create, incur, assume or permit to exist other unsecured Indebtedness relating to the Duty Deferment in an amount exceeding $2,500,000 shall be limited to only such unsecured Indebtedness that in the aggregate does not exceed U.S. $7,000,000, and provided further that the Limited Waivers granted under this Section 4(b) with respect to the Letter of Comfort shall be expressly limited to that Letter of Comfort issued in support of the Bank Guaranty as described in Exhibit A attached hereto.

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

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

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

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

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

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

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

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

iii. the duly executed Pledge Amendment reflecting the Subsidiary Formation accompanied by the share certificate representing one-hundred percent (100%) of the outstanding Shell Co. Stock, which is being pledged thereunder in accordance with the Credit Agreement, and a stock power for such share certificate executed in blank;

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

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

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

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

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

7. Reference to and Effect on the Loan Documents.

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

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

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

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

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

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

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

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

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

CALLAWAY GOLF COMPANY,
as Borrower

By:

Name:
Title:

CALLAWAY GOLF SALES COMPANY,
as a Credit Party

By:

Name:
Title:

GENERAL ELECTRIC CAPITAL CORPORATION,
as Agent and Lender

By:

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

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

By:

Name:
Title:
Pro Rata Share: 17.71%

BANK OF AMERICA, NATIONAL ASSOCIATION,
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

CONGRESS FINANCIAL CORPORATION (WESTERN),
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

KEY CORPORATE CAPITAL INC.,
as a Lender

By:

Name:
Title:
Pro Rata Share: 14.17%

NATIONAL CITY COMMERCIAL FINANCE, INC.,
as a Lender

By:

Name:
Title:
Pro Rata Share: 8.33%

NATIONAL WESTMINSTER BANK PLC,
as a Lender

By:

Name:
Title:
Pro Rata Share: 10.63%

EXHIBIT A

TO

SECOND AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

(see attached)

Exhibit A

EXHIBIT B

TO

SECOND AMENDMENT AND LIMITED WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

(see attached)