SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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)

CALIFORNIA	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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange
Preferred Share Purchase Rights	

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 8, 1999, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was $816,632,022 based on the closing sales price of the Registrant's Common Stock as reported in the consolidated transactions reporting system.

As of March 8, 1999, the number of shares of the Registrant's Common Stock outstanding was 75,526,661, and there were no shares of the Registrant's Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Parts I, II and IV incorporate certain information by reference from the Registrant's Annual Report to shareholders for the fiscal year ended December 31, 1998.

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the annual meeting of shareholders to be held on May 5, 1999, which proxy statement was filed on April 1, 1999.

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

Readers also should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Further, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

PART I

ITEM 1. BUSINESS.

Callaway Golf Company (the "Company" or "Callaway Golf") is a California corporation formed in 1982 and has the following directly wholly-owned operating subsidiaries: Callaway Golf Sales Company, Callaway Golf Ball Company, CGV, Inc., Callaway Golf Europe Ltd. (formerly Callaway Golf (UK) Limited), ERC International Company, Callaway Golf Korea, Ltd., Callaway Golf (Germany) GmbH, Callaway Golf Canada Ltd. and Callaway Golf Europe, S.A. (France). The Company designs, develops, manufactures and markets high quality, innovative golf clubs. The Company's golf clubs are sold at premium prices to both average and skilled golfers on the basis of performance, ease of use and appearance. Callaway Golf's primary products, most of which incorporate the Company's S2H2(R) design concept, currently include Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods, Great Big Bertha(R) Hawk Eye(R) Drivers and Fairway Woods, Biggest Big Bertha(R) Titanium Drivers, Great Big Bertha(R) Tungsten Titanium(TM) Irons, Big Bertha(R) X-12(TM) Irons, and various putters, including the Bobby Jones(R) Series Putters and the Carlsbad Series Putters. The Company also manufactures and markets the Odyssey(R) brand line of putters and wedges with Stronomic(R) and Lyconite(TM) face inserts. The Company currently is constructing a golf ball manufacturing plant for its wholly-owned subsidiary, Callaway Golf Ball Company, and anticipates manufacturing and marketing golf balls by late 1999 or early 2000. See "Item 1. Business-Product Design and Development-Golf Ball Development."

SEGMENTS

Information regarding the Company's segments is contained in Note 14 of the Consolidated Financial Statements in the Company's Annual Report to Shareholders for the year ended December 31, 1998 ("1998 Annual Report to Shareholders"), which is incorporated herein by reference.

RESTRUCTURING

On November 11, 1998, the Company announced that it had adopted a business plan that included 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 Golf"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives are expected to be largely completed during 1999. As a result of these actions, the Company recorded one-time charges of $54.2 million during the fourth quarter of 1998. These charges (shown below in tabular format) primarily relate to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of the Company's 80% interest in Callaway Golf Media Ventures

(see Note 15 of the Consolidated Financial Statements in the 1998 Annual Report to Shareholders), a loss on the sale of All-American Golf (See Note 13 of the Consolidated Financial Statements in the 1998 Annual Report to Shareholders), 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. Without these charges, the Company's earnings per diluted share would have been $0.13 for the year ended December 31, 1998.

Employee reductions occurred in almost all areas of the Company, including manufacturing, marketing, sales, and administrative areas. At December 31, 1998, the Company had reduced its non-temporary work force by approximately 750 positions. Although substantially all reductions occurred prior to December 31, 1998, a small number of reductions will occur in the first quarter of 1999.

Details of the one-time charges are as follows (in thousands):

	Cash/Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98
ELIMINATION OF JOB RESPONSIBILITIES		$11,664	$ 8,473	$ 3,191
Severance packages	Cash	11,603	8,412	3,191
Other	Non-cash	61	61	
EXITING CERTAIN NON-CORE BUSINESS ACTIVITIES		$28,788	$12,015	$16,773
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731
Excess lease costs	Cash	12,660	146	12,514
Contract cancellation fees	Cash	2,700	1,504	1,196
Other	Cash	356	24	332
CONSOLIDATION OF OPERATIONS		$13,783	$ 2,846	$10,937
Loss on disposition/impairment of assets	Non-cash	12,364	2,730	9,634
Excess lease costs	Cash	806	4	802
Other	Cash	613	112	501

Future cash outlays are anticipated to be completed by the end of 1999, excluding certain lease commitments that continue through February 2013. The Company anticipates that this business plan will generate savings going forward in excess of $40.0 million per year, beginning in 1999. In addition, the Company is continuing to implement an ongoing process of reviewing its manufacturing operations and its worldwide supplier network aimed at reducing the cost of goods sold and generating significant savings. However, no assurances can be given that the full amount of the anticipated savings will be realized.

PRODUCTS

The following table sets forth the contribution to net sales attributable to the product groups for the periods indicated (dollars in thousands).

	Year Ended December 31,					
	1998		1997		1996	
Metal Woods	$389,900	56%	$544,258	64%	$479,127	71%
Irons	229,112	33%	233,977	28%	168,576	25%
Putters, accessories and other*	78,609	11%	64,692	8%	30,809	4%
Net Sales	$697,621	100%	$842,927	100%	$678,512	100%

* 1998 and 1997 net sales include $49.2 and $20.5 million, respectively, of Odyssey(R) putters and wedges.

The Company believes that, although interest in golf appears to be growing, the worldwide premium golf equipment market has been declining and that it may continue to decline during the foreseeable future. Demand in the

United States for premium golf equipment also has declined in 1998, and the Company experienced a decline in domestic sales in 1998. The economic turmoil in Southeast Asia and Japan continues to cause contraction in the retail golf markets in these countries and elsewhere around the world, and has had an adverse effect on the Company's sales and results of operations. The Company expects this situation to continue in 1999.

While sales of the Company's newly introduced Big Bertha(R) Steelhead(TM) and Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods have been strong to date, no assurances can be given that the demand for these products or the Company's other existing products, or the introduction of new products, will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

METAL WOODS

Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods

In January 1999, the Company introduced and began delivery of significant quantities of Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods. Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods were designed to replace the Company's Great Big Bertha(R) Titanium Drivers and Fairway Woods. Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods incorporate a design with a totally new oversize clubhead incorporating a thin titanium crownplate together with a strong, lightweight titanium body. This design includes a new Tungsten Gravity Screw that is inserted into the sole of the clubhead and produces a low and deep center of gravity. The Company offers Great Big Bertha(R) Hawk Eye(R) Titanium Drivers in lofts ranging from 6 to 12 degrees. Great Big Bertha(R) Hawk Eye(R) Titanium Fairway Woods are available in a 2-wood (The Deuce), Strong 3-wood, 3-wood, Strong 4-wood, 4-wood, 5-wood, 7-wood (Heaven Wood), and 9-wood (Divine Nine).

Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods

In August 1998, the Company introduced and began delivery of significant quantities of Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods. Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods were designed to replace the Company's Big Bertha(R) Stainless Steel Drivers and Fairway Woods with the War Bird(R) soleplate. Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods have a large forgiving face and a lightweight crownplate atop a heavier, stronger body that incorporates a relatively heavy weight chip. This design produces a low center of gravity. The Company offers Big Bertha(R) Steelhead(TM) Stainless Steel Drivers in lofts ranging from 6 to 12 degrees. Big Bertha(R) Steelhead(TM) Stainless Steel Fairway Woods are available in a 2-wood (The Deuce), Strong 3-wood, 3-wood, Strong 4-wood, 4-wood, 5-wood, 7-wood (Heaven Wood), and 9-wood (Divine Nine), 11-wood (Ely Would).

Biggest Big Bertha(R) Titanium Driver

In January 1997, the Company introduced Biggest Big Bertha(R) Titanium Drivers. Biggest Big Bertha(R) Drivers have the largest titanium clubheads of any of the Company's clubs to date, and provide maximum forgiveness, and incorporate ultralight graphite shafts which are longer than Great Big Bertha(R) Driver shafts. Although larger and longer, Biggest Big Bertha(R) Drivers are lighter in overall weight than Great Big Bertha(R) Drivers. Biggest Big Bertha(R) Drivers incorporate the S2H2(R) design concept, the War Bird(R) soleplate (which features a deep dish on either side of the central facet running rearward from the clubface) and an advanced internal weighting system which increases the degree of perimeter weighting of the titanium clubhead. The Company offers Biggest Big Bertha(R) Drivers in lofts ranging from 6 to 12 degrees.

IRONS

Big Bertha(R) X-12(TM) Irons

In January 1998, the Company introduced and began delivery of significant quantities of Big Bertha(R) X-12(TM) Irons. Big Bertha(R) X-12(TM) Irons incorporate a low center of gravity which helps get the ball airborne more easily with the proper trajectory and spin. The varied 360-degree undercut channel creates a thinner profile, and together with a new shape and a narrower sole, keeps the center of gravity low. The unique multi-layer design in the cavity allows for increased forgiveness on off-center hits. These irons are offered in 1 through 9, and pitching, approach, sand, and lob wedges, with either graphite or steel shafts.

Great Big Bertha(R) Tungsten.Titanium(TM) Irons

In January 1997, the Company introduced Great Big Bertha(R) Tungsten.Titanium(TM) Irons. Great Big Bertha(R) Tungsten.Titanium(TM) Irons incorporate the same core design features as Big Bertha(R) Irons, but have a slightly larger titanium clubhead with a specially designed tungsten inset to concentrate weight low and deep in the clubhead. These design features are intended to give these irons a lower and deeper sweet-spot compared to other titanium irons. The Company offers Great Big Bertha(R) Tungsten.Titanium(TM) Irons 1 through 9, and pitching, approach, sand and lob wedges, with either graphite or steel shafts.

PUTTERS

The Company has two lines of putters. Odyssey(R) brand putters sold by the Company incorporate a soft, sensitive black trapezoidal Stronomic(R) insert designed to provide better feel and forgiveness. This line includes the new TriForce(TM) series of putters introduced in 1999, Rossie(TM) mallet putters and Dual Force(R) blade style putters. The center of gravity in the TriForce(TM) series of putters has been moved back and away from the face, which creates better ball roll than similar-shaped clubs. This weight distribution is achieved through having the largest Stronomic(R) insert of any Odyssey(R) putter to date, coupled with a heavy, milled tungsten flange. The Company also has a Callaway(R) line of steel and graphite shafted putters, including the new Carlsbad Series putters. Some of these putters incorporate the S2H2(R) concept, including the Tuttle(R) and the Tuttle(R) II putters. In 1996, the Company introduced and commenced deliveries of the new Bobby Jones(R) line of putters, consisting of three styles of precision-machined putters with a double-radius bend, offset shaft. In 1997, 1998 and 1999 additional styles of the Bobby Jones(R) putters were introduced.

ACCESSORIES

In addition to its golf clubs, Callaway Golf offers golf-related equipment and supplies manufactured by other companies bearing the Callaway(R) logo, including golf bags, travel bags, head covers, hats, umbrellas and other accessories.

PRODUCT DESIGN AND DEVELOPMENT

Product design at Callaway Golf is a result of the integrated efforts of its product development, manufacturing and sales departments, all of which work together to generate new ideas for golf equipment. The Company has not limited itself in its research efforts by trying to duplicate designs that are traditional or conventional and believes it has created an environment in which new ideas are valued and explored. The Company's research and development

expenses, which for 1998 and 1997 include those of Callaway Golf Ball Company and Odyssey Golf's putter operations, were $36.8 million, $30.3 million and $16.2 million during 1998, 1997, and 1996, respectively. The Company intends to continue to invest substantial amounts in its research and development activities in 1999 and beyond. In addition to development of new golf club equipment, these investments will continue to include, among others, significant expenditures in support of Callaway Golf Ball Company's efforts to develop and market a new golf ball product.

Callaway Golf has the ability to create and modify golf club designs by using computer aided design software ("CAD"), computer aided manufacturing software ("CAM") and computer numerical control ("CNC") milling equipment. CAD software enables designers to develop computer models of new clubhead and shaft designs. CAM software is then used by engineers to translate the digital output from CAD computer models so that physical prototypes can be produced. Through the use of this technology, Callaway Golf has been able to greatly accelerate the design, development and testing of new golf clubs.

The Company owns two induction furnaces (for casting ferrous and non-ferrous alloys) and one cold-walled furnace (for casting titanium, nickel and cobalt alloys) which are located in a foundry facility at the Company's headquarters in Carlsbad, California. During 1998, the Company used its foundry facility to cast its own prototype clubheads. In addition, the Company designs and fabricates shaft prototypes at its technology center that also is located at the Company's headquarters.

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

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

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

The rapid introduction of new products by the Company can result in closeouts of existing inventories at both the wholesale and retail levels. Such closeouts 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. Historically, the Company has managed such closeouts so as to avoid any material negative impact on the Company's operations, but there can be no assurance that the Company will always be able to do so.

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.

Golf Ball Development

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

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by creating, developing and manufacturing golf balls in a new plant constructed just for this purpose. The successful implementation of the Company's strategy could be adversely affected by various risks, including, among others, delays in product development, construction delays and unanticipated costs. There can be no assurance as to if and when a successful golf ball product will be developed or that the Company's investments will ultimately be realized.

The Company's golf ball business is still in the developmental stage and, by plan, has had a significant negative impact on the Company's cash flows and results of operations and will continue to do so during 1999. The Company believes that many of the same factors that affect the golf equipment industry, including growth rate in the golf equipment industry, intellectual property rights of others, seasonality and new product introductions, also apply to the golf ball business.

SALES AND MARKETING

Sales for Distribution in the United States

Approximately 62%, 65% and 68% of the Company's net sales were derived from sales for distribution within the United States in 1998, 1997 and 1996, respectively. The Company targets those golf retailers (both on-course and off-course) who sell "pro-line" clubs (professional quality golf clubs) and provide a level of customer service appropriate for the sale of premium golf clubs. No one customer that distributes golf clubs in the United States accounted for more than 5% of the Company's revenues in 1998, 1997, and 1996. The Company distributes its products in Hawaii through an exclusive distributor.

The Company, through its subsidiary Callaway Golf Sales Company, currently employs full-time regional field representatives, in-house telephone salespersons and customer service representatives in connection with golf club and accessory sales. Each geographic region is covered by both a field representative and a telephone salesperson who work together to initiate and maintain relationships with customers through frequent telephone calls and in-person visits. The Company believes that this tandem approach of utilizing field representatives and telephone salespersons provides the Company a competitive advantage over other golf club manufacturers that distribute their golf clubs solely through independent sales representatives rather than employees. Notwithstanding the foregoing, Callaway Golf recognizes that other companies have marketing programs which may be equally or more effective than its own strategy.

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

Sales for Distribution Outside of the United States

Approximately 38%, 35% and 32% of the Company's net sales were derived from sales for distribution outside of the United States in 1998, 1997 and 1996, respectively. In 1997 and 1996, the majority of the Company's international sales were made through distributors specializing in the sale and promotion of golf clubs in specific countries or regions around the world. In 1998, the majority of the Company's international sales were made through its foreign subsidiaries. The Company currently has distribution arrangements covering sales of the Company's products in over 50 foreign countries, including Japan, Singapore, Spain, Italy, Hong Kong, Australia, Argentina and South Africa. Prices of golf clubs for sales outside of the United States receive an export pricing discount to compensate international distributors for selling, advertising and distribution costs. A change in the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales.

Prior to April 1998, the Company distributed its products in Canada through a distributor. In April 1998, the Company purchased the distribution rights of its Canadian distributor and began directly marketing its products in that country through its subsidiary, Callaway Golf Canada Ltd.

In 1998, the Company directly marketed its products in the United Kingdom, Belgium, Finland, Denmark and Sweden through its wholly-owned British subsidiary, Callaway Golf Europe Ltd. ("CG Europe") (formerly Callaway Golf (UK) Limited). Through two transactions in 1996 and 1998, the Company acquired the distributor rights of its German distributor, which consist of selling and promoting the Company's products in Germany, Austria, the Netherlands and Switzerland. In December 1998, the Company acquired the distribution rights of its Norwegian distributor and in January 1999 began directly marketing its products in Norway through CG Europe. In February 1999, the Company acquired the distribution rights of its Irish distributor and began directly marketing its products in Ireland through CG Europe. In June 1998, the Company purchased the distribution rights of its French distributor and began directly marketing its products in that country through its wholly-owned subsidiary, Callaway Golf Europe S.A.

Prior to February 1998, the Company distributed its products in Korea through a distributor. In February 1998, the Company purchased the distribution rights of its Korean distributor and began directly marketing its products in that country through its subsidiary, Callaway Golf Korea, Ltd.

In 1993, the Company, through a distributor agreement, appointed Sumitomo Rubber Industries, Ltd. as the sole distributor, and Sumitomo Corporation as the sole importer, of Callaway(R) golf clubs in Japan. This distributor agreement runs through December 31, 1999. The Company does not intend to extend this agreement. Sales to Sumitomo represented approximately $58.2 million (8%), $83.0 million (10%) and $58.2 million (9%) of the Company's net sales in 1998, 1997 and 1996, respectively. See Note 14 of Notes to Consolidated Financial Statements in the 1998 Annual Report to Shareholders.

The Company has established ERC International Company, a wholly-owned Japanese corporation ("ERC"), for the purpose of distributing Odyssey(R) products in Japan. ERC also will distribute Callaway Golf balls when ready and Callaway Golf clubs beginning January 1, 2000. There will be significant costs and capital expenditures invested in ERC before there will be sales sufficient to support such costs. However, these costs have not been material to date. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution in Japan through ERC, and it is possible that doing so will have a material adverse effect on the Company's operations and financial performance.

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

Additionally, the Company's plan of integration of foreign distribution increases the Company's exposure to fluctuations in exchange rates for various foreign currencies which could result in losses and, in turn, could adversely impact the Company's results of operations. 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. International reorganization 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.

As noted above, the Company continues to experience unauthorized distribution of its products in international markets. For a discussion of the Company's efforts in this area, see "Sales for Distribution in the United States" set forth above.

Credit Risk

The Company primarily sells its products to golf equipment retailers and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. The Company believes it has adequate reserves for potential credit losses. Historically, the Company's bad debt expense has been low. However, the recent downturn in the retail golf equipment market has resulted in delinquent or uncollectible accounts for some of the Company's significant customers. As a result, during 1998 the Company increased its reserve for credit losses. Management does not foresee any significant improvement in the golf equipment market during 1999, and therefore expects this trend to continue. Accordingly, there can be no assurance that the Company's results of operations or cash flows will not be adversely impacted by the failure of its customers to meet their obligations to the Company.

Advertising and Promotion

Within the United States, the Company has focused its advertising efforts mainly on a combination of television commercials and printed advertisements in national magazines, such as Golf Digest, Golf Magazine, Golf Week, Golf World and Sports Illustrated's Golf Edition, and in trade publications, such as Golf Shop Operations. Advertising of the Company's golf clubs outside of the United States is typically handled by our subsidiaries and independent distributors of the products in a particular country.

The Company also establishes relationships with professional golfers in order to evaluate and promote Callaway Golf branded golf clubs. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour, the PGA European Tour and the Nike Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. To date, the Company believes that the cessation of use by professional endorsers of Callaway(R) brand products has not resulted in a significant amount of negative publicity. However, if certain of Callaway Golf's professional endorsers were to stop using the Company's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so. The Company has created cash "pools" that reward such usage. For the last several years, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. It is unlikely that the Company will be able to sustain this level of professional usage in 1999. 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 in past years, during 1998, the Company continued its Big Bertha(R) Players' Pools ("Pools") for the PGA, Senior PGA, LPGA and Nike Tours. Those professional players participating in the Pools received cash for using Callaway Golf products in professional tournaments, but were not bound to use the products or grant any endorsement to the Company. The Company believes that its professional endorsements and its Pools contributed to its usage on the professional tours in 1998. However, in connection with its new business plan for 1999 the Company has significantly reduced these Pools for the PGA and the Senior PGA Tours, and has eliminated the Pools for the LPGA and Nike Tours. As a result, the Company anticipates that the level of professional usage of the Company's products will be lower in 1999 than 1998. Further, while it is not clear whether professional endorsements materially contribute 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.

To support the promotion of its products at the retail level, the Company offers various promotional programs to its customers. Golf clubs may be purchased at a discount for demonstration, loan and rental use and for personal use by golf shop professionals.

The Company's advertising, promotional and endorsement related expenses, including compensation to professional golfers, were approximately $79.1 million, $62.4 million and $45.0 million, in 1998, 1997 and 1996, respectively.

MANUFACTURING AND SOURCES AND AVAILABILITY OF MATERIALS

The manufacturing of the Company's golf clubs involves a number of specialized processes required by the unique design of the products. The Company's metal woods and irons are produced by the Company's manufacturing personnel at its Carlsbad, California facilities using clubheads, shafts and grips supplied by independent vendors.

The Company works with a few select casting houses to produce its clubheads. The clubheads used in the production of Great Big Bertha(R) Hawk Eye(R) Titanium Drivers and Fairway Woods are manufactured to Callaway Golf's specifications by Cast Alloys, Inc. ("Alloys"), Coastcast Corporation ("Coastcast") and Sturm, Ruger and Company ("Sturm Ruger"). Coastcast and Alloys cast Big Bertha(R) Steelhead(TM) Stainless Steel Drivers and Fairway Woods clubheads. Biggest Big Bertha(R) Titanium Driver clubheads are provided by Alloys, Coastcast and Sturm Ruger. Big Bertha(R) X-12 Iron clubheads are provided by Hitchiner Manufacturing Co. and Coastcast. Great Big Bertha(R) Tungsten.Titanium(TM) Irons are provided by Coastcast. The Company works closely with its casting houses, which enables the Company to monitor the quality and reliability of clubhead production. All of these casting houses are currently manufacturing, or are entitled to manufacture, clubheads for competitors of the Company. The Company also works closely with Aldila, FM Precision, Fujikura, Graphite Design, Inc., HST, Suntech-Sunwoo Co, Ltd., True Temper and Unifiber, its principal suppliers of shafts, to develop specialized shafts suited to the S2H2(R) design and the other unique features of the Company's products.

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

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic 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 source of alternative vendors have been identified and adopted 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 and carbon fiber. Callaway Golf does not make these materials itself, and must rely on its ability to obtain adequate supplies in the world marketplace in competition with other users of such materials. While the Company has been successful in obtaining its requirements for such materials thus far, there can be no assurance that it will always be able to do so. An interruption in the supply of such materials or a significant change in costs could have a material adverse effect on the Company.

Callaway Golf's own production processes entail rigorous and continual quality control inspection and require the application of significant resources to the manufacturing process. The Company's executive offices and its product development, manufacturing and distribution facilities are housed in facilities leased and owned by the Company in Carlsbad, California.

Handling of Materials

In the ordinary course of its manufacturing process, the Company uses paints and chemical solvents which are stored on-site. The waste created by use of these materials is transported off-site on a regular basis by registered waste haulers. As a standard procedure, a comprehensive audit of the treatment, storage, and disposal facility with which the Company contracts for the disposal of hazardous waste is performed annually by the Company. To date, the Company has not experienced any material environmental compliance problems, although there can be no assurance that such problems will not arise in the future.

PRODUCT WARRANTIES

The Company supports all of its golf clubs with a limited two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. In addition, the Company's Biggest Big Bertha(R) Drivers, because of their large clubhead size and extra long, lightweight graphite shafts, have experienced shaft breakage at a rate higher than generally experienced with the Company's other metal woods, even though these shafts are among the most expensive to manufacture in the industry. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned as a result of cracked clubheads, broken graphite shafts, loose medallions and other product problems to date has not been material in relation to the volume of Callaway Golf clubs that have been sold. The Company monitors closely the level and nature of any product breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. At December 31, 1998, 1997 and 1996, the Company's reserves for warranty claims were approximately $35.8 million, $28.1 million, and $27.3 million, respectively. 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.

INTELLECTUAL PROPERTY

The Company seeks to protect its intellectual property rights, such as product designs, manufacturing processes, new product research and concepts, and trademarks. These rights are protected through the acquisition of utility and design patents and trademark registrations, the maintenance of trade secrets, the development of trade dress, and, when necessary and appropriate, litigation against those who are, in the Company's opinion, unfairly competing. In the United States, the Company has applied for or been granted patents for certain features of its golf clubs. Additionally, it has been granted trademark registrations for Callaway(R), Big Bertha(R), Great Big Bertha(R), Hawk Eye(R), S2H2(R), Odyssey(R), Stronomic(R) and several other product names. There is no assurance that during the life of a patent or a trademark, prior to a court of competent jurisdiction validating them, any of these patents or trademarks are enforceable, although the Company believes them to be enforceable.

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

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark, copyright or other protection of their proprietary rights and designs. From time to time others have or may contact the Company to claim that they have proprietary rights that have been infringed by the Company and/or its products. The Company evaluates any such claims and where appropriate, has obtained or sought to obtain licenses or other business arrangements. (See also Item 3, "Legal Proceedings.") To date, there have been no interruptions in the Company's business as a result of any claims of infringement. No assurance can be given, however, that the Company will not be adversely affected in the future by the assertion of intellectual property rights belonging to others. This effect could include alteration of existing products, withdrawal of existing products and delayed introduction of new products.

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

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

LICENSING

Through a licensing arrangement with Jonesheirs, Inc., Callaway Golf obtained the exclusive, worldwide rights to the use of the Bobby Jones(R) name for golf clubs and golf-related accessories through 2010. The Company receives a royalty from the Hickey-Freeman Company on sales of Bobby Jones(R) Sportswear and certain other products.

Callaway Golf also has an exclusive licensing agreement with Nordstrom, Inc., under which Nordstrom, Inc. designs, produces and sells apparel in the U.S. at its own expense under the "Callaway Golf Apparel by Nordstrom" label. The licensing agreement runs through 2004 with automatic one-year extensions unless terminated by either party. The line includes men's and women's golf apparel, golf footwear and certain other products and is sold at Nordstrom stores throughout the United States.

In 1997, Callaway Golf and Bausch & Lomb Incorporated signed a multi-year agreement to jointly develop and globally market an exclusive line of premium sunglasses specifically for golf enthusiasts. The sunglasses and sunglass cases, co-branded with the Ray-Ban(R), Callaway Golf(R) and Callaway(R) marks, were introduced in 1999 and are available through golf pro shops and other retailers of premium golf equipment, better sporting goods and better department stores, sunglass specialty shops and optical channels.

SEASONALITY

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

COMPETITION

The market in which the Company does business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. With respect to metal woods, the Company's major domestic competitors are Taylor Made, Titleist, Cobra and Ping. In 1998, Orlimar and Adams emerged as new competitors. With respect to irons, the Company's major domestic competitors are Titleist, Cobra, Taylor Made and Ping. For putters, the Company's major domestic competitors are Ping and Titleist. New product introductions and/or price reductions by competitors continue to generate increased market competition and the Company believes that such competition has caused it to lose some unit market share and has negatively affected sales. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

A manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including the golf club's look and "feel," and the level of acceptance that the golf club has among professional and other golfers. The subjective preferences of golf club purchasers also 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. For example, consumer support for shallow-faced metal woods increased in 1998, and many of the Company's competitors are making such products. The Company does not currently make a "shallow-faced" wood, and does not believe that the designs currently in the market are superior to its deeper-faced offerings. However, if "shallow-faced" products continue to gain consumer acceptance, the Company's sales could continue to be negatively affected.

As noted elsewhere in this Report, the Company has formed Callaway Golf Ball Company for the purpose of creating, developing and manufacturing golf balls. The golf ball business is highly competitive with a number of well-established and well-financed competitors, including Titleist, Spalding, Sumitomo Rubber Industries, Bridgestone and

others. These competitors have established market share in the golf ball business, that the Company will need to penetrate in order for the Company's golf ball business to be successful.

EMPLOYEES

As of December 31, 1998, the Company and its subsidiaries had 2,252 full-time employees, including 277 employed in sales and marketing, 199 employed in research and development and product engineering and 1,226 employed in production. The remaining full-time employees are administrative and support staff.

The Company considers its employee relations to be good. None of the Company's employees are represented by unions. The Company's commitment to the development of new products and the seasonal nature of its business may result in fluctuations in production levels. The Company attempts to manage these fluctuations to maintain employee morale and avoid disruption. However, it is possible that such fluctuations could strain employee relations in the future.

ITEM 2. PROPERTIES.

The Company and its subsidiaries conduct operations in both owned and leased properties, located primarily near the Company's headquarters in Carlsbad, California. The 12 buildings utilized in the Company's Carlsbad operations include corporate offices, manufacturing, research and development, warehousing and distribution facilities, and comprise approximately 881,000 square feet of space. Nine of these properties, representing approximately 644,000 square feet of space are owned by the Company; an additional three properties, representing approximately 237,000 square feet of space, are leased. These properties include a golf ball manufacturing plant currently under construction for its wholly-owned subsidiary, Callaway Golf Ball Company. In addition, the Company and its subsidiaries conduct certain international operations outside of the United States, located in the United Kingdom, Canada, Japan and Korea, in leased facilities comprising approximately 92,628 square feet.

As part of its restructuring plan, the Company plans to sell certain of its buildings, which house a portion of its manufacturing and research and development activities. The Company believes that its facilities currently are adequate to meet its requirements and will continue to be following the consummation of the sales.

ITEM 3. LEGAL PROCEEDINGS.

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

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

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including those discussed above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS.

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Biographical information concerning certain of the Company's officers is set forth below.

Name	Age	Position(s) Held
Ely Callaway.....	79	Founder, Chairman, President and Chief Executive Officer
Ronald A. Drapeau.....	52	Senior Executive Vice President, Manufacturing
Richard C. Helmstetter....	57	Senior Executive Vice President, Chief of New Golf Club Products
Steven C. McCracken.....	48	Executive Vice President, Licensing, Chief Legal Officer and Secretary
Bruce Parker.....	43	Senior Executive Vice President, U.S. Sales, and Chief Merchant
Frederick R. Port.....	57	Senior Executive Vice President, International Sales
David A. Rane.....	44	Executive Vice President, Administration and Planning, and Chief Financial Officer
Charles J. Yash.....	50	Senior Executive Vice President, Golf Balls

Ely Callaway, Founder, has served as President and Chief Executive Officer since October 1998, and also has served as Chairman of the Board of the Company since the Company's formation in 1982. Mr. Callaway also currently serves as Chairman of the Executive and Compensation Committee, and as Chairman of the Company is a non-voting advisor of all other Board committees. He served as Chief Executive Officer from 1982 to May 1996, and Chief of Advertising, Press and Public Relations from April 1997 to October 1998. From 1974 to 1981, Mr. Callaway founded and operated Callaway Vineyard and Winery in Temecula, California, until it was sold. From 1946 to 1973, Mr. Callaway worked in the textile industry, where he served as a Divisional President of several major divisions of Burlington Industries, Inc., and in 1968 was elected Corporate President and Director of Burlington, which at the time was the world's largest textile company. Prior to 1945, Mr. Callaway served a five-year tour of duty in the U.S. Army Quartermaster Corps. Mr. Callaway is a 1940 graduate of Emory University.

