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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 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)

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of July 31, 1998 was 75,115,580.

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 1998	December 31, 1997
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 35,110	$ 26,204
Accounts receivable, net	138,991	124,470
Inventories, net	150,801	97,094
Deferred taxes	27,002	23,810
Other current assets	11,880	10,208
Total current assets	363,784	281,786
Property, plant and equipment, net	166,653	142,503
Intangible assets, net	123,859	112,141
Other assets	23,531	25,284
	$ 677,827	$ 561,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 52,021	$ 30,063
Line of credit	55,000	
Accrued employee compensation and benefits	13,856	14,262
Accrued warranty expense	32,162	28,059
Income taxes payable	329	
Total current liabilities	153,368	72,384
Long-term liabilities	9,517	7,905
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 1998 and December 31, 1997, respectively		
Common Stock, $.01 par value, 240,000,000 shares authorized, 74,893,814 and 74,251,664 issued and outstanding at June 30, 1998, and December 31, 1997, respectively	749	743
Paid-in capital	306,410	337,403
Unearned compensation	(8,046)	(3,575)
Retained earnings	320,014	298,728
Accumulated other comprehensive income	172	(559)
Less: Grantor Stock Trust (5,300,000 shares) at market	(104,357)	(151,315)
Total shareholders' equity	514,942	481,425
	$ 677,827	$ 561,714

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	1998		1997		1998		1997	
Net sales	$233,251	100%	$253,032	100%	$410,160	100%	$422,105	100%
Cost of goods sold	124,461	53%	118,290	47%	217,664	53%	200,360	47%
Gross profit	108,790	47%	134,742	53%	192,496	47%	221,745	53%
Operating expenses:								
Selling	42,236	18%	36,016	14%	78,029	19%	62,595	15%
General and administrative	23,679	10%	16,074	6%	44,184	11%	32,328	8%
Research and development	8,413	4%	8,089	3%	17,078	4%	14,042	3%
Income from operations	34,462	15%	74,563	29%	53,205	13%	112,780	27%
Other income (expense), net	296		1,031		(40)		2,414	
Income before income taxes	34,758	15%	75,594	30%	53,165	13%	115,194	27%
Provision for income taxes	13,621		28,773		20,868		43,906	
Net income	$ 21,137	9%	$ 46,821	19%	$ 32,297	8%	$ 71,288	17%
Earnings per common share:								
Basic	$0.30		$0.69		$0.47		$1.05	
Diluted	$0.30		$0.66		$0.45		$1.00	
Common equivalent shares:								
Basic	69,350		67,528		69,267		67,771	
Diluted	71,591		70,728		71,383		71,244	
Dividends paid per share	$0.07		$0.07		$0.14		$0.14	

See accompanying notes to consolidated condensed financial statements.

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

	Six months ended June 30,	
	1998	1997
Cash flows from operating activities:		
Net income	$ 32,297	$ 71,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,560	7,355
Non-cash compensation	5,009	4,773
Tax benefit from exercise of stock options	2,049	12,303
Deferred taxes	(4,200)	173
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(2,172)	(53,222)
Inventories, net	(45,742)	28,204
Other assets	(8,851)	(5,544)
Accounts payable and accrued expenses	12,424	17,573
Accrued employee compensation and benefits	1,021	10,732
Accrued warranty expense	4,103	589
Income taxes payable	2,936	10,149
Other liabilities	(5,969)	712
Net cash provided by operating activities	6,465	105,085
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(18,381)	
Capital expenditures	(27,770)	(30,655)
Sale of fixed assets	13	60
Net cash used in investing activities	(46,138)	(30,595)
Cash flows from financing activities:		
Issuance of Common Stock	4,443	10,361
Dividends paid	(9,709)	(9,484)
Retirement of Common Stock	(1,303)	(33,010)
Net proceeds from line of credit	55,000	
Net cash provided by (used in) financing activities	48,431	(32,133)
Effect of exchange rate changes on cash	148	35
Net increase in cash and cash equivalents	8,906	42,392
Cash and cash equivalents at beginning of period	26,204	108,457
Cash and cash equivalents at end of period	$ 35,110	$150,849

See accompanying notes to consolidated condensed financial statements.

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

	Common Stock Shares	Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	GST	Total	Comprehensive Income
Balance, December 31, 1997	74,252	$743	$337,403	($3,575)	$298,728	($559)	($151,315)	$481,425	
Exercise of stock options	390	4	4,439					4,443	
Issuance of Restricted Common Stock	130	1	4,029	(4,030)					
Tax benefit from exercise of stock options			2,049					2,049	
Compensatory stock and stock options			1,783	(441)				1,342	
Employee stock purchase plan	167	2	3,665					3,667	
Stock retirement	(45)	(1)			(1,302)			(1,303)	
Cash dividends, net					(10,451)			(10,451)	
Dividends on shares held by GST					742			742	
Adjustment of GST shares to market value			(46,958)				46,958		
Equity adjustment from foreign currency						731		731	$ 731
Net income					32,297			32,297	32,297
Balance, June 30, 1998	74,894	$749	$306,410	($8,046)	$320,014	$172	($104,357)	$514,942	$33,028

See accompanying notes to consolidated condensed financial statements.

