UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2000

OR

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

Commission file number 1-10962

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

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

2285 Rutherford Road, Carlsbad, CA 92008-8815
(760) 931-1771
(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of July 31, 2000 was 75,471,989.

EXPLANATORY NOTE

This amendment has been made to correct the following typographical errors: (i) paragraph 2 of Part I, Item 2--Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations--Six-month periods ended June 30, 2000 and 1999; (ii) paragraph 3 of Part I, Item 2--Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources; and (iii) paragraph 1 of Part I, Item 3--Quantitative and Qualitative Disclosures about Market Risk.

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

Statements used in this report that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including but not limited to market acceptance of current and future products, including its golf ball, seasonality, adverse market and economic conditions, competitive pressures, and costs and potential disruption of business as a result of the transition of the Company's Japanese distribution to a wholly-owned subsidiary, delays, difficulties or increased costs in the manufacturing of the Company's products, including its golf ball, or in the procurement of materials needed to manufacture the Company's products, as well as other risks and uncertainties detailed from time to time in the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

Three-month periods ended June 30, 2000 and 1999

For the quarter ended June 30, 2000, net sales increased $59.3 million, or 26%, to $289.0 million from $229.7 million in the comparable period of the prior year. The increase is attributable to an increase in sales of irons and metal woods, as well as sales of golf balls. The increase in sales of irons of 64% to $108.2 million is primarily attributable to sales of Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons in the second quarter of 2000, which were not sold during the comparable quarter of 1999. The increase in sales of irons also is attributable to sales of Steelhead(TM) X-14(TM) Stainless Steel Irons, which were introduced in January 2000, and which generated higher revenue during the second quarter of 2000 than its predecessor, Steelhead(TM) X-12(R) Stainless Steel Irons, did in the comparable quarter of the prior year. The overall increase in sales of metal woods of 4% to $146.1 million is attributable to the January 2000 introduction of Steelhead Plus(TM) Stainless Steel Metal Woods, which generated higher revenue in the second quarter of 2000 than its predecessor, Steelhead(TM) Stainless Steel Metal Woods, did in the comparable quarter of 1999, and to sales of ERC(TM) Forged Titanium Drivers, which began shipping in significant quantities in the second quarter of 2000. However, this increase was partially offset by a decrease in sales of titanium metal woods during the second quarter of 2000 from the comparable quarter of 1999, largely due to a decrease in sales of Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods. Sales of close-out products in the second quarter of 1999, which did not occur in the comparable period of 2000, also contributed to the decrease in sales of titanium metal woods during the quarter. The Company recorded sales of $10.5 million of its Rule 35(TM) Golf Balls in the second quarter of 2000. This product was not sold in the comparable period of 1999.

During the second quarter of 2000, sales increased in virtually all regions as compared with the second quarter of 1999. Sales in the United States increased $18.9 million (14%) to $154.2 million during the second quarter of 2000 versus the second quarter of 1999 and sales in Europe increased $10.6 million (27%) to $50.1 million during this same period. Sales in Japan increased $24.4 million (176%) to $38.2 million and sales in the Rest of Asia increased $5.4 million (25%) to $27.0 million in the second quarter of 2000 as compared with the second quarter of 1999. Sales in the regions comprising the Rest of World remained constant at $19.5 million in the second quarter of 2000 versus the second quarter of 1999.

For the second quarter of 2000, cost of goods sold increased to $141.5 million from $121.0 million in the second quarter of 1999, and as a percentage of net sales improved to 49% from 53%. The overall decrease in cost of goods sold as a percentage of net sales is attributable to a substantial improvement in cost of goods sold of golf club products to 46% of net sales in the second quarter of 2000 from 53% of net sales in the comparable period of 1999, partially offset by costs associated with manufacturing the Company's new golf balls. The improved cost of goods sold as a percentage of net sales for golf club products in the second quarter of 2000 is due primarily to reductions in manufacturing labor and overhead expenses, a favorable product sales mix primarily related to sales of ERC(TM) Forged Titanium Drivers during the quarter, and the negative effect that close-out sales at substantially reduced prices during the second quarter of 1999 had on that period's cost of goods sold as a percentage of net sales. Cost of goods sold for the Company's golf ball products during the second quarter of 2000 was adversely affected by lower than expected plant utilization and production yields.