Ronald A. Drapeau has served as Senior Executive Vice President, Manufacturing, since February 1999 and as President and Chief Executive Officer of Odyssey Golf, Inc., a wholly-owned subsidiary of the Company since August 1997. Mr. Drapeau served as Executive Vice President of the Company from August 1997 to February 1999, and served as a consultant to the Company from November 1996 to August 1997. From April 1993 to September 1996, Mr. Drapeau served as Chief Executive Officer of Lynx Golf, Inc., a subsidiary of Zurn Industries, Inc., and served as Senior Vice President and Chief Financial Officer of Zurn Industries, Inc. from 1992 to 1993. He is a 1969 graduate of Bentley College.

Richard C. Helmstetter has served the Company as Senior Executive Vice President, Chief of New Golf Club Products since February 1998 and as Senior Executive Vice President, Chief of New Products from 1993 to February 1998. Mr. Helmstetter served as President from 1990 to 1993 and as Executive Vice President from 1986 to 1990. From 1967 to 1986, Mr. Helmstetter served as President of Adam Ltd., a pool cue manufacturing and merchandising company which he founded and operated in Japan. During 1982 and 1983, Mr. Helmstetter also consulted extensively for several Japanese, European and American companies, including Bridgestone Corporation's strategic planning group. Mr. Helmstetter is a 1966 graduate of the University of Wisconsin.

Steven C. McCracken has served as Executive Vice President, Licensing and Chief Legal Officer since April 1997 and as Secretary since April 1994. He has served as an Executive Vice President since April 1996 and served as General Counsel from April 1994 to April 1997. He served as Vice President from April 1994 to April 1996. Prior to joining the Company, Mr. McCracken was a partner at Gibson, Dunn & Crutcher for 11 years, and had been in the private practice of law for over 18 years. During part of that period, he provided legal services to the Company. Mr. McCracken received a B.A., magna cum laude, from the University of California at Irvine in 1972 and a J.D. from the University of Virginia in 1975.

Bruce Parker has served as a Director of the Company since July 1996, Senior Executive Vice President, U.S. Sales, since 1993 and Chief Merchant since 1991. He has held the office of President and Chief Executive Officer of Callaway Golf Sales Company, the Company's wholly-owned U.S. sales subsidiary, since 1995 and 1997, respectively. Mr. Parker also has served the Company in various vice presidential positions since 1984 and became Executive Vice President, Chief Merchant in October 1991. Prior to 1984, Mr. Parker worked as a sales manager for various golf club manufacturers in California.

Frederick R. Port has served as Senior Executive Vice President, International Sales since April 1997 and as a Director since October 1995. He has held the position of President of Callaway Golf International, the International Sales Division of the Company, since 1996 and President of ERC International Company since October 1998. He served as Executive Vice President, International Sales, Licensing and Business Development of the Company from April 1996 to April 1997. He served as Executive Vice President, Business Development, of the Company from September 1995 to April 1996. From 1993 to 1995, Mr. Port was the Managing Director of Korn/Ferry International for the Southern California region (an executive recruiting and strategic consulting firm). From 1987 to 1992, he was the President and a Director of the Owl Companies (a company providing military base services management, construction materials production and sale, industrial and commercial real estate development and power development). Prior to that, he served with several companies in a variety of executive positions, including Chairman, Chief Executive Officer and Director of Santa Anita Development Corporation, Vice President, Finance and Asset Management, of the Victor Palmieri Company and consultant for Booz, Allen and Hamilton. Mr. Port served as an infantry officer in the United States Army. He is a 1963 graduate of UCLA and received his MBA with honors from UCLA in 1966.

David A. Rane has served the Company as Executive Vice President, Administration and Planning, since October 1997 and as Chief Financial Officer since January 1994. He has served as an Executive Vice President since April 1996, and served as Vice President from January 1994 to April 1996 and as Director of Investor Relations from June 1993 to January 1994. Prior to 1993, Mr. Rane was a senior manager for the accounting firm of Price Waterhouse LLP (now PricewaterhouseCoopers LLP), and served a total of 14 years in public accounting. Mr. Rane is a 1978 graduate of Brigham Young University.

Charles J. Yash has served as a Director of the Company since July 1996, Senior Executive Vice President of the Company since February 1999, and as President and Chief Executive Officer of Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, since June 1996. Mr. Yash served as an Executive Vice President of the Company from February 1998 to February 1999. From 1992 to June 1996, Mr. Yash was President and Chief Executive Officer and a Director of Taylor Made Golf Company. From 1979 to 1992, Mr. Yash was employed in various marketing positions with the golf products division of Spalding Sports Worldwide, including Corporate Vice President and General Manager-Golf Products, from 1988 to 1992. From 1970 to 1975, Mr. Yash served in the United States Navy in various positions. Mr. Yash completed the Advanced Executive Program at the University of Massachusetts in 1982, received his M.B.A. in 1977 from Harvard Business School and graduated with a Bachelor of Science degree from the U.S. Naval Academy in 1970.

The Company has employment agreements with Messrs. Callaway, Parker, McCracken, Port and Rane for terms commencing January 1, 1997 and ending December 31, 1999. The Company also has an employment agreement with Mr. Yash that commenced May 15, 1996 and ends on May 14, 2001, and Mr. Drapeau which commenced August 11, 1997 and ends on December 31, 1999. The Company has a three-year employment agreement with Mr. Helmstetter commencing January 1, 1998 which may be extended by either the Company or Mr. Helmstetter until as late as December 31, 2012.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Information in response to Item 5 is contained on page 39 of the Company's 1998 Annual Report to Shareholders, which information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA.

Information in response to Item 6 is contained on page 7 of the Company's 1998 Annual Report to Shareholders, which information is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

Information in response to Item 7 is contained on pages 8 through 18 of the Company's 1998 Annual Report to Shareholders, which information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information in response to Item 8 is contained on pages 19 through 39 of the Company's 1998 Annual Report to Shareholders, which information is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain information concerning the Company's executive officers is included under the caption "Executive Officers of the Registrant" following Part I, Item 4. Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and greater than 10% shareholders to file initial reports of ownership (on Form 3) and periodic changes in ownership (on Forms 4 and 5) of Company securities with the Securities and Exchange Commission and the New York Stock Exchange. Based solely on its review of copies of such forms and such written representations regarding compliance with such filing requirements as were received from its executive officers, directors and greater than 10% shareholders, the Company believes that all such Section 16(a) filing requirements were complied with during 1998.

Other information required by Item 10 has been included in the Company's definitive proxy statement under the caption "Election of Directors," as filed with the Securities and Exchange Commission (the "Commission") on April 1, 1999 pursuant to Regulation 14A, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The Company maintains employee benefit plans and programs in which its executive officers are participants. Copies of certain of these plans and programs are set forth or incorporated by reference as Exhibits 10.13 to 10.17 to this Report. Information required by Item 11 has been included in the Company's definitive proxy statement under the captions "Compensation of Executive Officers," "Report of the Executive and Compensation Committee of the Board of Directors on Executive Compensation," "Performance Graph" and "Election of Directors," as filed with the Commission on April 1, 1999 pursuant to Regulation 14A, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 12 has been included in the Company's definitive proxy statement under the caption "Beneficial Ownership of the Company's Securities," as filed with the Commission on April 1, 1999 pursuant to Regulation 14A, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 13 has been included in the Company's definitive proxy statement under the caption "Certain Transactions," as filed with the Commission on April 1, 1999 pursuant to Regulation 14A, which information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K.

(a) Documents filed as part of this report:

1. Financial Statements. The following consolidated financial statements of Callaway Golf Company and its subsidiaries included in Part II, Item 8, are incorporated by reference from pages 19 through 39 of the 1998 Annual Report to Shareholders:

   Consolidated Balance Sheet at December 31, 1998 and 1997

   Consolidated Statement of Operations for the three years ended December 31, 1998

   Consolidated Statement of Cash Flows for the three years ended December 31, 1998

   Consolidated Statement of Shareholders' Equity for the three years ended December 31, 1998

   Notes to Consolidated Financial Statements

   Report of Independent Accountants

2. Financial Statement Schedule.

   Report of Independent Accountants on Financial Statement Schedule

   Schedule II - Consolidated Valuation and Qualifying Accounts

   All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits.

   3.1.1 Restated Articles of Incorporation of the Company.(2)

   3.1.2 Certificate of Amendment of Articles of Incorporation, effective February 10, 1995.(3)

   3.2 Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock.(4)

   3.3 Bylaws of the Company (as amended through May 10, 1996).(8)

   4.1 Dividend Reinvestment and Stock Purchase Plan.(1)

   4.2 Rights Agreement by and between the Company and Chemical Mellon Shareholder Services as Rights Agent dated as of June 21, 1995.(4)

Executive Compensation Contracts/Plans

10.1 Chairman and Founder Employment Agreement by and between the Company and Ely Callaway entered into as of January 1, 1997.(14)

10.2 Chief Executive Officer Employment Agreement by and between the Company and Donald H. Dye entered into as of January 1, 1997.(16)

10.3 Executive Officer Employment Agreement by and between the Company and Bruce Parker entered into as of January 1, 1997.(12)

10.4 Executive Officer Employment Agreement by and between the Company and Richard Helmstetter entered into as of January 1, 1998.(17)

10.5 Executive Officer Employment Agreement by and between the Company and John Duffy entered into as of January 1, 1997.(12)

10.6 Executive Officer Employment Agreement by and between the Company and Steven C. McCracken entered into as of January 1, 1997.(12)

10.7.1 Executive Officer Employment Agreement by and between the Company and Frederick R. Port entered into as of January 1, 1997.(12)

10.7.2 Stock Option Agreement by and between the Company and Frederick R. Port dated as of September 1, 1995.(5)

10.8 Executive Officer Employment Agreement by and between the Company and David Rane entered into as of January 1, 1997.(12)

10.9.1 Officer Employment Agreement by and between the Company and Charles Yash entered into as of May 15, 1996.(10)

10.9.2 Stock Option Agreement by and between the Company and Charles J. Yash dated as of May 10, 1996.(9)

10.10.1 Agreement between the Company and Donald H. Dye dated as of October 15, 1998.+

10.10.2 Consulting Agreement between the Company and Donald H. Dye dated as of October 15, 1998. +

10.11.1 Form of Tax Indemnification Agreement.(4)

10.11.2 Amendment No. 1 to Form of Tax Indemnification Agreement.(11)

10.12 Executive Deferred Compensation Plan (as amended and restated, effective January 1, 1998).(18)

10.13 Callaway Golf Company Executive Non-Discretionary Bonus Plan.(13)

10.14 1991 Stock Incentive Plan (as amended and restated April 1994).(3)

10.15 Amended and Restated Stock Option Plan effective April 2, 1991.(7)

10.16 1996 Stock Option Plan (as amended and restated through April 23, 1998).(19)

10.17 Callaway Golf Company 1998 Stock Incentive Plan effective February 18, 1998.(19)

10.18 Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated through April 23, 1998).(19)

10.19.1 Form of Indemnification Agreement by and between the Company and the following directors: William Baker, Richard Rosenfield, William Schreyer and Michael Sherwin, all dated January 25, 1995.(3)

10.19.2 Indemnification Agreement by and between the Company and Ms. Aulana L. Peters, Director, dated July 18, 1996.(12)

10.19.3 Indemnification Agreement by and between the Company and Vernon E. Jordan, Jr. dated July 16, 1997.(16)

10.19.4 Indemnification Agreement by and between Callaway Golf Company and Yotaro Kobayashi dated as of June 4, 1998.(19)

Other Contracts

10.20.1 Loan Agreement by and between the Company and First

Interstate Bank of California dated December 1, 1994.(3)

10.20.2 Amended and Restated Revolving Credit Note made by the Company in the principal amount of $50,000,000 and payable to First Interstate Bank of California, dated December 1, 1995 and First Amendment to Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1995.(8)

10.20.3 Extension of Amended and Restated Revolving Credit Note dated December 11, 1997.(17)

10.20.4 Revolving Loan Agreement, dated February 4, 1998 among Callaway Golf Company, certain lenders therein named and Wells Fargo Bank, National Association as Administrative Agent.(18)

10.21.1 Credit Agreement dated as of December 30, 1998, among Callaway Golf Company, the other Credit Parties signatory thereto, the Lenders signatory thereto from time to time and General Electric Capital Corporation, as Agent for the Lenders.(20)

10.21.2 Amended and Restated Credit Agreement dated as of February 10, 1999, among Callaway Golf Company, as Borrower, the other credit parties signatory thereto, as Credit Parties, the Lenders signatory thereto from time to time and General Electric Capital Corporation, as Agent and Lender.(21)

10.21.3 Receivables Transfer Agreement dated as of February 10, 1999, by and among Callaway Golf Sales Company and Odyssey Golf, Inc.(21)

10.21.4 Receivables Transfer Agreement dated as of February 10, 1999, by and among Callaway Golf Company, as Parent Guarantor, Callaway Golf Sales Company, as the CGS Originator and as Servicer, and Golf Funding Corporation.(21)

10.21.5 Receivables Purchase and Servicing Agreement dated as of February 10, 1999, by and among Golf Funding Corporation, as Seller, Redwood Receivables Corporation, as Purchaser, Callaway Golf Sales Company, as Servicer, and General Electric Capital Corporation, as Operating Agent and Collateral Agent.(21)

10.22 Trust Agreement between Callaway Golf Company and Sanwa Bank California as Trustee, for the benefit of participating employees, dated July 14, 1995.(6)

10.23 Asset Purchase Agreement dated July 20, 1997 by and among Callaway Golf Company, Odyssey Sports, Inc. and U.S. Industries, Inc.(15)

10.24 Operating Agreement for Callaway Golf Media Ventures, LLC, a California Limited Liability Company, executed as of January 26, 1998, by and between Callaway Golf Company and Callaway Editions, Inc.(18)

10.25 Loan Forgiveness Agreement effective as of March 8, 1999, by and among Callaway Golf Company and Callaway Golf Media Ventures, LLC.+

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21.1 List of Subsidiaries.+

23.1 Consent of Independent Accountants.+

27.1 Financial Data Schedule for the Year Ended December 31, 1998.+

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(20) Included as an exhibit to the Company's Current Report on Form 8-K dated January 28, 1999, and incorporated herein by reference.

(21) Included as an exhibit to the Company's Current Report on Form 8-K dated February 25, 1999, and incorporated herein by reference.

(b) Reports on Form 8-K:

(1) On October 22, 1998, the Company filed a Current Report on Form 8-K reporting that Donald H. Dye would no longer be serving as President and Chief Executive Officer or as a director of the Company. The Company also reported that Ely Callaway, the Company's Founder and Chairman, would reassume the additional roles of President and Chief Executive Officer.

(2) On January 28, 1999, the Company filed a Current Report on Form 8-K reporting that the Company had entered into a credit agreement on December 30, 1998, providing revolving credit facilities of up to $75 million (including a $10 million letter of credit subfacility).

(3) On February 25, 1999, the Company filed a Current Report on Form 8-K reporting that effective February 12, 1999, the Company had entered into an amended and restated credit agreement which increased the revolving credit facilities from the original $75 million to up to $120 million. The Company also reported that effective February 12, 1999, Odyssey Golf, Inc. and Callaway Golf Sales Company, both wholly-owned subsidiaries of the Company, Golf Funding Corporation, a newly formed wholly-owned subsidiary of Callaway Golf Sales Company, and the Company obtained an $80 million accounts receivable securitization facility.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALLAWAY GOLF COMPANY

/s/ ELY CALLAWAY

Ely Callaway
Founder, Chairman and Chief Executive Officer

Date: March 31, 1999

/s/ DAVID A. RANE

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

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

SIGNATURE	Title	Date
PRINCIPAL EXECUTIVE OFFICERS AND DIRECTORS:		
/s/ ELY CALLAWAY Ely Callaway	Founder, Chairman, and Chief Executive Officer	March 31, 1999
PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER:		
/s/ DAVID A. RANE David A. Rane	Executive Vice President, Administration and Planning, and Chief Financial Officer	March 31, 1999
OTHER DIRECTORS:		
/s/ WILLIAM C. BAKER William C. Baker	Director	March 31, 1999
/s/ VERNON E. JORDAN, JR. Vernon E. Jordan, Jr.	Director	March 31, 1999
/s/ YOTARO KOBAYASHI Yotaro Kobayashi	Director	March 31, 1999
/s/ BRUCE PARKER Bruce Parker	Director	March 31, 1999
/s/ AULANA L. PETERS Aulana L. Peters	Director	March 31, 1999
/s/ FREDERICK R. PORT Frederick R. Port	Director	March 31, 1999
/s/ RICHARD ROSENFIELD Richard Rosenfield	Director	March 31, 1999
/s/ WILLIAM SCHREYER William Schreyer	Director	March 31, 1999
/s/ CHARLES J. YASH Charles J. Yash	Director	March 31, 1999

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders
of Callaway Golf Company

Our audits of the consolidated financial statements referred to in our report dated January 26, 1999, except as to Note 16, which is as of February 12, 1999, appearing on page 38 of the 1998 Annual Report to Shareholders of Callaway Golf Company (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICEWATERHOUSECOOPERS LLP

San Diego, California
January 26, 1999

SCHEDULE II

CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEAR PERIOD ENDED DECEMBER 31, 1998

Date	Allowance for Doubtful Accounts	Allowance for Obsolete Inventory	Allowance for Warranty Costs
		(in thousands)	
Balance, December 31, 1995	$ 6,410	$ 4,796	$ 23,769
Provision	231	800	10,735
Write-off	(304)	(312)	(7,201)
Recovery			
Balance, December 31, 1996	6,337	5,284	27,303
Provision	1,354	743	13,726
Write-off	(645)	(353)	(12,970)
Recovery			
Balance, December 31, 1997	7,046	5,674	28,059
Provision	4,171	33,214	24,681
Write-off	(1,278)	(2,040)	(16,925)
Recovery			
Balance, December 31, 1998	$ 9,939	$36,848	$ 35,815

EXHIBIT INDEX

EXHIBITS
- --------

3.1.1	Restated Articles of Incorporation of the Company.(2)
3.1.2	Certificate of Amendment of Articles of Incorporation, effective February 10, 1995.(3)
3.2	Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock.(4)
3.3	Bylaws of the Company (as amended through May 10, 1996).(8)
4.1	Dividend Reinvestment and Stock Purchase Plan.(1)
4.2	Rights Agreement by and between the Company and Chemical Mellon Shareholder Services as Rights Agent dated as of June 21, 1995.(4)

Executive Compensation Contracts/Plans

10.1	Chairman and Founder Employment Agreement by and between the Company and Ely Callaway entered into as of January 1, 1997.(14)
10.2	Chief Executive Officer Employment Agreement by and between the Company and Donald H. Dye entered into as of January 1, 1997.(16)
10.3	Executive Officer Employment Agreement by and between the Company and Bruce Parker entered into as of January 1, 1997.(12)
10.4	Executive Officer Employment Agreement by and between the Company and Richard Helmstetter entered into as of January 1, 1998.(17)
10.5	Executive Officer Employment Agreement by and between the Company and John Duffy entered into as of January 1, 1997.(12)
10.6	Executive Officer Employment Agreement by and between the Company and Steven C. McCracken entered into as of January 1, 1997.(12)
10.7.1	Executive Officer Employment Agreement by and between the Company and Frederick R. Port entered into as of January 1, 1997.(12)
10.7.2	Stock Option Agreement by and between the Company and Frederick R. Port dated as of September 1, 1995.(5)
10.8	Executive Officer Employment Agreement by and between the Company and David Rane entered into as of January 1, 1997.(12)
10.9.1	Officer Employment Agreement by and between the Company and Charles Yash entered into as of May 15, 1996.(10)
10.9.2	Stock Option Agreement by and between the Company and Charles J. Yash dated as of May 10, 1996.(9)
10.10.1	Agreement between the Company and Donald H. Dye dated as of October 15, 1998.+
10.10.2	Consulting Agreement between the Company and Donald H. Dye dated as of October 15, 1998.+
10.11.1	Form of Tax Indemnification Agreement.(4)
10.11.2	Amendment No. 1 to Form of Tax Indemnification Agreement.(11)
10.12	Executive Deferred Compensation Plan (as amended and restated, effective January 1, 1998).(18)
10.13	Callaway Golf Company Executive Non-Discretionary Bonus Plan.(13)
10.14	1991 Stock Incentive Plan (as amended and restated April 1994).(3)
10.15	Amended and Restated Stock Option Plan effective April 2, 1991.(7)
10.16	1996 Stock Option Plan (as amended and restated through April 23, 1998).(19)
10.17	Callaway Golf Company 1998 Stock Incentive Plan effective February 18, 1998.(19)
10.18	Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated April 17, 1996).(19)
10.19.1	Form of Indemnification Agreement by and between the Company and the following directors: William Baker, Richard Rosenfield, William Schreyer and Michael Sherwin, all dated January 25, 1995.(3)

10.19.2 Indemnification Agreement by and between the Company and Ms. Aulana L. Peters, Director, dated July 18, 1996.(12)

10.19.3 Indemnification Agreement by and between the Company and Vernon E. Jordan, Jr. dated July 16, 1997.(16)

10.19.4 Indemnification Agreement by and between Callaway Golf Company and Yotaro Kobayashi dated as of June 4, 1998.(19)

Other Contracts

10.20.1 Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1994.(3)

10.20.2 Amended and Restated Revolving Credit Note made by the Company in the principal amount of $50,000,000 and payable to First Interstate Bank of California, dated December 1, 1995 and First Amendment to Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1995.(8)

10.20.3 Extension of Amended and Restated Revolving Credit Note dated December 11, 1997.(21)

10.20.4 Revolving Loan Agreement, dated February 4, 1998 among Callaway Golf Company, certain Lenders therein named and Wells Fargo Bank, National Association as Administrative Agent.(18)

10.21.1 Credit Agreement dated as of December 30, 1998, among Callaway Golf Company, the other Credit Parties signatory thereto, the lenders signatory thereto from time to time and General Electric Capital Corporation, as Agent for the Lenders.(20)

10.21.2 Amended and Restated Credit Agreement dated as of February 10, 1999, among Callaway Golf Company, as Borrower, the other credit parties signatory thereto, as Credit Parties, the Lenders signatory thereto from time to time and General Electric Capital Corporation , as Agent and Lender.(21)

10.21.3 Receivables Transfer Agreement dated as of February 10, 1999, by and among Callaway Golf Sales Company and Odyssey Golf, Inc.(21)

10.21.4 Receivables Transfer Agreement dated as of February 10, 1999, by and among Callaway Golf Company, as Parent Guarantor, Callaway Golf Sales Company, as the CGS Originator and as Servicer, and Golf Funding Corporation.(21)

10.21.5 Receivables Purchase and Servicing Agreement dated as of February 10, 1999, by and among Golf Funding Corporation, as Seller, Redwood Receivables Corporation, as Purchaser, Callaway Golf Sales Company, as Servicer, and General Electric Capital Corporation, as Operating Agent and Collateral Agent.(21)

10.22 Trust Agreement between Callaway Golf Company and Sanwa Bank California as Trustee, for the benefit of participating employees, dated July 14, 1995.(6)

10.23 Asset Purchase Agreement dated July 20, 1997 by and among Callaway Golf Company, Odyssey Sports, Inc. and U.S. Industries, Inc.(15)

10.24 Operating Agreement for Callaway Golf Media Ventures, LLC, a California Limited Liability Company, executed as of January 26, 1998, by and between Callaway Golf Company and Callaway Editions, Inc.(18)

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AGREEMENT

This Agreement ("Agreement") is effective October 15, 1998 and is made by and between Donald H. Dye ("Mr. Dye") and Callaway Golf Company (the "Company"), a California corporation. Mr. Dye has been employed by the Company as President and Chief Executive Officer pursuant to his Chief Executive Officer Employment Agreement, which was entered into as of January 1, 1997 ("Employment Agreement"). Mr. Dye has also served as a member of the Company's Board of Directors, and as an officer of various subsidiaries and affiliates. The Company and Mr. Dye desire to enter into this Agreement to establish certain terms relating to Mr. Dye's termination as an employee and officer, his resignation as a director, and his continued service to the Company as a consultant.

WHEREAS Mr. Dye is being terminated from the Company as an employee and officer pursuant to section 8(a) of the Employment Agreement, is prepared to resign as a director, and is willing to provide certain services, releases, and other consideration to the Company in exchange for the consideration provided herein;

WHEREAS it would be in the best interests of the Company and its shareholders to provide Mr. Dye with the consideration provided herein in light of Mr. Dye's service to the Company and in exchange for the services, releases and other consideration provided by Mr. Dye pursuant to this Agreement;

NOW THEREFORE IT IS AGREED as follows between Mr. Dye and the Company:

1. Termination. Mr. Dye hereby confirms that his termination as an employee and officer of the Company and its subsidiaries and affiliates, and his resignation as a director of the Company, shall be effective immediately.

2. Severance. In addition to the severance benefits due Mr. Dye pursuant to section 8(a) of the Employment Agreement, and in exchange for Mr. Dye's agreement and the other services, releases, obligations and consideration provided herein, the Company agrees to provide Mr. Dye with additional severance as follows:

(a) Benefits. The Company agrees (i) to pay any expense reimbursement accrued and unpaid as of the date of termination; (ii) to immediately vest the 20,000 shares of restricted stock granted to Mr. Dye by the Company on February 19, 1998 pursuant to the restricted stock grant agreement (the "Restricted Stock Grant Agreement"); (iii) to convey to Mr. Dye the club membership in The Farms golf club currently provided to Mr. Dye by the Company, at no cost to Mr. Dye except that Mr. Dye shall be liable for any ongoing fees, dues and assessments, as well as any taxes that might be due as a result of such conveyance; (iv) to convey to Mr. Dye the laptop computer currently provided to Mr. Dye by the Company, at no cost to Mr. Dye except that Mr. Dye shall be liable for any taxes that might be due as a result of such conveyance, and further provided that the Company will first remove any all data, software, or information belonging to the Company, except that, to the extent possible, the

Company will not remove the Windows and Microsoft Office software, as well as other software designated by mutual agreement of the Company and Mr. Dye; and (v) to continue Mr. Dye's Scripps Executive Health annual physical examination, at Company expense, until December 31, 2001.

(b) Stock Options. The Company agrees to amend the Callaway Golf Company Stock Option Agreement (1991 Incentive Stock Plan) entered into between Mr. Dye and the Company with a grant date of December 4, 1995 (the "1995 Stock Option Agreement") and the Stock Option Agreement (1991 Incentive Stock Plan) entered into between Mr. Dye and the Company with a grant date of November 18, 1993 (the "1993 Stock Option Agreement" by extending the expiration date of the stock options granted to Mr. Dye pursuant to such agreements. The 1995 Stock Option Agreement and the 1993 Stock Option Agreement shall be amended to provide that the expiration date of the options granted pursuant to those agreements shall be December 31, 2003.

3. Consulting Agreement. As further consideration, the Company agrees to offer, and Mr. Dye agrees to accept, a consulting position with the Company pursuant to the terms and conditions of the agreement attached hereto as Exhibit A (the "Consulting Agreement").

4. Releases.

(a) In consideration of the Company's agreement to enter into this Agreement, Mr. Dye hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, and affiliates, as well as each and every past, present and future officer, director, employee, representative, agent and attorney of the Company, its, predecessors, successors, subsidiaries and affiliates, and their successors and assigns, from any, every, and all charges, complaints, claims, causes of action, and lawsuits including, but not limited to, those arising from or in any way related to Mr. Dye's employment with the Company, including but not limited to, actions based upon contract or tort, failure to progressively discipline Mr. Dye, termination of Mr. Dye's employment, Mr. Dye's resignation as a director, claims under the Age Discrimination in Employment Act of 1967 [29 U.S.C. 621 et seq.], or breach of the Employment Agreement or any portion thereof, together with any and all other claims based on the Company's employment of Mr. Dye, or any other event occurring prior to the date of this Agreement.

(b) In consideration of Mr. Dye's agreement to enter into this Agreement, the Company hereby irrevocably and unconditionally releases and forever discharges Mr. Dye, his predecessors, successors, affiliates, representative and attorney, and their successors and assigns, from any, every, and all charges, complaints, claims, causes of action, and lawsuits including, but not limited to, those arising from or in any way related to Mr. Dye's employment with the Company, including but not limited to, actions based upon contract or tort, together with any and all other claims based on the Company's employment or use of Mr. Dye, or any other event occurring prior to the date of this Agreement.

5. Waivers. The Company and Mr. Dye each waive all rights under section

of the Civil Code of the State of California. Section 1542 provides as follows:

> A general release does not extend to claims, which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

6. Entire Agreement. This Agreement, the Employment Agreement, the Consulting Agreement, the 1993 Stock Option Agreement (as amended as provided herein), and the 1995 Stock Option Agreement (as amended as provided herein) constitute the entire agreement between the parties with respect to the subject matter hereof and may not be modified or amended, except by written agreement signed by all parties. This Agreement and the Employment Agreement shall be deemed to be consistent with each other, and read together, it being understood that, to the extent necessary to give effect to this Agreement, this Agreement, shall be deemed to be "another instrument in writing executed by the parties" pursuant to section 16 of the Employment Agreement. Each term, condition, covenant or provision of this Agreement shall be viewed as separate and distinct, and in the event that any such term, covenant or provision shall be held by a court of competent jurisdiction to be invalid, the remaining provisions shall continue in full force and effect.

7. No Admission of Liability. This Agreement and the release contained herein affect the settlement of claims which are denied and contested, and nothing contained herein shall be construed as an admission by a party of any liability of any kind to the other party.

8. Governing Law. This Agreement shall be construed and enforced in accordance with the internal laws of the State of California.

9. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

10. The Company's Proprietary Information and Inventions. Mr. Dye acknowledges and understands that Sections 12 and 13 of the Employment Agreement extend beyond the terms of Mr. Dye's employment with the Company. Mr. Dye agrees to comply with such terms.

11. Return of Company Property. Subject to section 10 of the Employment Agreement, Mr. Dye acknowledges that he is obligated to and will return all Company property in his possession upon demand by the Company.

12. Knowing and Voluntary Agreement. Mr. Dye has carefully read and fully understands all of the provisions of this Agreement. Mr. Dye knowingly and voluntarily agrees to all the terms set forth in this Agreement. Mr. Dye knowingly and voluntarily intends to be legally bound by the same.

13. Advice of Counsel. The Company hereby advises Mr. Dye in writing to discuss

this Agreement with an attorney before executing it, and Mr. Dye acknowledges that he has either done so or has knowingly and voluntarily waived his right to do so.

14. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) MR. DYE AND THE COMPANY AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO MR. DYE'S EMPLOYMENT AGREEMENT, EMPLOYMENT, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS, BUT EXCLUDING WORKERS' COMPENSATION, UNEMPLOYMENT MATTERS, OR ANY MATTER FALLING WITHIN THE JURISDICTION OF THE STATE LABOR COMMISSIONER. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. A PROCEEDING TO COMPEL ARBITRATION UNDER THIS PROVISION SHALL BE GOVERNED BY SECTION 3 OF CHAPTER 1 OF THE FEDERAL ARBITRATION ACT SUCH THAT ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ANY ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE MADE TO THE CHIEF LEGAL OFFICER WITHIN ONE (1) YEAR, OR, IF LATER, WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS, AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE AMERICAN ARBITRATION ASSOCIATION ("AAA") CALIFORNIA EMPLOYMENT DISPUTE RESOLUTION RULES. THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN EMPLOYMENT-RELATED DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWERS TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE AMERICAN ARBITRATION ASSOCIATION NATIONAL EMPLOYMENT DISPUTE RESOLUTION RULES.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT

MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE. HOWEVER, AT A MINIMUM, EACH PARTY WILL BE ENTITLED TO ONE DEPOSITION.

(e) THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

THE PARTIES HAVE READ PARAGRAPH 14 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE. _____ (MR. DYE'S INITIALS) _____ (INITIALED ON BEHALF OF THE COMPANY)

15. Injunctive Relief. Mr. Dye understands that the nature of damages for breach of this Agreement may be such that specific performance is the only remedy that will adequately compensate the Company for Mr. Dye's breach of this Agreement. Mr. Dye hereby agrees to the entry of an injunction by the arbitrator ordering such specific performance in the event of Mr. Dye's breach of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates set forth below.

CALLAWAY GOLF COMPANY,
a California Corporation

/s/ Donald H. Dye
- ----------
Donald H. Dye

By: /s/ Ely Callaway
Ely Callaway
Chairman

Dated: _____

Dated: _____

EXHIBIT A

CONSULTING AGREEMENT

This Consulting Agreement ("Agreement") is entered into as of October 16, 1998, between Callaway Golf Company ("Callaway Golf"), a California corporation, and Donald H. Dye ("Consultant").

Recitals

A. Callaway Golf is in the business of designing, manufacturing and selling golf clubs and related products using trade secrets, patented procedures and other proprietary information. Callaway Golf is currently marketing its products in the United States of America and internationally.

B. Consultant has been a long-time employee of Callaway Golf with expertise in various areas relating to Callaway Golf's business.

C. Callaway Golf desires to retain access to the services and expertise of Consultant and believes that the experience and expertise of Consultant will be of benefit to Callaway Golf; therefore, Callaway Golf desires to enter into this Agreement with Consultant.

D. Consultant wishes to assist Callaway Golf in its business; therefore, Consultant desires to enter into this Agreement with Callaway Golf.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Engagement. Pursuant to the terms of the Agreement between Consultant and Callaway Golf dated October 15, 1998 relating to Consultant's termination as an employee (the "Termination Agreement"), Callaway Golf hereby engages the services of Consultant as a consultant, and Consultant hereby accepts such engagement, subject to the terms and conditions of this Agreement.

2. Term/Termination. The term ("Term") of this Agreement shall commence on October 16, 1998, and shall continue until December 31, 2001, unless terminated in accordance with section 15 herein, or extended for the Extended Terms as provided in Section 7. Consultant understands and agrees that the provisions of sections 4, 12, and 19 of this Agreement shall survive termination of the other provisions of this Agreement.

3. Services to be Performed by Consultant. During the Term and any Extended Terms of this Agreement, Consultant shall provide consulting services, within his expertise, on matters related to the business of Callaway Golf as may be requested by Ely Callaway, his successor, or his express designee from time to time. Consultant shall maintain contact with

Callaway Golf through Mr. Callaway, or such person or persons as may be designated by Mr. Callaway from time to time. Consultant represents that Consultant has the qualifications and ability to perform the services, within his expertise, in a professional manner without the advice, control, or supervision of Callaway Golf. While the specific methods and manner of providing the services shall be solely determined by Consultant, Callaway Golf shall have the right to oversee, direct and give advice to Consultant regarding the general extent, nature and scope of services to be performed by Consultant under this Agreement. The services shall be provided by Consultant at such times and in such locations as Callaway Golf and Consultant mutually agree upon from time to time. Consultant will not be required to provide more than one hundred (100) hours of service per year without additional compensation. Any additional hours shall be compensated at the rate of $350 per hour. If required, Callaway Golf shall, at no cost to Consultant, provide Consultant with office space, secretarial assistance, and such other equipment or assistance necessary for Consultant to provide the consulting services requested. Callaway Golf shall approve any such expenses in advance, and in writing.

4. Assignment of Rights.

(a) Callaway Golf shall own all deliverables delivered by Consultant hereunder.

(b) As used in this Agreement, "Inventions," whether or not they have been patented, trademarked, or copyrighted, means designs, inventions, technologies, methods, innovations, ideas, improvements, processes, materials, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of Callaway Golf's and/or its affiliates' products.

(c) All works of authorship produced under this Agreement shall be "works for hire" produced exclusively for Callaway Golf, and all rights thereto shall belong to Callaway Golf. As a material part of the terms and understandings of this Agreement, Consultant hereby assigns to Callaway Golf all works of authorship and all Inventions relating to the business of Callaway Golf and/or its affiliates, and all intellectual property rights therein (including without limitation all patent rights, copyrights, and trade secret rights), which Consultant creates, develops, conceives and/or reduces to practice, either alone or with anyone else, during the course of providing the Services under this Agreement, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(d) Consultant agrees to disclose to the President and Chief Executive Officer of Callaway Golf any work of authorship and/or Invention relating to the business of Callaway Golf and/or its affiliates, which Consultant develops, conceives and/or reduces to practice, either alone or with anyone else, during the Term and any Extended Terms of this Agreement. Consultant shall make a limited disclosure of such works of authorship and/or Inventions to Callaway Golf, even if Consultant does not believe that Consultant is required under this Agreement to assign Consultant's interest in such work of authorship and/or Invention to Callaway Golf. Callaway Golf agrees to keep such information as confidential information. If Callaway Golf and Consultant disagree as to whether or not a work of

authorship and/or an Invention is included within the terms of this Agreement, it will be the responsibility of Consultant to prove that it is not included and/or that assignment to Callaway Golf is not required.

(e) The obligation to assign as provided in this Agreement does not apply to any work of authorship or any Invention to the extent such obligation would conflict with any applicable state or federal law. All provisions of this Agreement relating to the assignment by Consultant of works of authorship and Inventions are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Upon Callaway Golf's request, at no expense to Consultant, Consultant shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to Callaway Golf, and all other applicable documents, and will give testimony when and where requested to perfect the title, copyrights, trademarks and/or patents (both within and without the United States) in all works of authorship and Inventions assigned to Callaway Golf hereunder.

(g) Consultant agrees that if in the course of performing the consulting services, Consultant incorporates any other Invention owned by Consultant or for which Consultant has the right to grant the rights granted in this Section 4(g) ("Consultant Inventions"), into any report, presentation, recommendation, process, method, tooling, design, machine, equipment, product or other item recommended, presented, developed, implemented or specified by Consultant for or to Callaway Golf under this Agreement, Consultant hereby grants to Callaway Golf a nonexclusive, transferable, royalty-free, perpetual, irrevocable, worldwide license under said Consultant Invention to make, have made, import, modify, and use any product or other item embodying or using said Consultant Invention. Consultant will provide to Callaway Golf copies of all patents and patent applications related to all such Consultant Inventions.

(h) Consultant agrees that if in the course of performing the services, Consultant recommends the use of any third party Inventions which, to the knowledge of Consultant, are or may be covered by patents held by third parties, that Consultant will disclose such information to Callaway Golf.

5. Other Compensation. In addition to any compensation paid to Consultant pursuant to sections 3 or 7 of this Agreement, Callaway Golf agrees to pay Consultant as follows:

(a) During the Term and any Extended Terms, Callaway Golf shall reimburse Consultant for all reasonable, customary and necessary expenses for travel and lodging incurred in the performance of the services to be provided hereunder. Consultant shall account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policies set by Callaway Golf for reimbursement of such expenses. The amount, nature and extent of such expenses shall always be subject to the control, supervision and direction of Callaway Golf.

(b) During any Extended Terms, Callaway Golf shall provide for Consultant to participate in Callaway Golf's health insurance and disability insurance plans as the same may be modified from time to time, and to receive, if Consultant is insurable under usual underwriting standards and Consultant's physical condition does not prevent Consultant from reasonably qualifying for such insurance coverage, term life insurance coverage of Consultant's life, payable to whomever the Consultant directs, in the face amount of $2,000,000.00, such policies to be transferable to Consultant upon termination of this Agreement without evidence of insurability. Callaway Golf shall also provide, at its expense, for Consultant to participate annually in the Executive Health Program at Scripp's Hospital. It is recognized that all or part of the expenses associated with these benefits may be treated as taxable compensation to Consultant, and that Callaway Golf shall not be responsible for any taxes that may be due as a result.

(c) During the Term and any Extended Terms, Consultant shall be allowed to purchase, in accordance with Callaway Golf's reasonable procedures, golf equipment made by Callaway Golf and available generally to Callaway Golf's customers at Callaway Golf's regular U.S. wholesale price so long as (i) such golf equipment is for the personal use of Consultant or his immediate family, or is to be provided by Consultant as a gift, and not in exchange for any remuneration, services, barter, or other compensation, to another for the other's personal use, and (ii) the total amount of such golf equipment purchases by Consultant from Callaway Golf in any one calendar year does not exceed $10,000.00.

6. Relationship of the Parties. Consultant enters into this Agreement as, and shall continue to be, an independent contractor. Under no circumstances shall Consultant look to Callaway Golf as Consultant's employer, or as a partner, agent, or principal. Except as otherwise specifically provided herein, while Consultant is engaged as a Consultant pursuant to this Agreement, Callaway Golf will not provide Consultant with benefits accorded to Callaway Golf employees, regardless of whether Consultant is later re-classified as an employee of Callaway Golf, including but not limited to:

- Workers' compensation insurance;
- Access to any type of employee benefit plan, including but not limited to Callaway Golf's 401(k) and employee stock purchase plans;
- Vacation leave and/or sick pay.

7. Extended Terms. At Callaway Golf's option, this Agreement may be extended for up to two (2) one-year Extended Terms for the calendar years 2002 and 2003. If Callaway Golf so elects, then Callaway Golf shall compensate Consultant during any such Extended Term at the rate of $200,000.00 per year, payable in equal monthly installments. Except as otherwise provided, the terms and conditions of this Agreement shall continue to define the relationship between Callaway Golf and Consultant, including the obligation of Callaway Golf to pay Consultant additional compensation for hours of service beyond one hundred (100) hours per year at the rate of $350 per hour.

8. Extent of Authority. Consultant shall have no authority or right to commit or bind Callaway Golf and/or its affiliates to any agreement or arrangement or to obligate Callaway Golf and/or its affiliates in any manner.

9. Exclusive Dealings. During the Term and any Extended Terms of this Agreement, to the fullest extent permitted by law, Consultant agrees that he will not, directly or indirectly, whether as agent, consultant, attorney, holder of a controlling beneficial interest, or in any other capacity, engage in any business or ventures that engages directly or indirectly in competition with the business of Callaway Golf or its affiliates as of the date of this Agreement. For purposes of this Section, an ownership interest in the stock of a publicly traded company or a broadly based mutual fund shall not be prohibited.

10. Non-Solicitation. During the Term and any Extended Terms of this Agreement, Consultant agrees not to ask or encourage directly or indirectly any employees or consultants of Callaway Golf, or any of its affiliates, to leave their employment with or refrain from providing services to Callaway Golf, or any of its affiliates. Consultant shall make any subsequent employer aware of this non-solicitation obligation.

11. Conflict of Interest. During the Term and any Extended Terms of this Agreement, Consultant shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Consultant's duties and obligations to Callaway Golf and/or its affiliates.

12. Confidential Information and/or Trade Secrets.

(a) Definition. As used in this Agreement, the terms "Confidential Information and/or Trade Secrets" mean all information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is owned by or in the possession of Callaway Golf and/or its affiliates, including but not limited to (1) concepts, ideas, plans and strategies involved in Callaway Golf's and/or its affiliates' products and businesses, (2) the processes, formulae and techniques disclosed by Callaway Golf and/or its affiliates or contractors to Consultant or observed by Consultant, (3) the designs, inventions and innovations and related plans, strategies and applications which Consultant develops during the Term or any Extended Terms of this Agreement in connection with the projects assigned to Consultant by Callaway Golf, and (4) third party information which Callaway Golf and/or its affiliates has/have promised to keep confidential. The terms "Confidential Information and/or Trade Secrets" do not include the following:

(i) Information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed;

(ii) Information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to Callaway Golf and/or

its affiliates; or

(iii) Information which, subsequent to disclosure or observation, is obtained by Consultant from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to Callaway Golf and/or its affiliates with respect to such information) and who is not required to refrain from disclosing such information to others.

(b) No Disclosure of Confidential Information and/or Trade Secrets.

During the Term and any Extended Terms of this Agreement, Consultant will have access to and become familiar with various Confidential Information and/or Trade Secrets which Consultant acknowledges are owned and shall continue to be owned solely by Callaway Golf and/or its affiliates or third party contractors. Consultant agrees that Consultant will not, at any time, whether during or subsequent to the Term and any Extended Terms of this Agreement, use any Confidential Information and/or Trade Secrets for any purpose except in order to: (1) perform Consultant's duties under this Agreement; (2) disclose Confidential Information and/or Trade Secrets to third parties for which Callaway Golf has given its written consent; or (3) disclose Confidential Information and/or Trade Secrets pursuant to a governmental process in which Consultant is compelled to do so. In the event Consultant believes that Consultant is legally required to disclose any Confidential Information and/or Trade Secrets, Consultant shall give reasonable notice to Callaway Golf prior to disclosing such information and shall assist Callaway Golf in taking such legally permissible steps as are reasonable and necessary to protect the Confidential Information and/or Trade Secrets. If Consultant believes that it is necessary for Consultant to disclose Confidential Information and/or Trade Secrets, Consultant shall first obtain written consent to do so from Callaway Golf, and the party to whom the disclosure is to be made shall execute a non-disclosure agreement in a form acceptable to Callaway Golf before Consultant shall make such disclosure.

(c) No Removal of Callaway Golf and/or its Affiliates' Documents or Information. Consultant understands and agrees that all books, records, customer lists and documents connected with the business of Callaway Golf and/or its affiliates are the property of and belong to Callaway Golf and/or its affiliates or third-party contractors. Under no circumstances shall Consultant remove from Callaway Golf's and/or its affiliates' facilities any of Callaway Golf's and/or its affiliates' books, records, documents, lists or any copies of the same without Callaway Golf's and/or its affiliates' written permission, nor shall Consultant make any copies of Callaway Golf's and/or its affiliates' books, records, documents or lists for use outside Callaway Golf's and/or its affiliates' office(s) except as specifically authorized by Callaway Golf. Consultant shall return to Callaway Golf and/or its affiliates all books, records, documents and customer lists belonging to Callaway Golf and/or its affiliates upon termination of this Agreement.

(d) The provisions of Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Consultant in perpetuity.

13. Surrender of Company Property. Consultant agrees that upon termination of

this Agreement in any manner, Consultant will immediately surrender to Callaway Golf and/or its affiliates all property owned by Callaway Golf and/or its affiliates.

14. Notices. Any notice, request, demand or other communication required or permitted hereunder shall be deemed properly given when actually received or within five days of mailing by certified or registered mail, postage prepaid, to the following addresses, or to such addresses as may be furnished from time to time, in writing, to the other party:

Callaway Golf: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: Ely Callaway, Chairman

Consultant: Donald H. Dye
P.O. Box 675870
Rancho Santa Fe, California 92061-6375

15. Termination.

(a) This Agreement may be terminated by Callaway Golf for substantial cause upon the occurrence of any of the following events:

(i) Death. This Agreement may be terminated upon the death of Consultant. Termination under this sub-section shall be effective on the date of Consultant's death.

(ii) Permanent Disability. This Agreement may be terminated upon the permanent disability of Consultant. For purposes of this Agreement, and subject to all applicable laws with respect to disabilities and the rights of those who are disabled, "permanent disability" shall mean the inability of Consultant, by reason of any ailment or illness, or physical or mental condition, to perform his duties hereunder for a consecutive period of six (6) months.

(iii) Failure to Substantially Perform Duties or Misconduct. This Agreement may be terminated for breach of this Agreement, or misconduct associated with the performance of Consultant's duties as a consultant, including, but not limited to, dishonesty, theft, disloyalty and/or felony criminal conduct. Termination under this subsection shall be effective immediately, upon the receipt by Consultant of written notice stating the cause of such termination.

(b) This Agreement may be terminated by Consultant upon the occurrence of a Change in Control as defined herein. Such a termination by Consultant must occur with ninety (90) days following a Change in Control, pursuant to Consultant providing Callaway Golf with written notice of termination. Upon termination of this Agreement by Consultant pursuant to this section, Consultant shall be entitled to any compensation accrued and not yet

paid for services rendered, reimbursement for accrued expenses as provided in section 5(a), and no other severance. A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

(i) Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding Callaway Golf and its subsidiaries and any employee benefit or stock ownership plan of Callaway Golf or its subsidiaries and also excluding an underwriter or underwriting syndicate that has acquired Callaway Golf's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of Callaway Golf's then outstanding securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the effective date hereof, constitute the Board of Directors of Callaway Golf (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of Callaway Golf, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by Callaway Golf's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the outstanding shares of Common Stock or the combined voting power of Callaway Golf's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by Callaway Golf's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

(iii) Consummation by Callaway Golf of the sale or other disposition by Callaway Golf of all or substantially all of Callaway Golf's assets or a reorganization or merger or consolidation of Callaway Golf with any other person, entity or corporation, other than (1) a reorganization or merger or consolidation that would result in the voting securities of Callaway Golf outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of Callaway Golf, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of Callaway Golf or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or (2) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of Callaway Golf (or similar

transaction) that does not result in a material change in beneficial ownership of the voting securities of Callaway Golf or its successor; or

(iv) Approval by the shareholders of Callaway Golf or an order by a court of competent jurisdiction of a plan of liquidation of Callaway Golf.

16. Advertising Waiver. Consultant agrees to permit Callaway Golf and/or its affiliates, and persons or other organizations authorized by Callaway Golf and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of Callaway Golf and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Consultant's name and/or pictures of Consultant taken in the course of Consultant's provision of services to Callaway Golf and/or its affiliates, appear. Consultant hereby waives and releases any claim or right Consultant may otherwise have arising out of such use, publication or distribution.

17. Publicity; Use of Marks. Consultant shall not at any time use Callaway Golf's or its affiliates' names, trademarks or trade names in any advertising or publicity without the prior written consent of Callaway Golf.

18. Assignment. Consultant shall not assign this Agreement or any of Consultant's rights hereunder without the prior written consent of Callaway Golf. It is understood that this is a contract for the personal services of Consultant. Any attempted assignment by Consultant in violation of this paragraph shall be void.

19. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) CONSULTANT AND CALLAWAY GOLF AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO CONSULTANT'S PROVISION OF SERVICES TO CALLAWAY GOLF, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, AND VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. A PROCEEDING TO COMPEL ARBITRATION UNDER THIS PROVISION SHALL BE GOVERNED BY SECTION 3 OF CHAPTER 1 OF THE FEDERAL ARBITRATION ACT SUCH THAT ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ANY ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE MADE TO THE CHIEF LEGAL OFFICER WITHIN ONE (1) YEAR, OR, IF LATER, WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS, WHICHEVER IS SHORTER, AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES STATED IN THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA") IN SAN DIEGO, CALIFORNIA. THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN COMMERCIAL DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION IN SAN DIEGO, CALIFORNIA.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE.

(e) THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

THE PARTIES HAVE READ SECTION 19 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE. _____ (CONSULTANT'S INITIALS) _____ (INITIALED ON BEHALF OF CALLAWAY GOLF)

20. Disclosure of Others' Confidential Information. It is the understanding of both Callaway Golf and Consultant that Consultant shall not divulge to Callaway Golf, its affiliates or its third party contractors any confidential information or trade secrets belonging to others, nor shall Callaway Golf seek to elicit from Consultant any such information. Consistent with the foregoing, Consultant shall not provide to Callaway Golf, and Callaway Golf shall not request, any documents or copies of documents containing such information. Failure to comply with this obligation by Consultant shall be grounds for immediate termination of this Agreement.

21. Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed in accordance with the laws of said state as to both interpretation and performance.

22. Entire Agreement/Amendments. This Agreement and the Termination Agreement reflect the entire agreement between the parties relating in any way to the subject matter hereof. No statement or promise or different representations have been made which in any way form a part of or modify this Agreement. No amendment or modification shall be valid unless in writing and signed by the parties hereto.

23. Separate Terms. Each term, condition, covenant or provision of this Agreement shall be viewed as separate and distinct, and in the event that any such term, covenant or provision shall be held by a court of competent jurisdiction to be invalid, the remaining provisions shall continue in full force and effect.

24. Waiver. A waiver by either party of a breach of any provision or provisions of this Agreement shall not constitute a general waiver or prejudice the other party's right otherwise to demand strict compliance with that provision or any other provisions in this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date(s) set forth below to be effective as of the day and year first set forth above.

CALLAWAY GOLF Callaway Golf Company, a California corporation	CONSULTANT
By:_____ Ely Callaway Chairman	_____ Donald H. Dye
Dated:_____	Dated: _____

EXHIBIT 10.10.2

CONSULTING AGREEMENT

This Consulting Agreement ("Agreement") is entered into as of October 16, 1998, between Callaway Golf Company ("Callaway Golf"), a California corporation, and Donald H. Dye ("Consultant").

Recitals

A. Callaway Golf is in the business of designing, manufacturing and selling golf clubs and related products using trade secrets, patented procedures and other proprietary information. Callaway Golf is currently marketing its products in the United States of America and internationally.

B. Consultant has been a long-time employee of Callaway Golf with expertise in various areas relating to Callaway Golf's business.

C. Callaway Golf desires to retain access to the services and expertise of Consultant and believes that the experience and expertise of Consultant will be of benefit to Callaway Golf; therefore, Callaway Golf desires to enter into this Agreement with Consultant.

D. Consultant wishes to assist Callaway Golf in its business; therefore, Consultant desires to enter into this Agreement with Callaway Golf.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Engagement. Pursuant to the terms of the Agreement between Consultant and Callaway Golf dated October 15, 1998 relating to Consultant's termination as an employee (the "Termination Agreement"), Callaway Golf hereby engages the services of Consultant as a consultant, and Consultant hereby accepts such engagement, subject to the terms and conditions of this Agreement.

2. Term/Termination. The term ("Term") of this Agreement shall commence on October 16, 1998, and shall continue until December 31, 2001, unless terminated in accordance with section 15 herein, or extended for the Extended Terms as provided in Section 7. Consultant understands and agrees that the provisions of sections 4, 12, and 19 of this Agreement shall survive termination of the other provisions of this Agreement.

3. Services to be Performed by Consultant. During the Term and any Extended Terms of this Agreement, Consultant shall provide consulting services, within his expertise, on matters related to the business of Callaway Golf as may be requested by Ely Callaway, his successor, or his express designee from time to time. Consultant shall maintain contact with Callaway Golf through Mr. Callaway, or such person or persons as may be designated by Mr. Callaway from time to time. Consultant represents that Consultant has the qualifications and

ability to perform the services, within his expertise, in a professional manner without the advice, control, or supervision of Callaway Golf. While the specific methods and manner of providing the services shall be solely determined by Consultant, Callaway Golf shall have the right to oversee, direct and give advice to Consultant regarding the general extent, nature and scope of services to be performed by Consultant under this Agreement. The services shall be provided by Consultant at such times and in such locations as Callaway Golf and Consultant mutually agree upon from time to time. Consultant will not be required to provide more than one hundred (100) hours of service per year without additional compensation. Any additional hours shall be compensated at the rate of $350 per hour. If required, Callaway Golf shall, at no cost to Consultant, provide Consultant with office space, secretarial assistance, and such other equipment or assistance necessary for Consultant to provide the consulting services requested. Callaway Golf shall approve any such expenses in advance, and in writing.

4. Assignment of Rights.

(a) Callaway Golf shall own all deliverables delivered by Consultant hereunder.

(b) As used in this Agreement, "Inventions," whether or not they have been patented, trademarked, or copyrighted, means designs, inventions, technologies, methods, innovations, ideas, improvements, processes, materials, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of Callaway Golf's and/or its affiliates' products.

(c) All works of authorship produced under this Agreement shall be "works for hire" produced exclusively for Callaway Golf, and all rights thereto shall belong to Callaway Golf. As a material part of the terms and understandings of this Agreement, Consultant hereby assigns to Callaway Golf all works of authorship and all Inventions relating to the business of Callaway Golf and/or its affiliates, and all intellectual property rights therein (including without limitation all patent rights, copyrights, and trade secret rights), which Consultant creates, develops, conceives and/or reduces to practice, either alone or with anyone else, during the course of providing the Services under this Agreement, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(d) Consultant agrees to disclose to the President and Chief Executive Officer of Callaway Golf any work of authorship and/or Invention relating to the business of Callaway Golf and/or its affiliates, which Consultant develops, conceives and/or reduces to practice, either alone or with anyone else, during the Term and any Extended Terms of this Agreement. Consultant shall make a limited disclosure of such works of authorship and/or Inventions to Callaway Golf, even if Consultant does not believe that Consultant is required under this Agreement to assign Consultant's interest in such work of authorship and/or Invention to Callaway Golf. Callaway Golf agrees to keep such information as confidential information. If Callaway Golf and Consultant disagree as to whether or not a work of authorship and/or an Invention is included within the terms of this Agreement, it will be the responsibility of Consultant to prove that it is not included and/or that assignment to Callaway

Golf is not required.

(e) The obligation to assign as provided in this Agreement does not apply to any work of authorship or any Invention to the extent such obligation would conflict with any applicable state or federal law. All provisions of this Agreement relating to the assignment by Consultant of works of authorship and Inventions are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Upon Callaway Golf's request, at no expense to Consultant, Consultant shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to Callaway Golf, and all other applicable documents, and will give testimony when and where requested to perfect the title, copyrights, trademarks and/or patents (both within and without the United States) in all works of authorship and Inventions assigned to Callaway Golf hereunder.

(g) Consultant agrees that if in the course of performing the consulting services, Consultant incorporates any other Invention owned by Consultant or for which Consultant has the right to grant the rights granted in this Section 4(g) ("Consultant Inventions"), into any report, presentation, recommendation, process, method, tooling, design, machine, equipment, product or other item recommended, presented, developed, implemented or specified by Consultant for or to Callaway Golf under this Agreement, Consultant hereby grants to Callaway Golf a nonexclusive, transferable, royalty-free, perpetual, irrevocable, worldwide license under said Consultant Invention to make, have made, import, modify, and use any product or other item embodying or using said Consultant Invention. Consultant will provide to Callaway Golf copies of all patents and patent applications related to all such Consultant Inventions.

(h) Consultant agrees that if in the course of performing the services, Consultant recommends the use of any third party Inventions which, to the knowledge of Consultant, are or may be covered by patents held by third parties, that Consultant will disclose such information to Callaway Golf.

5. Other Compensation. In addition to any compensation paid to Consultant pursuant to sections 3 or 7 of this Agreement, Callaway Golf agrees to pay Consultant as follows:

(a) During the Term and any Extended Terms, Callaway Golf shall reimburse Consultant for all reasonable, customary and necessary expenses for travel and lodging incurred in the performance of the services to be provided hereunder. Consultant shall account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policies set by Callaway Golf for reimbursement of such expenses. The amount, nature and extent of such expenses shall always be subject to the control, supervision and direction of Callaway Golf.

(b) During any Extended Terms, Callaway Golf shall provide for Consultant

to participate in Callaway Golf's health insurance and disability insurance plans as the same may be modified from time to time, and to receive, if Consultant is insurable under usual underwriting standards and Consultant's physical condition does not prevent Consultant from reasonably qualifying for such insurance coverage, term life insurance coverage of Consultant's life, payable to whomever the Consultant directs, in the face amount of $2,000,000.00, such policies to be transferable to Consultant upon termination of this Agreement without evidence of insurability. Callaway Golf shall also provide, at its expense, for Consultant to participate annually in the Executive Health Program at Scripp's Hospital. It is recognized that all or part of the expenses associated with these benefits may be treated as taxable compensation to Consultant, and that Callaway Golf shall not be responsible for any taxes that may be due as a result.

(c) During the Term and any Extended Terms, Consultant shall be allowed to purchase, in accordance with Callaway Golf's reasonable procedures, golf equipment made by Callaway Golf and available generally to Callaway Golf's customers at Callaway Golf's regular U.S. wholesale price so long as (i) such golf equipment is for the personal use of Consultant or his immediate family, or is to be provided by Consultant as a gift, and not in exchange for any remuneration, services, barter, or other compensation, to another for the other's personal use, and (ii) the total amount of such golf equipment purchases by Consultant from Callaway Golf in any one calendar year does not exceed $10,000.00.

6. Relationship of the Parties. Consultant enters into this Agreement as, and shall continue to be, an independent contractor. Under no circumstances shall Consultant look to Callaway Golf as Consultant's employer, or as a partner, agent, or principal. Except as otherwise specifically provided herein, while Consultant is engaged as a Consultant pursuant to this Agreement, Callaway Golf will not provide Consultant with benefits accorded to Callaway Golf employees, regardless of whether Consultant is later re-classified as an employee of Callaway Golf, including but not limited to:

- Workers' compensation insurance;
- Access to any type of employee benefit plan, including but not limited to Callaway Golf's 401(k) and employee stock purchase plans;
- Vacation leave and/or sick pay.

7. Extended Terms. At Callaway Golf's option, this Agreement may be extended for up to two (2) one-year Extended Terms for the calendar years 2002 and 2003. If Callaway Golf so elects, then Callaway Golf shall compensate Consultant during any such Extended Term at the rate of $200,000.00 per year, payable in equal monthly installments. Except as otherwise provided, the terms and conditions of this Agreement shall continue to define the relationship between Callaway Golf and Consultant, including the obligation of Callaway Golf to pay Consultant additional compensation for hours of service beyond one hundred (100) hours per year at the rate of $350 per hour.

8. Extent of Authority. Consultant shall have no authority or right to commit or bind Callaway Golf and/or its affiliates to any agreement or arrangement or to obligate

Callaway Golf and/or its affiliates in any manner.