1. Basis of presentation

The accompanying financial information for the three and six months ended June 30, 1998 and 1997 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1997. Interim operating results are not necessarily indicative of operating results for the full year.

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

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

2. Cash equivalents

Cash equivalents are highly liquid investments purchased with maturities of three months or less. Cash equivalents consist primarily of investments in money market accounts.

3. Inventories

	June 30, 1998 (Unaudited)	December 31, 1997
Inventories, net (in thousands):		
Raw materials	$ 70,713	$ 47,780
Work-in-process	3,170	3,083
Finished goods	82,445	51,905
	156,328	102,768
Less reserve for obsolescence	(5,527)	(5,674)
	$ 150,801	$ 97,094

4. Bank line of credit

The Company has a $150.0 million unsecured line of credit. At June 30, 1998, the amount available under the line of credit was $93.3 million and the weighted-average interest rate of the outstanding borrowings was 5.8%. The line of credit has been primarily utilized to support portions of the Company's operations and the issuance of letters of credit, of which there were $1.7 million outstanding at June 30, 1998.

The line of credit requires the Company to maintain certain financial ratios, including current and debt-to-equity ratios. The Company is also subject to other restrictive covenants under the terms of the credit agreement. As of June 30, 1998, the Company was in compliance with all such covenants.

5. Comprehensive income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards ("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. In accordance with the provisions of APB 23, "Accounting for Income Taxes-- Special Areas," the Company has elected the indefinite reversal criterion, and accordingly, does not accrue income taxes on foreign currency translation adjustments. The financial statements of prior periods presented have been reclassified for comparative purposes.

6. Earnings per share

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three and six months ended June 30, 1998, and 1997 is presented below.

(in thousands, except per share data)

	Three months ended June 30,					
	1998			1997		
	(Unaudited)					
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Net income	$21,137			$46,821		
Basic EPS		69,350	$0.30		67,528	$0.69
Dilutive Securities		2,241			3,200	
Diluted EPS		71,591	$0.30		70,728	$0.66

(in thousands, except per share data)

	Six months ended June 30,					
	1998			1997		
	(Unaudited)					
	Net Income	Shares	Per-Share Amount	Net Income	Shares	Per-Share Amount
Net income	$32,297			$71,288		
Basic EPS		69,267	$0.47		67,771	$1.05
Dilutive Securities		2,116			3,473	
Diluted EPS		71,383	$0.45		71,244	$1.00

For the three months ended June 30, 1998 and 1997, 8,189,000 and 160,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

7. Commitments and contingencies

The Company has committed to purchase titanium golf clubheads costing approximately $42.9 million from one of its vendors. The clubheads are to be shipped to the Company in 1998 and 1999.

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of legal proceedings in various stages of development. It is the opinion of the management of the Company that the probable result of these matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

8. Recently issued accounting standard

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which the Company will be required to adopt beginning January 1, 2000. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company is currently evaluating the impact the adoption of SFAS No. 133 will have on its financial statements, if any.

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

Statements used in this discussion that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers also are urged to carefully review and consider the various disclosures made by the Company which describe certain factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion

and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Callaway Golf Company" below, as well as the Company's other periodic reports on Forms 10-K and 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

Readers also should be aware that while the Company 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.

Certain Factors Affecting Callaway Golf Company

Sales; Gross Margins; Seasonality

The Company believes that the growth rate in the world-wide golf equipment market has been modest for the past several years and is now declining. In addition, the economic turmoil in Southeast Asia and Korea has caused a significant contraction in the retail golf markets in these countries and has continued to have an adverse effect on the Company's sales and results of operations for the second and third quarters of 1998. The Company expects this situation to continue until economic stability returns to these areas. Economic disruption from this turmoil in other areas, such as Japan and elsewhere in Asia, also has adversely impacted and the Company believes it will continue to impact the Company's sales and results of operations. Additionally, sales in the U.S. of the Company's most profitable products -- Biggest Big Bertha(TM), Great Big Bertha(R) and Big Bertha(R) War Bird(R) Metal Woods -- which slowed in the first quarter of 1998, remained soft in the second quarter of 1998 and are expected to remain soft in the second half of 1998. The Company also believes that certain actions by the USGA regarding thin-faced metal woods contributed to the drop in metal wood sales.