Selling expenses in the second quarter of 2000 increased to $49.7 million (17% of net sales) from $34.9 million (15% of net sales) in the second quarter of 1999. The increase was primarily attributable to incremental expenses associated with the launch of the Company's new Rule 35(TM) Golf Balls and with expanded golf club sales through the Company's Japanese subsidiary. Prior to 2000, Callaway Golf(R) products were sold in Japan through a third party distributor. Expenses related to product endorsement also contributed to the increase.

General and administrative expenses in the second quarter of 2000 decreased to $17.6 million (6% of net sales) from $22.9 million (10% of net sales) in the comparable quarter of 1999. This decrease is mainly attributable to the shifting of costs associated with the Company's golf ball pre-production period to cost of goods sold (i.e., the costs related to the production of golf balls during the quarter are now included in cost of goods sold rather than general and administrative expenses). This decrease was partially offset by an increase in bad debt expense.

Research and development expenses in the second quarter of 2000 decreased slightly to $8.1 million (3% of net sales) from $8.3 million (4% of net sales) in the second quarter of 1999. This decrease is primarily attributable to a decrease in research expenses, partially offset by increases in tooling expenses and employee-related costs.

Other income in the second quarter of 2000 increased to $2.1 million from an expense of $1.4 million in the comparable quarter of 1999. This $3.5 million increase is primarily attributable to foreign currency transaction gains during the quarter versus losses in the comparable quarter of the prior year, as well as lower interest expense, and increases in interest income and royalty income.

For the second quarter of 2000, the Company recorded a provision for income taxes of $29.2 million and recognized a decrease in deferred taxes of $2.0 million. The provision for income taxes as a percentage of income before tax for the second quarters of 2000 and 1999 was 39%. During the second quarter of 2000, the Company realized $4.0 million in tax benefits related to the exercise of employee stock options.

Six-month periods ended June 30, 2000 and 1999

For the six months ended June 30, 2000, net sales increased $80.1 million, or 19%, to $495.6 million from $415.5 million in the comparable period of the prior year. The increase is attributable to an increase in sales of irons and sales of golf balls, partially offset by a decrease in sales of metal woods. The increase in sales of irons of 67% to $190.8 million is primarily attributable to sales of Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons in the first half of 2000, which were not sold during the comparable period of 1999 and to sales of Steelhead(TM) X-14(TM) Stainless Steel Irons, which were introduced in January 2000, and which generated higher revenues during the first half of 2000 than its predecessor, Steelhead(TM) X-12(R) Stainless Steel Irons, did in the comparable period of the prior year. The Company recorded sales of $16.5 million of its Rule 35(TM) Golf Balls in the first half of 2000. This product was not sold during the comparable period of the prior year. The overall decrease in sales of metal woods of 6% to $246.8 million is largely attributable to a decrease in sales of titanium metal woods, primarily Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods during the first half of 2000 from the comparable period of 1999. Sales of close-out products in the first half of 1999, which did not occur in the comparable period of 2000, also contributed to the decrease in sales of titanium metal woods during the first half of 2000. However, sales of ERC(TM) Forged Titanium Drivers, which began shipping in significant quantities in the second quarter of 2000, partially offset the decrease in sales of titanium metal woods. Also partially offsetting the decrease in sales of titanium metal woods was an increase in sales of stainless steel metal woods attributable to the January 2000 introduction of Steelhead Plus(TM) Stainless Steel Metal Woods, which generated higher revenues in the first half of 2000 than its predecessor, Steelhead(TM) Stainless Steel Metal Woods, did in the comparable period of 1999.