9. Exclusive Dealings. During the Term and any Extended Terms of this Agreement, to the fullest extent permitted by law, Consultant agrees that he will not, directly or indirectly, whether as agent, consultant, attorney, holder of a controlling beneficial interest, or in any other capacity, engage in any business or ventures that engages directly or indirectly in competition with the business of Callaway Golf or its affiliates as of the date of this Agreement. For purposes of this Section, an ownership interest in the stock of a publicly traded company or a broadly based mutual fund shall not be prohibited.

10. Non-Solicitation. During the Term and any Extended Terms of this Agreement, Consultant agrees not to ask or encourage directly or indirectly any employees or consultants of Callaway Golf, or any of its affiliates, to leave their employment with or refrain from providing services to Callaway Golf, or any of its affiliates. Consultant shall make any subsequent employer aware of this non-solicitation obligation.

11. Conflict of Interest. During the Term and any Extended Terms of this Agreement, Consultant shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Consultant's duties and obligations to Callaway Golf and/or its affiliates.

12. Confidential Information and/or Trade Secrets.

(a) Definition. As used in this Agreement, the terms "Confidential Information and/or Trade Secrets" mean all information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is owned by or in the possession of Callaway Golf and/or its affiliates, including but not limited to (1) concepts, ideas, plans and strategies involved in Callaway Golf's and/or its affiliates' products and businesses, (2) the processes, formulae and techniques disclosed by Callaway Golf and/or its affiliates or contractors to Consultant or observed by Consultant, (3) the designs, inventions and innovations and related plans, strategies and applications which Consultant develops during the Term or any Extended Terms of this Agreement in connection with the projects assigned to Consultant by Callaway Golf, and (4) third party information which Callaway Golf and/or its affiliates has/have promised to keep confidential. The terms "Confidential Information and/or Trade Secrets" do not include the following:

(i) Information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed;

(ii) Information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to Callaway Golf and/or its affiliates; or

(iii) Information which, subsequent to disclosure or observation, is obtained by Consultant from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to Callaway Golf and/or its affiliates with respect to such information) and who is not required to refrain from disclosing such information to others.

(b) No Disclosure of Confidential Information and/or Trade Secrets.

During the Term and any Extended Terms of this Agreement, Consultant will have access to and become familiar with various Confidential Information and/or Trade Secrets which Consultant acknowledges are owned and shall continue to be owned solely by Callaway Golf and/or its affiliates or third party contractors. Consultant agrees that Consultant will not, at any time, whether during or subsequent to the Term and any Extended Terms of this Agreement, use any Confidential Information and/or Trade Secrets for any purpose except in order to: (1) perform Consultant's duties under this Agreement; (2) disclose Confidential Information and/or Trade Secrets to third parties for which Callaway Golf has given its written consent; or (3) disclose Confidential Information and/or Trade Secrets pursuant to a governmental process in which Consultant is compelled to do so. In the event Consultant believes that Consultant is legally required to disclose any Confidential Information and/or Trade Secrets, Consultant shall give reasonable notice to Callaway Golf prior to disclosing such information and shall assist Callaway Golf in taking such legally permissible steps as are reasonable and necessary to protect the Confidential Information and/or Trade Secrets. If Consultant believes that it is necessary for Consultant to disclose Confidential Information and/or Trade Secrets, Consultant shall first obtain written consent to do so from Callaway Golf, and the party to whom the disclosure is to be made shall execute a non-disclosure agreement in a form acceptable to Callaway Golf before Consultant shall make such disclosure.

(c) No Removal of Callaway Golf and/or its Affiliates' Documents or Information. Consultant understands and agrees that all books, records, customer lists and documents connected with the business of Callaway Golf and/or its affiliates are the property of and belong to Callaway Golf and/or its affiliates or third-party contractors. Under no circumstances shall Consultant remove from Callaway Golf's and/or its affiliates' facilities any of Callaway Golf's and/or its affiliates' books, records, documents, lists or any copies of the same without Callaway Golf's and/or its affiliates' written permission, nor shall Consultant make any copies of Callaway Golf's and/or its affiliates' books, records, documents or lists for use outside Callaway Golf's and/or its affiliates' office(s) except as specifically authorized by Callaway Golf. Consultant shall return to Callaway Golf and/or its affiliates all books, records, documents and customer lists belonging to Callaway Golf and/or its affiliates upon termination of this Agreement.

(d) The provisions of Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Consultant in perpetuity.

13. Surrender of Company Property. Consultant agrees that upon termination of this Agreement in any manner, Consultant will immediately surrender to Callaway Golf and/or its affiliates all property owned by Callaway Golf and/or its affiliates.

14. Notices. Any notice, request, demand or other communication required or permitted hereunder shall be deemed properly given when actually received or within five days of mailing by certified or registered mail, postage prepaid, to the following addresses, or to such addresses as may be furnished from time to time, in writing, to the other party:

Callaway Golf: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: Ely Callaway, Chairman

Consultant: Donald H. Dye
P.O. Box 675870
Rancho Santa Fe, California 92061-6375

15. Termination.

(a) This Agreement may be terminated by Callaway Golf for substantial cause upon the occurrence of any of the following events:

(i) Death. This Agreement may be terminated upon the death of Consultant. Termination under this sub-section shall be effective on the date of Consultant's death.

(ii) Permanent Disability. This Agreement may be terminated upon the permanent disability of Consultant. For purposes of this Agreement, and subject to all applicable laws with respect to disabilities and the rights of those who are disabled, "permanent disability" shall mean the inability of Consultant, by reason of any ailment or illness, or physical or mental condition, to perform his duties hereunder for a consecutive period of six (6) months.

(iii) Failure to Substantially Perform Duties or Misconduct. This Agreement may be terminated for breach of this Agreement, or misconduct associated with the performance of Consultant's duties as a consultant, including, but not limited to, dishonesty, theft, disloyalty and/or felony criminal conduct. Termination under this subsection shall be effective immediately, upon the receipt by Consultant of written notice stating the cause of such termination.

(b) This Agreement may be terminated by Consultant upon the occurrence of a Change in Control as defined herein. Such a termination by Consultant must occur with ninety (90) days following a Change in Control, pursuant to Consultant providing Callaway Golf with written notice of termination. Upon termination of this Agreement by Consultant pursuant to this section, Consultant shall be entitled to any compensation accrued and not yet paid for services rendered, reimbursement for accrued expenses as provided in section 5(a), and no other severance. A "Change in Control" means the following and shall be deemed to

occur if any of the following events occurs:

(i) Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding Callaway Golf and its subsidiaries and any employee benefit or stock ownership plan of Callaway Golf or its subsidiaries and also excluding an underwriter or underwriting syndicate that has acquired Callaway Golf's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of Callaway Golf's then outstanding securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the effective date hereof, constitute the Board of Directors of Callaway Golf (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of Callaway Golf, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by Callaway Golf's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the outstanding shares of Common Stock or the combined voting power of Callaway Golf's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by Callaway Golf's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

(iii) Consummation by Callaway Golf of the sale or other disposition by Callaway Golf of all or substantially all of Callaway Golf's assets or a reorganization or merger or consolidation of Callaway Golf with any other person, entity or corporation, other than (1) a reorganization or merger or consolidation that would result in the voting securities of Callaway Golf outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of Callaway Golf, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of Callaway Golf or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or (2) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of Callaway Golf (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of Callaway Golf or its successor; or

(iv) Approval by the shareholders of Callaway Golf or an order by a court of competent jurisdiction of a plan of liquidation of Callaway Golf.

16. Advertising Waiver. Consultant agrees to permit Callaway Golf and/or its affiliates, and persons or other organizations authorized by Callaway Golf and/or its affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products of Callaway Golf and/or its affiliates, or the machinery and equipment used in the manufacture thereof, in which Consultant's name and/or pictures of Consultant taken in the course of Consultant's provision of services to Callaway Golf and/or its affiliates, appear. Consultant hereby waives and releases any claim or right Consultant may otherwise have arising out of such use, publication or distribution.

17. Publicity; Use of Marks. Consultant shall not at any time use Callaway Golf's or its affiliates' names, trademarks or trade names in any advertising or publicity without the prior written consent of Callaway Golf.

18. Assignment. Consultant shall not assign this Agreement or any of Consultant's rights hereunder without the prior written consent of Callaway Golf. It is understood that this is a contract for the personal services of Consultant. Any attempted assignment by Consultant in violation of this paragraph shall be void.

19. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) CONSULTANT AND CALLAWAY GOLF AGREE THAT ANY DISPUTE, CONTROVERSY OR CLAIM ARISING HEREUNDER OR IN ANY WAY RELATED TO THIS AGREEMENT, ITS INTERPRETATION, ENFORCEABILITY, OR APPLICABILITY, OR RELATING TO CONSULTANT'S PROVISION OF SERVICES TO CALLAWAY GOLF, OR THE TERMINATION THEREOF, THAT CANNOT BE RESOLVED BY MUTUAL AGREEMENT OF THE PARTIES SHALL BE SUBMITTED TO BINDING ARBITRATION. THIS INCLUDES, BUT IS NOT LIMITED TO, ALLEGED VIOLATIONS OF FEDERAL, STATE AND/OR LOCAL STATUTES, CLAIMS BASED ON ANY PURPORTED BREACH OF DUTY ARISING IN CONTRACT OR TORT, INCLUDING BREACH OF CONTRACT, BREACH OF COVENANT OF GOOD FAITH AND FAIR DEALING, VIOLATION OF PUBLIC POLICY, AND VIOLATION OF ANY STATUTORY, CONTRACTUAL OR COMMON LAW RIGHTS. THE PARTIES AGREE THAT ARBITRATION IS THE PARTIES' ONLY RECOURSE FOR SUCH CLAIMS AND HEREBY WAIVE THE RIGHT TO PURSUE SUCH CLAIMS IN ANY OTHER FORUM, UNLESS OTHERWISE PROVIDED BY LAW. A PROCEEDING TO COMPEL ARBITRATION UNDER THIS PROVISION SHALL BE GOVERNED BY SECTION 3 OF CHAPTER 1 OF THE FEDERAL ARBITRATION ACT SUCH THAT ANY COURT ACTION INVOLVING A DISPUTE WHICH IS NOT SUBJECT TO ARBITRATION SHALL BE STAYED PENDING ARBITRATION OF ANY ARBITRABLE DISPUTE.

(b) ANY DEMAND FOR ARBITRATION SHALL BE IN WRITING AND MUST BE MADE TO THE CHIEF LEGAL OFFICER WITHIN ONE (1) YEAR, OR, IF LATER, WITHIN THE TIME PERIOD STATED IN THE APPLICABLE STATUTE OF LIMITATIONS, WHICHEVER IS SHORTER, AFTER THE DISCOVERY OF THE ALLEGED CLAIM OR CAUSE OF ACTION BY THE AGGRIEVED PARTY.

(c) THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE PROCEDURAL RULES

STATED IN THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("AAA") IN SAN DIEGO, CALIFORNIA. THE ARBITRATION SHALL BE CONDUCTED IN SAN DIEGO BY A FORMER OR RETIRED JUDGE OR ATTORNEY WITH AT LEAST 10 YEARS EXPERIENCE IN COMMERCIAL DISPUTES, OR A NON-ATTORNEY WITH LIKE EXPERIENCE IN THE AREA OF DISPUTE, WHO SHALL HAVE THE POWER TO HEAR MOTIONS, CONTROL DISCOVERY, CONDUCT HEARINGS AND OTHERWISE DO ALL THAT IS NECESSARY TO RESOLVE THE MATTER. THE PARTIES MUST MUTUALLY AGREE ON THE ARBITRATOR. IF THE PARTIES CANNOT AGREE ON THE ARBITRATOR AFTER THEIR BEST EFFORTS, AN ARBITRATOR FROM THE AMERICAN ARBITRATION ASSOCIATION WILL BE SELECTED PURSUANT TO THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION IN SAN DIEGO, CALIFORNIA.

(d) THE ARBITRATION AWARD SHALL BE FINAL AND BINDING, AND MAY BE ENTERED AS A JUDGMENT IN ANY COURT HAVING COMPETENT JURISDICTION. IT IS EXPRESSLY UNDERSTOOD THAT THE PARTIES HAVE CHOSEN ARBITRATION TO AVOID THE BURDENS, COSTS AND PUBLICITY OF A COURT PROCEEDING, AND THE ARBITRATOR IS EXPECTED TO HANDLE ALL ASPECTS OF THE MATTER, INCLUDING DISCOVERY AND ANY HEARINGS, IN SUCH A WAY AS TO MINIMIZE THE EXPENSE, TIME, BURDEN AND PUBLICITY OF THE PROCESS, WHILE ASSURING A FAIR AND JUST RESULT. IN PARTICULAR, THE PARTIES EXPECT THAT THE ARBITRATOR WILL LIMIT DISCOVERY BY CONTROLLING THE AMOUNT OF DISCOVERY THAT MAY BE TAKEN (E.G., THE NUMBER OF DEPOSITIONS OR INTERROGATORIES) AND BY RESTRICTING THE SCOPE OF DISCOVERY TO ONLY THOSE MATTERS CLEARLY RELEVANT TO THE DISPUTE.

(e) THE ARBITRATOR HAS NO AUTHORITY TO AWARD PUNITIVE DAMAGES.

(f) THE PREVAILING PARTY SHALL BE ENTITLED TO AN AWARD BY THE ARBITRATOR OF REASONABLE ATTORNEYS' FEES AND OTHER COSTS REASONABLY INCURRED IN CONNECTION WITH THE ARBITRATION, INCLUDING WITNESS FEES AND EXPERT WITNESS FEES, UNLESS THE ARBITRATOR FOR GOOD CAUSE DETERMINES OTHERWISE.

THE PARTIES HAVE READ SECTION 19 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE. _____ (CONSULTANT'S INITIALS) _____ (INITIALED ON BEHALF OF CALLAWAY GOLF)

20. Disclosure of Others' Confidential Information. It is the understanding of both Callaway Golf and Consultant that Consultant shall not divulge to Callaway Golf, its affiliates or its third party contractors any confidential information or trade secrets belonging to others, nor shall Callaway Golf seek to elicit from Consultant any such information. Consistent with the foregoing, Consultant shall not provide to Callaway Golf, and Callaway Golf shall not request, any documents or copies of documents containing such information. Failure to comply with this obligation by Consultant shall be grounds for immediate termination of this Agreement.

21. Applicable Law. This Agreement shall constitute a contract under the internal laws of the State of California and shall be governed in accordance with the laws of said state as to both interpretation and performance.

22. Entire Agreement/Amendments. This Agreement and the Termination Agreement reflect the entire agreement between the parties relating in any way to the subject

matter hereof. No statement or promise or different representations have been made which in any way form a part of or modify this Agreement. No amendment or modification shall be valid unless in writing and signed by the parties hereto.

23. Separate Terms. Each term, condition, covenant or provision of this Agreement shall be viewed as separate and distinct, and in the event that any such term, covenant or provision shall be held by a court of competent jurisdiction to be invalid, the remaining provisions shall continue in full force and effect.

24. Waiver. A waiver by either party of a breach of any provision or provisions of this Agreement shall not constitute a general waiver or prejudice the other party's right otherwise to demand strict compliance with that provision or any other provisions in this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date(s) set forth below to be effective as of the day and year first set forth above.

CALLAWAY GOLF Callaway Golf Company, a California corporation	CONSULTANT
By: /s/ Ely Callaway Ely Callaway Chairman Dated:_____	/s/ Donald H. Dye Donald H. Dye Dated: _____

EXHIBIT 10.25

LOAN FORGIVENESS AGREEMENT

THIS LOAN FORGIVENESS AGREEMENT (this "Agreement") is effective as of March 8, 1999, by and among Callaway Golf Company, a California corporation ("Callaway Golf"), and Callaway Golf Media Ventures, LLC, a California limited liability company ("CGMV"). Callaway Golf and CGMV are sometimes collectively referred to herein as the "Parties" and individually as a "Party." Capitalized Terms used herein and not otherwise defined shall have the same meaning given to such terms in Section 7.

RECITALS

A. Callaway Editions, Inc. ("Editions"), a Delaware corporation, and Callaway Golf are members of CGMV and have entered into an Operating Agreement for CGMV, dated January 26, 1998 (the "Operating Agreement"). Callaway Golf owns an 80% membership interest in CGMV and Editions owns a 20% membership interest in CGMV. Nicholas Callaway ("Nicholas"), an individual, is the principal shareholder of Editions.

B. Callaway Golf and Editions formed CGMV for the purpose of publishing the Callaway Golf Guides, a multi-volume series of illustrated golf-related books (the "Golf Guides").

C. On January 26, 1998, CGMV and Callaway Golf entered into a Loan and Security Agreement for up to Twenty Million Dollars ($20,000,000.00) (the "Loan Agreement"), evidencing a loan from Callaway Golf to CGMV. As of March 8, 1999, there was outstanding under the CGMV Loan the principal amount plus accrued interest of approximately Two Million One Hundred Forty-Eight Thousand Seven Hundred Sixty-Four Dollars and Thirty-Nine Cents ($2,148,764.39) (the "Existing Balance").

D. Callaway Golf desires to forgive CGMV from its liability to pay the Existing Balance under the Loan Agreement, and CGMV desires to discharge Callaway Golf from its obligation, if any, to provide continuing technical support and advice to CGMV in connection with CGMV's publication of the Golf Guides.

NOW, THEREFORE, in consideration of the mutual covenants, agreements and understandings herein contained, as well as for other good and valuable consideration, acknowledged by each of them to be satisfactory and adequate, the Parties hereby agree as follows:

1. Transaction.

1.1 Forgiveness of Existing Balance. Callaway Golf hereby forgives the Existing Balance.

1.2 Discharge from Obligation. CGMV hereby discharges Callaway Golf from any obligation to provide technical support and advice to CGMV in connection with publication of the Golf Guides.

2. Deliveries.

2.1 Deliveries by Callaway Golf. Callaway Golf has delivered the following to Buyer:

2.1.1 Resolutions of Callaway Golf. Certified copies of the resolutions duly adopted by Callaway Golf's board of directors authorizing the execution, delivery and performance of this Agreement.

2.2 Deliveries by CGMV. CGMV has delivered the following to Callaway Golf:

2.2.1 Resolutions. Certified copies of the resolutions duly adopted by CGMV authorizing the execution, delivery and performance of this Agreement.

3. Representations and Warranties of Callaway Golf. As a material inducement to CGMV to enter into this Agreement, Callaway Golf hereby represents and warrants to CGMV as follows:

3.1 Organization. Callaway Golf is a corporation duly organized, validly existing and in good standing under the laws of California and is qualified to do business in every jurisdiction in which its ownership of property or conduct of its business requires it to qualify as foreign corporation. Callaway Golf has all necessary corporate powers and corporate authority to carry on its business as now conducted presently and presently proposed to be conducted and to execute, deliver and perform this Agreement and any related agreements to which it is a party.

3.2 Authorization; No Breach. The execution, delivery and performance of this Agreement has been duly authorized, executed and delivered by Callaway Golf. This Agreement constitutes a valid and binding obligation of Callaway Golf, enforceable in accordance with its terms. The execution and delivery by Callaway Golf of this Agreement and the fulfillment of and compliance with the respective terms hereof and thereof by Callaway Golf do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under (whether with or without the passage of time, the giving of notice or both), (iii) give any Person the right to modify, terminate or accelerate any obligation under, (iv) result in a violation of, or (v) require any authorization, consent, approval, exemption or other action by or notice or declaration to, or filing with, any Person or any court or administrative or governmental body or agency pursuant to, the organizational documents of Callaway Golf, or any material law, statute, rule or regulation to which Callaway Golf is subject, or any agreement, instrument, order, judgment or decree to which Callaway Golf is subject.

4. Representations and Warranties of CGMV. As a material inducement to Callaway Golf to enter into this Agreement and take the actions set forth in Section 1, CGMV hereby represents and warrants to Callaway Golf as follows:

4.1 Organization, Power and Authority. CGMV is a duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. CGMV possesses all requisite power and authority necessary to carry out the transactions contemplated by this Agreement.

4.2 Authorization; No Breach. The execution, delivery and performance of this Agreement has been duly authorized by CGMV. This Agreement constitutes a valid and binding obligation of CGMV, enforceable in accordance with its terms. The execution and delivery by CGMV of this Agreement and the fulfillment of and compliance with the respective terms hereof and thereof by CGMV do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under (whether with or without the passage of time, the giving of notice or both), (iii) give any third party the right to modify, terminate or accelerate any obligation under, (iv) result in a violation of, or (v) require any authorization, consent, approval, exemption or other action by or notice or declaration to, or filing with, any court or administrative or governmental body or agency pursuant to, the organizational documents of CGMV, or any material law, statute, rule or regulation to which CGMV is subject, or any material agreement, instrument, order, judgment or decree to which CGMV is subject.

5. Survival of Representations and Warranties. Notwithstanding any investigation or inquiries made by the Parties, each party acknowledges and agrees that it has entered into this Agreement in reliance upon the representations and warranties by the other contained in this Agreement. The representations and warranties shall survive the execution of this Agreement indefinitely.

6. Further Assurances. If at any time after the execution of this Agreement any further action is necessary or desirable to carry out the purposes of this Agreement or the transactions contemplated hereby, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party may reasonably request, all at the sole cost and expense of the requesting Party.

7. Definitions. For the purpose of this Agreement "Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

8. Miscellaneous.

8.1 Fees and Expenses. Each Party shall pay all of its own fees and expenses (including fees and expenses of legal counsel, accountants, investment bankers and other

representatives and consultants) in connection with this Agreement and the consummation of the transactions contemplated hereby. Callaway Golf acknowledges that it shall not seek reimbursement from CGMV for its fees and expenses incurred in connection with the negotiation or preparation of this Agreement. If any legal action or other proceeding relating to this Agreement, the agreements contemplated hereby, the transactions contemplated hereby or thereby or the enforcement of any provision of this Agreement or the agreements contemplated hereby is brought against any Party, the prevailing Party in such action or proceeding shall be entitled to recover all reasonable expenses relating thereto (including attorneys' fees and expenses) from the Party against which such action or proceeding is brought in addition to any other relief to which such prevailing Party may be entitled.

8.2 Special Remedies and Enforcement. Each Party recognizes and agrees that a breach by one of the Parties ("Breaching Party"), of any of the covenants set forth in this Agreement could cause irreparable harm to the other Parties, that the Parties' remedies at law in the event of such breach would be inadequate, and that, accordingly, in the event of any such breach a restraining order or injunction or both may be issued against the Breaching Party in addition to any other rights and remedies which are available to the Parties. If this Section 8.2 is more restrictive than permitted by applicable law, this Section 8.2 shall be limited to the extent required by such law.

8.3 Entire Agreement. Modifications. This Agreement, together with exhibits and schedules attached hereto, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby, and contains all of the terms and conditions thereof and supersedes all prior agreements and understandings relating to the subject matter hereof. No changes or modifications of or additions to this Agreement shall be valid unless the same shall be in writing and signed by each party hereto.

8.4 Waivers. No waiver of any of the provisions of this Agreement shall be deemed to be or shall constitute a waiver of any other provision of this Agreement, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver of any provision of this Agreement shall be binding on the parties hereto unless it is executed in writing by the party making the waiver.

8.5 Successors and Assigns.

8.5.1 This Agreement and all covenants and agreements contained herein and rights, interests or obligations hereunder, by or on behalf of any of the Parties hereto, shall bind and inure to the benefit of the respective successors and assigns of the Parties hereto whether so expressed or not.

8.5.2 No Party may assign their rights or obligations under this document. Any attempted assignment in violation of this Agreement shall be void and of no effect.

8.6 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or the application of any such provision to any Person or circumstance shall be held to be prohibited by, illegal or unenforceable under applicable law in any respect by a court of competent jurisdiction, such provision shall be ineffective only to the extent of such prohibition or illegality or unenforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

8.7 Counterparts. This Agreement may be executed simultaneously in counterparts (including by means of telecopied signature pages), any one of which need not contain the signatures of more than one Party, but all such counterparts taken together shall constitute one and the same Agreement.

8.8 Descriptive Heading; Interpretation. The headings and captions used in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The use of the word "including" herein shall mean "including without limitation." The Parties intend that each representation, warranty and covenant contained herein shall have independent significance. If any Party has breached any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not breached shall not detract from or mitigate the fact that the Party is in breach of the first representation, warranty or covenant.

8.9 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties and their permitted successors and assigns and nothing herein expressed or implied shall give or be construed to give any Person, other than the Parties and such permitted successors and assigns, any legal or equitable rights hereunder.

8.10 Cooperation on Tax Matters. The Parties shall cooperate fully, as and to the extent reasonably requested by each Party and at the requesting Party's expense, in connection with any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon any Party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Parties agree (i) to retain all books and records with respect to Tax matters pertinent to CGMV relating to any taxable period beginning before the effective date of this Agreement until the expiration of the statute of limitations (and, to the extent notified by any Party, any extensions thereof) applicable to such taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (ii) to give each Party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if any Party so requests, the other party as the case may be, shall allow such party to take possession of such books and records.

8.11 Governing Law. This Agreement is made and shall be governed by, and construed and enforced in accordance with, the internal laws of the State of California, without regard to the conflict of laws principles thereof, as the same apply to agreements executed solely by residents of California and wholly to be performed within California.

8.12 Authority. Each of the persons executing this Agreement represents and warrants that it is authorized to execute this Agreement and the entity on whose behalf they are signing is bound by the terms hereof.

8.13 Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient, one day after being sent to the recipient by reputable overnight courier service (charges prepaid), upon machine-generated acknowledgment of receipt after transmittal by facsimile or five (5) days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the Parties at the addresses indicated below or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

To Callaway Golf: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: David A. Rane, Executive Vice President, Administration and Planning, and Chief Financial Officer

With a copy to: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: Steven C. McCracken, Executive Vice President, Licensing, Chief Legal Officer and Secretary

To CGMV: Callaway Editions, Inc.
70 Bedford Street
New York, New York 10014
Attn: Nicholas Callaway, President, and Editor-in-Chief

With a Copy to: Neale M. Albert, Esq.
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, New York 10019-6064

8.14 No Strict Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or

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

8.15 Incorporation of Recitals. The Recitals to this Agreement are incorporated herein by this referenced with the same force and effect as if set forth in full herein.

8.16 Brokers. No broker, finder, or investment banker is entitled to any brokerage, finder's, or other fee or commission in connection with the transactions hereunder based upon arrangements made by or on behalf of any party to this Agreement.

8.17 No Public Announcement. Except as otherwise required by law, no this Agreement shall make or cause to be made any public announcement or press party to release with respect to the terms of this Agreement or the transactions contemplated hereby without the prior written approval of the other party hereto, which consent shall not be unreasonably withheld or delayed.

8.18 Good Faith. All parties hereto agree to carry out the terms of this Agreement and to act in good faith with respect to the terms and conditions contained herein before and after the execution hereof.

8.19 Time is of the Essence. Time is of the essence in this Agreement, and all of the terms, covenants and conditions hereof.

8.20 Venue; Submission to Jurisdiction. Each of the Parties submits to the jurisdiction of any state or federal court sitting in San Diego County, California, in any action or proceeding arising out of or relating to this Agreement, agrees that all claims in respect of the action or proceeding may be heard and determined in any such court, and agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto.

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IN WITNESS WHEREOF, the parties hereto have executed this Loan Forgiveness Agreement to be effective on March 8, 1999.

CGMV:

CALLAWAY GOLF MEDIA VENTURES, LLC, a California limited liability company

By: CALLAWAY EDITIONS, INC., a Delaware corporation, Member

By: /s/ Nicholas Callaway
_____
Nicholas Callaway, President, and Editor-in-Chief

By: CALLAWAY GOLF COMPANY, a California corporation, Member

By: /s/ David A. Rane
_____
David A. Rane, Executive Vice President, Administration and Planning, and Chief Financial Officer

CALLAWAY GOLF:

CALLAWAY GOLF COMPANY, a California corporation

By: /s/ David A. Rane
_____
David A. Rane, Executive Vice President, Administration and Planning, and Chief Financial Officer

EXHIBIT 10.26

MEMBERSHIP INTEREST PURCHASE AGREEMENT

THIS MEMBERSHIP INTEREST PURCHASE AGREEMENT (this "Agreement") is effective as of March 9, 1999, by and among Callaway Golf Company, a California corporation ("Callaway Golf") and Callaway Editions, Inc., a Delaware corporation ("Buyer"). Callaway Golf and Buyer are sometimes collectively referred to herein as the "Parties" and individually as a "Party." Capitalized terms used herein and not otherwise defined herein have the meaning given to such terms in Section 6 below.

RECITALS

A. Buyer and Callaway Golf are members of Callaway Golf Media Ventures, LLC, ("CGMV"), a California limited liability company, and have entered into an operating agreement for CGMV dated January 26, 1998 (the "Operating Agreement"). Currently, Callaway Golf owns an 80% membership interest in CGMV and Buyer owns a 20% membership interest in CGMV. Nicholas Callaway ("Nicholas"), an individual, is the principal shareholder of Editions.

B. On January 26, 1998, CGMV and Callaway Golf entered into a Loan and Security Agreement for up to Twenty Million Dollars ($20,000,000.00) (the "Loan Agreement"), evidencing a loan from Callaway Golf to CGMV. As of March 8, 1999, there was outstanding under the CGMV Loan the principal amount plus accrued interest of approximately Two Million One Hundred Forty-Eight Thousand Seven Hundred Sixty-Four Dollars and Thirty-Nine Cents ($2,148,764.39) ("Existing Balance"). Callaway Golf and CGMV have previously entered into a Loan Forgiveness Agreement effective March 8, 1999 (the "Loan Forgiveness Agreement") forgiving the Existing Balance.

C. Buyer now desires to purchase Callaway Golf's membership interest in CGMV and Callaway Golf is willing to sell its membership interest in CGMV upon all the terms and conditions in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, agreements and understandings herein contained, as well as for other good and valuable consideration, acknowledged by each of them to be satisfactory and adequate, the Parties hereby agree as follows:

1. Transaction.

1.1 Purchase of Membership Interest. Subject to the terms and conditions and in reliance on the representations and warranties set forth herein, Callaway Golf hereby as of the effective date hereof sells, assigns, transfers, and delivers its entire Eighty Percent (80%) membership interest (the "Membership Interest") in CGMV to Buyer in return for the Purchase Price.

1.2 Purchase Price. The total purchase price ("Purchase Price") to be paid by Buyer for the Membership Interest shall be one dollar ($1.00). The Purchase Price has been paid.

1.3 Change of Name. The name of CGMV shall be changed to Callaway Editions Media Ventures, LLC.

2. Deliveries.

2.1 Deliveries by Callaway Golf. Callaway Golf has delivered the following to Buyer:

2.1.1 Resolutions of Callaway Golf. Certified copies of the resolutions duly adopted by Callaway Golf's board of directors authorizing the transfer of the Membership Interest and the execution, delivery and performance of this Agreement and each of the other agreements contemplated hereby;

2.1.2 Resignation of Callaway Golf. A written resignation of the two (2) managers appointed by Callaway Golf as managers of CGMV.