The Company introduced a new stainless steel metal wood, the Big Bertha(R) Steelhead(TM), on August 11, 1998. While it is expected that demand for this new product will be strong for the rest of 1998, the sales will be limited by the availability of the Big Bertha(R) Steelhead(TM) during the initial ramp up of production. The Big Bertha(R) Steelhead(TM) is expected to directly compete with the Company's sale of Big Bertha(R) War Bird(R) Metal Woods and also may compete with the sale of the Company's titanium metal woods.

Sales to Japan, which accounted for approximately 10% of the Company's 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, in the year 2000. See "Certain Factors Affecting Callaway Golf Company-- International distribution."

No assurances can be given that the demand for the Company's existing products or the introduction of new products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

The Company experienced a decrease in its gross margin as a percentage of net sales during the second quarter of 1998 compared to historical levels. In the second quarter of 1998 this decrease was primarily due to increased sales of irons as a percentage of net sales, which have lower margins than metal woods, a metal woods price reduction and accompanying customer compensation implemented during the quarter, and an increase in warranty expense. The Company may continue to experience a decrease in gross margin due to the metal woods price reduction or if sales of irons as a percentage of the Company's net sales remain at these levels or continue to rise.

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 have compounded these seasonal effects. The Company believes that such conditions will have a negative effect on the Company's future sales and results of operations, unless overcome by other factors such as successful product introductions.

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 have 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 has risen in 1998, to the benefit of competitors making such products.

New product introduction

The Company believes that the introduction of new, innovative golf equipment is important to its future success. As a result, 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 should generally 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.

Earlier this year the USGA was evaluating steps that might have prohibited or restricted the use of existing modern, thin-faced metal woods under the "Rules of Golf." Although the USGA has advised the Company that any consideration of imposing new restrictions on metal woods will not affect any of the Company's drivers and fairway woods in the market today, the USGA has proposed limitations on future technological advancements which may impede the Company's ability to introduce new products. Any negative impact on the Company's ability to introduce new products could have a material adverse effect on the Company's results of operations.

Further, the Company's new products have tended to incorporate significant innovations in design and manufacture, which have resulted in increasingly higher prices for the Company's products relative to products already 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 close-outs of existing inventories, both at the Company and at retailers. Such close-outs can result in reduced margins on the sale of existing products, as well as reduced sales of the new product, given the availability of existing products at lower prices. So far, the Company has managed such close-outs so as to avoid any material negative impact on the Company's operations. 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. 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. This could result in excess inventories that could adversely affect the Company's financial performance. In addition, 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.

Review of business elements

In light of the Company's reduced profitability in 1998 as previously discussed, the Company has undertaken a review of its business elements. The Company anticipates that this assessment will result in non-recurring charges during the second half of 1998 and may result in such charges in 1999. Based on a preliminary assessment, the Company anticipates a net loss of up to $0.20 per share for the second half of 1998 resulting in aggregate net earnings per share for 1998 as low as $0.25. There can be no assurances that actions taken by the Company as a result of this review will not have a material adverse effect on the Company's golf club business operations in these years. See "Part II. OTHER INFORMATION -Item 5. Other Information."

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. 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. The Company's Biggest Big Bertha(TM) 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. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. The Company believes that it has sufficient reserves for warranty claims; however, 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.

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 results of operations.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic customers. The Company is considering alternative methods of ground shipping to reduce its reliance on UPS, but no change has been made. 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 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 patents, trademarks, or trade dress.

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark 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 which 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 the 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 on these patents or other intellectual property rights, or it must obtain licenses to use them lawfully. If any new golf ball product was 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 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 is experiencing a decline in sales in the United States in 1998, and believes that decline is 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.

Professional endorsements

The Company establishes relationships with professional golfers in order to promote the Callaway Golf brand among both professional and amateur golfers. The Company has entered into endorsement arrangements with members of the Senior Professional Golf Association's Tour, the Professional Golf Association's Tour, the Ladies Professional Golf Association's Tour, the European Professional Golf Association's 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 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. There is no assurance that the Company will be able to sustain this level of professional usage. Many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. 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 could have a material adverse effect on the Company's business.

During 1997, Callaway Golf continued its Big Bertha(R) Players' Pools ("Pools") for the PGA, SPGA, LPGA and Nike Tours. Those professional players participating in the Pools received cash for using Callaway Golf products in professional tournaments. The Company has established the 1998 Big Bertha(R) Players' Pools similar to the 1997 Pools, in which professional players participating in the Pools will receive cash for using certain Callaway Golf products in professional tournaments. The Company believes that its professional endorsements and its Pools contributed to its usage on the professional tours in 1997. There is no guarantee, however, that the Company will be able to sustain this level of professional usage, and in some measures this level of usage has been lower on the professional tours in 1998 than in 1997.