During the first half of 2000, sales increased in virtually all regions as compared with the first half of 1999. Sales in the United States increased $36.2 million (15%) to $272.4 million during the first half of 2000 versus the first half of 1999 and sales in Europe increased $17.1 million (25%) to $86.5 million during this same period. Sales in Japan increased $20.5 million (53%) to $59.4 million and sales in the Rest of Asia increased $7.1 million (20%) to $43.3 million in the first half of 2000 as compared with the first half of 1999. Sales in the regions comprising the Rest of World remained relatively constant, decreasing $0.8 million (2%) to $34.0 million in the first half of 2000 versus the first half of 1999.

For the six months ended June 30, 2000, cost of goods sold increased to $253.7 million from $223.3 million in the comparable period of 1999, and as a percentage of net sales improved to 51% from 54%. The overall decrease in cost of goods sold as a percentage of net sales is attributable to a substantial improvement in cost of goods sold of golf club products to 51% of net sales in the first half of 2000 from 54% of net sales in the comparable period of 1999, partially offset by costs associated with manufacturing the Company's new golf balls. The improved cost of goods sold as a percentage of net sales for golf club products in the first half of 2000 is due primarily to reductions in manufacturing labor and overhead expenses, a favorable product sales mix primarily related to sales of ERC(TM) Forged Titanium Drivers and the negative effect that close-out sales at substantially reduced prices during the first six months of 1999 had on that period's cost of goods sold as a percentage of net sales. These improvements were partially offset by an increase in sales discounts. Cost of goods sold for the Company's golf ball products during the first half of 2000 was adversely affected by lower than expected plant utilization and production yields.

Selling expenses in the first half of 2000 increased to $93.5 million (19% of net sales) from $66.2 million (16% of net sales) in the first half of 1999. The increase was primarily attributable to incremental expenses associated with the launch of the Company's new Rule 35(TM) Golf Balls and with expanded golf club sales through the Company's Japanese subsidiary. Prior to 2000, Callaway Golf(R) products were sold in Japan through a third party distributor. Expenses related to product endorsement also contributed to the increase.

General and administrative expenses in the first half of 2000 decreased to $35.1 million (7% of net sales) from $44.5 million (11% of net sales) in the comparable period of 1999. This decrease is mainly attributable to the shifting of costs associated with the Company's golf ball pre-production period to cost of goods sold (i.e., the costs related to the production of golf balls during the period are now included in cost of goods sold rather than general and administrative expenses). This decrease was partially offset by an increase in bad debt expense.

Research and development expenses in the first half of 2000 decreased slightly to $16.3 million (3% of net sales) from $16.7 million (4% of net sales) in the first half of 1999. This decrease is primarily attributable to decreases in depreciation expense and overhead costs, partially offset by an increase in salary expenses.

Other income in the first half of 2000 increased to $3.7 million from an expense of $2.2 million in the comparable period of 1999. This $5.9 million increase is primarily attributable to foreign currency transaction gains during the period versus losses in the comparable period of the prior year, as well as lower interest expense and increases in interest income and royalty income.

For the six months ended June 30, 2000, the Company recorded a provision for income taxes of $39.5 million and recognized a decrease in deferred taxes of $2.7 million. The provision of income tax as a percentage of income before tax for the six months ended June 30, 2000 and 1999 was 39%. During the first half of 2000, the Company realized $4.5 million in tax benefits related to the exercise of employee stock options.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2000, cash and cash equivalents decreased to $87.2 million from $112.6 million at December 31, 1999. This decrease resulted primarily from cash used in financing and investing activities of $40.1 million and $16.5 million, respectively, partially offset by cash provided by operations of $31.3 million. Cash flows used in financing activities are primarily attributable to the acquisition of 2.6 million shares of Treasury Stock, partially offset by cash flows from the issuance of Common Stock, and cash flows used in investing activities are primarily attributable to capital expenditures. Cash flows provided by operations reflects an increase in income taxes payable and an increase in accounts payable and accrued expenses. The cash flows from operations were partially offset by an increase in accounts receivable due to higher average sales in the first half of 2000 than in the first half of 1999.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's credit facilities. The Company currently expects this trend to continue. The Company has a revolving credit facility for up to $120.0 million (the "Amended Credit Agreement") and an $80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 3 and 4 to the unaudited Consolidated Condensed Financial Statements). During the first six months of 2000, the Company did not utilize either its Accounts Receivable Facility or its line of credit under the Amended Credit Agreement. At June 30, 2000, the Company had $118.6 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 June 30, 2000, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility.

