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, 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 April 30, 2000 was 76,860,495.

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, 2000	December 31, 1999
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 68,628	$112,602
Accounts receivable, net (Note 4)	115,057	54,252
Inventories, net	110,140	97,938
Deferred taxes	32,148	32,558
Other current assets	11,764	13,122
Total current assets	337,737	310,472
Property, plant and equipment, net	142,621	142,214
Intangible assets, net	118,055	120,143
Other assets	44,348	43,954
	$642,761	$616,783
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 53,906	$ 46,664
Accrued employee compensation and benefits	17,545	21,126
Accrued warranty expense	38,700	36,105
Accrued restructuring costs	928	1,379
Income taxes payable	3,217	
Total current liabilities	114,296	105,274
Long-term liabilities:		
Deferred compensation	11,830	11,575
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at March 31, 2000 and December 31, 1999		
Common Stock, $.01 par value, 240,000,000 shares authorized, 76,764,745 and 76,302,196 issued and outstanding at March 31, 2000, and December 31, 1999, respectively	768	763
Paid-in capital	301,171	307,329
Unearned compensation	(2,345)	(2,784)
Retained earnings	299,300	288,090
Accumulated other comprehensive income	(109)	280
Less: Grantor Stock Trust (5,300,000 shares) at market	(82,150)	(93,744)
Total shareholders' equity	516,635	499,934
	$642,761	$616,783

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended March 31,			
	2000		1999	
Net sales	$206,608	100%	$185,744	100%
Cost of goods sold	112,179	54%	102,224	55%
Gross profit	94,429	46%	83,520	45%
Operating expenses:				
Selling	43,801	21%	31,300	17%
General and administrative	17,507	8%	21,728	12%
Research and development	8,217	4%	8,454	5%
Income from operations	24,904	12%	22,038	12%
Other income (expense) net	1,585		(771)	
Income before income taxes	26,489	13%	21,267	11%
Provision for income taxes	10,283		8,444	
Net income	$ 16,206	8%	$ 12,823	7%
Earnings per common share:				
Basic	$0.23		$0.18	
Diluted	$0.22		$0.18	
Common equivalent shares:				
Basic	71,199		69,977	
Diluted	72,482		70,565	
Dividends paid per share	$0.07		$0.07	

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended March 31,	
	2000	1999
Cash flows from operating activities:		
Net income	$16,206	$12,823
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,798	9,438
Loss on disposal of assets	264	339
Non-cash compensation	363	477
Tax benefit from exercise of stock options	477	56
Deferred taxes	669	1,114
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(60,468)	7,741
Inventories, net	(12,072)	28,006
Other assets	616	(7,968)
Accounts payable and accrued expenses	7,083	4,330
Accrued employee compensation and benefits	(3,624)	5,292
Accrued warranty expense	2,595	1,036
Income taxes payable	3,068	6,827
Accrued restructuring costs	(451)	(3,630)
Deferred compensation	255	1,014
Accrued restructuring costs - long term		(426)
Net cash (used in) provided by operating activities	(35,221)	66,469
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(216)	(673)
Capital expenditures	(8,828)	(31,581)
Sale of property and equipment	7	5,035
Net cash used in investing activities	(9,037)	(27,219)
Cash flows from financing activities:		
Issuance of Common Stock	5,040	2,378
Dividends paid	(4,996)	(4,918)
Proceeds from note payable		12,625
Line of credit, net		(70,919)
Net cash provided by (used in) financing activities	44	(60,834)
Effect of exchange rate changes on cash	240	(381)
Net increase in cash and cash equivalents	(43,974)	(21,965)
Cash and cash equivalents at beginning of period	112,602	45,618
Cash and cash equivalents at end of period	$68,628	$23,653

See accompanying notes to consolidated condensed financial statements.