2.1.3 Certificate of Amendment. An executed form LLC-2 Certificate of Amendment signed by Callaway Golf as a member of CGMV changing the name of CGMV to Callaway Editions Media Ventures, LLC.

2.1.4 Trademark License Agreement. An executed trademark license agreement (the "Trademark License Agreement") acceptable to CGMV granting CGMV the right to use the name Callaway Golf.

2.2 Deliveries by Buyer. Buyer has delivered the following to Callaway Golf:

2.2.1 Purchase Price. The Purchase Price.

2.2.2 Resolutions. Certified copies of the resolutions duly adopted by Buyer's board of directors authorizing the execution, delivery and performance of this Agreement and each of the other agreements contemplated hereby.

2.2.3 Certificate of Amendment. An executed form LLC-2 Certificate of Amendment signed by Buyer as a member of CGMV changing the name of CGMV to Callaway Editions Media Ventures, LLC.

3. Representations and Warranties of Callaway Golf. As a material inducement to Buyer to enter into this Agreement, Callaway Golf hereby represents and warrants to Buyer, as follows:

3.1 Organization. Callaway Golf is a corporation duly organized, validly existing and in good standing under the laws of California and is qualified to do business in every jurisdiction in which its ownership of property or conduct of its business requires it to qualify as foreign corporation. Callaway Golf has all necessary corporate powers and corporate authority to carry on its business as now conducted presently and presently proposed to be conducted and to execute, deliver and perform this Agreement and any related agreements to which it is a party.

3.2 Membership Interest and Related Matters. As of the date hereof, the Membership Interest represents Callaway Golf''s entire ownership interest in CGMV and is held beneficially and of record by Callaway Golf free and clear of all liens. The assignment of its Membership Interest by Callaway Golf as provided for herein is an absolute conveyance to Buyer of all of the right, title and interest, free and clear of any and all liens, of Callaway Golf in the Membership Interest.

3.3 Authorization; No Breach. The execution, delivery and performance of this Agreement and all of the other agreements and instruments contemplated hereby to which Callaway Golf is a party have been duly authorized, executed and delivered by Callaway Golf. This Agreement constitutes a valid and binding obligation of Callaway Golf, enforceable in accordance with its terms, and all other agreements and instruments contemplated hereby to which Callaway Golf is a party, shall each constitute a valid and binding obligation of Callaway Golf, enforceable in accordance with their respective terms. The execution and delivery by Callaway Golf of this Agreement and all other agreements and instruments contemplated hereby to which Callaway Golf is a party and the fulfillment of and compliance with the respective terms hereof and thereof by Callaway Golf do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under (whether with or without the passage of time, the giving of notice or both), (iii) result in the creation of any lien upon the Membership Interest, (iv) give any Person the right to modify, terminate or accelerate any obligation under, (v) result in a violation of, or (vi) require any authorization, consent, approval, exemption or other action by or notice or declaration to, or filing with, any Person or any court or administrative or governmental body or agency pursuant to, the organizational documents of Callaway Golf, or any material law, statute, rule or regulation to which Callaway Golf is subject, or any agreement, instrument, order, judgment or decree to which Callaway Golf is subject.

4. Representations and Warranties of Buyer. As a material inducement to Callaway Golf to enter into this Agreement and take the actions set forth in Section 1, Buyer hereby represents and warrants to Callaway Golf as follows:

4.1 Organization, Power and Authority. Buyer is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Buyer possess all requisite power and authority necessary to carry out the transactions contemplated by this Agreement.

4.2 Authorization; No Breach. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby to which Buyer is a Party, have been duly

authorized, executed and delivered by Buyer. This Agreement and all other agreements contemplated hereby to which Buyer is a Party, shall each constitute valid and binding obligations of Buyer, enforceable in accordance with its terms. The execution and delivery by Buyer of this Agreement and all other agreements contemplated hereby to which Buyer is a Party, the purchase of the Membership Interest hereunder, and the fulfillment of and compliance with the respective terms hereof and thereof by Buyer, do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under (whether with or without the passage of time, the giving of notice or both), (iii) give any third party the right to modify, terminate or accelerate any obligation under, (iv) result in a violation of, or (v) require any authorization, consent, approval, exemption or other action by or notice or declaration to, or filing with, any court or administrative or governmental body or agency pursuant to, the organizational documents of Buyer, or any material law, statute, rule or regulation to which Buyer is subject, or any material agreement, instrument, order, judgment or decree to which Buyer is subject.

5. Post-Closing Covenants.

5.1 No Contracting. Buyer shall not at any time after the execution of this Agreement enter into any contract, agreement or lease on behalf of Callaway Golf or represent that it has authority to act on behalf of Callaway Golf. Buyer acknowledges that it has no right to enter into any contract on behalf of Callaway Golf or represent that it has authority to act on behalf of Callaway Golf.

5.2 Further Assurances. If at any time after the execution of this Agreement any further action is necessary or desirable to carry out the purposes of this Agreement or the transactions contemplated hereby, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party may reasonably request, all at the sole cost and expense of the requesting Party.

6. Definitions. For the purposes of this Agreement, the following terms have the meanings set forth below:

"Membership Interest" means (i) Callaway Golf's entire interest as a member in CGMV, including all right, title and interest of Callaway Golf as a member in CGMV and all rights and interests of any kind or nature under the Operating Agreement as a member, including without limitation all voting, inspection, management and rights in specific CGMV property; and (ii) all dividends, distributions and earnings arising out of any of the foregoing and all additions, replacements and substitutions to any and all of the foregoing.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

7. Miscellaneous.

7.1 Fees and Expenses. Each Party shall pay all of its own fees and expenses (including fees and expenses of legal counsel, accountants, investment bankers and other representatives and consultants) in connection with this Agreement and the consummation of the transactions contemplated hereby. Callaway Golf acknowledges that it shall not seek reimbursement from CGMV for the fees and expenses of Callaway Golf incurred in the preparation and negotiation of this Agreement. If any legal action or other proceeding relating to this Agreement, the agreements contemplated hereby, the transactions contemplated hereby or thereby or the enforcement of any provision of this Agreement or the agreements contemplated hereby is brought against any Party, the prevailing Party in such action or proceeding shall be entitled to recover all reasonable expenses relating thereto (including attorneys' fees and expenses) from the Party against which such action or proceeding is brought in addition to any other relief to which such prevailing Party may be entitled.

7.2 Special Remedies and Enforcement. Each Party recognizes and agrees that a breach by one of the Parties ("Breaching Party"), of any of the covenants set forth in this Agreement could cause irreparable harm to the other Parties, that the Parties' remedies at law in the event of such breach would be inadequate, and that, accordingly, in the event of any such breach a restraining order or injunction or both may be issued against the Breaching Party in addition to any other rights and remedies which are available to the Parties. If this Section 7.2 is more restrictive than permitted by applicable Law, this Section 7.2 shall be limited to the extent required by such Law.

7.3 Entire Agreement. Modifications. This Agreement, together with exhibits and schedules attached hereto, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby, and contains all of the terms and conditions thereof and supersedes all prior agreements and understandings relating to the subject matter hereof. No changes or modifications of or additions to this Agreement shall be valid unless the same shall be in writing and signed by each party hereto.

7.4 Waivers. No waiver of any of the provisions of this Agreement shall be deemed to be or shall constitute a waiver of any other provision of this Agreement, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver of any provision of this Agreement shall be binding on the parties hereto unless it is executed in writing by the party making the waiver.

7.5 Successors and Assigns.

7.5.1 This Agreement and all covenants and agreements contained herein and rights, interests or obligations hereunder, by or on behalf of any of the Parties hereto, shall bind and inure to the benefit of the respective successors and assigns of the Parties hereto whether so expressed or not.

7.5.2 No Party may assign their rights or obligations under this document. Any attempted assignment in violation of this Agreement shall be void and of no effect.

7.6 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or the application of any such provision to any Person or circumstance shall be held to be prohibited by, illegal or unenforceable under applicable law in any respect by a court of competent jurisdiction, such provision shall be ineffective only to the extent of such prohibition or illegality or unenforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

7.7 Counterparts. This Agreement may be executed simultaneously in counterparts (including by means of telecopied signature pages), any one of which need not contain the signatures of more than one Party, but all such counterparts taken together shall constitute one and the same Agreement.

7.8 Descriptive Heading; Interpretation. The headings and captions used in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The use of the word "including" herein shall mean "including without limitation." The Parties intend that each representation, warranty and covenant contained herein shall have independent significance. If any Party has breached any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not breached shall not detract from or mitigate the fact that the Party is in breach of the first representation, warranty or covenant.

7.9 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties and their permitted successors and assigns and nothing herein expressed or implied shall give or be construed to give any Person, other than the Parties and such permitted successors and assigns, any legal or equitable rights hereunder.

7.10 Cooperation on Tax Matters. The Parties shall cooperate fully, as and to the extent reasonably requested by each Party and at the requesting Party's expense, in connection with any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon any Party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Parties agree (i) to retain all books and records with respect to Tax matters pertinent to CGMV relating to any taxable period beginning before the effective date of this Agreement until the expiration of the statute of limitations (and, to the extent notified by any Party, any extensions thereof) applicable to such taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (ii) to give each Party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if any Party

so requests, the other party as the case may be, shall allow such party to take possession of such books and records.

7.11 Governing Law. This Agreement is made and shall be governed by, and construed and enforced in accordance with, the internal laws of the State of California, without regard to the conflict of laws principles thereof, as the same apply to agreements executed solely by residents of California and wholly to be performed within California.

7.12 Authority. Each of the persons executing this Agreement represents and warrants that it is authorized to execute this Agreement and the entity on whose behalf they are signing is bound by the terms hereof.

7.13 Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient, one day after being sent to the recipient by reputable overnight courier service (charges prepaid), upon machine-generated acknowledgment of receipt after transmittal by facsimile or five (5) days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the Parties at the addresses indicated below or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

To Callaway Golf: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: David A. Rane, Executive Vice President, Administration and Planning, and Chief Financial Officer

With a copy to: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: Steven C. McCracken, Executive Vice President, Licensing, Chief Legal Officer and Secretary

To Buyer: Callaway Editions, Inc.
70 Bedford Street
New York, New York 10014
Attn: Nicholas Callaway, President, and Editor-in-Chief

With a Copy to: Neale M. Albert, Esq.
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, New York 10019-6064

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

7.15 Incorporation of Recitals. The Recitals to this Agreement are incorporated herein by this referenced with the same force and effect as if set forth in full herein.

7.16 Brokers. No broker, finder, or investment banker is entitled to any brokerage, finder's, or other fee or commission in connection with the transactions hereunder based upon arrangements made by or on behalf of any party to this Agreement.

7.17 No Public Announcement. Except as otherwise required by law, no party to this Agreement shall make or cause to be made any public announcement or press release with respect to the terms of this Agreement or the transactions contemplated hereby without the prior written approval of the other party hereto, which consent shall not be unreasonably withheld or delayed.

7.18 Good Faith. All parties hereto agree to carry out the terms of this Agreement and to act in good faith with respect to the terms and conditions contained herein before and after the execution hereof.

7.19 Time is of the Essence. Time is of the essence in this Agreement, and all of the terms, covenants and conditions hereof.

7.20 Venue; Submission to Jurisdiction. Each of the Parties submits to the jurisdiction of any state or federal court sitting in San Diego County, California, in any action or proceeding arising out of or relating to this Agreement, agrees that all claims in respect of the action or proceeding may be heard and determined in any such court, and agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto.

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IN WITNESS WHEREOF, the parties hereto have executed this Membership Interest Purchase Agreement to be effective on March 9, 1999.

BUYER:	CALLAWAY GOLF:
CALLAWAY EDITIONS, INC., a Delaware corporation	CALLAWAY GOLF COMPANY, a California corporation
By: /s/ Nicholas Callaway Nicholas Callaway, President, and Editor-in-Chief	By: /s/ David A. Rane David A. Rane, Executive Vice President, Administration and Planning, and Chief Financial Officer

EXHIBIT 10.27

LOAN TERMINATION AGREEMENT

THIS LOAN TERMINATION AGREEMENT (this "Agreement") is effective as of March 10, 1999, by and among Callaway Golf Company, a California corporation ("Callaway Golf"), and Callaway Golf Media Ventures, LLC, a California limited liability company ("CGMV"). Callaway Golf and CGMV are sometimes collectively referred to herein as the "Parties" and individually as a "Party." Capitalized terms used herein and not otherwise defined herein have the meaning given to such terms in Section 6 below.

RECITALS

A. Callaway Editions, Inc. ("Editions"), a Delaware corporation, and Callaway Golf are members of CGMV and have entered into an Operating Agreement for CGMV, dated January 26, 1998 (the "Operating Agreement"). Callaway Golf owns an 80% membership interest in CGMV and Editions owns a 20% membership interest in CGMV. Nicholas Callaway ("Nicholas"), an individual, is the principal shareholder of Editions.

B. On January 26, 1998, CGMV and Callaway Golf entered into a Loan and Security Agreement for up to Twenty Million Dollars ($20,000,000.00) (the "Loan Agreement"), evidencing a loan from Callaway Golf to CGMV. As of March 8, 1999, there was outstanding under the CGMV Loan the principal amount plus accrued interest of approximately Two Million One Hundred Forty-Eight Thousand Seven Hundred Sixty-Four Dollars and Thirty-Nine Cents ($2,148,764.39) ("Existing Balance"). Callaway Golf and CGMV have previously entered into a Loan Forgiveness Agreement effective March 8, 1999 (the "Loan Forgiveness Agreement") which forgave the Existing Balance.

C. CGMV and Callaway Golf desire to terminate the Loan Agreement such that Callaway Golf shall have no further obligation to loan funds to CGMV pursuant to the terms of the Loan Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, agreements and understandings herein contained, as well as for other good and valuable consideration, acknowledged by each of them to be satisfactory and adequate, the Parties hereby agree as follows:

1. Transaction.

1.1 Termination of the Loan Agreement. Callaway Golf has delivered to CGMV, by wire transfer, One Million Dollars ($1,000,000) as consideration for termination of the Loan Agreement (the "Liquidation Payment"). The Loan Agreement is hereby terminated and of no further effect.

2. Deliveries.

2.1 Deliveries by Callaway Golf. Callaway Golf has delivered the following to Buyer:

2.1.1 Resolutions of Callaway Golf. Certified copies of the resolutions duly adopted by Callaway Golf's board of directors authorizing the execution, delivery and performance of this Agreement.

2.1.2 Liquidation Payment. The Liquidation Payment in the manner and amount set forth in Section 1.1.

2.2 Deliveries by CGMV. CGMV has delivered the following to Callaway Golf:

2.2.1 Resolutions. Certified copies of the resolutions duly adopted by CGMV authorizing the execution, delivery and performance of this Agreement.

3. Representations and Warranties of Callaway Golf. As a material inducement to CGMV to enter into this Agreement, Callaway Golf hereby represents and warrants to CGMV as follows:

3.1 Organization. Callaway Golf is a corporation duly organized, validly existing and in good standing under the laws of California and is qualified to do business in every jurisdiction in which its ownership of property or conduct of its business requires it to qualify as foreign corporation. Callaway Golf has all necessary corporate powers and corporate authority to carry on its business as now conducted presently and presently proposed to be conducted and to execute, deliver and perform this Agreement and any related agreements to which it is a party.

3.2 Authorization; No Breach. The execution, delivery and performance of this Agreement has been duly authorized, executed and delivered by Callaway Golf. This Agreement constitutes a valid and binding obligation of Callaway Golf, enforceable in accordance with its terms. The execution and delivery by Callaway Golf of this Agreement and the fulfillment of and compliance with the respective terms hereof and thereof by Callaway Golf do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under (whether with or without the passage of time, the giving of notice or both), (iii) give any Person the right to modify, terminate or accelerate any obligation under, (iv) result in a violation of, or (v) require any authorization, consent, approval, exemption or other action by or notice or declaration to, or filing with, any Person or any court or administrative or governmental body or agency pursuant to, the organizational documents of Callaway Golf, or any material law, statute, rule or regulation to which Callaway Golf is subject, or any agreement, instrument, order, judgment or decree to which Callaway Golf is subject.

4. Representations and Warranties of CGMV. As a material inducement to Callaway Golf to enter into this Agreement and take the actions set forth in Section 1, CGMV hereby represents and warrants to Callaway Golf as follows:

4.1 Organization, Power and Authority. CGMV is a duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. CGMV possess all requisite power and authority necessary to carry out the transactions contemplated by this Agreement.

4.2 Authorization; No Breach. The execution, delivery and performance of this Agreement has been duly authorized by CGMV. This Agreement constitutes valid and binding obligations of CGMV, enforceable in accordance with its terms. The execution and delivery by CGMV of this Agreement and the fulfillment of and compliance with the respective terms hereof and thereof by CGMV do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under (whether with or without the passage of time, the giving of notice or both), (iii) give any third party the right to modify, terminate or accelerate any obligation under, (iv) result in a violation of, or (v) require any authorization, consent, approval, exemption or other action by or notice or declaration to, or filing with, any court or administrative or governmental body or agency pursuant to, the organizational documents of CGMV, or any material law, statute, rule or regulation to which CGMV is subject, or any material agreement, instrument, order, judgment or decree to which CGMV is subject.

5. Post-Closing Covenants.

5.1 No Contracting. CGMV shall not at any time after the execution of this Agreement enter into any contract, agreement or lease on behalf of Callaway Golf or represent that it has authority to act on behalf of Callaway Golf. CGMV acknowledges it has no right to enter any contract, agreement or lease on behalf of Callaway Golf or represent that it has authority to act on behalf of Callaway Golf.

5.2 Further Assurances. If at any time after the execution of this Agreement any further action is necessary or desirable to carry out the purposes of this Agreement or the transactions contemplated hereby, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party may reasonably request, all at the sole cost and expense of the requesting Party.

6. Definitions. For the purposes of this Agreement, the following terms have the meanings set forth below:

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

7. Miscellaneous.

7.1 Fees and Expenses. Each Party shall pay all of its own fees and expenses (including fees and expenses of legal counsel, accountants, investment bankers and other representatives and consultants) in connection with this Agreement and the consummation of the transactions contemplated hereby. Callaway Golf acknowledges that it shall not seek reimbursement from CGMV for the fees and expenses incurred by Callaway Golf in the negotiation and preparation of this Agreement. If any legal action or other proceeding relating to this Agreement, the agreements contemplated hereby, the transactions contemplated hereby or thereby or the enforcement of any provision of this Agreement or the agreements contemplated hereby is brought against any Party, the prevailing Party in such action or proceeding shall be entitled to recover all reasonable expenses relating thereto (including attorneys' fees and expenses) from the Party against which such action or proceeding is brought in addition to any other relief to which such prevailing Party may be entitled.

7.2 Special Remedies and Enforcement. Each Party recognizes and agrees that a breach by one of the Parties ("Breaching Party"), of any of the covenants set forth in this Agreement could cause irreparable harm to the other Parties, that the Parties' remedies at law in the event of such breach would be inadequate, and that, accordingly, in the event of any such breach a restraining order or injunction or both may be issued against the Breaching Party in addition to any other rights and remedies which are available to the Parties. If this Section 7.2 is more restrictive than permitted by applicable law, this Section 7.2 shall be limited to the extent required by such law.

7.3 Entire Agreement. Modifications. This Agreement, together with exhibits and schedules attached hereto, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby, and contains all of the terms and conditions thereof and supersedes all prior agreements and understandings relating to the subject matter hereof. No changes or modifications of or additions to this Agreement shall be valid unless the same shall be in writing and signed by each party hereto.

7.4 Waivers. No waiver of any of the provisions of this Agreement shall be deemed to be or shall constitute a waiver of any other provision of this Agreement, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver of any provision of this Agreement shall be binding on the parties hereto unless it is executed in writing by the party making the waiver.

7.5 Successors and Assigns.

7.5.1 This Agreement and all covenants and agreements contained herein and rights, interests or obligations hereunder, by or on behalf of any of the Parties hereto, shall bind and inure to the benefit of the respective successors and assigns of the Parties hereto whether so expressed or not.

7.5.2 No Party may assign their rights or obligations under this document. Any attempted assignment in violation of this Agreement shall be void and of no effect.

7.6 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or the application of any such provision to any Person or circumstance shall be held to be prohibited by, illegal or unenforceable under applicable law in any respect by a court of competent jurisdiction, such provision shall be ineffective only to the extent of such prohibition or illegality or unenforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

7.7 Counterparts. This Agreement may be executed simultaneously in counterparts (including by means of telecopied signature pages), any one of which need not contain the signatures of more than one Party, but all such counterparts taken together shall constitute one and the same Agreement.

7.8 Descriptive Heading; Interpretation. The headings and captions used in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The use of the word "including" herein shall mean "including without limitation." The Parties intend that each representation, warranty and covenant contained herein shall have independent significance. If any Party has breached any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not breached shall not detract from or mitigate the fact that the Party is in breach of the first representation, warranty or covenant.

7.9 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties and their permitted successors and assigns and nothing herein expressed or implied shall give or be construed to give any Person, other than the Parties and such permitted successors and assigns, any legal or equitable rights hereunder.

7.10 Cooperation on Tax Matters. The Parties shall cooperate fully, as and to the extent reasonably requested by each Party and at the requesting Party's expense, in connection with any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon any Party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Parties agree (i) to retain all books and records with respect to Tax matters pertinent to CGMV relating to any taxable period beginning before the effective date of this Agreement until the expiration of the statute of limitations (and, to the extent notified by any Party, any extensions thereof) applicable to such taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (ii) to give each Party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if any Party

so requests, the other party as the case may be, shall allow such party to take possession of such books and records.

7.11 Governing Law. This Agreement is made and shall be governed by, and construed and enforced in accordance with, the internal laws of the State of California, without regard to the conflict of laws principles thereof, as the same apply to agreements executed solely by residents of California and wholly to be performed within California.

7.12 Authority. Each of the persons executing this Agreement represents and warrants that it is authorized to execute this Agreement and the entity on whose behalf they are signing is bound by the terms hereof.

7.13 Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient, one day after being sent to the recipient by reputable overnight courier service (charges prepaid), upon machine-generated acknowledgment of receipt after transmittal by facsimile or five (5) days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the Parties at the addresses indicated below or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

To Callaway Golf: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: David A. Rane, Executive Vice President, Administration and Planning, and Chief Financial Officer

With a copy to: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: Steven C. McCracken, Executive Vice President, Licensing, Chief Legal Officer and Secretary

To CGMV: Callaway Editions, Inc.
70 Bedford Street
New York, New York 10014
Attn: Nicholas Callaway, President, and Editor-in-Chief

With a Copy to: Neale M. Albert, Esq.
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, New York 10019-6064

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

7.15 Incorporation of Recitals. The Recitals to this Agreement are incorporated herein by this referenced with the same force and effect as if set forth in full herein.

7.16 Brokers. No broker, finder, or investment banker is entitled to any brokerage, finder's, or other fee or commission in connection with the transactions hereunder based upon arrangements made by or on behalf of any party to this Agreement .

7.17 No Public Announcement. Except as otherwise required by law, no party to this Agreement shall make or cause to be made any public announcement or press release with respect to the terms of this Agreement or the transactions contemplated hereby without the prior written approval of the other party hereto, which consent shall not be unreasonably withheld or delayed.

7.18 Good Faith. All parties hereto agree to carry out the terms of this Agreement and to act in good faith with respect to the terms and conditions contained herein before and after the execution hereof.

7.19 Time is of the Essence. Time is of the essence in this Agreement, and all of the terms, covenants and conditions hereof.

7.20 Venue; Submission to Jurisdiction. Each of the Parties submits to the jurisdiction of any state or federal court sitting in San Diego County, California, in any action or proceeding arising out of or relating to this Agreement, agrees that all claims in respect of the action or proceeding may be heard and determined in any such court, and agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto.

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IN WITNESS WHEREOF, the parties hereto have executed this Loan Termination Agreement to be effective on March 10, 1999.

CGMV:

CALLAWAY GOLF MEDIA VENTURES, LLC, a California limited liability company

By: CALLAWAY EDITIONS, INC., a Delaware corporation, Member

/s/ Nicholas Callaway
By:_____
Nicholas Callaway, President, and Editor-in-Chief

CALLAWAY GOLF:

CALLAWAY GOLF COMPANY, a California corporation

/s/ David A. Rane
By: _____
David A. Rane, Executive Vice President, Administration and Planning, and Chief Financial Officer

EXHIBIT 10.28

TRADEMARK LICENSE AGREEMENT

THIS TRADEMARK LICENSE AGREEMENT ("Agreement") is made and effective as of March 9, 1999 the "Effective Date"), by and between Callaway Golf Company, a California corporation ("Callaway Golf"), and Callaway Golf Media Ventures, LLC, a California limited liability company which concurrently herewith is changing its name to Callaway Editions Media Ventures, LLC ("CEMV"). Capitalized terms used herein and not otherwise defined herein have the meaning given to such terms in Section 1 below.

RECITALS

A. Callaway Golf is the owner of all right, title, and interest in and to the Licensed Mark and any and all trade dress, labels, and designs associated therewith, together with the goodwill of the business symbolized thereby;

B. Callaway Golf and Callaway Editions, Inc., a Delaware corporation ("Editions"), previously formed CEMV for the purpose of publishing a multi-volume series of illustrated, high-quality, golf-related books;

C. Callaway Golf and Editions are concurrently entering into a Membership Interest Purchase Agreement (the "Purchase Agreement") whereby Editions is purchasing Callaway Golf's membership interest in CEMV;

D. The Purchase Agreement contemplates Callaway Golf licensing the Licensed Mark to CEMV for the purpose of publishing high-quality, golf-related books; and

E. CEMV desires to obtain the right to use the Licensed Mark and Callaway Golf is willing to license such right to CEMV on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual agreements contained herein and in the Purchase Agreement as well as for other good and valuable consideration, acknowledged by each of them to be satisfactory and adequate, the parties hereby agree as follows:

1. Definitions.

1.1 "Golf Book(s)" shall mean golf-related books, including corresponding video, CD, DVD and audio rights (and future equivalents of each) for each Golf Book.

1.2 "Licensed Mark" shall mean the two-word mark "Callaway Golf" in the design set forth in Exhibit "A", or in such design as may be amended and adopted by Callaway Golf in its sole discretion from time to time, and incorporated herein by reference.

1.3 "Net Sales" shall mean gross revenues of CEMV from the Golf Books, minus returns and refunds.

2. License.

2.1 Grant. Subject to the terms and conditions hereof, Callaway Golf hereby grants to CEMV, and CEMV accepts from Callaway Golf, for the term of this Agreement, a nontransferable, limited license to use the Licensed Mark in connection with Golf Books. The license granted herein shall not be sublicenseable except that CEMV shall have the right to sublicense third-parties the right to publish (including manufacturing and distributing rights) Golf Books created by CEMV.

2.2 Exclusivity. During the Initial Term and any Renewal Term of this Agreement (as defined in Sections 10.1.1 and 10.1.2 below), the license granted in this Agreement shall be mutually exclusive, such that neither party hereto may be involved with the publication of any Golf Books (other than the Golf Books using the Licensed Mark as provided in this Agreement) without the prior written consent of the other party, which consent shall be in the sole discretion of such other party. Moreover, during the term of this Agreement Callaway Golf shall not use or license any other party to use the name "Callaway Golf" in connection with the publication of any other books. Notwithstanding, nothing herein shall preclude Callaway Golf from producing and distributing products and materials that are ancillary to its business, including but not limited to catalogues, brochures, calendars, price lists, playing cards, hang tags and promotional materials.

2.3 Reservation of Rights. Nothing herein shall be construed to grant CEMV the right to use any Callaway Golf mark other than the Licensed Mark. Callaway Golf expressly reserves all rights with respect to all trademarks or service marks that may be owned by it or licensed to it which are not expressly licensed to CEMV under this Agreement.

2.4 Technical Access. Callaway Golf grants to CEMV the right to reasonable access to Callaway Golf technical personnel without charge; provided, however, that such access shall not exceed thirty (30) hours of Callaway Golf personnel time in any one calendar month. All such access shall be coordinated through a single individual identified by Callaway Golf.

2.5 Termination of All Prior Licenses. The license to use the "Callaway Golf" mark which was a part of the Operating Agreement for CEMV dated January 26, 1998 as well as any other license from Callaway Golf to CEMV shall hereby be terminated.

3. Quality Standards.

3.1 Maintenance of Quality. In the course of publishing the Golf Books, CEMV shall not allow the editorial and technical quality of any Golf Book to fall below the editorial and technical quality of the books published by Editions as of the Effective Date hereof, and all Golf Books shall be hard or flexicover, printed on high-quality paper, in color and sold by CEMV to

respected and traditional premium market channels (collectively, the "Standards and Specifications"). The Standards and Specifications are designed to ensure that the Golf Books are consistent with the reputation enjoyed by Callaway Golf and the Licensed Mark.

3.2 Rights of Inspection. To ensure that the Standards and Specifications are maintained, Callaway Golf and its authorized agents and representatives shall have the right, upon reasonable notice, to visit CEMV's place(s) of business at all reasonable times and to review the products, advertisements and marketing materials of CEMV.

3.3 Pre-Production Product Approval. Prior to commercial production of any Golf Book, CEMV shall provide to Callaway Golf sufficient samples or mock-ups to allow Callaway Golf to evaluate and approve the quality of such Golf Book and the manner of use of the Licensed Mark. CEMV shall not produce or distribute any Golf Book which has not been approved in writing by Callaway Golf as being in compliance with the requirements of Section 3.1, which approval shall not be unreasonably withheld.

3.4 Production Control. CEMV shall, from time to time during production and distribution, upon the request of Callaway Golf, furnish without cost to Callaway Golf a reasonable number of samples of the Golf Books, which samples may be selected at random by Callaway Golf or pursuant to a reasonable sampling procedure specified by Callaway Golf. If Callaway Golf reasonably determines that such samples do not meet the quality standards required in this Agreement, Callaway Golf shall notify CEMV of the deficiencies in such samples and CEMV shall immediately discontinue all production and distribution of such deficient Golf Books until such time as additional samples are approved by Callaway Golf, which approval shall not be unreasonably withheld.