As a result of the implementation of its plan to improve operating efficiencies (see "Restructuring" below), the Company incurred charges of $54.2 million in the fourth quarter of 1998. Of these charges, $25.5 million were estimated to be non-cash. Since the adoption of this restructuring plan in the fourth quarter of 1998, the Company has made cash outlays for employee termination costs, contract cancellation fees, excess lease costs and other expenses totaling $19.9 million, of which $1.1 million occurred in 2000. As a result of the reversal of a portion of certain restructuring reserves totaling $8.6 million during 1999, expected future cash outlays for restructuring have been reduced and are estimated to be $0.3 million. This amount is expected to be paid by July 2000 (see Note 8 to the unaudited Consolidated Condensed Financial Statements). These cash outlays will be funded by cash flows from operations and, if necessary, the Company's credit facilities. If the actual actions taken by the Company differ from the plans on which these estimates are based, actual losses recorded and resulting cash outlays made by the Company could differ significantly.

Although the Company's golf club operations are mature and historically have generated cash from operations, the Company's golf ball operations are in its first year of operations 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 2000. However, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cash flows, together with its credit facilities, will be sufficient to finance current operating requirements, including planned capital expenditures and purchase commitments. There can be no assurance, however, that future industry specific or other developments, or general economic trends, will not adversely affect the Company's operations or its ability to meet its future cash requirements.

RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. The restructuring charges primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs. During 1999, the Company completed its restructuring initiatives. At June 30, 2000, the reserve balance of $0.3 million represents future cash outlays for excess lease costs for a facility in New York City. The Company expects these cash outlays to be completed by July 2000. The decrease in the reserve balance since December 31, 1999 of $1.1 million represents cash paid for excess lease costs. The Company also has a contingent liability related to this facility (see Note 6 to the unaudited consolidated condensed financial statements).

CERTAIN FACTORS AFFECTING CALLAWAY GOLF

Sales

Golf Clubs. The Company previously reported that it believed that the prior decline in the dollar volume of the premium golf club market may have stabilized. Despite weather related variances in certain regions, the Company believes that there was growth overall in the premium golf club market in the United States and abroad in the first half of 2000. There is no assurance, however, that the overall dollar volume of the premium golf club market will grow, or that it will not decline, in the near future.

Overall sales of the Company's current club products were strong during the first half of 2000, and the Company's brands remained number one in the U.S. and the worldwide market for woods, irons and putters in 1999 and the first half of 2000. No assurances can be given, however, that market conditions, the demand for the Company's existing products, or the introduction of new products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future. Furthermore, the Company expects that the increase in club sales during the first half of 2000 will at least in part cannibalize sales for the third and fourth quarters. In addition, in the first half of 2000, the Company made more golf clubs than it had in any previous first half of any fiscal year, and this increased level of production enabled it to achieve the increased sales levels for this period. If the Company were to experience delays, difficulties or increased costs in its production of golf clubs, the Company's future club golf sales could be adversely affected.

Beginning January 1, 2000, the Company began selling Callaway Golf(R) products through its wholly-owned Japanese subsidiary, Callaway Golf Kabushiki Kaisha ("Callaway Golf K.K."), instead of through its former distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"). The Sumitomo distribution agreement required that Sumitomo purchase specific minimum quantities from the Company. As a direct distributor, the Company will not have the benefit of these guaranteed minimum purchases going forward. Furthermore, although the Company is encouraged by the success of direct distribution thus far, there is no assurance that the Company will be able to transcend the cultural and other barriers to successful distribution in Japan or that its sales in Japan will be comparable to or exceed its prior sales to Sumitomo.