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
Balance, December 31, 1999	76,302	$ 763	$ 307,329	$ (2,784)	$ 288,090
Exercise of stock options	271	3	3,064		
Cancellation of Restricted Common Stock	(3)		(109)	109	
Tax benefit from exercise of stock options			477		
Compensatory stock and stock options			33	330	
Employee stock purchase plan	195	2	1,971		
Cash dividends					(5,367)
Dividends on shares held by GST					371
Adjustment of GST shares to market value			(11,594)		
Equity adjustment from foreign currency translation					
Net income					16,206
Balance, March 31, 2000	76,765	$ 768	$ 301,171	$ (2,345)	$ 299,300

	Accumulated Other Comprehensive Income	GST	Total	Comprehensive Income
Balance, December 31, 1999	$ 280	$ (93,744)	$ 499,934	
Exercise of stock options			3,067	
Cancellation of Restricted Common Stock				
Tax benefit from exercise of stock Options			477	
Compensatory stock and stock options			363	
Employee stock purchase plan			1,973	
Cash dividends			(5,367)	
Dividends on shares held by GST			371	
Adjustment of GST shares to market value		11,594		
Equity adjustment from foreign currency translation	(389)		(389)	$ (389)
Net income			16,206	16,206
Balance, March 31, 2000	$ (109)	$ (82,150)	$ 516,635	$ 15,817

See accompanying notes to consolidated condensed financial statements.

1. BASIS OF PRESENTATION

The accompanying financial information for the three months ended March 31, 2000 and 1999 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, 1999. Interim operating results are not necessarily indicative of operating results for the full year.

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

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

2. INVENTORIES

	March 31, 2000	December 31, 1999
	(Unaudited)	
Inventories, net (in thousands):		
Raw materials	$ 51,889	$ 45,868
Work-in-process	2,175	1,403
Finished goods	68,454	65,661
	122,518	112,932
Less reserve for obsolescence	(12,378)	(14,994)
	$110,140	$ 97,938

3. 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, 2000, up to $118.6 million of the credit facility remained available for borrowings (including a reduction of $1.4 million for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

Effective April 28, 2000, the Company entered into the First Amendment to the Amended Credit Agreement which modified certain financial covenants and restrictions relating to the Company's repurchase of shares of its Common Stock (Note 10).

4. ACCOUNTS RECEIVABLE SECURITIZATION

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

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of March 31, 2000, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with this facility for the three months ended March 31, 2000 and 1999 were $76,000 and $358,000, respectively. These fees were recorded in other income (expense).

Effective April 28, 2000, the Company entered into the First Amendment to the Accounts Receivable Facility, which modified certain financial covenants and restrictions relating to the Company's repurchase of shares of its Common Stock (Note 10).

5. 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, 2000 and 1999 is presented below.

(in thousands, except per share data)

	Three months ended March 31, (Unaudited)	
	2000	1999
Net income	$16,206	$12,823
Weighted-average shares outstanding:		
Weighted-average shares outstanding - Basic	71,199	69,977
Dilutive securities	1,283	588
Weighted average shares outstanding - Diluted	72,482	70,565
Earnings per common share:		
Basic	$0.23	$0.18
Diluted	$0.22	$0.18

For the three months ended March 31, 2000 and 1999, 9,498,000 and 13,255,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

6. COMMITMENTS AND CONTINGENCIES

At March 31, 2000, the Company is contingently liable for lease payments totaling $6.6 million. This contingency is the result of the assignment of an operating lease to a third party and expires in February of 2003.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of March 31, 2000. Management believes, however, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

7. RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. 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 March 31, 2000, the reserve balance of $0.9 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 $0.5 million represents cash paid for excess lease costs. The Company also has a contingent liability related to this facility (Note 6).

8. SEGMENT INFORMATION

The Company's operating segments are organized on the basis of products and include golf clubs and golf balls. The Golf Clubs segment consists of Callaway Golf(R) titanium and stainless steel metal woods and irons, Callaway Golf(R) and Odyssey(R) putters and wedges, and related accessories. The Golf Balls segment consists of golf balls that are designed, manufactured, marketed and distributed by the Company's wholly-owned subsidiary, Callaway Golf Ball 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. 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 period presented.

	Three Months Ended March 31, (unaudited) 2000			1999		
	Net Sales	Income (loss) before tax	Additions to long-lived assets	Net Sales	Income (loss) before tax	Additions to long-lived assets
Golf Clubs	$200,648	$51,859	$7,006	$185,744	$42,827	$ 4,014
Golf Balls	5,960	(14,584)	1,822		(6,939)	28,441
Reconciling Items(1)		(10,786)			(14,621)	
Consolidated	$206,608	$26,489	$8,828	$185,744	$21,267	$32,455

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

9. FOREIGN CURRENCY EXCHANGE CONTRACTS

During the three months ended March 31, 2000, 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, 2000, the Company had approximately $53.4 million of foreign exchange contracts outstanding. The contracts mature between April and December 2000. Gains and losses on the contracts are recorded in income. The net realized and unrealized losses from foreign exchange contracts for the three months ended March 31, 2000 and 1999 totaled approximately $327,000 and $640,000, respectively.