New business ventures

The Company has invested, and expects to continue to invest, significant capital in new business ventures. However, both existing and proposed new business ventures will be evaluated in connection with the Company's review of its business. Investments in these ventures have had a negative impact on the Company's cash flows and results of operations and will continue to do so for the next several years. There can be no assurance that these new ventures will lead to new product offerings or otherwise increase the revenues and profits of the Company. Like all new businesses, these ventures require significant management time, involve a high degree of risk and will present many new challenges for the Company. There can be no assurance that these activities will be successful, or that the Company will realize appropriate returns on its investments in these new ventures.

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 is 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 and will 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 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. To date, losses resulting from exchange rate fluctuations have not had a significant adverse impact on the Company's results of operations. However, 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.

The Company, through a distribution agreement, appointed Sumitomo as the sole distributor of the Company's golf clubs in Japan. The current distribution agreement began in February 1993 and runs through December 31, 1999. The Company does not intend to extend this agreement.

The Company has established ERC, a wholly-owned Japanese corporation, for the purpose of distributing Odyssey(R) products immediately, 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 not commercially successful.

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by developing a new product in a new plant to be 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 in the early stages of development and has had a negative impact on the Company's cash flows and results of operations and will continue to do so for the next several years. The Company believes that many of the same factors which 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 will need to be penetrated in order for the Company's 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 issue."

The Company has formulated a Year 2000 Plan to address the Company's Year 2000 issues. The Company's own internal systems will be a primary area of focus. In October 1997, the Company implemented a new computer system which runs most of the Company's data processing and financial reporting software applications. The manufacturer of the application software used on the new computer system has represented that the software addresses the Year 2000 issue. The information systems of some of the Company's subsidiaries have not yet been converted to the new system, but the Company is in the process of implementing such conversions as needed. The Company is currently evaluating its other software applications, including, but not limited to, its computerized manufacturing equipment and embedded chips to identify any Year 2000 issues that may significantly disrupt the Company's manufacturing capabilities in a material manner.

The Company's Year 2000 Plan contemplates four phases--assessment, implementation, testing and release/installation--which will overlap to a significant degree. The Company is currently in the assessment phase and anticipates commencing the implementation phase during the fourth quarter of 1998. The Company presently plans to have addressed 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; however, the Company believes such systems will not disrupt the Company's manufacturing capabilities in a material manner.

The Company has received some preliminary information concerning the Year 2000 status of a small group of critical suppliers, and anticipates initiating more extensive inquiries with significant suppliers and selected customers during the third quarter of 1998 to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 issues.

The Company currently estimates that the total cost of implementing its Year 2000 Plan will not exceed $10.0 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 received feedback from suppliers and formulated its contingency plan.

If the Company's new computer system fails with respect to the Year 2000 issue, or if any applications or embedded chips critical to the Company's manufacturing process are overlooked, or if the subsidiary conversions are not made or are not completed timely, there could be a material adverse impact on the business operations or financial performance of the Company. Additionally, there can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have material adverse effect on the business operations or financial performance of the Company. In particular, if third party providers, due to the Year 2000 issue, fail to provide the Company with components or materials which are necessary to manufacture its products, with sufficient electrical 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.

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 may begin 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. As noted above, the Company is in the process of installing a new computer system at its subsidiaries. This new system will run substantially all of the principal data processing and financial reporting software of the subsidiaries. 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. 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.

Results of Operations

Three-month periods ended June 30, 1998 and 1997:

Net sales decreased 8% to $233.3 million for the three months ended June 30, 1998 compared to $253.0 million for the comparable period in the prior year. This decrease was largely attributable to a decrease in sales of metal woods of $54.6 million for the three months ended June 30, 1998 versus 1997. Soft metal woods sales resulted from continued economic problems in Asia and close-outs by competitors. Sales to Japan and to the rest of Asia (excluding Japan) decreased $1.3 million (7%) and $7.5 million (48%), respectively, and domestic sales also decreased $20.9 million (12%) during the three months ended June 30, 1998 as compared to the same period in the prior year. These decreases were offset by an increase in sales in Europe of $7.9 million (27%). Also contributing to the decrease in sales of metal woods products was the absence of a new metal woods product in 1998 as compared to 1997 with the January 1997 introduction of the Biggest Big Bertha(TM) Titanium Driver. The decrease was partially offset by an increase in sales of irons of $20.7 million, primarily the result of sales of Big Bertha(R) X-12(TM) Irons, which the Company introduced in January 1998, and by sales of $14.7 million of Odyssey(R) products, which were not included in net sales during the second quarter of 1997.