The Company previously reported that there would be a delay in the recording of revenues for sales in Japan as compared to prior periods because revenue is now recorded upon sale to retailers and not upon sale to Sumitomo. The Company believes that such delayed recording of revenues negatively affected sales in Japan in the first quarter of 2000, which declined 15% as compared to the first quarter of 1999. The Company believes that the negative effect of the delayed recording of revenue is limited to the first quarter of 2000. The Company does not believe that the delayed recording of revenues affected materially its second quarter performance and does not expect it to affect materially its future performance.

Golf Balls. In 1996, the Company formed Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, for the purpose of designing, manufacturing and selling golf balls. In February 2000, the Company introduced its new Rule 35(TM) Golf Balls. These golf balls are the product of more than three years of research and development and are manufactured in a new facility built by the Company for that purpose. The development of the Company's golf ball business, by plan, has had a significant negative impact on the Company's cash flows, financial position and results of operations and will continue to affect the Company's performance in 2000. The pre-tax loss generated by the Company's golf ball operations was $28.0 million in the first half of 2000 and the

Company's golf ball operations could generate approximately $15 million to $18 million in additional pre-tax losses in the remaining half of the year.

Although initial demand for the Company's golf balls is promising, there is no assurance that such demand will result in a proportionate amount of actual sales or that consumers will enjoy the balls sufficiently to sustain future sales. Moreover, the success of the Company's new golf ball business could be adversely affected by various factors, including, among others, delays, difficulties or increased costs in manufacturing or in distribution of the golf balls. To date, the Company has experienced higher than expected production costs attributable to yield and other ramp-up issues. The Company is aggressively seeking solutions to these issues and expects production of the golf balls to increase as 2000 progresses. There is no assurance, however, that the Company will be able to manufacture enough balls to meet demand or be able to achieve the operational or sales efficiencies necessary to make its golf ball business profitable. Consequently, there can be no assurance as to whether the golf ball will be commercially successful or that a return on the Company's investment will ultimately be realized. Furthermore, if these issues are not resolved satisfactorily in a timely manner, the Company's results of operations, cash flows and financial position will continue to be negatively affected.

Gross Margin

Consumer acceptance of current and new products, the sale and disposal of non-current products at reduced sales prices, the sales mix of the Company's high and low margin products (e.g. irons generally have lower margins than woods) and continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin. The Company's margins also have been negatively affected by its golf ball business, and the Company expects that its golf ball business will continue to affect negatively its margins for the remainder of 2000. See above "Certain Factors Affecting Callaway Golf--Sales."

Seasonality

In the golf club and golf ball industries, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the Company's fourth and first quarters. The Company's golf club business has generally followed this seasonal trend and the Company expects this to continue generally for both its golf club and golf ball businesses. Although the Company expects to realize operational improvements in its golf ball business as 2000 progresses, expected normal seasonality will limit the positive impact of any operational improvements in 2000. Furthermore, unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997 through 1998 may compound or otherwise distort these seasonal effects.

Competition

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

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

The premium golf ball business is also highly competitive with a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium golf ball business. These competitors have established market share in the golf ball business, which the Company will need to penetrate for its golf ball business to be successful. Although initial sales of the Company's golf balls are promising, there can be no assurance that the Company's golf balls will obtain the market acceptance necessary to penetrate this established market and be commercially successful.