10. SUBSEQUENT EVENTS

Effective April 28, 2000, the Company amended its Amended Credit Agreement (Note 3) and its Accounts Receivable facility (Note 4). The amendments modified certain financial covenants and restrictions relating to the Company's repurchase of shares of its Common Stock.

On May 3, 2000, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in 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 announced that it could begin the repurchase program immediately and expects to complete it by December 31, 2000, unless market conditions change significantly or the program is terminated sooner by the Board of Directors.

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 March 31, 2000 and 1999

For the quarter ended March 31, 2000, net sales increased $20.9 million, or 11%, to $206.6 million from $185.7 million in the prior year. The increase is attributable to an increase in sales of stainless steel metal woods, irons and initial sales of golf balls, partially offset by a decrease in sales of titanium metal woods. The increase in sales of stainless steel metal woods was primarily attributable to the January 2000 introduction of Steelhead Plus(TM) Stainless Steel Metal Woods, which accounted for sales of $11.1 million more in the first quarter of 2000 than its predecessor, Steelhead(TM) Stainless Steel Metal Woods, did in the comparable quarter of 1999. The increase in sales of stainless steel metal woods also is attributable to higher average revenue per club, as well as an increase in units sold during this same period. The increase in sales of irons of $34.5 million is primarily due to the January 2000 introduction of Steelhead(TM) X-14(TM) Stainless Steel Irons and sales from Hawk Eye(R) Tungsten Injected(TM) Titanium Irons, which were introduced in September 1999. The dollar increase in iron sales in the first quarter of 2000 vs. the first quarter of 1999 is also attributable to increases in both unit sales and average revenue per club. The Company recorded initial sales of $6.0 million of its Rule 35(TM) Golf Balls, which began shipping in significant quantities in March 2000.

In terms of net sales by region, sales in the United States and Europe increased $17.2 million (17%) to $118.2 million and $6.4 million (22%) to $36.4 million, respectively during the first quarter of 2000 vs. the first quarter of 1999. Sales in Japan decreased $3.8 million (15%) to $21.2 million during this same period, while sales in the Rest of Asia (including Korea) increased $1.8 million (12%) to $16.3 million. Sales in the rest of the world decreased $0.8 million (5%) to $14.5 million in the first quarter of 2000 from the comparable period of 1999.

For the first quarter of 2000, gross margin increased to $94.4 million from $83.5 million in the first quarter of 1999, and as a percentage of net sales increased to 46% from 45%. The increase is attributable to a substantial increase in gross margin of golf club products to 50% of net sales in the first quarter of 2000 from 45% of net sales in the comparable period of 1999, partially offset by costs associated with manufacturing the Company's new golf balls. The improved gross margin for golf club products in the first quarter of 2000 is due primarily to reductions in manufacturing labor and overhead expenses and lower obsolescence charges than in the comparable period of 1999. Gross margin on the Company's golf ball products during the first quarter of 2000 was adversely affected by the write-off of certain early production of inventory that did not meet the Company's quality standards, as well as lower than expected plant utilization and production yields.

Selling expenses in the first quarter of 2000 increased to $43.8 million from $31.3 million in the comparable period of 1999, or 21% and 17% of net sales, respectively. The increase was primarily due 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.

General and administrative expenses decreased to $17.5 million in the first quarter of 2000 from $21.7 million in the comparable period of 1999, or 8% and 12% of net sales, respectively. This decrease is mainly attributable to the shifting of costs associated with the Company's golf ball pre-production period. The costs related to the commencement of production and the sale of golf balls during the first quarter are now included in cost of goods sold.

Research and development expenses decreased to $8.2 million in the first quarter of 2000 from $8.5 million in the first quarter of 1999, or 4% and 5% of net sales, respectively. This decrease resulted primarily from lower depreciation and overhead costs, partially offset by an increase in employee costs.