For the three months ended June 30, 1998, gross profit decreased 19% to $108.8 million from $134.7 million for the comparable period in the prior year. As a percentage of net sales, gross profit decreased to 47% from 53% for the quarter ended June 30, 1998 as compared to the comparable quarter of the prior year, primarily as a result of higher cost of sales due to a general increase in sales of irons, which have lower margins than metal woods, a metal woods price reduction and accompanying customer compensation. These increases were partially offset by a reduction in employee compensation expense during the quarter ended June 30, 1998 over the comparable quarter in 1997.

Selling expenses increased to $42.2 million in the second quarter of 1998 compared to $36.0 million in the second quarter of 1997. As a percentage of net sales, selling expenses increased to 18% from 14% during the second quarter of 1998 over the second quarter of 1997. The $6.2 million increase was primarily the result of selling expenses related to Odyssey and the acquisition of foreign distributors. The increase was partially offset by a reduction in employee compensation expense during the quarter ended June 30, 1998 over the quarter ended June 30, 1997.

General and administrative expenses increased to $23.7 million for the three months ended June 30, 1998 from $16.1 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the second quarter of 1998 increased to 10% from 6%. The $7.6 million increase was largely attributable to costs associated with operations of Callaway Golf Ball Company, primarily non-capitalized construction costs of its new facility, as well as costs related to the implementation of the Company's new computer software system. Also contributing to the increase were costs related to Odyssey, including amortization of intangibles associated with the purchase of substantially all of the assets and certain liabilities of Odyssey, costs related to other subsidiaries which the Company did not own in the comparable period of 1997, and costs related to golf development and new player programs which were formed in the first quarter of 1998. This increase was partially offset by a decrease in employee compensation expense.

Research and development expenses increased to $8.4 million in the second quarter of 1998 compared to $8.1 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the second quarter of 1998 increased to 4% from 3% in the second quarter of 1997. The $0.3 million increase was primarily the result of increased costs associated with golf ball development and costs related to Odyssey. This increase was partially offset by a decrease in employee compensation expense.

Other income decreased $0.7 million for the quarter ended June 30, 1998 over the comparable period of the prior year. This decrease was attributable to a decrease of interest income resulting from lower cash balances during three months ended June 30, 1998 versus 1997 as well as interest expense incurred during the three months ended June 30, 1998 related to draws on the Company's line of credit.

Six-month periods ended June 30, 1998 and 1997:

Net sales decreased 3% to $410.2 million for the six months ended June 30, 1998 compared to $422.1 million for the comparable period in the prior year. This decrease was largely attributable to a decrease in sales of metal woods of $70.3 million for the six months ended June 30, 1998 versus 1997. Soft metal woods sales resulted from continued economic problems in Asia and close-outs by competitors. Sales to Japan and to the rest of Asia (excluding Japan) decreased $0.3 million (1%) and $13.9 million (51%), respectively, and domestic sales also decreased $18.7 million (7%) during the six months ended June 30, 1998 as compared to the same period in the prior year. These decreases were offset by an increase in sales in Europe of $18.5 million (40%). Also contributing to the decrease in sales of metal woods products was the absence of a new metal woods product in 1998 as compared to 1997 with the January 1997 introduction of the Biggest Big Bertha(TM) Titanium Driver. The decrease was partially offset by an increase of $34.3 million in sales of irons, primarily the result of sales of Big Bertha(R) X-12(TM) Irons, which the Company introduced in January 1998, and by sales of $25.1 million of Odyssey(R) products, which were not included in sales during the first half of 1997.

For the six months ended June 30, 1998, gross profit decreased 13% to $192.5 million from $221.7 million for the comparable period in the prior year. As a percentage of net sales, gross profit decreased to 47% from 53% for the six months ended June 30, 1998 as compared to the comparable period of the prior year, primarily as a result of higher cost of sales due to a general increase in sales of irons, which have lower margins than metal woods, a metal woods price reduction and accompanying customer compensation. These increases were partially offset by a reduction in employee compensation expense during the six months ended June 30, 1998 over the six months ended June 30, 1997.

Selling expenses increased to $78.0 million in the first half of 1998 compared to $62.6 million in the first half of 1997. As a percentage of net sales, selling expenses increased to 19% from 15% during the first half of 1998 over the first half of 1997. The $15.4 million increase was primarily the result of selling expenses related to Odyssey and the acquisition of foreign distributors. Also contributing to the increase were increases in advertising and promotional costs, as well as increased pro tour expenses primarily resulting from tour signage. The increase was partially offset by a reduction in employee compensation expense during the six months ended June 30, 1998 over the comparable period in 1997.