New Product Introduction

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

New golf club and golf ball products generally seek to satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products. On November 2, 1998, the USGA announced the adoption of a test protocol to measure the so-called "spring-like effect" in certain golf clubheads. The R&A announced in a Notice to Manufacturers sent on May 3, 2000 that it was considering a regulation that would specify minimum thickness for the walls of a driver, including the face. Action on such a regulation could happen as early as October 1, 2000. Currently, all of the Company's products are believed to be "conforming" under the Rules of Golf as published by the R&A and the USGA with the exception of the ERC(TM) Forged Titanium Driver ("ERC Driver"), some lofts of which have been found by the USGA to be "non-conforming." The ERC Driver is not marketed or sold by the Company in the United States, and the Company does not promote its use by professionals or amateurs in competitive events governed by the USGA's rules. Future actions by the USGA or the R&A may impede the Company's ability to introduce new products and could affect market acceptance of any new products which do not conform to current USGA and R&A regulations. Such actions therefore could have a material adverse effect on the Company's results of operations and cash flows.

Some countries, such as Japan and Canada, have local golf associations that exert some control over the game of golf within their jurisdictions. On April 18, 2000, The Royal Canadian Golf Association ("RCGA") announced that the Company's ERC Driver would be considered a "non-conforming club for all RCGA sanctioned events." The Company has filed a lawsuit against the RCGA for unfairly, improperly and unlawfully interfering with the commercial launch of the ERC Driver. If the RCGA's action is not reversed, it could adversely affect the acceptance of the ERC Driver in Canada. So far, no other local organization within the R&A's general jurisdiction has deviated from the R&A's position and ruled the ERC Driver "non-conforming."

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

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

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

Product Returns

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.

During the first quarter of 2000, the Company began selling its Rule 35(TM) Golf Balls. To date, the Company has not experienced significant returns of defective golf balls, and in light of the quality control procedures implemented in the production of golf balls, the Company does not expect a significant amount of defective ball returns. If there were a significant amount, however, it could have a material adverse effect upon its golf ball business.

Credit Risk

The Company primarily sells its products to golf equipment retailers, wholly-owned domestic and foreign subsidiaries and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, a downturn in the retail golf equipment market, like the one experienced in 1998 and 1999, primarily in the United States, could result in increased delinquent or uncollectible accounts for some of the Company's significant customers. In addition, the Company's transition in Japan from selling to one distributor to selling directly to many retailers could increase the Company's delinquent or uncollectible accounts. There can be no assurance that failure of the Company's customers to meet their obligations to the Company will not adversely impact the Company's results of operations, financial position or cash flows.

Dependence on Certain Vendors and Materials

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

The Company is also dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials, including the golf ball cover, are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

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

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

Intellectual Property and Proprietary Rights

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

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark, copyright or other protection of their proprietary rights and designs for golf clubs. From time to time others have or may contact the Company to claim that they have proprietary rights that have been infringed by the Company and/or its products. The Company evaluates any such claims and, where appropriate, has obtained or sought to obtain licenses or other business arrangements. To date, there have been no interruptions in the Company's business as a result of any claims of infringement. No assurance can be given, however, that the Company will not be adversely affected in the future by the assertion of intellectual property rights belonging to others. This effect could include alteration 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 Callaway Golf Ball Company developed its Rule 35(TM) Golf Ball, 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 Rule 35(TM) Golf Ball infringes any patent or other rights of competitors (see Part II, Item I-Legal Proceedings). If the Rule 35(TM) Golf Ball is found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and it could incur substantial costs to redesign it and/or defend legal actions.

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

"Gray Market" Distribution

Some quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" for the Company's products can undermine authorized retailers and foreign wholesale distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the other hand, stopping such commerce could result in a potential decrease in sales to those customers who are selling Callaway Golf(R) products to unauthorized distributors and/or an increase in sales returns over historical levels. For example, the Company experienced a decline in sales in the 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.

Golf Professional Endorsements

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

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 has created cash pools ("Pools") that reward such usage. However, in 1999 and so far in 2000, as compared to 1998, the Company significantly reduced these Pools for both Callaway Golf(R) and Odyssey(R) brand products for the PGA and the Senior PGA Tours, and has significantly reduced the Pools for Odyssey(R) brand products and eliminated the Pools for Callaway Golf(R) brand products for the LPGA and buy.com tours. The Company expects that the Pools for 2000 will be comparable to 1999. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. As a result, in 1999 and so far in 2000, usage of the Company's drivers on the Senior PGA, PGA, LPGA and buy.com tours was substantially reduced compared to 1998.