Other income increased to $1.6 million in the first quarter of 2000 from an expense of $0.8 million in the first quarter of 1999. The $2.4 million increase is primarily attributable to lower interest expense, as the first quarter of 1999 reflects interest on the Company's line of credit and accounts receivable securitization facilities, which were not utilized in the first quarter of 2000 (see Notes 3 and 4 to the unaudited Consolidated Condensed Financial Statements), a decrease in foreign currency transaction losses and an increase in interest income.

For the first quarter of 2000, the Company recorded a provision for income taxes of $10.3 million and recognized a decrease in deferred taxes of $0.7 million. The provision for income taxes as a percentage of income before taxes was 39% and 40%, respectively for the three months ended March 31, 2000 and 1999 as compared to 35% for the year ended December 31, 1999. During the fourth quarter of 1999, the Company realized tax benefits related to non-taxable income from insurance proceeds related to the Company's deferred compensation plan and the reorganization of a foreign subsidiary that lowered the overall effective tax rate for 1999.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2000, cash and cash equivalents decreased to $68.6 million from $112.6 million at December 31, 1999. This decrease primarily resulted from cash used in operations of $35.2 million and cash used in investing activities of $9.0 million. Cash used in operations reflected the build-up of inventory in anticipation of the traditionally strong spring and summer selling seasons and the increase of accounts receivable due to higher sales in the first quarter of 2000 than in the fourth quarter of 1999. Cash flows used in investing activities resulted primarily from capital expenditures. Financing activities had almost no net impact on cash flows during the first quarter of 2000 as proceeds received from stock option exercises were offset by dividends paid during the period.

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 quarter of 2000, the Company did not utilize either its Accounts Receivable Facility or its line of credit under the Amended Credit Agreement. At March 31, 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 March 31, 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 $19.3 million, of which $0.5 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 $0.9 million. This amount is expected to be paid by July 2000 (see Note 7 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 a developmental stage 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, the Company believes that, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, it will be able to maintain its current level of 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(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 March 31, 2000, the reserve balance of $0.9 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 of 2000. The decrease in the reserve balance since December 31, 1999 of $0.5 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. The Company believes that there was growth in the premium golf club market in the United States and abroad in the first quarter of 2000. There is no assurance that the overall dollar volume of the premium golf club market will grow, or that it will not decline, in the near future. Net sales of golf clubs increased 8% to $200.6 million for the first quarter of 2000 compared to the first quarter of 1999. There is no assurance, however, that future market conditions will permit the Company to increase club sales further or even to maintain current sales levels. The Company expects that the increase in club sales will at least in part cannibalize sales for the third and fourth quarters. In addition, in the first quarter of 2000, the Company made more golf clubs than it had in any previous quarter, which helped it achieve the increased sales levels for the quarter. If the Company were to experience delays, difficulties or increased costs in its production of golf clubs, the Company's sales could be adversely affected.

The Company's brands remained number one in the U.S. and the worldwide market for woods, irons and putters in 1999 and first quarter of 2000. Sales of the Company's Great Big Bertha(R) Hawk Eye(R) titanium metal woods (which were released in January, 1999), and Hawk Eye(R) Tungsten Injected(TM) Titanium Irons (which were released in September 1999) were strong during the first quarter of 2000. In addition, there has been exceptional market interest in the introduction of the Company's new products, the Company's Big Bertha(R) Steelhead Plus(TM) Drivers and Fairway Woods, Big Bertha(R) Steelhead(TM) X-14(TM) Irons, and Odyssey(R) White Hot(TM) Putters. No assurances can be given, however, that the demand for these products or the Company's other existing products, or the introduction of new products, will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

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 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. Sales in Japan declined 15% in the first quarter of 2000 from the comparable period of 1999.

In addition, the Sumitomo distribution agreement required that Sumitomo purchase specific minimum quantities from the Company. As a direct distributor, the Company will not have the benefit of these guaranteed minimum purchases going forward. Furthermore, there is no assurance that the Company will be able to transcend the cultural and other barriers to successful distribution in Japan or that its sales in Japan will be comparable to or exceed its prior sales to Sumitomo.