4. Ownership of Licensed Mark; Modifications.

4.1 Callaway Golf's Ownership Rights. CEMV acknowledges Callaway Golf's exclusive right, title, and interest in and to the Licensed Mark and acknowledges that nothing herein shall be construed to accord to CEMV any rights in the Licensed Mark except as otherwise expressly so provided. CEMV acknowledges that its use of the Licensed Mark hereunder will not create in it any right, title or interest in the Licensed Mark and that all such use of the Licensed Mark and the goodwill generated thereby will inure to the benefit of Callaway Golf. CEMV warrants and represents with respect thereto as follows:

4.1.1 CEMV will not at any time challenge Callaway Golf's right, title, or interest in the Licensed Mark or the validity of the Licensed Mark or any registration thereof;

4.1.2 CEMV will not do or cause to be done or omit to do anything, the doing, causing, or omitting of which would contest or in any way infringe or dilute the rights of Callaway Golf in the Licensed Mark;

4.1.3 CEMV will not represent that it has any ownership in or rights with respect to the Licensed Mark other than rights conferred by this Agreement; and

4.1.4 CEMV will not, during the term of this Agreement, use any trademark, service mark, trade name, insignia or logo that infringes or dilutes the rights of Callaway Golf in the Licensed Mark.

4.2 Changes and Modifications to the Licensed Mark. CEMV may propose changes to the design portion of the Licensed Mark for adoption and approval by Callaway Golf in Callaway Golf's sole and absolute discretion. The Licensed Mark, as so modified or changed, shall for all purposes be deemed to be the Licensed Mark referred to in this Agreement. Any and all such modifications or changes in said Licensed Mark shall be the sole and absolute property of Callaway Golf, and Callaway Golf shall have the exclusive right to register such modified or changed marks as trademarks and/or service marks.

5. Undertakings of CEMV Respecting the Licensed Mark.

5.1 Marking; Compliance with Trademark Laws. CEMV shall (1) cause the appropriate designation "TM," ''SM,'' or the registration symbol "(R)" to be placed adjacent to the Licensed Mark in connection with each use or display thereof and to indicate such additional information as Callaway Golf shall specify from time to time concerning the licensed rights under which CEMV uses the Licensed Mark, and (2) comply with all laws in force from time to time pertaining to CEMV's use of the Licensed Mark.

5.2 No Use Objectionable to Callaway Golf. CEMV shall not use the Licensed Mark on or in connection with any product, signage, display, packaging, or marketing material or in any manner to which Callaway Golf at any time reasonably objects. Except as approved by Callaway Golf in writing, in no event shall CEMV use the Licensed Mark on any book or in any manner which would degrade the reputation of Callaway Golf or its products in any material way.

6. Prosecution and Defense of Infringement Claims.

6.1 Notice and Prosecution of Infringement of Marks. If CEMV becomes aware of any apparent infringement of the Licensed Mark, any petition to cancel any registration of the Licensed Mark, or any attempted use of or any application to register any mark confusingly similar to, or a colorable imitation of, the Licensed Mark, CEMV shall promptly notify Callaway Golf of such infringement, petition, use or application. Callaway Golf shall have the sole right, in its sole discretion, to:

6.1.1 Institute and prosecute any actions for such infringement of the Licensed Mark;

6.1.2 Defend any petition to cancel any registration of the Licensed Mark; and

6.1.3 Oppose any attempted use of or any application to register any mark confusingly similar to, or a colorable imitation of, the Licensed Mark.

6.1.4 Any damages and costs recovered through such proceedings shall belong exclusively to Callaway Golf, and Callaway Golf shall be solely responsible for all costs and expenses (including attorneys' fees) of prosecuting such actions. CEMV shall provide Callaway Golf with requested assistance in connection with such proceedings, and Callaway Golf shall reimburse CEMV's reasonable, pre-approved, out-of-pocket costs of providing such assistance.

6.2 Notice and Defense of Third-Party Infringement Claims. CEMV shall have primary responsibility for defending against any and all claims charging service mark or trademark infringement involving the use by CEMV of the Licensed Mark. Callaway Golf shall provide CEMV with reasonably requested assistance in connection with such proceedings, and CEMV shall reimburse Callaway Golf's reasonable out-of-pocket costs of providing such assistance. CEMV shall keep Callaway Golf informed of the status of such proceeding and supply Callaway Golf with any requested documents regarding such proceedings. Any expenses, losses, damages, or judgments (including attorneys' fees) in connection with claims alleging service mark or trademark infringement involving the use by CEMV of the Licensed Mark shall be the responsibility of CEMV without any claim against Callaway Golf for any portion thereof. CEMV shall obtain Callaway Golf's approval before entering into any compromise, settlement or stipulation regarding such proceeding, which approval Callaway Golf shall not unreasonably withhold.

6.3 Callaway Golf's Rights to Defend Infringement Claims. In the event CEMV does not within a reasonable period (having due regard for the protection of the Licensed Mark) defend against a claim alleging service mark or trademark infringement involving the use by CEMV of the Licensed Mark, Callaway Golf shall have the right, but shall not be obligated, to defend such claim. Any expenses, losses, damages, or judgments (including attorneys' fees) in connection with such claims defended by Callaway Golf shall be the sole responsibility of CEMV.

7. CEMV Defense and Indemnification of Licensor. CEMV shall defend, indemnify and hold harmless Callaway Golf, its subsidiaries and affiliates, and their respective successors and assigns from all losses, costs, liabilities, damages, claims and expenses of every kind and description, including reasonable attorneys' fees, arising out of or resulting from any act or omission of CEMV relating to the Golf Books, including, but not limited to (1) unfair or fraudulent advertising claims, warranty claims and product defect or liability claims pertaining to the Golf Books (but excluding any such claims which are the result of CEMV's use of information regarding Callaway Golf's products which is provided in writing to CEMV by Callaway Golf) , and (2) claims for unauthorized use or misuse of any patent, trademark, copyright or other proprietary right owned, used or controlled by any third party pertaining to the publishing of the Golf Books.

8. Compliance with Laws by CEMV. In addition to compliance with laws governing service mark and trademark usage as provided in Section 5 hereof, CEMV agrees to comply, and to

ensure that its agents comply, in all material respects with all laws governing production, publication and distribution of the Golf Books.

9. Royalties.

9.1 Royalty Amount. In exchange for the license granted above, CEMV agrees to pay to Callaway Golf a royalty in the amount of two percent (2%) of Net Sales during calendar years 1999 through 2003 and five percent (5%) of Net Sales during calendar year 2004 and thereafter ("Royalties").

9.2 Payment Terms. Royalties for calendar years 1999 through 2002 shall be accrued and are payable by CEMV to Callaway Golf in 2003 with one-half due on June 30, 2003 and the other one-half due on December 31, 2003. Within thirty (30) days after the end of each calendar half year for calendar years 1999 through 2002, CEMV agrees to provide to Callaway Golf an accounting of all Royalties accrued for sales and transfers in the preceding corresponding calendar half year. Such accounting shall include, for each Golf Book, the type and number of units sold or transferred and the Net Sales for such sales and transfers. During calendar year 2003 and thereafter, within thirty (30) days of the end of each calendar half year, CEMV agrees to pay Callaway Golf all Royalties due hereunder for sales and transfers in the preceding corresponding calendar half year. Each payment shall include an accounting setting forth the basis for such a payment, including, for each Golf Book, the type and number of units sold or transferred and the Net Sales for such sales and transfers. If no Royalties are payable for a particular half year, an accounting reflecting no Royalties being payable is still due to be delivered to Callaway Golf within thirty (30) days after the end of each calendar half year. All payments shall be made in U.S. dollars. Royalties for non-U.S. dollar Net Sales revenues shall be converted to U.S. dollars in accordance with the standard accounting procedure used by CEMV with respect to their worldwide sales generally.

9.3 Audit Right. Not more than once each calendar year, during normal business hours, Callaway Golf shall have the right, upon five (5) business days' written notice to CEMV, to audit the books of CEMV to confirm the Royalties due hereunder. CEMV agrees to use reasonable efforts to cooperate with Callaway Golf during any audit. In the event the audit shows Royalties to have been underpaid by three percent (3%) or more, the costs of the audit shall be paid by CEMV to Callaway Golf within ten (10) days of demand therefor by Callaway Golf.

10. Term and Termination.

10.1 Term and Renewals.

10.1.1 Initial Term. The term of this Agreement shall commence on the Effective Date and expire on December 31, 2008, unless earlier terminated as provided in this Agreement (the "Initial Term").

10.1.2 Renewal. This Agreement shall automatically renew for successive three (3) year terms ("Renewal Terms") so long as CEMV achieves or exceeds during the Initial Term and any Renewal Term the following:

(i) CEMV publishes at least two new Golf Books each calendar year beginning in the year 2000 (for purposes of this provision, in the event CEMV publishes more than two Golf Books in any calendar year, CEMV may use such additional published Golf Book(s) toward the two Golf Book minimum only in the calendar year immediately following the calendar year in which such Golf Book(s)were first published); and

(ii) CEMV has complied and is in compliance with the terms and conditions of this Agreement in all material respects.

10.2 Events of Termination. If any of the following events shall occur with respect to CEMV, each such occurrence shall be deemed an "Event of Termination":

10.2.1 Bankruptcy of CEMV. The occurrence of a "Bankruptcy" with respect to CEMV. For this purpose, "Bankruptcy" means a "Voluntary Bankruptcy" or an "Involuntary Bankruptcy." A "Voluntary Bankruptcy" means the inability of CEMV generally to pay its debts as such debts become due, or an admission in writing by CEMV of its inability to pay its debts generally or a general assignment by CEMV for the benefit of creditors; the filing of any petition or answer by CEMV seeking to adjudicate it a bankrupt or insolvent, or seeking for itself any liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of CEMV or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking, consenting to or acquiescing in the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for CEMV or for any substantial part of its property; or corporate action taken by CEMV to authorize any of the actions set forth above. An "Involuntary Bankruptcy" means without the consent or acquiescence of CEMV, the entering of an order for relief or approving a petition for relief or reorganization or any other petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or other similar relief under any present or future bankruptcy, insolvency or similar statute, law or regulation, or the filing of any such petition against CEMV, which petition shall not be dismissed within ninety (90) days, or, without the consent or acquiescence of CEMV, the entering of an order appointing a trustee, custodian, receiver or liquidator of CEMV or of all or any substantial part of the property of CEMV which order shall not be dismissed within sixty (60) days.

10.2.2 Failure to Meet Minimum Publishing Level. CEMV fails to publish at least two new Golf Books each calendar year beginning in the year 2000 (for purposes of this provision, in the event CEMV publishes more than two Golf Books in any calendar year, CEMV may use such additional published Golf Book(s) toward the two Golf Book minimum only in the calendar year immediately following the calendar year in which such Golf Book(s)were first published).

10.2.3 Breach of Agreements. CEMV fails to perform in accordance with any of the material terms and conditions contained in this Agreement.

10.2.4 Dissolution or Cessation of Business. CEMV is dissolved or ceases operations for any reason (other than a merger between CEMV and Editions) for more than twenty (20) consecutive days or thirty (30) days in any twelve (12) month period.

10.2.5 Change in Management or Ownership. (i) Nicholas Callaway ceases to be personally and directly involved in management of the publishing of the Golf Books, or (ii) a maker or seller or an affiliate of a maker or seller of golf clubs, golf balls or golf-related accessories acquires an ownership interest (other than a non-controlling interest in a publicly held company) in CEMV or a successor to CEMV or in the assets of CEMV or a successor to CEMV.

10.3 Callaway Golf's Right to Terminate Upon Event of Termination. Callaway Golf may, at its option, without prejudice to any other remedies it may have, terminate this Agreement upon occurrence of an Event of Termination by giving written notice of such termination to CEMV as follows:

10.3.1 Immediately, upon the occurrence of any Event of Termination pursuant to Sections 10.2.1, 10.2.2, 10.2.4 or 10.2.5; or

10.3.2 After the expiration of thirty (30) days from CEMV's receipt of notice from Callaway Golf of the occurrence of any Event of Termination pursuant to Section 10.2.3, if such Event of Termination is then still uncured.

10.4 Availability of Injunctive Relief. CEMV agrees that the remedy at law of Callaway Golf for any act or event that constitutes an Event of Termination under this Agreement, other than the failure of CEMV to pay any monies when due, will be inadequate and that Callaway Golf shall be entitled to injunctive relief, specific performance or other such equitable relief, and that CEMV shall not urge in any such proceeding that an adequate remedy exists at law.

10.5 Post-Termination Obligations of CEMV. Upon the termination of this Agreement for any reason, all rights of CEMV to use the Licensed Mark shall immediately thereafter cease. CEMV shall not thereafter operate or conduct business under any name or in any manner that might tend to give the general public the impression that this Agreement is still in force, or that CEMV has any right to use the Licensed Mark. Notwithstanding the foregoing, upon termination for any Event of Termination other than that set forth in Section 10.2.3, CEMV and its customers and distributors shall have the right to sell off all Existing Inventory; provided, however, that the obligations of Section 9 shall be applicable to all such sales. For purposes of this section, "Existing Inventory" shall mean both: (1) existing Golf Books in inventory and ready for distribution and sale; and (2) Golf Books which are being produced or to be produced and which CEMV is contractually obligated (at the time of termination) to deliver to a sublicensee, unless such delivery obligation can be terminated without penalty by CEMV.

11. Miscellaneous.

11.1 Fees and Expenses. Each party shall pay all of its own fees and expenses (including fees and expenses of legal counsel, accountants, investment bankers and other representatives and consultants) in connection with this Agreement and the consummation of the transactions contemplated hereby. If any legal action or other proceeding relating to this Agreement, the agreements contemplated hereby, the transactions contemplated hereby or thereby or the enforcement of any provision of this Agreement or the agreements contemplated hereby is brought against any party, the prevailing party in such action or proceeding shall be entitled to recover all reasonable expenses relating thereto (including attorneys' fees and expenses) from the party against which such action or proceeding is brought in addition to any other relief to which such prevailing party may be entitled.

11.2 Special Remedies and Enforcement. Each party recognizes and agrees that a breach by one of the parties ("Breaching Party") of any of the covenants set forth in this Agreement could cause irreparable harm to the other party, that the party's remedies at law in the event of such breach would be inadequate, and that, accordingly, in the event of any such breach a restraining order or injunction or both may be issued against the Breaching Party in addition to any other rights and remedies which are available to the parties. If this Section 11.2 is more restrictive than permitted by applicable law, this Section 11.2 shall be limited to the extent required by such law.

11.3 Entire Agreement. Modifications. This Agreement, together with exhibits attached hereto, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby, and contains all of the terms and conditions thereof and supersedes all prior agreements and understandings relating to the subject matter hereof. No changes or modifications of or additions to this Agreement shall be valid unless the same shall be in writing and signed by each party hereto.

11.4 Waivers. No waiver of any of the provisions of this Agreement shall be deemed to be or shall constitute a waiver of any other provision of this Agreement, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver of any provision of this Agreement shall be binding on the parties hereto unless it is executed in writing by the party making the waiver.

11.5 Successors and Assigns.

11.5.1 This Agreement and all covenants and agreements contained herein and rights, interests or obligations hereunder, by or on behalf of any of the Parties hereto, shall bind and inure to the benefit of the respective successors and assigns of the Parties hereto whether so expressed or not.

11.5.2 No Party may assign their rights or obligations under this document. Any attempted assignment in violation of this Agreement shall be void and of no effect.

11.6 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or the application of any such provision to any person or circumstance shall be held to be prohibited by, illegal or unenforceable under applicable law in any respect by a court of competent jurisdiction, such provision shall be ineffective only to the extent of such prohibition or illegality or unenforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

11.7 Counterparts. This Agreement may be executed simultaneously in counterparts (including by means of telecopied signature pages), any one of which need not contain the signatures of more than one party, but all such counterparts taken together shall constitute one and the same Agreement.

11.8 Descriptive Headings; Interpretation. The headings and captions used in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The use of the word "including" herein shall mean "including without limitation." The parties intend that each representation, warranty and covenant contained herein shall have independent significance. If any party has breached any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the party has not breached shall not detract from or mitigate the fact that the party is in breach of the first representation, warranty or covenant.

11.9 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties and their permitted successors and assigns and nothing herein expressed or implied shall give or be construed to give any person, other than the parties and such permitted successors and assigns, any legal or equitable rights hereunder.

11.10 Exhibits. All exhibits attached hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein.

11.11 Governing Law. This Agreement is made and shall be governed by, and construed and enforced in accordance with, the internal laws of the State of California, without regard to the conflict of laws principles thereof, as the same apply to agreements executed solely by residents of California and wholly to be performed within California. This Agreement shall be interpreted in accordance with and any disputes hereunder governed by the laws of the State of California.

11.12 Venue; Submission to Jurisdiction. Each of the parties submits to the exclusive jurisdiction of any state or federal court sitting in San Diego County, California, in any

action or proceeding arising out of or relating to this Agreement. Each party further agrees that personal jurisdiction over such party may be effected by service of process, and that when so made shall be as if served upon such party personally within the State of California. Each of the parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other party with respect thereto.

11.13 Authority. Each of the persons executing this Agreement represents and warrants that it is authorized to execute this Agreement and the entity on whose behalf they are signing is bound by the terms hereof.

11.14 Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient, one day after being sent to the recipient by reputable overnight courier service (charges prepaid), upon machine-generated acknowledgment of receipt after transmittal by facsimile or five (5) days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the parties at the addresses indicated below or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

To Callaway Golf: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: David A. Rane, Executive Vice President,
Administration & Planning, & CFO

With a copy to: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008-8815
Attn: Steven C. McCracken, Executive Vice President,
Licensing, Chief Legal Officer & Secretary

To CEMV: Callaway Editions Media Ventures, LLC
c/o Callaway Editions, Inc.
70 Bedford Street
New York, NY 10014
Attn: Nicholas Callaway, President and Editor-in-Chief

With a copy to: Neale M. Albert, Esq.
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019-6064

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

11.16 Incorporation of Recitals. The Recitals to this Agreement are incorporated herein by this referenced with the same force and effect as if set forth in full herein.

11.17 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions hereunder based upon arrangements made by or on behalf of any party to this Agreement.

11.18 No Public Announcement. Except as otherwise required by law, no party to this Agreement shall make or cause to be made any public announcement or press release with respect to the terms of this Agreement without the prior written approval of the other party hereto, which consent shall not be unreasonably withheld or delayed.

11.19 Good Faith. All parties hereto agree to carry out the terms of this Agreement and to act in good faith with respect to the terms and conditions contained herein before and after the execution hereof.

11.20 Time is of the Essence. To the extent a time period is specified in any of the terms, covenants and conditions of this Agreement, time is of the essence.

/ / / / /

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first written above.

CALLAWAY GOLF COMPANY,
a California corporation

By: /s/ David A. Rane

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

CALLAWAY GOLF MEDIA VENTURES,
LLC, a California limited liability company which is concurrently herewith changing its name to CALLAWAY EDITIONS MEDIA VENTURES, LLC

By: CALLAWAY EDITIONS, INC.,
a Delaware corporation, Member

By: /s/ Nicholas Callaway

Nicholas Callaway
President and Editor-in-Chief

EXHIBIT "A"

DESIGN OF LICENSED MARK

[LOGO APPEARS HERE]

EXHIBIT 13.1

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

Results Of Operations

Years Ended December 31, 1998 and 1997

For the year ended December 31, 1998, net sales were $697.6 million, a 17% decrease from the prior year. This decrease was primarily due to fewer metal woods sales, particularly titanium metal woods, along with lower average sales prices as a result of a metal wood wholesale price reduction on Big Bertha(R) War Bird(R) stainless steel metal woods and Great Big Bertha(R) and Biggest Big Bertha(R) titanium metal woods, both domestically and in many major international markets. In terms of product sales, the decrease was attributable to decreases in metal woods sales of $154.4 million, iron sales of $4.9 million and other product sales of $14.9 million, partially offset by an increase in Odyssey(R) product sales of $28.9 million, as only five months of Odyssey Golf, Inc.'s ("Odyssey") results were included in the prior year's consolidated results (see Note 13 to the Consolidated Financial Statements). The decrease in metal woods sales was composed of decreases in Great Big Bertha(R) metal woods of $96.8 million, Big Bertha(R) War Bird(R) metal woods of $77.7 million and Biggest Big Bertha(R) metal woods of $57.9 million, which was partially offset by sales of Big Bertha(R) Steelhead(TM) metal woods, which contributed $78.0 million to sales. The decrease in sales of irons was attributable to decreases in Big Bertha(R) irons of $137.6 million, Big Bertha(R) Gold irons of $28.3 million and Great Big Bertha(R) irons of $31.1 million, which was partially offset by a $192.4 million increase in Big Bertha(R) X-12(TM) irons.

In terms of net sales by region, domestic sales decreased $109.6 million (20%) for the year ended December 31,1998 as compared with 1997. Net sales in Japan and the rest of Asia decreased $23.2 million (27%) and $19.8 million (37%), respectively, during 1998, while net sales in Europe and Canada increased by $7.7 million (7%) and $7.7 million (44%), respectively, during this period.

The Company believes the diversion of consumer purchases to the Company's new Big Bertha(R) Steelhead(TM) metal woods and Big Bertha(R) X-12(TM) irons from its higher priced titanium metal woods and irons, and marketplace anticipation of the introduction of the Great Big Bertha(R) Hawk Eye(R) titanium metal woods in January 1999, also contributed to the decrease in sales in 1998. Additionally, the Company believes that competition has caused the Company to lose some market share domestically partly because of pricing strategies implemented by certain competitors. In addition, the economic turmoil in Southeast Asia and Japan had an adverse effect on the Company's sales and results of operations. Sales earlier in the year also were adversely affected by unusual "El Nino" weather conditions in the United States. The Company also believes that certain actions by the USGA in 1998 contributed to the drop in metal wood sales.

For the year ended December 31, 1998, gross profit decreased to $296.0 million from $442.8 million in the prior year, and gross margin decreased to 42% from 53%. This decrease was primarily attributable to additions to the reserve for excess inventory of $30.0 million in the fourth quarter, lower average sales prices as a result of a metal wood wholesale price reduction on Big Bertha(R) War Bird(R) stainless steel metal woods and Great Big Bertha(R) and Biggest Big Bertha(R) titanium metal woods and the accompanying customer compensation, an increase in warranty expense, and increased manufacturing labor and overhead costs.

Selling expenses increased to $147.0 million in 1998 from $120.6 million in 1997. This increase was primarily attributable to costs associated with Odyssey's putter operations, which the Company acquired in August 1997, and foreign and domestic subsidiaries acquired during 1998, as well as an increase in international advertising and other marketing expenses. This increase was partially offset by a decrease in domestic promotional and endorsement expenses.

General and administrative expenses increased to $98.0 million in 1998 from $70.7 million in 1997. This increase was due to pre-production and non-capitalized construction costs of the new golf ball facility, expenses associated with foreign and domestic subsidiaries acquired during 1998, expenses associated with the consolidation of the Company's European operations, expenses associated with Odyssey's putter operations, including amortization of goodwill, and an increase in the reserve for uncollectable accounts receivable.

Research and development expenses increased to $36.8 million in 1998 from $30.3 million in 1997. This increase was primarily attributable to increased product design costs related to increased employee compensation, consulting and other overhead expenses, including those associated with Callaway Golf Ball Company and Odyssey's putter operations.

Charges of $54.2 million were recorded in the fourth quarter of 1998 related to the Company's cost reduction actions (see "Restructuring"). These charges were primarily composed of $28.7 million for asset impairments, excess lease costs, and costs to exit various non-core business activities, including venues, new player development, interactive golf and publishing, $13.8 million for impairment of assets due to the consolidation of continuing operations and $11.7 million for employee separation costs.

Other income decreased to $3.9 million in 1998 from $4.6 million in 1997. This decrease was due to a decrease in interest income resulting from lower cash balances during 1998 versus 1997 and losses on dispositions of assets in 1998. This decrease was partially offset by net gains on foreign currency transactions in 1998 of $1.6 million, as compared with net losses in 1997 of $0.9 million.

Interest expense increased to $2.7 million in 1998 resulting from draws on the Company's line of credit. The line of credit was not used during 1997.

YEARS ENDED DECEMBER 31, 1997 AND 1996

For the year ended December 31, 1997, net sales increased 24% to $842.9 million compared to $678.5 million for the prior year. The growth in sales included increases in the sales of metal woods, irons, and putters. Metal wood sales increased $65.1 million primarily due to sales of Biggest Big Bertha(R) Titanium Drivers. Iron sales increased $65.4 million primarily due to sales of Great Big Bertha(R) Tungsten-Titanium(TM) Irons, which generated revenues of $59.3 million for the year ended December 31, 1997. Also contributing to the increase in net sales was the acquisition of certain assets and liabilities of Odyssey Sports, Inc. by the Company's wholly-owned subsidiary, Odyssey Golf, Inc., which contributed $20.5 million in net sales.

For the year ended December 31, 1997, gross profit increased to $442.8 million from $361.2 million in 1996 and cost of goods sold was relatively unchanged as a percentage of sales from the prior year.

Selling expenses increased to $120.6 million in 1997 from $80.7 million in 1996. As a percentage of net sales, selling expenses increased to 14% from 12%. The $39.9 million increase was primarily due to increased promotional and tour expenses, higher costs related to the Company's performance centers and additional selling expenses associated with the addition of Odyssey.

General and administrative expenses decreased to $70.7 million in 1997 from $74.5 million in 1996. The $3.8 million decrease was primarily due to reduced employee bonus and profit sharing expenses, partially offset by increased start-up costs associated with the Company's golf ball operations and the addition of Odyssey.

Research and development expenses increased to $30.3 million in 1997 as compared to $16.2 million in 1996. This $14.1 million increase resulted from increased expenditures related to casting technologies, golf ball development and product engineering efforts.

Litigation settlement expense of $12.0 million represents the Company's third quarter settlement of certain litigation brought against it and certain officers of the Company by a former officer of the Company.

During the fourth quarter of 1997, the Company reversed an accrual for bonus compensation of approximately $8.0 million due to the fact that certain operating targets were not met.

Liquidity And Capital Resources

At December 31, 1998, cash and cash equivalents increased to $45.6 million from $26.2 million at December 31, 1997, primarily as a result of $30.4 million provided by operations and $63.5 million provided by financing activities, partially offset by cash flows used in investing activities of $75.1 million. After adding back non-cash expenses, the Company's operations generated positive cash flows. Cash provided by financing activities was primarily due to net proceeds from the Company's revolving line of credit and note payable, and from the issuance of Common Stock, partially offset by dividends paid and short-term debt retirements.

Cash used in investing activities totaled $75.1 million and resulted primarily from capital expenditures for building improvements, production and research and development machinery and computer equipment. Of these capital expenditures, $47.7 million related to Callaway Golf Ball Company. The acquisition of the Company's distributors in Korea, Belgium, Denmark, Canada, France and Norway, the purchase of the remaining 80% interest in All-American Golf LLC and the remaining 20% interest in Callaway Golf Trading GmbH also contributed to cash used in investing activities.

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 line of credit facility. Even though sales declined in 1998 and the Company does not foresee any significant improvement

in sales during 1999, the Company expects this trend to continue. The Company replaced its $150.0 million line of credit facility in December 1998 with a $75.0 million credit facility in conjunction with a two-staged loan funding (see Note 4 to the Consolidated Financial Statements). On February 12, 1999, the Company consummated the amendment of its line of credit to increase the revolving credit facility to up to $120.0 million and entered into an $80.0 million accounts receivable securitization facility (see Note 16 to the Consolidated Financial Statements). During 1998, the Company borrowed against its line of credit to fund operations and finance capital expenditures. At December 31, 1998, the Company had $3.0 million available on its line of credit. The Company intends to repay its borrowings on its line of credit with cash flow from operations.

As a result of the implementation of a business plan to improve operating efficiencies (see "Restructuring"), the Company incurred charges of $54.2 million in the fourth quarter of 1998. Of these charges, $25.5 million are non-cash. Cash outlays during 1998 for employee termination costs, contract cancellation fees and other expenses were $10.2 million. Future material cash outlays for employee termination costs, excess lease costs and other expenses are estimated at $18.5 million. Of this amount, $5.3 million is anticipated to occur during the first quarter of 1999, while the remainder, which primarily relates to excess lease costs, will be paid through February 2013. These cash outlays will be funded by cash flows from operations and the Company's line of credit. If the actual actions taken by the Company differ from the plans on which these estimates are based, actual losses recorded and resulting cash outlays made by the Company could differ significantly.

The Company believes that, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, it will be able to maintain its current level of operations, including purchase commitments and planned capital expenditures for the foreseeable future, through operating cash flows and available borrowings under 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

On November 11, 1998, the Company announced that it had adopted a business plan that included a number of cost reduction actions and operational improvements. These actions include: the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey, into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives are expected to be largely completed during 1999. As a result of these actions, the Company recorded one-time charges of $54.2 million during the fourth quarter of 1998. These charges (shown below in tabular format) primarily relate to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of the Company's 80% interest in Callaway Golf Media Ventures (see Note 15 of the Consolidated Financial Statements), a loss on the sale of All-American Golf (See Note 13 of the Consolidated Financial Statements), 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. Without these charges, the Company's earnings per diluted share would have been $0.13 for the year ended December 31, 1998.

Employee reductions occurred in almost all areas of the Company, including manufacturing, marketing, sales, and administrative areas. At December 31, 1998, the Company had reduced its non-temporary work force by approximately 750 positions. Although substantially all reductions occurred prior to December 31, 1998, a small number of reductions will occur in the first quarter of 1999.

Details of the one-time charges are as follows:

(in thousands)	Cash/Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98
Elimination of Job Responsibilities		$11,664	$ 8,473	$ 3,191
Severance packages	Cash	11,603	8,412	3,191
Other	Non-cash	61	61	
Exiting Certain Non-core Business Activities		$28,788	$12,015	$16,773
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731
Excess lease costs	Cash	12,660	146	12,514
Contract cancellation fees	Cash	2,700	1,504	1,196
Other	Cash	356	24	332
Consolidation of Operations		$13,783	$ 2,846	$10,937
Loss on disposition/impairment of assets	Non-cash	12,364	2,730	9,634
Excess lease costs	Cash	806	4	802
Other	Cash	613	112	501

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

The Company anticipates that this business plan will generate savings going forward in excess of $40.0 million per year, beginning in 1999. In addition, the Company is continuing to implement an ongoing process of reviewing its manufacturing operations and its worldwide supplier network aimed at reducing the cost of goods sold and generating significant savings. However, no assurances can be given that the full amount of the anticipated savings will be realized.

Certain Factors Affecting Callaway Golf Company

IMPLEMENTATION OF BUSINESS PLAN

During the fourth quarter of 1998, the Company began implementing its recently adopted business plan. See "Liquidity and Capital Resources" and "Restructuring" sections immediately above.

SALES; GROSS MARGIN; SEASONALITY

The Company believes that, although interest in golf appears to be growing, the worldwide premium golf equipment market has been declining and that it may continue to decline during the foreseeable future. Demand in the United States for premium golf equipment also has declined in 1998, and the Company experienced a decline in domestic sales in 1998. The economic turmoil in Southeast Asia and Japan continues to cause contraction in the retail golf markets in these countries and elsewhere around the world, and has had an adverse effect on the Company's sales and results of operations. The Company expects this situation to continue in 1999.