General and administrative expenses increased to $44.2 million for the six months ended June 30, 1998 from $32.3 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the first half of 1998 increased to 11% from 8%. The $11.9 million increase was largely attributable to costs associated with operations of Callaway Golf Ball Company, primarily non-capitalized construction costs of its new facility, as well as costs related to the implementation of the Company's new computer software system. Also contributing to the increase were costs related to Odyssey, including amortization of intangibles associated with the purchase of substantially all of the assets and certain liabilities of Odyssey, costs related to other subsidiaries which the Company did not own in the comparable period of 1997, and costs related to golf development and new player programs which were formed in the first quarter of 1998. This increase was partially offset by a decrease in employee compensation expense.

Research and development expenses increased to $17.1 million in the first half of 1998 compared to $14.0 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the first half of 1998 increased to 4% from 3% in the first half of 1997. The $3.0 million increase was primarily the result of increased product engineering costs associated with casting technology, costs associated with golf ball development and costs related to Odyssey. This increase was partially offset by a decrease in employee compensation expense.

Other income decreased $2.5 million for the six months ended June 30, 1998 over the comparable period of the prior year. This decrease was attributable to a decrease of interest income resulting from lower cash balances during six months ended June 30, 1998 versus 1997 as well as interest expense incurred during the first half of 1998 related to draws on the Company's line of credit.

Liquidity and Capital Resources

At June 30, 1998, cash and cash equivalents increased to $35.1 million from $26.2 million at December 31, 1997 primarily as a result of $6.5 million provided by operations and $48.4 million provided by financing activities. Cash flows from operations was primarily attributable to net income, increases in accounts payable and accrued expenses, income taxes payable and accrued warranty expense, partially offset by increases in accounts receivable, other assets and inventories. Cash provided by financing activities was primarily due to net proceeds from the Company's revolving line of credit as well as issuance of Common Stock, partially offset by dividends paid and the retirement of Common Stock.

Cash used in investing activities totaled $46.1 million and resulted from capital expenditures for building improvements, production and research and development machinery and computer equipment as well as the acquisition of the Company's distributors in Korea, Belgium, Denmark, Canada and France and the purchase of the remaining 80% interest of All-American Golf LLC.

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. The Company expects this trend to continue. The Company increased its line of credit facility from $50.0 million to $150.0 million in February 1998. The Company has borrowed against its line of credit to supplement cash flow used in operations based upon the Company's need to increase its inventory levels and finance additional operational activities as well as finance capital expenditures during the six months ended June 30, 1998.

At June 30, 1998, the Company had available $93.3 million on its line of credit. The Company intends to repay its borrowings on its line of credit with cash flow from operations. The Company believes that, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, and the current ongoing review of the Company's business, 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 line of credit. There can be no assurance, however, that future industry specific developments or general economic trends will not adversely affect the Company's operations or its ability to meet its cash requirements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

PART II. OTHER INFORMATION

Item 1. 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, from time to time are parties to a number of other legal proceedings in various stages of development. It is the opinion of the management of the Company that the probable result of these other matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

On April 23, 1998, the Company held its Annual Meeting of Shareholders near the Company's headquarters in Carlsbad, California. Ely Callaway, Donald H. Dye, William C. Baker, Vernon E. Jordan, Jr., Bruce Parker, Aulana L. Peters, Frederick R. Port, Richard Rosenfield, William A. Schreyer, Elmer Ward and Charles J. Yash were elected to the Board of Directors. Additionally, the Company's shareholders approved: (i) an amendment to the Callaway Golf Company 1996 Stock Option Plan, in order to increase the number of shares of the Company's Common Stock reserved for issuance thereunder by 3,000,000 shares to an aggregate of 6,000,000 shares; and (ii) the adoption of the Callaway Golf Company 1998 Stock Incentive Plan, which would authorize the Board of Directors to issue stock options, restricted stock, and other stock-based awards or benefits to officers, employees, consultants and advisors of the Company and its subsidiaries.

The voting results for the election of Directors were as follows:

Name	Votes For	Votes Withheld
Ely Callaway	66,076,773	986,045
Donald H. Dye	66,099,077	963,741
William C. Baker	66,188,434	874,384
Vernon E. Jordan, Jr.	59,444,424	7,618,394
Bruce Parker	66,099,988	962,830
Aulana L. Peters	65,975,556	1,087,262
Frederick R. Port	66,097,454	965,364
Richard Rosenfield	66,190,987	871,831
William A. Schreyer	66,120,339	942,479
Elmer Ward	66,079,392	983,426
Charles J. Yash	66,106,046	956,772

The voting results for the proposal to amend the Callaway Golf Company 1996 Stock Option Plan were as follows:

Votes For	Votes Against	Abstain	Broker Non-Vote
52,753,365	13,693,080	616,373	0

The voting results for the proposal to adopt the Callaway Golf Company 1998 Stock Incentive Plan were as follows:

Votes For	Votes Against	Abstain	Broker Non-Vote
51,370,444	15,086,520	605,854	0

Item 5. Other Information:

July 22, 1998 Press Release
- --------------------------

On July 22, 1998, the Company issued a press release reporting its second quarter 1998 sales and earnings and the anticipation of continued adverse impact of market conditions on its sales and earnings in the second half of 1998. A copy of the press release is attached hereto as Exhibit 99 and incorporated herein by reference.