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. In fact, the pre-tax loss generated by the Company's golf ball operations was $14.6 million in the first quarter of 2000 and the Company's golf ball operations could generate approximately $18 to $22 million in additional pre-tax losses in the remaining three quarters 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

The Company's gross margin as a percentage of net sales increased to 46% in the first quarter of 2000 from 45% in the first quarter of 1999. This increase was primarily attributable to a reduction in golf club manufacturing labor and overhead expenses, offset by higher than expected golf ball manufacturing costs, including the unplanned write-off of certain golf ball inventory. In addition, consumer acceptance of current and new product introductions, the sale and disposal of non-current products at reduced sales prices, the sales mix of the Company's high and low margin products 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 Company--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. Unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997-1998 may compound or otherwise distort these seasonal effects.

Competition

The worldwide market for premium golf clubs is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions and/or price reductions by competitors continue to generate increased market competition. However, in the first quarter of 2000, as compared to the first quarter of 1999, the Company maintained its unit and dollar market share for woods and increased its unit and dollar market share for irons. 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.

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 thicknesses 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 which 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 Callaway Golf(R) clubs that have been sold.

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

During the first quarter of 2000, the Company began selling its Rule 35(TM) Golf Balls, the majority of which were sold in March. To date, the Company has not experienced significant returns of its 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. 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 new golf ball product, it attempted to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that a competitor will not assert and/or a court will not find that the new golf ball products infringe any patent or other rights of competitors. If the new golf ball product is found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and it could incur substantial costs to redesign its golf ball product and/or defend legal actions.

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

"Gray Market" Distribution

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

Golf Professional Endorsements

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf(R) and Odyssey(R) branded products. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour, the PGA European Tour and the Japan Golf 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 (formerly Nike) tours. The Company expects that the Pools for 2000 will be comparable to 1999. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. As a result, in 1999, usage of the Company's drivers on the PGA, Senior PGA, LPGA and buy.com tours was substantially reduced compared to 1998. This trend may continue in 2000.

In the past, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. While it is not clear to what extent professional usage contributes to retail sales, it is possible that 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 several of the Company's staff professionals have decided to use the Company's golf balls in play, there are others who are already under contract with other golf ball manufacturers or, for other reasons, may not choose to play the Company's products. In addition, several professionals who are not on the Company's staff have expressed an interest in playing the Company's ball, but it is too early to predict if a significant number will actually do so. The Company does not plan to match the endorsement spending levels of the leading manufacturer in 2000, and will instead rely more heavily upon the performance of the ball and other factors to attract professionals to the product. In the future the Company may or may not increase its tour spending in support of the golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf ball, but it is possible that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

International Distribution

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

Euro Currency

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

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 quarter 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 March 31, 2000.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at March 31, 2000 through its derivative financial instruments.

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

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 $5.7 million at March 31, 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.

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 United States Lanham Act, the U.S. Patent Act, and other pertinent laws. Defendants in these actions may, among other things, contest the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others may assert counterclaims against the Company. Based upon the Company's experience, the Company believes that the outcome of these matters individually and in the aggregate will not have a material adverse effect upon the financial position or results of operations of the Company. It is possible, however, that in the future one or more defenses or claims asserted by defendants in one or more of those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company, or some other loss to the Company. One or more of these results could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the marketplace.

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

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

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

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

a. Exhibits

3.1	Certificate of Incorporation, 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).
10.40	Second Amendment to Chairman and Founder Employment Agreement, effective as of March 29, 2000, by and between the Company and Mr. Callaway.(+)
10.41	First Amendment to Amended and Restated Credit Agreement, dated as of April 28, 2000, by and among Callaway Golf Company, the other credit parties signatory to the Credit Agreement, the lenders signatory to this Amendment, and General Electric Capital Corporation.(+)
10.42	First Amendment to Receivables Transfer Agreement, dated as of April 28, 2000, among Callaway Golf Sales Company, Callaway Golf Company and Golf Funding Corporation.(+)
27.1	Financial Data Schedule.(+)

b. Reports on Form 8-K

None

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(+)Included with this Report.

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: May 12, 2000

PRINCIPAL EXECUTIVE OFFICER:

/s/ Ely Callaway

Ely Callaway
Chairman and Chief Executive Officer

ACTING PRINCIPAL FINANCIAL OFFICER:

/s/ Charles J. Yash

Charles J. Yash
President

ACTING PRINCIPAL ACCOUNTING OFFICER:

/s/ Kenneth E. Wolf

Kenneth E. Wolf
Senior Vice President, Finance
and Controller

EXHIBIT INDEX

Exhibit	Description
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EXHIBIT 10.40

SECOND AMENDMENT TO CHAIRMAN AND FOUNDER EMPLOYMENT AGREEMENT

This Second Amendment to Chairman and Founder Employment Agreement ("Second Amendment") is effective as of March 29, 2000 by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Company") and ELY CALLAWAY ("Mr. Callaway").