In the past, the Company has experienced an exceptional level of driver penetration on the world's major professional tours, and the Company has heavily advertised that fact. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

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

International Distribution

The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will be an element in the future growth and success of the Company. The Company has 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, corporate infrastructure and facilities. The integration of foreign distribution into the Company's international sales operations will continue to require the dedication of management and other Company resources.

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

The Company previously appointed Sumitomo as the sole distributor of Callaway Golf(R) clubs in Japan, through a distribution agreement that ended December 31, 1999. In 1999, 1998 and 1997, sales to Sumitomo accounted for 7%, 8% and 10%, respectively, of the Company's net sales. In the fourth quarter of 1999, the Company successfully completed negotiations with Sumitomo to provide a smooth transition of its business. Effective January 1, 2000, the Company began distributing Callaway Golf(R) brand products through Callaway Golf K. K., which also distributes Odyssey(R) products and will also distribute Callaway Golf(TM) balls. There are significant risks associated with the Company's intention to effectuate distribution of Callaway Golf(R) products in Japan through Callaway Golf K. K. rather than through Sumitomo. Some of these risks include increased delinquent and uncollectible accounts now that the Company will be collecting its receivables from many retailers as opposed to only one distributor. Furthermore, the Company will no longer have the benefit of the minimum purchases that Sumitomo was required to make. It is possible that these circumstances could have a material adverse effect on the Company's operations and financial performance.

Information Systems

The Company is in the process of upgrading its enterprise-wide business system to a more current software release. This upgrade will affect almost all of the Company's major systems functions, including sales, manufacturing, and accounting. The estimated cost to the Company of this upgrade is not material and the Company expects to fund such costs from its operating cash flows. The Company expects to complete the upgrade for its worldwide operations by the end of 2000. Although the Company does not expect any significant problems with this upgrade, if there were any significant problems, the Company would revert to its current version until such problems could be rectified. If such problems, however, caused a delay in, or prevented the Company from, reverting to the Company's current version, or if there were other unforeseen significant problems with the upgrade, such problems could have material adverse effect upon the Company and its operations.

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999, Member States of the EMU have the option of trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships until 2002 when their local currencies will be phased out. The current version of the Company's enterprise-wide business system does not support transactions denominated in euro. When implemented, the upgrade of the Company's business systems will support transactions denominated in euro. The Company intends to enable the euro functionality of its upgraded system no later than the end of its third quarter in 2001. Until such time as the upgrade has occurred and the euro functionality has been enabled, transactions denominated in euro will be processed manually. To date, the Company has not experienced, and does not anticipate in the near future, a large demand from its customers to transact in euro. Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

Item 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 first quarter of 2000, the Company entered into such contracts on behalf of three of its wholly-owned subsidiaries, Callaway Golf Europe Ltd., Callaway Golf K.K. and Callaway Golf Canada Ltd. The Company also hedged certain euro-denominated accounts receivable during the first half of 2000. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

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

Additionally, the Company is exposed to interest rate risk from its Accounts Receivable Facility and Amended Credit Agreement (see Notes 3 and 4 to the Company's unaudited Consolidated Condensed Financial Statements) which are indexed to the LIBOR and Redwood Receivables Corporation Commercial Paper Rate. No amounts were advanced or outstanding under these facilities at June 30, 2000.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at June 30, 2000 through its derivative financial instruments.

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

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 $4.4 million at June 30, 2000. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

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

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: August 21, 2000

ACTING PRINCIPAL ACCOUNTING OFFICER:

/s/ Kenneth E. Wolf

Kenneth E. Wolf
Senior Vice President, Finance
and Controller