Shareholder Proposal Notice Deadline
- ------------------------------------

Shareholders who wish to bring proposals for action at the Company's 1999 Annual Meeting of Shareholders must give written notice of such proposal to the Company's Secretary no later than January 15, 1999.

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

a. Exhibits:

3.1 Articles of Incorporation (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 33-85692), as filed with the Securities and Exchange Commission (the "Commission") on October 28, 1994, and incorporated herein by this reference).

3.2 Certificate of Amendment of Articles of Incorporation of the Company (filed as Exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, as filed with the Commission on March 31, 1995, and incorporated herein by this reference).

3.3 By-laws (as amended through May 10, 1996) (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-8 (No. 333-5719), as filed with the Commission on June 11, 1996, and incorporated herein by this reference).

10.1 Callaway Golf Company 1996 Stock Option Plan (as amended and restated through April 23, 1998). (+)

10.2 Callaway Golf Company 1998 Stock Incentive Plan effective February 18, 1998. (+)

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

27 Financial Data Schedule(+)

99 Press Release dated July 22, 1998(+)

_____
(+) Included with this Report.

b. Reports on Form 8-K:

None

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: August 13, 1998

/s/ DONALD H. DYE

Donald H. Dye
President and
Chief Executive Officer

/s/ DAVID A. RANE

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

EXHIBIT INDEX

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CALLAWAY GOLF COMPANY
1996 STOCK OPTION PLAN
(AS AMENDED AND RESTATED APRIL 23, 1998)

SECTION 1. PURPOSE OF THE PLAN

This 1996 Stock Option Plan (the "Plan") of Callaway Golf Company, a California corporation (the "Company"), is intended as a means whereby the Company may provide for grants of stock options to employees (including officers), consultants and advisors of the Company and its subsidiaries and affiliates, thereby helping to retain and motivate such individuals, and to encourage the judgment, initiative and efforts of such individuals by further aligning their interests with those of the shareholders of the Company.

SECTION 2. ADMINISTRATION OF THE PLAN

2.1 Administration. The Plan shall be administered by the Board of Directors of the Company (the "Board") or, in the discretion of the Board, a committee appointed thereby (the "Committee"). All expenses and liabilities incurred by the Board or the Committee in the administration of the Plan shall be borne by the Company. The Board or the Committee may employ attorneys, consultants, accountants, agents, brokers or other persons. If no persons are designated by the Board to serve on the Committee, the Plan shall be administered by the Board and all references herein to the Committee shall refer to the Board. Unless otherwise provided by the Board: (a) with respect to any Options (as defined in Section 5.1 below) for which the Committee determines that it is necessary or desirable for the grant thereof to be exempt under Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act"), membership of the Committee shall conform to the requirements of that Rule to make grants or awards that are exempt from the operation of Exchange Act Section 16(6), and (b) with respect to any Options that are intended to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code (the "Code"), membership of the Committee shall conform to the requirements of Code Section 162(m) and the Treasury regulations thereunder.

2.2 Determinations. The Committee shall have full and exclusive power to construe and interpret the Plan, to determine and designate the class or classes of Eligible Persons (as defined in Section 4 below) of the Company and of its subsidiaries or affiliates who are eligible to participate in the Plan and any other criteria that must be satisfied in order for an Eligible Person to participate in the Plan, to determine the terms of Options, subject to the requirements and provisions of the Plan, and generally to determine answers to any and all questions arising under the Plan. All decisions, determinations and interpretations by the Committee regarding the Plan shall be final and binding on all Eligible Persons and Participants (as defined in Section 4 below). The Committee shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations, including, without limitation, the recommendations or advice of any

officer of the Company or Eligible Person and such attorneys, consultants and accountants as it may select.

2.3 Powers. Subject to the express provisions of the Plan, the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of the Plan with respect to the Options over which the Committee has authority, including, without limitation, the following:

(a) to prescribe, amend and rescind rules and regulations relating to the Plan and to define terms not otherwise defined herein;

(b) to determine which persons are Eligible Persons, to which Eligible Persons, if any, Options shall be granted hereunder and the timing of any such Options;

(c) to determine the number of Shares (as defined in Section 3.1 below) that will be subject to any Option and the exercise price of such Shares;

(d) to prescribe and amend the terms of the Option Agreements (as defined in Section 5.1 below), which need not be identical;

(e) to determine whether, and the extent to which, adjustments are required pursuant to Section 7.2;

(f) to interpret and construe the Plan, any rules and regulations under the Plan and the terms and conditions of any Option granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and

(g) to make all other determinations deemed necessary or advisable for the administration of the Plan.