A. The Company and Mr. Callaway are parties to a certain Chairman and Founder Employment Agreement entered into as of January 1, 1997 (the "Agreement") and a First Amendment to Chairman and Founder Employment Agreement effective December 31, 1999 (the "First Amendment").

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

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

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

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

> "TERM. The Company hereby employs Mr. Callaway and Mr. Callaway hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating June 30, 2000, unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Mr. Callaway's status shall be one of at will employment."

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

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

MR. CALLAWAY	COMPANY
	Callaway Golf Company, a Delaware corporation
/s/ Ely Callaway	By: /s/ Charles J. Yash
Ely Callaway	Charles J. Yash, President
Dated: March 29, 2000	Dated: March 29, 2000

EXHIBIT 10.41

FIRST AMENDMENT
TO
AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT, dated as of April 28, 2000 (this "Amendment") relates to that certain Amended and Restated Credit Agreement dated as of February 10, 1999 (as the same may be amended, supplemented, restates 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 (together with the Borrower, the "Credit Parties"), the lenders signatory hereto (the "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;

WHEREAS, the Borrower and the other Credit Parties have requested that the Agent and the Lenders amend the Credit Agreement to permit the repurchase of shares of the Borrower's common Stock for cash in an aggregate amount of up to $250,000,000;

WHEREAS, the Agent and the Lenders are willing to enter into such amendments on the terms and conditions set forth herein;

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

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

a. Amendment to Section 6.14(e)(i). Section 6.14(e)(i) is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

> "Other than as notified to Agent on or before May 4, 2000 with respect to repurchases of Stock in the Fiscal Quarter ending June 30, 2000, Agent shall have received, on the first day of each Fiscal Quarter in which a repurchase of Stock is planned, and, if any repurchase of Stock not anticipated at the beginning of a Fiscal Quarter is planned during that Fiscal Quarter, at least fifteen (15) Business Days prior to any such proposed repurchase, (A) a schedule detailing any and all Stock repurchases expected to occur during the current Fiscal Quarter, prepared in conformity with clause (p) of Annex E, (b) a pro forma consolidated balance sheet, income statement and cash flow statement of Borrower and

its Subsidiaries, based on recent financial statements, which shall be complete and shall fairly present in all material respects the assets, liabilities, financial condition and results of operations of Borrower and its Subsidiaries in accordance with GAAP consistently applied, but taking into account such proposed payment and the funding of all Loans in connection therewith, and such pro forma statements shall reflect that the requirements of this clause (e) shall be satisfied and (C) a certificate of the chief financial officer of Borrower to the effect that Borrower will be Solvent after the proposed payment and that the pro forma statements fairly present the financial condition of Borrower (on a consolidated basis) as of the date of the recent financial statements after giving effect to the proposed payment,"

b. Amendment to Section 6.14(e)(iii). Section 6.14(e)(iii) is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

"the aggregate amount paid after April 1, 2000 to (or on behalf of) holders of Borrower's common Stock to repurchase such Stock shall not exceed $250,000,000,"

c. Amendment to Section 6.14(e)(v). Section 6.14(e)(v) is hereby amended by deleting the phrase "90 days" and substituting in lieu thereof the phrase "180 days".

d. Amendment to Section 6.14(e)(vii). Section 6.14(e)(vii) is hereby amended by deleting the text thereof in its entirety and substituting the following in lieu thereof:

"all Stock repurchased pursuant to this clause (e) with proceeds of Indebtedness shall be immediately canceled and retired, and"

e. Amendment to Annex E. Annex E is hereby amended by adding the following reporting requirement to the end thereof:

"(p) Stock Repurchase Reports. To Agent and Lenders, within thirty (30) days after the end of each Fiscal Quarter, a schedule of all Stock repurchases conducted during such Fiscal Quarter, describing in detail with respect to each such repurchase, (i) the date of such repurchase, (ii) the number of shares of Stock repurchased, and (iii) the amounts paid to (or on behalf of) the holders of Stock to repurchase such Stock."

f. Amendment to Annex H. Annex H is hereby amended by adding the following phrase to the end of subsection (a) thereof:

", less (iv) all cash paid after April 1, 2000 to (or on behalf of) holders of the Borrower's common Stock pursuant to and subject to the terms and conditions of Section 6.14(e)."