While sales of the Company's newly introduced Big Bertha(R) Steelhead(TM) and Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods have been strong to date, no assurances can be given that the demand for these products or the Company's other existing products, or the introduction of new products, will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

Sales to Japan, which accounted for approximately 9% of the Company's total sales in 1998 and 10% of total sales in 1997, are expected to decrease in 1999 as the Company's distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"), prepares for the transition of responsibility from it to ERC International Company ("ERC"), a wholly-owned Japanese subsidiary of the Company, by January 1, 2000. See "Certain Factors Affecting Callaway Golf Company International distribution."

The Company experienced a decrease in its gross margin as a percentage of net sales during 1998 compared to historical levels. This decrease was primarily due to additions to the reserve for excess inventory, lower sales revenue associated with a metal wood wholesale price reduction on Big Bertha(R) War Bird(R) Stainless Steel Metal Woods, and Great Big Bertha(R) and Biggest Big Bertha(R) Titanium Metal Woods and accompanying customer compensation, an increase in warranty expense, and increased manufacturing labor and overhead costs. For the first three quarters of 1998, the Company's gross margin was impacted negatively by increased sales of irons as a percentage of net sales, which

have lower margins than metal woods. However, this negative impact was offset by a shift in product sales mix to a higher percentage of metal woods during the fourth quarter of 1998. During 1999, the Company anticipates its gross margin percentage to exceed its 1998 levels as a result of a shift in product sales mix and decreased inventory obsolescence and manufacturing labor and overhead costs. However, consumer acceptance of current and new product introductions as well as continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin.

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

COMPETITION

The market in which the Company does business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions and/or price reductions by competitors continue to generate increased market competition and the Company believes that such competition has caused it to lose some unit market share and has negatively affected sales. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

A manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including the golf club's look and "feel," and the level of acceptance that the golf club has among professional and other golfers. The subjective preferences of golf club purchasers also 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. For example, consumer support for shallow-faced metal woods increased in 1998, and many of the Company's competitors are making such products. The Company does not currently make a "shallow-faced" wood, and does not believe that the designs currently in the market are superior to its deeper-faced offerings. However, if "shallow-faced" products continue to gain consumer acceptance, the Company's sales could be negatively affected.

NEW PRODUCT INTRODUCTION

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

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

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

The rapid introduction of new products by the Company can result in closeouts of existing inventories at both the wholesale and retail levels. Such closeouts 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. Historically, the Company has managed such closeouts so as to avoid any material negative impact on the Company's operations, but there can be no assurance that the Company will always be able to do so.

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

PRODUCT BREAKAGE

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

CREDIT RISK

The Company primarily sells its products to golf equipment retailers and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. The Company believes it has adequate reserves for potential credit losses. Historically, the Company's bad debt expense has been low. However, the recent downturn in the retail golf equipment market has resulted in delinquent or uncollectible accounts for some of the Company's significant customers. As a result, during 1998 the Company increased its reserve for credit losses. Management does not foresee any significant improvement in the golf equipment market during 1999, and therefore expects this trend to continue. Accordingly, there can be no assurance that the Company's results of operations or cash flows will not be adversely impacted by the failure of its customers to meet their obligations to the Company.

DEPENDENCE ON CERTAIN VENDORS AND MATERIALS

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

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic 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 source of alternative vendors have been identified and adopted 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 and carbon fiber. Callaway Golf does not make these materials itself, and must rely on its ability to obtain adequate supplies in the world marketplace in competition with other users of such materials. While the Company has been successful in obtaining its requirements for such materials thus far, there can be no assurance that it will always be able to do so. An interruption in the supply of such materials or a significant change in costs could have a material adverse effect on the Company.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

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

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

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

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

"GRAY MARKET" DISTRIBUTION

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

GOLF PROFESSIONAL ENDORSEMENTS

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf branded golf clubs. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour, the PGA European Tour and the Nike Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. To date, the Company believes that the cessation of use by professional endorsers of Callaway(R) brand products has not resulted in a significant amount of negative publicity.

However, if certain of Callaway Golf's professional endorsers were to stop using the Company's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so. The Company has created cash "pools" that reward such usage. For the last several years, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. It is unlikely that the Company will be able to sustain this level of professional usage in 1999. 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 in past years, during 1998, the Company continued its Big Bertha(R) Players' Pools ("Pools") for the PGA, Senior PGA, LPGA and Nike Tours. Those professional players participating in the Pools received cash for using Callaway Golf products in professional tournaments, but were not bound to use the products or grant any endorsement to the Company. The Company believes that its professional endorsements and its Pools contributed to its usage on the professional tours in 1998. However, in connection with its new business plan for 1999 the Company has significantly reduced these Pools for the PGA and the Senior PGA Tours, and has eliminated the Pools for the LPGA and Nike Tours. As a result, the Company anticipates that the level of professional usage of the Company's products will be lower in 1999 than 1998. Further, while it is not clear whether professional endorsements materially contribute 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.

NEW BUSINESS VENTURES

The Company has invested significant capital in new business ventures. However, in connection with the Company's review of its business, the Company has determined to discontinue, transfer or suspend certain business ventures not directly associated with the Company's core business. See "Restructuring." However, the Company continues development of its golf ball business. See "Certain Factors Affecting Callaway Golf Company - Golf Ball Development."

INTERNATIONAL DISTRIBUTION

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

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

In 1993, the Company, through a distributor agreement, appointed Sumitomo Rubber Industries, Ltd. as the sole distributor, and Sumitomo Corporation as the sole importer, of Callaway(R) golf clubs in Japan. This distributor agreement runs through December 31, 1999. The Company does not intend to extend it.

The Company has established ERC, a wholly owned Japanese corporation, for the purpose of distributing Odyssey(R) products. ERC also will distribute Callaway Golf balls when ready and Callaway Golf clubs beginning January 1, 2000. There will be significant costs and capital expenditures invested in ERC before there will be sales sufficient to support such costs. However, these costs have not been material to date. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution in Japan through ERC, and it is possible that doing so will have a material adverse effect on the Company's operations and financial performance.

GOLF BALL DEVELOPMENT

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

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by creating, developing and manufacturing golf balls in a new plant constructed just for this purpose. The successful implementation of the Company's strategy could be adversely affected by various risks, including, among others, delays in product development, construction delays and unanticipated costs. There can be no assurance as to if and when a successful golf ball product will be developed or that the Company's investments will ultimately be realized.

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

YEAR 2000 ISSUE

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

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

The assessment phase involves an inventory, prioritization and preliminary evaluation of the Y2K compliance of the Company's key systems (e.g., hardware, software and embedded systems) and critical suppliers and customers (e.g., component suppliers, vendors, customers, utilities and other service providers) on which the Company relies to operate its business. The Company estimates the assessment phase to be approximately 90% complete.

During the assessment phase it was determined that over 450 of the Company's key systems were considered critical to the ongoing operations of the Company. Of these critical systems, the manufacturer certifies that approximately 60% are Y2K compliant, and the compliance of approximately 33% of the systems is undeterminable until they can be tested. Those systems tested and found not to be Y2K compliant, as well as the remaining 7% which are not Y2K compliant, will be fixed on the schedule discussed below.

Also in connection with the assessment phase, the Company has been assessing the compliance of its critical suppliers and customers. The Company relies on suppliers for timely delivery of a broad range of goods and services worldwide, including components for its golf clubs. Moreover, the Company's suppliers rely on countless other suppliers, over which the Company has little or no influence regarding Y2K compliance. The level of preparedness of critical suppliers and customers can vary greatly from country to country. The Company believes that critical suppliers and customers present an area of significant risk to the Company in part because of the Company's limited ability to influence actions of third parties, and in part because of the Company's inability to estimate the level and impact of noncompliance of third parties throughout the extended supply chain.

The Company has received information concerning the Y2K compliance status of critical suppliers and customers in response to extensive inquiries initiated in the Fall of 1998 to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Y2K issues. The process of evaluating these suppliers and selected customers is continuing and is expected to be completed by the fourth quarter of 1999.

The Company has commenced the remediation phase and begun to identify and implement remediation options for its critical systems. The Company expects to complete this phase by mid-1999. Remediation for key systems will primarily include altering the product or software code, upgrading or replacing the product, recommending changes in how the product is used or retiring the product.

In October 1997, the Company implemented a new business computer system, which runs most of the Company's data processing and financial reporting software applications and has in part addressed remediation issues Company-wide. The manufacturer of the application software used on the new computer system has represented that the software addresses the Y2K issue, although recent testing of the software indicates that some level of remediation may be required. The information systems of the majority of the Company's subsidiaries have now been converted to the new system, and the Company anticipates converting the remaining material subsidiaries by mid-year 1999.

The Company presently plans to have completed the four phases with respect to those systems which are critical to its operations no later than the end of the third quarter of 1999. Some non-critical systems may not be addressed until after January 2000.

The total cost associated with assessment and required modifications to implement the Company's Year 2000 Plan is not expected to be material to the Company's financial position. The Company currently estimates that the total cost of implementing its Year 2000 Plan will not exceed $6.0 million. This preliminary estimate is based on presently available information and will be updated as the Company continues its assessment and proceeds with implementation. In particular, the estimate may need to be increased once the Company has formulated its contingency plan. The total amount expended on the Year 2000 Plan through December 1998 was $633,000, of which approximately $414,000 related to repair or replacing of software and related hardware problems and approximately $219,000 related to internal and external labor costs.

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

The Company has not yet established a contingency plan, but intends to formulate one to address unavoided or unavoidable risks and expects to have the contingency plan formulated by July 1999. In particular, with respect to third party component suppliers, the Company will develop contingency plans for suppliers determined to be at high risk of noncompliance or business disruption. The contingency plans are being developed on a case-by-case basis, and may include booking orders and producing products before anticipated business disruptions. Even so, judgments regarding contingency plans -- such as how to develop them and to what extent -- are themselves subject to many variables and uncertainties. There can be no assurance that the Company will correctly anticipate the level, impact or duration of noncompliance by suppliers that provide inadequate information. As a result, there is no certainty that the Company's contingency plans will be sufficient to mitigate the impact of noncompliance by suppliers, and some material adverse effect to the Company may result from one or more third parties regardless of defensive contingency plans.

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

EURO CURRENCY

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999 Member States of the EMU have the option of trading

in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships during the transitional period, beginning January 1999 and ending June 2002. The Company has installed a new computer system that supports sales throughout Europe. This new system runs substantially all of the principal data processing and financial reporting software for such sales. The Company anticipates that, after the implementation of an upgrade, the new system will contain the functionality to process transactions in either a country's local currency or euro. The implementation of this upgrade, which is part of a larger plan to update the Company's enterprise-wide software to the manufacturer's current version, is planned to take place during 2000. Until such time as the upgrade has occurred, transactions denominated in euro will be processed manually. The Company does not anticipate a large demand from its customers to transact in euros. Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

MARKET RISK

The Company is exposed to the impact of foreign currency fluctuations due to its international operations and certain export sales. The Company is exposed to both transactional currency/functional currency and functional currency/reporting currency exchange rate risks. 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. During 1998, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions by one of its wholly-owned foreign subsidiaries, Callaway Golf Europe Ltd. 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 intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of the intercompany transactions.

However, pursuant to its new foreign exchange hedging policy, beginning in January 1999, the Company also may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables with other foreign subsidiaries. Additionally, 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, which may be combined to form range forwards. 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 dollar and Korean won.

Additionally, the Company is exposed to interest rate risk from its Credit Facilities (see Notes 4 and 16 to the Company's Consolidated Financial Statements) which are indexed to the London Interbank Offering Rate ("LIBOR").

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at December 31, 1998 under 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 $1.2 million at December 31, 1998. 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 2 and 4 to the Consolidated Financial Statements outline the principal amounts, weighted-average interest rates, fair values and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)	December 31, 1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,618	$ 26,204
Accounts receivable, net	73,466	124,470
Inventories, net	149,192	97,094
Deferred taxes	51,029	23,810
Other current assets	4,301	10,208
Total current assets	323,606	281,786
Property, plant and equipment, net	172,794	142,503
Intangible assets, net	127,779	112,141
Other assets	31,648	25,284
	$ 655,827	$ 561,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 35,928	$ 30,063
Accrued employee compensation and benefits	11,083	14,262
Accrued warranty expense	35,815	28,059
Line of credit	70,919	
Note payable	12,971	
Accrued restructuring costs	7,389	
Income taxes payable	9,903	
Total current liabilities	184,008	72,384
Long-term liabilities:		
Deferred compensation	7,606	7,905
Accrued restructuring costs	11,117	
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 1998 and 1997		
Common Stock, $.01 par value, 240,000,000 shares authorized, 75,095,087 and 74,251,664 issued and outstanding at December 31, 1998 and 1997	751	743
Paid-in capital	258,015	337,403
Unearned compensation	(5,653)	(3,575)
Retained earnings	252,528	298,728
Accumulated other comprehensive income	1,780	(559)
Less: Grantor Stock Trust (5,300,000 shares at December 31, 1998 and 1997) at market (Note 5)	(54,325)	(151,315)
Total shareholders' equity	453,096	481,425
	$ 655,827	$ 561,714

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)	Year ended December 31, 1998		1997		1996	
Net sales	$697,621	100%	$842,927	100%	$678,512	100%
Cost of goods sold	401,607	58%	400,127	47%	317,353	47%
Gross profit	296,014	42%	442,800	53%	361,159	53%
Selling expenses	147,022	21%	120,589	14%	80,701	12%
General and administrative expenses	98,048	14%	70,724	8%	74,476	11%
Research and development costs	36,848	5%	30,298	4%	16,154	2%
Restructuring costs	54,235	8%				
Litigation settlement			12,000	1%		
(Loss) income from operations	(40,139)	(6%)	209,189	25%	189,828	28%
Interest and other income, net	3,911		4,586		5,804	
Interest expense	(2,671)		(10)		(37)	
(Loss) income before income taxes	(38,899)	(6%)	213,765	25%	195,595	29%
Income tax (benefit) provision	(12,335)		81,061		73,258	
Net (loss) income	$(26,564)	(4%)	$132,704	16%	$122,337	18%
(Loss) earnings per common share						
Basic	$ (0.38)		$ 1.94		$ 1.83	
Diluted	$ (0.38)		$ 1.85		$ 1.73	
Common equivalent shares						
Basic	69,463		68,407		66,832	
Diluted	69,463		71,698		70,661	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year ended December 31, 1998	1997	1996
Cash flows from operating activities:			
Net (loss) income	$(26,564)	$ 132,704	$122,337
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	35,885	19,408	12,691
Non-cash compensation	2,887	2,041	1,919
Tax benefit from exercise of stock options	3,068	29,786	14,244
Deferred taxes	(36,235)	1,030	(4,420)
Non-cash restructuring costs	25,497		
Loss (gain) on disposal of assets	1,298	2	(17)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	51,575	(36,936)	3,510
Inventories, net	(42,665)	6,271	(44,383)
Other assets	(12,149)	(6,818)	(12,872)
Accounts payable and accrued expenses	(4,357)	13,529	(15,395)
Accrued employee compensation and benefits	(3,411)	(2,437)	2,031
Accrued warranty expense	7,760	756	3,534
Income taxes payable	9,652	(2,636)	626
Accrued restructuring costs	7,389		
Other liabilities	(299)	2,796	2,902
Accrued restructuring costs - long-term	11,117		
Net cash provided by operating activities	30,448	159,496	86,707
Cash flows from investing activities:			
Capital expenditures	(67,859)	(67,938)	(35,352)
Acquisitions, net of cash acquired	(10,672)	(129,256)	(610)
Proceeds from sale of assets	3,417	72	72
Net cash used in investing activities	(75,114)	(197,122)	(35,890)
Cash flows from financing activities:			
Net proceeds from line of credit	70,919		
Proceeds from note payable	12,971		
Short-term debt retirement	(10,373)		
Issuance of Common Stock	10,343	27,530	14,533
Retirement of Common Stock	(917)	(52,985)	
Dividends paid, net	(19,485)	(19,123)	(16,025)
Net cash provided by (used in) financing activities	63,458	(44,578)	(1,492)
Effect of exchange rate changes on cash	622	(49)	(25)
Net increase (decrease) in cash and cash equivalents	19,414	(82,253)	49,300
Cash and cash equivalents at beginning of year	26,204	108,457	59,157
Cash and cash equivalents at end of year	$ 45,618	$ 26,204	$108,457
Supplemental disclosures:			
Cash paid for interest	$ 2,162	$ 10	$ 37
Cash paid for income taxes	$ 8,165	$ 54,358	$ 62,938

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands)	Common Stock		Paid-In	Unearned	Retained	Accumulated Other Comprehensive			Current Year's Comprehensive
	Shares	Amount	Capital	Compensation	Earnings	Income	GST	Total	Income
Balance, December 31, 1995	70,912	$ 709	$214,846	$ (2,420)	$131,801	$ (89)	$ (119,913)	$224,934	
Exercise of stock options	1,775	18	12,240					12,258	
Tax benefit from exercise of stock options			14,244					14,244	
Compensatory stock and stock options			2,604	(685)				1,919	
Employee stock purchase plan	168	2	2,273					2,275	
Cash dividends					(17,297)			(17,297)	
Dividends on shares held by GST					1,272			1,272	
Adjustment of GST shares to market value			32,462				(32,462)		
Equity adjustment from foreign currency translation						325		325	$ 325
Net income					122,337			122,337	122,337
Balance, December 31, 1996	72,855	729	278,669	(3,105)	238,113	236	(152,375)	362,267	$ 122,662
Exercise of stock options	2,877	29	21,529					21,558	
Tax benefit from exercise of stock options			29,786					29,786	
Compensatory stock and stock options			2,511	(470)				2,041	
Employee stock purchase plan	372	4	5,968					5,972	
Stock retirement	(1,852)	(19)			(52,966)			(52,985)	
Cash dividends					(20,607)			(20,607)	
Dividends on shares held by GST					1,484			1,484	
Adjustment of GST shares to market value			(1,060)				1,060		
Equity adjustment from foreign currency translation						(795)		(795)	$ (795)
Net income					132,704			132,704	132,704
Balance, December 31, 1997	74,252	743	337,403	(3,575)	298,728	(559)	(151,315)	481,425	$ 131,909
Exercise of stock options	391	4	4,433					4,437	
Tax benefit from exercise of stock options			3,068					3,068	
Issuance of Restricted Common Stock	130	1	4,029	(4,030)					
Cancellation of Restricted Common Stock	(19)		(597)	597					
Compensatory stock and stock options			1,532	1,355				2,887	
Employee stock purchase plan	386	4	5,902					5,906	
Stock retirement	(45)	(1)	(765)		(151)			(917)	
Cash dividends					(20,969)			(20,969)	
Dividends on shares held by GST					1,484			1,484	
Adjustment of GST shares to market value			(96,990)				96,990		
Equity adjustment from foreign currency translation						2,339		2,339	$ 2,339
Net loss					(26,564)			(26,564)	(26,564)
Balance, December 31, 1998	75,095	$ 751	$258,015	$ (5,653)	$252,528	$ 1,780	$ (54,325)	$453,096	$ (24,225)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1
THE COMPANY

Callaway Golf Company ("Callaway Golf" or the "Company") is a California corporation formed in 1982. The Company designs, develops, manufactures and markets high-quality, innovative golf clubs. Callaway Golf's primary products include Big Bertha(R) metal woods with the War Bird(R) soleplate, Great Big Bertha(R) titanium metal woods, Biggest Big Bertha(R) titanium drivers, Big Bertha(R) Steelhead(TM) metal woods, Big Bertha(R) irons, Great Big Bertha(R) Tungsten(R) Titanium(TM) irons, Big Bertha(R) X-12(TM) irons, Odyssey(R) putters and wedges and various other putters.

NOTE 2
SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, Callaway Golf Sales Company, Callaway Golf Ball Company, Odyssey Golf, Inc. ("Odyssey"), CGV, Inc., All-American Golf LLC ("All-American"), Callaway Golf Media Ventures ("CGMV"), Callaway Golf Europe Ltd., ERC International Company, Callaway Golf (Germany) GmbH, Callaway Golf Canada Ltd., Callaway Golf Korea Ltd. and Callaway Golf Europe, S.A. All significant intercompany transactions and balances have been eliminated.

FINANCIAL STATEMENT PREPARATION

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. Examples of such estimates include provisions for warranty, uncollectible accounts receivable, inventory obsolescence and restructuring costs (Note 11). Actual results could differ from those estimates, which could materially affect future results of operations.

REVENUE RECOGNITION

Sales are recognized at the time goods are shipped, net of an allowance for sales returns.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade receivables and payables, forward foreign currency exchange contracts, its revolving line of credit and note payable (Note 4). The carrying amounts of these instruments approximate fair value because of their short maturities and variable interest rates.

ADVERTISING COSTS

The Company advertises primarily through television and print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 1998, 1997 and 1996 were $32,944,000, $20,320,000 and $18,321,000, respectively.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The accounts of the Company's foreign subsidiaries have been translated into United States dollars at appropriate rates of exchange. Cumulative translation gains or losses are recorded as accumulated other comprehensive income in shareholders' equity. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in the consolidated statement of operations. The Company recorded transaction gains of $1,598,000 in 1998 and transaction losses of $940,000 in 1997. The amounts recorded as a result of foreign currency transactions in 1996 were not material.

During 1998, 1997 and 1996, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions by one of its wholly-owned foreign subsidiaries, Callaway Golf Europe Ltd. Realized and unrealized gains and losses on these contracts are recorded in income. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At December 31, 1998, 1997 and 1996,

the Company had approximately $11,543,000, $2,575,000 and $5,774,000, respectively, of foreign exchange contracts outstanding. The contracts outstanding at December 31, 1998 mature between January and June of 1999. The Company had net realized and unrealized gains on foreign exchange contracts of $57,000 and $261,000 in 1998 and 1997, respectively, and net realized and unrealized losses of $521,000 in 1996.

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

Adoption of this statement does not significantly affect the way in which the Company currently accounts for derivatives to hedge payments due on intercompany transactions, as described above. Accordingly, no cumulative-effect-type adjustments will be made. However, the Company expects that it also may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options, which may be combined to form range forwards. The forward contracts used to hedge anticipated transactions will be recorded as either assets or liabilities in the balance sheet at fair value. Gains and losses on such contracts will be recorded in other comprehensive income and will be recorded in income when the anticipated transaction occurs. The ineffective portion of all hedges will be recognized in current period earnings. Due to its current and expected future limited use of derivative instruments, the Company does not expect that the adoption of SFAS No. 133 will have a material impact on its results of operations or financial position.

EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period, increased by dilutive potential common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include shares owned by the Callaway Golf Company Grantor Stock Trust (Note 5), options issued pursuant to the Company's stock option plans (Note 7), potential shares related to the Employee Stock Purchase Plan (Note 7) and rights to purchase preferred shares under the Callaway Golf Company Shareholder Rights Plan (Note 7). Dilutive securities related to the Callaway Golf Company Grantor Stock Trust and the Company's stock option plans are included in the calculation of diluted earnings per common share using the treasury stock method. Dilutive securities related to the Employee Stock Purchase Plan are calculated by dividing the average withholdings during the period by 85% of the lower of the offering period price or the market value at the end of the period. The dilutive effect of rights to purchase preferred shares under the Callaway Golf Shareholder Rights Plan have not been included as dilutive securities because the conditions necessary to cause these rights to be redeemed were not met. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the years ended December 31, 1998, 1997 and 1996 is presented in Note 6.

CASH EQUIVALENTS

Cash equivalents are highly liquid investments purchased with maturities of three months or less.

The acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. (Note 13) and the repurchase and retirement of certain of the Company's outstanding Common Stock necessitated the sale of certain held-to-maturity debt securities with amortized costs of $115,428,000 and $31,805,000, respectively, during 1997. These securities were purchased at a discount and were sold within two weeks to two months of their respective stated maturity dates. As such, the securities are considered to be sold at maturity under the provisions of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." No realized or unrealized gains or losses resulted from the sales of these securities.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of three to fifteen years. Repair and maintenance costs are charged to expense as incurred. The Company's property, plant and equipment are depreciated over the following periods:

Buildings and improvements	10-15 years
Machinery and equipment	5 years
Furniture, computers and equipment	3-5 years
Production molds	3 years

Normal repairs and maintenance are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Replacements are capitalized and the property, plant, and equipment accounts are relieved of the items being replaced. The related costs and accumulated depreciation of disposed assets are eliminated and any resulting gain or loss on disposition is included in income.

LONG-LIVED ASSETS

The Company assesses potential impairments of its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future net cash flows is less than the carrying amount of the asset. During the fourth quarter of 1998, the Company implemented a restructuring plan that included a number of cost reduction actions and operational improvements (Note 11). As a result of this plan, impairment losses were recorded for certain of the Company's long-lived assets.

INTANGIBLE ASSETS

Intangible assets consist primarily of trade name, trademark, trade dress, patents and goodwill resulting from the purchase of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. and goodwill associated with the purchase of certain foreign distributors (Note 13). Intangible assets are amortized using the straight-line method over periods ranging from three to 40 years. During 1998 and 1997, amortization of intangible assets was $5,466,000 and $1,778,000 respectively. Amortization expense for the year ended December 31, 1996 was not material.

STOCK-BASED COMPENSATION

The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method. Pro forma disclosures of net income and earnings per share, as if the fair value-based method had been applied in measuring compensation expense, are presented in Note 7.

INCOME TAXES

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future consequences resulting from differences in the financial reporting and tax bases of assets and liabilities. Deferred income tax expense (benefit) is the net change during the year in the deferred income tax asset or liability.

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries since such amounts are expected to be reinvested indefinitely. The Company provides a valuation allowance for its deferred tax assets when, in the opinion of management, it is more likely than not that such assets will not be realized.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement requires that all components of comprehensive income be reported in the financial statements in the period in which they are recognized. The components of comprehensive income for the Company include net income and foreign currency translation adjustments. Since the Company has elected the indefinite reversal criterion, it does not accrue income taxes on foreign currency translation adjustments. The financial statements of prior periods presented have been reclassified for comparative purposes.

SEGMENT INFORMATION

Effective January 1, 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires disclosure of certain information about the Company's operating segments, products, geographic areas in which it operates and its major customers. This information is presented in Note 14.

DIVERSIFICATION OF CREDIT RISK

The Company's financial instruments that are subject to concentrations of credit risk consist primarily of cash equivalents and trade receivables.

The Company may invest its excess cash in money market accounts and U.S. Government securities and has established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. During 1998, no investments in U.S. Government securities were held.

The Company operates in the golf equipment industry and primarily sells its products to golf equipment retailers and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. The Company maintains reserves for potential credit losses, which it considers adequate to cover any such losses.

During 1998, 1997, and 1996, approximately 38%, 35% and 32%, respectively, of the Company's net sales were made to foreign customers. An adverse change in either economic conditions abroad or the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales and the Company's results of operations.

RECLASSIFICATIONS

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

NOTE 3
SELECTED FINANCIAL STATEMENT INFORMATION

(in thousands)	December 31, 1998	1997
Cash and cash equivalents:		
Cash, interest bearing	$ 41,689	$ 24,438
Cash, non-interest bearing	3,929	1,766
	$ 45,618	$ 26,204
Accounts receivable, net:		
Trade accounts receivable	$ 83,405	$131,516
Allowance for doubtful accounts	(9,939)	(7,046)
	$ 73,466	$124,470
Inventories, net:		
Raw materials	$102,352	$ 47,780
Work-in-process	1,820	3,083
Finished goods	81,868	51,905
	186,040	102,768
Reserve for obsolescence	(36,848)	(5,674)
	$149,192	$ 97,094
Property, plant and equipment, net:		
Land	$ 13,375	$ 16,398
Buildings and improvements	55,307	51,797
Machinery and equipment	57,334	45,332
Furniture, computers and equipment	55,629	48,071
Production molds	17,472	13,690
Construction-in-process	52,920	19,361
	252,037	194,649
Accumulated depreciation	(79,243)	(52,146)
	$172,794	$142,503
Intangible assets:		
Trade name	$ 69,629	$ 69,629
Trademark and trade dress	29,841	29,841
Patents, goodwill and other	35,765	14,641
	135,235	114,111
Accumulated amortization	(7,456)	(1,970)
	$127,779	$112,141
Accounts payable and accrued		

expenses:		
Accounts payable	$ 10,341	$ 18,379
Note to related party (Note 15)	6,766	
Accrued expenses	18,821	11,684
	$ 35,928	$ 30,063
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$ 6,178	$ 9,729
Accrued vacation and sick pay	4,423	4,092
Accrued commissions	482	441
	$ 11,083	$ 14,262

NOTE 4
BANK LINE OF CREDIT AND NOTE PAYABLE

On December 30, 1998, the Company replaced its existing bank line of credit with a $75,000,000 interim revolving credit facility. The credit facility is secured by substantially all of the assets of the Company and bears interest at the London Interbank Offering Rate ("LIBOR") plus a fixed interest margin. Proceeds from the initial borrowing on the closing date were used to repay the Company's existing indebtedness under a revolving loan agreement dated as of February 4, 1998. The credit facility will be used to support working capital and general corporate needs, including the issuance of letters of credit. As of December 31, 1998, $2,951,000 of the credit facility remained available for borrowings, including a reduction of $1,130,000 for outstanding letters of credit. The credit facility requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants.

On February 12, 1999, the Company consummated the amendment of its credit facility to increase the facility to up to $120,000,000. Also effective on February 12, 1999, the Company entered into an $80,000,000 accounts receivable securitization (Note 16).

On December 30, 1998, Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, entered into a master lease agreement for the acquisition and lease of approximately $56,000,000 of machinery and equipment. This lease program is expected to commence during the second quarter of 1999 and includes an interim finance agreement (the "Finance Agreement"). The Finance Agreement provides pre-lease financing advances for the acquisition and installation costs of the aforementioned machinery and equipment. The Finance Agreement bears interest at LIBOR plus a fixed interest margin and is secured by the underlying machinery and equipment and a corporate guarantee from the Company. As of December 31, 1998, $12,971,000 was outstanding under this facility.

NOTE 5
GRANTOR STOCK TRUST

In July 1995, the Company established the Callaway Golf Company Grantor Stock Trust (the "GST"). In conjunction with the formation of the GST, the Company sold 4,000,000 shares of newly issued Common Stock to the GST at a purchase price of $60,575,000 ($15.14 per share). In December 1995, the Company sold an additional 1,300,000 shares of newly issued Common Stock to the GST at a purchase price of $26,263,000 ($20.20 per share). The sale of these shares had no net impact on shareholders' equity. During the term of the GST, shares in the GST may be used to fund the Company's obligations with respect to one or more of the Company's non-qualified or qualified employee benefit plans.

Shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with employee benefits. Each period, the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in capital in excess of par value.

NOTE 6
EARNINGS PER COMMON SHARE

The schedule below summarizes the elements included in the calculation of basic and diluted (loss) earnings per common share for the years ended December 31, 1998, 1997 and 1996.

For the year ended December 31, 1998, all dilutive securities were excluded from the calculation of diluted loss per share, as their effect would have been antidilutive. For the years ended December 31, 1997 and 1996, 917,000 and 269,000 options, respectively, were excluded from the calculations, as their effect would have been antidilutive.

(in thousands, except per share data)	Year ended December 31,		
	1998	1997	1996
Net (loss) income	$(26,564)	$132,704	$122,337
Weighted-average shares outstanding:			
Weighted-average shares outstanding - Basic	69,463	68,407	66,832
Dilutive securities		3,291	3,829
Weighted average shares outstanding - Diluted	69,463	71,698	70,661
(Loss) earnings per common share			
Basic	$ (0.38)	$ 1.94	$ 1.83
Diluted	$ (0.38)	$ 1.85	$ 1.73

NOTE 7
STOCK OPTIONS AND RIGHTS

OPTIONS

The Company had the following fixed stock option plans, under which shares were available for grant at December 31, 1998: the 1991 Stock Incentive Plan (the "1991 Plan"), the 1995 Employee Stock Incentive Plan (the "1995 Plan"), the 1996 Stock Option Plan (the "1996 Plan"), the 1998 Stock Incentive Plan (the "1998 Plan"), the Promotion, Marketing and Endorsement Stock Incentive Plan (the "Promotion Plan") and the Non-Employee Directors Stock Option Plan (the "Directors Plan").

The 1991 Plan, the 1996 Plan and the 1998 Plan permit the granting of options or other stock awards to the Company's officers, employees and consultants. Under the 1991 Plan, option prices may be less than the market value at the date of grant, while under the 1996 Plan and the 1998 Plan options may not be granted at option prices that are less than fair market value at the date of grant. The 1995 Plan permits the granting of options or other stock awards to only employees and consultants of the Company at option prices that may be less than market value at the date of grant. The 1995 Plan and the 1996 Plan were amended in 1998 to increase the maximum number of options to acquire shares of Common Stock to 4,600,000 and 6,000,000 shares, respectively.

During 1996 and 1995, the Company granted options to purchase shares to two key officers, under separate plans, in conjunction with terms of their initial employment (the "Key Officer Plans"). The 1990 Amended and Restated Stock Option Plan (the "1990 Plan") permitted the granting of options to officers, employees and consultants. No shares are available for grant under the Key Officer Plans or the 1990 Plan.

Under the Promotion Plan, shares of Common Stock may be granted in the form of options or other stock awards to golf professionals and other endorsers at prices that may be less than the market value of the stock at the grant date. The Directors Plan permits the granting of options to purchase shares of Common Stock to Directors of the Company who are not employees, at prices based on a non-discretionary formula, which currently may not be less than the market value of the stock at the date of grant.

The following table presents shares authorized, available for future grant and outstanding under each of the Company's plans as of December 31, 1998:

(in thousands)

Plan	Authorized	Available	Outstanding
1990 Plan	4,920		130
1991 Plan	10,000	38	3,447
Promotion Plan	3,560	738	1,211
1995 Plan	4,600	739	3,768
1996 Plan	6,000	2,195	3,805
1998 Plan	500	500	
Key Officer Plans	1,100		820
Director Plan	840	92	456
Total	31,520	4,302	13,637

Under the Company's stock option plans, outstanding options vest over periods ranging from zero to five years from the grant date and expire up to ten years after the grant date.

The following summarizes stock option transactions for the years ended December 31, 1998, 1997 and 1996:

(in thousands, except per share data)

	Year ended December 31, 1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	11,257	$22.41	10,800	$15.03	9,842	$ 9.87
Granted	4,020	25.04	3,406	33.79	2,760	28.47
Exercised	(441)	10.16	(2,877)	7.81	(1,775)	7.07
Canceled	(1,199)	34.86	(72)	28.81	(27)	16.98
Outstanding at end of year	13,637	$22.62	11,257	$22.41	10,800	$15.03
Options exercisable at end of year	6,039	$17.78	3,453	$12.17	3,939	$ 8.83
Price range of outstanding options	$0.44 - $40.00		$0.44 - $40.00		$0.44 - $34.38	

The following tables summarize additional information about outstanding stock options at December 31, 1998 and options and other stock awards granted during 1998:

OPTIONS OUTSTANDING AND EXERCISABLE BY PRICE RANGE AS OF DECEMBER 31, 1998

Range of Exercise Prices	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
$ 0 - $10	1,327	3.4	$ 3.21	1,249	$ 2.83
$10 - $25	4,602	4.5	$16.37	2,841	$14.82
$25 - $40	7,708	6.9	$29.68	1,949	$31.63
$ 0 - $40	13,637	5.8	$22.62	6,039	$17.78

OPTIONS AND OTHER STOCK AWARDS GRANTED DURING 1998

	Number (in thousands)	Weighted-Average Exercise Price
Exercise price = market value	3,878	$25.88
Exercise price ** market value	5	$28.56
Exercise price * market value	137	$ 1.28
	4,020	$25.04

** Greater than
* Less than

During 1998, the Company modified certain terms of 720,000 options held by directors, certain officers and employees. These modifications, which largely resulted from the Company's restructuring plan, included acceleration of vesting and extension of expiration terms at the Company's discretion. At the time of modification, the exercise prices of the options were in excess of the then-current market price and accordingly, this action did not result in compensation expense for the Company.

Also during 1998, the Company canceled 150,000 options held by non-employees with option prices in excess of the then-current market price of the Company's stock. The Company then reissued an equivalent number of options at the then-current market price and extended certain expiration terms, and recorded the related compensation expense of $71,000. An additional $195,000 was recorded in unearned compensation, which will be amortized over the remaining vesting periods.

RIGHTS

The Company has granted officers, consultants, and employees rights to receive an aggregate of 826,800 shares of Common Stock for services or other consideration. During 1998, 80,000 rights were exercised while none were granted. At December 31, 1998, no rights to receive shares of Common Stock remained outstanding. No rights were granted or exercised during 1997 or 1996.

The Company has a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding Common Stock carries one right to purchase one one-thousandth of a share of the Company's Series "A" Junior Participating Preferred Stock (the "Right"). The Right entitles the holder, under certain circumstances, to purchase Common Stock of Callaway Golf Company or of the acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding Common Stock. The Rights are redeemable by the Company at $.01 per Right and expire in 2005.

RESTRICTED COMMON STOCK

During 1998, the Company granted 130,000 shares of Restricted Common Stock to 26 officers of the Company. Of these shares, 19,250 shares have been canceled. The shares, which are restricted as to sale or transfer until vesting, will vest on January 1, 2003. The related net compensation expense of $3,433,000 is being recognized ratably over the vesting period, based on the difference between the exercise price and market value of the stock on the measurement date.

EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan ("ESPP") whereby eligible employees may purchase shares of Common Stock at 85% of the lower of the fair market value on the first day of a two year offering period or the last day of each six month exercise period. Employees may authorize the Company to withhold compensation during any offering period, subject to certain limitations. During 1997, the ESPP was amended to increase the maximum number of shares of the Company's Common Stock that employees may acquire under this plan to 1,500,000 shares. During 1998, 1997 and 1996, the ESPP purchased approximately 386,000, 372,000 and 168,000 shares, respectively, of the Company's Common Stock. As of December 31, 1998, 574,000 shares were reserved for future issuance.

COMPENSATION EXPENSE

During 1998, 1997, and 1996, the Company recorded $2,321,000, $2,041,000 and $1,919,000, respectively, in compensation expense for certain options and rights to purchase shares of Common Stock granted to employees and consultants of the Company. The valuation of options and rights granted to non-employees is estimated using the Black-Scholes option pricing model.

Unearned compensation has been charged for the value of options granted to both employees and non-employees on the measurement date based on the valuation methods described above. These amounts are amortized over the vesting period. The unamortized portion of unearned compensation is shown as a reduction of shareholders' equity in the accompanying consolidated balance sheet.

PRO FORMA DISCLOSURES

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for employee awards under these plans, the Company's net (loss) income and (loss) earnings per share would be changed to the pro forma amounts indicated below:

(in thousands, except per share data)	Year ended December 31, 1998	1997	1996
Net (loss) income:			
As reported	$(26,564)	$132,704	$122,337
Pro forma	$(46,847)	$124,978	$113,587
(Loss) earnings per common share:			
As reported			
Basic	$ (0.38)	$ 1.94	$ 1.83
Diluted	$ (0.38)	$ 1.85	$ 1.73
Pro forma			
Basic	$ (0.67)	$ 1.83	$ 1.70
Diluted	$ (0.67)	$ 1.77	$ 1.59

The pro forma amounts reflected above may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense as the options vest and additional options may be granted in future years. The fair value of employee stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for the years ended December 31, 1998, 1997, and 1996, respectively:

	Year ended December 31, 1998	1997	1996
Dividend yield	1.9%	0.9%	0.9%
Expected volatility	42.0%	31.5%	31.5%
Risk free interest rates	4.66 - 4.72%	5.64 - 5.89%	5.32 - 7.66%
Expected lives	3 - 6 years	3 - 6 years	2 - 6 years

The weighted-average grant-date fair value of options granted during 1998 was $9.88 per share. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of grants under the Company's employee stock-based compensation plans.

NOTE 8
EMPLOYEE BENEFIT PLANS

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to 10% of annual compensation, up to the maximum permitted under federal law, and the Company is obligated to contribute annually an amount equal to 100% of the participant's contribution up to 6% of that participant's annual compensation. Additionally, the Company can make discretionary contributions based on the profitability of the Company. No discretionary contributions were made for the years ended December 31, 1998 and 1997. For the year ended December 31, 1996, the Company recorded compensation expense for discretionary contributions of $6,390,000. Employees contributed to the 401(k) Plan $5,601,000, $5,384,000 and $3,315,000 in 1998, 1997 and 1996, respectively. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $4,673,000, $4,495,000 and $1,988,000 during 1998, 1997 and 1996, respectively.

The Company also has an unfunded, nonqualified deferred compensation plan. The plan allows officers and certain other employees of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. For the years ended December 31, 1998, 1997 and 1996, the total participant deferrals, which are reflected in long-term liabilities, were $908,000, $1,166,000 and $2,564,000, respectively.

NOTE 9
INCOME TAXES

The Company's (loss) income before income tax (benefit) provision was subject to taxes in the following jurisdictions for the following periods:

(in thousands)	Year ended December 31,		
	1998	1997	1996
Domestic	$(34,555)	$212,453	$193,170
Foreign	(4,344)	1,312	2,425
	$(38,899)	$213,765	$195,595

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

(in thousands)	Year ended December 31,		
	1998	1997	1996
Current tax provision:			
United States	$ 21,345	$ 66,462	$ 65,287
State	2,296	12,419	11,154
Foreign	250	1,150	1,244
Deferred tax (benefit) expense:			
United States	(31,173)	1,042	(3,911)
State	(4,847)	50	(437)
Foreign	(206)	(62)	(79)
Income tax (benefit) provision	$(12,335)	$ 81,061	$ 73,258

During 1998, 1997 and 1996, the Company recognized certain tax benefits related to stock option plans in the amount of $3,068,000, $29,786,000 and $14,244,000, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in additional paid-in capital.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 1998 and 1997 are as follows:

(in thousands)	December 31,	
	1998	1997
Deferred tax assets:		
Reserves and allowances	$36,229	$15,914
Depreciation and amortization	7,963	6,107
Deferred compensation	3,100	4,559
Effect of inventory overhead adjustment	4,062	1,555
Compensatory stock options and rights	2,327	1,589
State taxes, net		5
Foreign net operating loss carry forwards	1,074	
Other	3,979	702
Restructuring charges		
Long-lived asset impairment	1,755	
Rental/lease arrangements	5,472	
Estimated losses on assets held for disposal	4,335	
Capital loss carryforward	685	
Other	52	
Total deferred tax assets	71,033	30,431
Valuation allowance for deferred tax assets	(1,759)	
Net deferred tax assets	69,274	30,431
Deferred tax liabilities:		
State taxes, net of federal income tax benefit	(2,608)	
Net deferred tax assets	$66,666	$30,431

In 1998, the Company established a valuation allowance of $1,759,000 against certain deferred tax assets, as the Company believes it is more likely than not that such assets will not be realized. The Company expects to generate pre-tax income in future years and accordingly, considers the deferred tax asset to be realizable. The Company did not require a deferred tax asset valuation allowance at December 31, 1997 or 1996.

A reconciliation of income taxes computed by applying the statutory U.S. income tax rate to the Company's (loss) income before income taxes to the income tax (benefit) provision is as follows:

(in thousands)	Year ended December 31, 1998	1997	1996
Amounts computed at statutory U.S. tax rate	$(13,615)	$74,816	$68,458
State income taxes, net of U.S. tax benefit	(1,501)	8,105	6,966
Non-deductible foreign losses	1,226		
Expenses with no tax benefit	1,064		
Non-deductible capital losses	588		
Other	(97)	(1,860)	(2,166)
Income tax (benefit) provision	$(12,335)	$81,061	$73,258

U.S. tax return examinations have been completed for the years through 1993. The Company believes adequate provisions for income tax have been recorded for all years.

NOTE 10
COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into certain long-term purchase commitments with various vendors. As of December 31, 1998, the Company has committed to purchase titanium golf clubheads costing approximately $31,585,000, from one of its vendors. Under the current production schedule, the clubheads are to be shipped to the Company during 1999.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of December 31, 1998. However, management believes that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

The Company leases certain warehouse, distribution and office facilities under operating leases. Lease terms range from one to 15 years with options to renew at varying terms. Commitments for minimum lease payments under non-cancelable operating leases having initial or remaining non-cancelable terms in excess of one year as of December 31, 1998 are as follows:

(in thousands)	
1999	$ 4,084
2000	3,748
2001	3,870
2002	4,615
2003	2,827
Thereafter	16,508
	$35,652

Rent expense for the years ended December 31, 1998, 1997 and 1996 was $17,654,000, $1,760,000 and $1,363,000, respectively. Rent expense for 1998 includes $13,466,000 in excess lease costs related to the Company's restructuring activities (Note 11).

NOTE 11
RESTRUCTURING

On November 11, 1998, the Company announced that it had adopted a business plan that included a number of cost reduction actions and operational improvements. These actions include: the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey, into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives are expected to be largely completed during 1999. As a result of these actions, the Company recorded one-time charges of $54,235,000 during the fourth quarter of 1998. These charges (shown below in tabular format) primarily relate to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of the Company's 80% interest in CGMV (Note 15), a loss on the sale of All-American (Note 13), as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs.

Employee reductions occurred in almost all areas of the Company, including manufacturing, marketing, sales, and administrative areas. At December 31, 1998, the Company had reduced its non-temporary work force by approximately 750 positions. Although substantially all reductions occurred prior to December 31, 1998, a small number of reductions will occur in the first quarter of 1999.

As part of this plan, the Company elected to consolidate its operations and to sell certain of its buildings, which housed a portion of its manufacturing and research and development activities. Other write-downs were recorded during 1998 for idle assets, assets whose manner of use had changed significantly and equipment replaced as a result of capital improvements. The impaired assets include buildings, building improvements, and machinery and equipment used in certain of the Company's manufacturing and research and development activities .

The projected future cash flows from these assets were less than the carrying values of the assets. The carrying values of the assets held for sale and the assets to be held and used were reduced to their estimated fair values based on independent appraisals of selling values and values of similar assets sold, less costs to sell. In 1998, the Company recorded losses from impairment of assets of $12,634,000, which were recorded as a restructuring costs. The Company expects to complete the dispositions in 1999. At December 31, 1998, subsequent to the write-down for impairments, the carrying amount of the assets held for disposal and assets to be held and used was $13,678,000 and $4,582,000, respectively. Pursuant to SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of," assets to be held and used will continue to be depreciated, while assets held for disposition will not. The Company does not expect that the effect on depreciation will materially impact future results of operations.

Details of the one-time charges are as follows:

(in thousands)	Cash/Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98
Elimination of Job Responsibilities		$11,664	$ 8,473	$ 3,191
Severance packages	Cash	11,603	8,412	3,191
Other	Non-cash	61	61	
Exiting Certain Non-core Business Activities		$28,788	$12,015	$16,773
Loss on disposition of subsidiaries	Non-cash	13,072	10,341	2,731
Excess lease costs	Cash	12,660	146	12,514
Contract cancellation fees	Cash	2,700	1,504	1,196
Other	Cash	356	24	332
Consolidation of Operations		$13,783	$ 2,846	$10,937
Loss on impairment/disposition of assets	Non-cash	12,364	2,730	9,634
Excess lease costs	Cash	806	4	802
Other	Cash	613	112	501

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

NOTE 12
LITIGATION SETTLEMENT

On September 23, 1997, the Company settled a lawsuit brought against it and certain officers of the Company by a former officer of the Company with the payment of $12,000,000.

The Company filed suit against certain of its insurers and an insurance agent seeking coverage for the costs of defending and settling the above lawsuit (the "coverage litigation"). The insurance agent and one of the Company's insurers have settled with the Company for an amount that was not material. This settlement was recorded in general and administrative expenses as a reduction of legal fees. The coverage litigation against the remaining insurers has been unsuccessful to date because of court rulings that the claim was not covered by the applicable insurance policies. The Company is appealing the adverse coverage decision by the trial court. Although the Company believes its appeal has merit, no assurance can be given that any additional costs will be recovered.

NOTE 13
ACQUISITIONS

During 1998, the Company acquired distribution rights and substantially all of the assets from its distributors in Korea, Canada, France, Belgium, Norway and Denmark, as well as the remaining 20% interest in Callaway Golf Trading GmbH (Note 15), the results of which are consolidated in the results of Callaway Golf (Germany) GmbH. The aggregate purchase price for these transactions was $27,229,000, excluding the assumption and subsequent retirement of short-term debt obligations of $10,373,000. The excess of the purchase price over net assets acquired of $20,935,000 was allocated to goodwill and is being amortized over estimated useful lives of three to 10 years. These acquisitions, along with the acquisition of the remaining 80% interest in All-American (discussed below) are not considered significant business combinations. Accordingly, pro forma financial information is not presented.

In May 1998, the Company acquired for $4,526,000 the remaining 80% interest in All-American, which operates a nine-hole golf course, performance center, training facility and driving range located in Las Vegas, Nevada. On December 30, 1998, as part of its business plan to discontinue certain non-core business activities, the Company sold its interest in All-American in exchange for barter trade credits, which were recorded at the fair market value of the asset exchanged. The Company recorded a loss on the disposition of this subsidiary of $10,341,000 in December 1998 (Note 11).

On August 8, 1997, the Company consummated its acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc., by its wholly-owned subsidiary, Odyssey, subject to certain adjustments as of the time of closing. Odyssey's results of operations have been included in the Company's consolidated results of operations since August 8, 1997. Odyssey manufactures and markets the Odyssey(R) line of putters and wedges with Stronomic(R) and Lyconite(R) face inserts.

The cost to acquire substantially all of the assets and certain liabilities of Odyssey Sports, Inc., including professional fees directly related to the acquisition, was approximately $129,256,000 and has been accounted for using the purchase method of accounting. The allocation of the acquisition cost to assets acquired and liabilities assumed are summarized in the table that follows. Amounts allocated to trade name, trademark, trade dress and goodwill are being amortized on the straight-line basis over 40 years. The amounts allocated to the process patent and covenant not to compete are being amortized on the straight-line basis over 16 and three years, respectively.

(in thousands)	August 8, 1997
Assets acquired/liabilities assumed:	
Total assets acquired	$132,591
Total liabilities assumed	(3,335)
Net assets acquired	$129,256

The following unaudited pro forma net sales, net income and earnings per share data for the years ended December 31, 1997 and 1996 are based on the respective historical financial statements of the Company and Odyssey Sports, Inc. The pro forma data presented for the year ended December 31, 1997 combines the results of operations of the Company for the year ended December 31, 1997 with the results of operations of Odyssey Sports, Inc. for the ten months ended August 7, 1997 and the results of Odyssey for the two months ended September 30, 1997 and assumes that the acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. occurred on January 1, 1997. The pro forma data presented for the year ended December 31, 1996 combines the results of operations of the Company for the year ended December 31, 1996 with the results of operations of Odyssey Sports, Inc. for the year ended September 30, 1996 and assumes that the acquisition of substantially all the assets and certain liabilities of Odyssey Sports, Inc. occurred on January 1, 1996.

The pro forma financial data presented are not necessarily indicative of the Company's results of operations that might have occurred had the transaction been completed at the beginning of the periods specified, and do not purport to represent what the Company's consolidated results of operations might be for any future period.

(in thousands, except per share data)	Year ended December 31, (unaudited)	
	1997	1996
Net sales	$884,840	$711,715
Net income	$134,512	$119,385
Earnings per common share		
Basic	$ 1.97	$ 1.79
Diluted	$ 1.88	$ 1.69

NOTE 14
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(R) titanium and steel metal woods and irons, Callaway(R) and Odyssey(R) putters and wedges, and sales of related accessories. The golf balls segment consists of golf balls that are to be designed, manufactured, marketed and distributed by the Company's wholly-owned subsidiary, Callaway Golf Ball Company. All Other segments, including interactive golf sites, golf book publishing, new player development and a driving range venture, are aggregated as they do not meet requirements for separate disclosure as set forth in SFAS No. 131. In accordance with its restructuring plan, the Company is no longer pursuing these initiatives (Note 11). There are no significant intersegment transactions. The table below contains information utilized by management to evaluate its operating segments.

(in thousands)

1998	Golf Clubs	Golf Balls	All Other	Consolidated
Net sales	$697,621			$697,621
Income (loss) before tax	9,182	$(22,426)	$(25,655)	(38,899)
Interest income	1,564		7	1,571
Interest expense	(2,252)		(419)	(2,671)
Depreciation and amortization	34,121	1,072	692	35,885
Additions to long-lived assets	39,854	47,721	1,408	88,983

1997	Golf Clubs	Golf Balls	All Other	Consolidated
Net sales	$842,927			$842,927
Income (loss) before tax	222,771	$ (9,013)	$ 7	213,765
Interest income	4,703			4,703
Interest expense	(10)			(10)
Depreciation and amortization	19,219	84	105	19,408
Additions to long-lived assets	166,461	10,263	823	177,547

The 1996 results for the Company's Golf Ball and All Other segments were not material.

The Company markets its products domestically and internationally, with its principal international markets being Asia and Europe. The table below contains information about the geographical areas in which the Company operates. Revenues are attributed to countries based on location in which the sale originated, except as indicated below. Long-lived assets are based on the country of domicile.

The Company, through a distribution agreement, appointed Sumitomo Rubber Industries, Ltd. ("Sumitomo") as the sole distributor of Callaway(R) golf clubs in Japan. Odyssey(R) brand products are sold through the Company's wholly-owned Japanese subsidiary, ERC International Company. The distribution agreement requires Sumitomo to purchase specified minimum quantities. The current distribution agreement began in February 1993 and ends on December 31, 1999. In 1998, 1997, and 1996, sales to Sumitomo accounted for 8%, 10% and 9%, respectively, of the Company's net sales.

(in thousands)

1998	Sales	Long-Lives Assets
United States (excluding exports)	$ 437,628	$ 277,611
Japan*	61,460	857
United Kingdom	64,077	3,998
Other foreign countries	134,456	18,107
Total	$ 697,621	$ 300,573

1997	Sales	Long-Lived Assets
United States (excluding exports)	$ 547,256	$ 250,548
Japan*	84,634	61
United Kingdom	56,194	478
Other foreign countries	154,843	3,557
Total	$ 842,927	$ 254,644

1996	Sales	Long-Lived Assets
United States (excluding exports)	$ 460,611	$ 90,840
Japan (includes direct U.S. shipments)	58,156	
United Kingdom	37,668	324
Other foreign countries	122,077	4,459

Total	$ 678,512	$ 95,623

*Includes both sales from the Company's wholly-owned Japanese subsidiary, ERC International, and direct U.S. shipments to Japan.

NOTE 15
TRANSACTIONS WITH RELATED PARTIES

During 1998, the Company entered into an agreement with Callaway Editions, Inc. to form CGMV, a limited liability company that is owned 80% by the Company and 20% by Callaway Editions, Inc. ("Callaway Editions"). Callaway Editions is a publishing and media company which is owned 9% by Ely Callaway, Chairman and Chief Executive Officer of the Company, and 81% by his son, Nicholas Callaway. CGMV was formed to produce print and other media products that relate to the game of golf. Pursuant to the agreement, the Company agreed to loan CGMV up to $20,000,000 for working capital, subject to CGMV's achievement of certain milestones to the satisfaction of the Company in its sole discretion. As of December 31, 1998, the Company has loaned $2,034,000 to CGMV. Also pursuant to the agreement, CGMV is obligated to pay an annual management fee of $450,000 to Callaway Editions. In conjunction with the Company's implementation of its business plan to reduce costs and exit certain non-core business activities, the Company is currently in negotiations to sell or assign its interest in CGMV to Callaway Editions. Accordingly, the Company recorded a charge in operations to December 1998 based on the December 31, 1998 book value of CGMV (Note 11).

In December 1998, the Company purchased the remaining 20% interest in Callaway Golf Trading GmbH, the Company's former German distributor, for $6,766,000. The purchase price is in the form of a note payable bearing interest at 7%, due in June 1999 to the seller, who is an officer of a wholly-owned subsidiary of Company. The note payable is included in accounts payable and accrued expenses at December 31, 1998.

NOTE 16
SUBSEQUENT EVENTS

DIVIDEND

On January 27, 1999, the Company declared a quarterly cash dividend of $0.07 per share payable on March 3, 1999, to shareholders of record on February 10, 1999.

BANK LINE OF CREDIT

On February 12, 1999, the Company consummated the amendment of its line of credit to increase the revolving credit facility to up to $120,000,000 (the "Amended Credit Agreement"). The Amended Credit Agreement has a five-year term and is secured by substantially all of the assets of the Company, except domestic accounts receivable. The line of credit requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants. Also effective on February 12, 1999, the Company entered into an $80,000,000 accounts receivable securitization facility (the "Accounts Receivable Facility"). The Accounts Receivable Facility provides loan advances through the sale of substantially all of the Company's eligible domestic accounts receivable. The Accounts Receivable Facility includes a corporate guarantee by the Company and requires the Company to meet the same financial covenants set forth in the Amended Credit Agreement.

Report of Independent Accountants

[LOGO APPEARS HERE]

To the Board of Directors and Shareholders of Callaway Golf Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Callaway Golf Company and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP
San Diego, California
January 26, 1999, except as to
Note 16, which is as of February 12, 1999

SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except per share data)	Fiscal Year 1998 Quarters				
	1st	2nd	3rd	4th	Total
Net sales	$176,908	$233,251	$172,944	$114,518	$697,621
Gross profit	$ 83,705	$108,790	$ 83,085	$ 20,434	$296,014
Net income (loss)	$ 11,160	$ 21,137	$ 5,836	$(64,697)	$(26,564)
Earnings (loss) per common share*					
Basic	$ 0.16	$ 0.30	$ 0.08	$ (0.93)	$ (0.38)
Diluted	$ 0.16	$ 0.30	$ 0.08	$ (0.93)	$ (0.38)

	Fiscal Year 1997 Quarters				
	1st	2nd	3rd	4th	Total
Net sales	$169,073	$253,032	$257,435	$163,387	$842,927
Gross profit	$ 87,002	$134,742	$138,769	$ 82,287	$442,800
Net income	$ 24,466	$ 46,821	$ 37,049	$ 24,368	$132,704
Earnings per common share*					
Basic	$ 0.36	$ 0.69	$ 0.54	$ 0.35	$ 1.94
Diluted	$ 0.34	$ 0.66	$ 0.52	$ 0.34	$ 1.85

*Earnings per share is computed individually for each of the quarters presented; therefore, the sum of the quarterly earnings per share will not necessarily equal the total for the year.

MARKET FOR COMMON SHARES AND RELATED SHAREHOLDER MATTERS

The Company's Common Shares are traded on the New York Stock Exchange (NYSE). The Company's symbol for its Common Shares is "ELY."

As of March 8, 1999, the approximate number of holders of record of the Company's Common Stock was 9,645.

STOCK PRICE INFORMATION

	Year ended December 31,					
	1998			1997		
Period:	High	Low	Dividend	High	Low	Dividend
First Quarter	$33.25	$26.50	$0.07	$33.63	$28.63	$0.07
Second Quarter	$29.44	$17.94	$0.07	$38.13	$27.25	$0.07
Third Quarter	$20.50	$ 9.56	$0.07	$38.38	$32.94	$0.07
Fourth Quarter	$13.56	$ 9.81	$0.07	$36.38	$26.13	$0.07

EXHIBIT 21.1

SUBSIDIARIES OF CALLAWAY GOLF COMPANY

NAME	JURISDICTION OF FORMATION
Callaway Golf Ball Company	California
Callaway Golf Sales Company	California
CGV, Inc.	California
Odyssey Golf, Inc.	California
Callaway Golf Europe S.A.	France
Callaway Golf (Germany) GmbH	Germany
Callaway Golf Trading GmbH (owned 100% by Callaway Golf Germany GmbH)	Germany
Callaway Golf Europe Ltd. (formerly Callaway Golf (UK) Limited)	United Kingdom
ERC International Company	Japan
Callaway Golf Korea, Ltd.	Korea

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-77024) and in the Registration Statements on Form S-8 (No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 33-92302, No. 333-242, No. 333-5719, No. 333-5721, No. 333-24207, No. 333-27089, No. 333-27091, No. 333-39093, No. 333-39095, and No. 333-61889) of Callaway Golf Company of our report dated January 26, 1999, except as to Note 16, which is as of February 12, 1999, appearing on page 38 of the Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on Financial Statement Schedule, which appears on page 23 of this Form 10-K.

PRICEWATERHOUSECOOPERS LLP

San Diego, California
March 29, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF OPERATIONS AT DECEMBER 31, 1998 AND FOR THE YEAR THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL MATTERS.

1,000

YEAR	
DEC-31-1998	
JAN-01-1998	
DEC-31-1998	
	45,618
	0
	83,405
	9,939
	186,040
	323,606
	252,037
	79,243
	655,827
	184,008
	0
	0
	0
	751
	452,345
	655,827
	697,621
	697,621
	401,607
	401,607
	0
	4,171
	2,671
	(38,899)
	(12,335)
	(26,564)
	0
	0
	0
	(26,564)
	(0.38)
	(0.38)