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

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

b. No Default or Event of Default has occurred and is continuing or will result after giving effect to this Amendment.

3. <u>Effective Date</u>. This Amendment shall become effective as of the date first written above (the "<u>Effective Date</u>") 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, prior to 5:00 p.m. (New York time) on May 15, 2000;

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

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

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

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

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

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

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

4. Reference to and Effect on the Loan Documents.

a. Upon the Effective Date, each reference to 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.

5. 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.

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

7. 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.

8. 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.

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

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

CALLAWAY GOLF COMPANY,
as Borrower

By: /s/ Kenneth Wolf

Name: Kenneth Wolf
Title: Senior Vice President,
Finance and Controller

CALLAWAY GOLF SALES COMPANY,
as a Credit Party

By: /s/ Kenneth Wolf

Name: Kenneth Wolf
Title: Vice President and
Chief Financial Officer

CALLAWAY GOLF BALL COMPANY,
as a Credit Party

By: /s/ Kenneth Wolf

Name: Kenneth Wolf
Title: Vice President and Chief Financial Officer

GENERAL ELECTRIC CAPITAL CORPORATION,
as Agent and Lender

By: /s/ Robert Yasuda

Name: Robert Yasuda
Title: Authorized Signatory
Pro Rata Share: 20.8333%

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

By: /s/ Elizabeth J. Limpert

Name: Elizabeth J. Limpert
Title: First Vice President
Pro Rata Share: 17.7083%

BANK OF AMERICA, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Richard G. Burke

Name: Richard G. Burke
Title: Senior Vice President
Pro Rata Share: 14.1667%

CONGRESS FINANCIAL CORPORATION
(WESTERN),
as a Lender

By: /s/ Jeffrey M.Evans

Name: Jeffrey M. Evans
Title: Vice President
Pro Rata Share: 14.1667%

KEY CORPORATE CAPITAL INC.,
as a Lender

By: /s/ Reynaldo Flores

Name: Reynaldo Flores
Title: Vice President
Pro Rata Share: 14.1667%

NATIONAL CITY COMMERCIAL FINANCE, INC.,
as a Lender

By: /s/ G.A. Godec

Name: G.A. Godec
Title: Senior Vice President
Pro Rata Share: 8.3333%

NATIONAL WESTMINSTER BANK PLC,
as a Lender

By: /s/ Nicholas Reid

Name: Nicholas Reid
Title:
Pro Rata Share: 10.625%

EXHIBIT 10.42

FIRST AMENDMENT
TO
RECEIVABLES TRANSFER AGREEMENT

THIS FIRST AMENDMENT TO RECEIVABLES TRANSFER AGREEMENT, dated as of April 28, 2000 (this "Amendment") is entered into among Callaway Golf Sales Company, a California corporation ("CGS"), as transferor of Receivables (the "CGS Originator") and as a servicer (the "Servicer"), Callaway Golf Company, a Delaware corporation (the "Parent Guarantor") and Golf Funding Corporation, a California corporation ("GFC"), and relates to that certain Receivables Transfer Agreement dated as of February 10, 1999 among CGS, the Parent Guarantor and GFC (as the same may be amended, supplemented, restated or otherwise modified from time to time, the "Receivables Transfer Agreement"). Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Receivables Transfer Agreement.

W I T N E S S E T H

WHEREAS, the CGS Originator, the Parent Guarantor and GFC have entered into the Receivables Transfer Agreement;

WHEREAS, the Parent Guarantor and General Electric Capital Corporation (the "Agent"), inter alia, have entered into that certain Amended and Restated Credit Agreement dated as of February 10, 1999, as amended by the First Amendment to Amended and Restated Credit Agreement dated as of April 28, 2000 (the "First Amendment to Credit Agreement") (as amended by the First Amendment to Credit Agreement, and as it may be further amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, pursuant to the First Amendment to Credit Agreement, the Parent Guarantor and the other Credit Parties (as defined therein) have requested that the Agent and the Lenders (as defined therein) amend the Credit Agreement to amend the Restricted Payment and Tangible Net Worth covenants contained therein to permit the repurchase of shares of the Parent Guarantor's common Stock for cash in an aggregate amount of up to $250,000,000, subject to the terms and conditions described in the Credit Agreement (the "Stock Repurchases");

WHEREAS, the Parent Guarantor and the CGS Originator have requested that GFC amend the Receivables Transfer Agreement to amend the Restricted Payment and Tangible Net Worth covenants contained therein to permit the Stock Repurchases, and GFC is willing to enter into such amendments on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the above premises, the CGS Originator, the Parent Guarantor and GFC agree as follows:

1. Amendments to the Receivables Transfer Agreement. Upon the "Effective Date" (as defined in Section 3 below), the Receivables Transfer

Agreement is hereby amended as follows:

a. <u>Amendment to Section 4.05(a)</u>. Section 4.05(a) is hereby amended by deleting the words "Other than as expressly permitted by the Credit Agreement as in effect on the date hereof," and substituting the following in lieu thereof:

"Other than as expressly permitted by the Credit Agreement as in effect on the date hereof, as amended by the First Amendment to Amended and Restated Credit Agreement dated as of April 28, 2000 (the "<u>First Amendment to Credit Agreement</u>"), "

b. <u>Amendment to Annex W</u>. Annex W is hereby amended by adding the following phrase to the end of subsection (a) thereof:

", <u>less</u> (iv) all cash paid after April 1, 2000 to (or on behalf of) holders of the Parent Guarantor's common Stock pursuant to and subject to the terms and conditions set forth in Section 6.14(e) of the Credit Agreement, as amended by the First Amendment to Credit Agreement."

2. <u>Representations and Warranties</u>. The CGS Originator and the Parent Guarantor hereby represent and warrant to GFC that, as of the Effective Date and after giving effect to this Amendment:

a. All of the representations and warranties of each of the CGS Originator and the Parent Guarantor contained in this Amendment and the Receivables Transfer Agreement 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 Incipient Termination Event or Termination Event has occurred or is continuing or will result after giving effect to this Amendment.

3. <u>Effective Date</u>. This Amendment shall become effective as of the date first written above (the "<u>Effective Date</u>") 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, prior to 5:00 p.m. (New York time) on May 15, 2000;

i. counterparts hereof executed by each of the CGS Originator, the Parent Guarantor, the Collateral Agent, the Operating Agent and the Purchaser (as required pursuant to Section 8.06 of the Receivables Transfer Agreement);

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

iii. such additional documentation as GFC may reasonably request; and

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

4. <u>Reference to and Effect on the Receivables Transfer Agreement.</u>

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

b. Except to the extent specifically set forth herein, the provisions of the Receivables Transfer Agreement shall not be amended, modified, waived, impaired or otherwise affected hereby, and the Receivables Transfer Agreement and the Obligations under the Receivables Transfer Agreement 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 Receivables Transfer Agreement or any other document, (ii) prejudice any right or rights which GFC may now have or may have in the future under or in connection with the Receivables Transfer Agreement or any other document, (iii) require GFC 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.

5. <u>Section Titles and Headings.</u> The Section titles in this Amendment are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto. The headings herein are for convenience of reference only and shall not alter or otherwise affect the meaning hereof.

6. <u>Counterparts.</u> 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.

7. 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.

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

* * *

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized as of the date first above written.

CALLAWAY GOLF SALES COMPANY,
as CGS Originator and as Servicer

By: /s/ Kenneth Wolf

Name: Kenneth Wolf
Title: Vice President and Chief Financial Officer

GOLF FUNDING CORPORATION

By: /s/ Kenneth Wolf

Name: Kenneth Wolf
Title: Vice President and Chief Financial Officer

CALLAWAY GOLF COMPANY,
as Parent Guarantor

By: /s/ Kenneth Wolf

Name: Kenneth Wolf
Title: Vice President and Chief Financial Officer

ACKNOWLEDGED AND AGREED:

GENERAL ELECTRIC CAPITAL CORPORATION,
as Collateral Agent and Operating Agent

By: /s/ Craig Winslow

Name: Craig Winslow
Title: Authorized Signatory

REDWOOD RECEIVABLES CORPORATION,
as Purchaser

By: /s/ Denis M. Creedon

Name: Denis M. Creedon
Title: Assistant Secretary

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEET AND UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF INCOME AT MARCH 31, 2000 AND FOR THE THREE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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