SECTION 3. STOCK SUBJECT TO THE PLAN

3.1 Aggregate Limits. Subject to adjustment as provided in Section 7.2, at any time, the aggregate number of shares of the Company's Common Stock ("Shares") issued and issuable pursuant to all Options (including all ISOs (as defined in Section 5.3 below)) granted under the Plan shall not exceed 6,000,000. The Shares subject to the Plan may be either Shares reacquired by the Company (including Shares repurchased in the open market or otherwise) or authorized but unissued Shares.

3.2 Code Section 162(m) Limit. The maximum number of Shares with respect to which Options may be granted under the Plan during any calendar year to a key employee shall not exceed 1,000,000. Notwithstanding anything to the contrary in the Plan, the foregoing limitation (a) shall not apply if it is not required in order for the compensation attributable to Options under the Plan to qualify as "performance based compensation"

described in Code Section 162(m) and the Treasury regulations thereunder, and (b) shall be subject to adjustment under Section 7.2 only to the extent the Committee determines that such adjustment would not affect the status of compensation attributable to Options hereunder as "performance based compensation" described in Code Section 162(m) and the Treasury regulations thereunder.

3.3 ISO Limits. The aggregate number of Shares issued and issuable pursuant to all ISOs (as defined in Section 5.3) granted under the Plan shall not exceed 6,000,000. Such maximum number does not include the number of Shares subject to the unexercised portion of any ISO granted under the Plan that expires or is terminated. Notwithstanding anything to the contrary in the Plan, such aggregate number of Shares shall be subject to adjustment under Section 7.2 only to the extent that such adjustment will not affect the status of any ISO granted under the Plan.

3.4 Calculating Plan Limits. For purposes of Section 3.1,

(a) The aggregate number of Shares issued under the Plan at any time shall equal only the number of Shares actually issued upon exercise or settlement of an Option and not returned to the Company upon cancellation, expiration or forfeiture of an Option or in payment or satisfaction of the purchase price, exercise price or tax withholding obligation of an Option; and

(b) In the event that any outstanding Option under the Plan expires by reason of lapse of time or is otherwise terminated without exercise for any reason, then the Shares subject to any such Option that have not been issued upon exercise of the Option shall again become available in the pool of Shares for which Options may be granted under the Plan; provided, however, that in the event that the Committee determines that it is appropriate to condition the grant of a new Option to a Participant upon the surrender by such Participant of a previously issued unexercised Option having a higher exercise price than the proposed new Option, then the Shares underlying the old Option shall not again become available in the pool of Shares for which Options may be granted under the Plan unless and until such new Option expires by reason of lapse of time or is otherwise terminated without exercise for any reason other than in connection with a similar conditional re-grant.

SECTION 4. PERSONS ELIGIBLE UNDER THE PLAN

Any person who is an employee, consultant or advisor of the Company or any of its subsidiaries or affiliates (an "Eligible Person") may be eligible to be considered for the grant of Options hereunder, as determined by the Committee in its discretion; provided, however, that no director of the Company who is not also an employee of the Company shall be eligible to receive any Option hereunder. A "Participant" is any Eligible Person to whom an Option has been granted and any person (including any estate) to whom an Option has been assigned or transferred pursuant to Section 6.1.

SECTION 5. STOCK OPTION GRANTS

5.1 Authority to Grant Options. An "Option" is a right to purchase a number of Shares at such exercise price, at such times, and on such other terms and conditions as are specified in the agreement evidencing the Option (the "Option Agreement"). The Committee, on behalf of the Company, is authorized under the Plan to grant an Option or provide for the grant of an Option, either automatically or in the discretion of the Committee, upon the occurrence of specified events, including, without limitation, the achievement of Qualifying Performance Criteria (as defined below) or the satisfaction of an event or condition within the control of the recipient of the Option or within the control of others.

For purposes of the Plan, the term "Qualifying Performance Criteria" shall mean any one or more performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or subsidiary, either individually, alternatively or in any combination, and measured either on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee in the Option Agreement. For this purpose, such performance criteria may include (a) cash flow, (b) earnings per share (including earnings before interest, taxes and amortization), (c) return on equity, (d) total shareholder return, (e) return on capital, (f) return on assets or net assets, (g) income or net income, (h) operating income or net operating income, (i) operating profit or net operating profit, (j) operating margin, (k) return on operating revenue, (l) market share or circulation, and (m) any similar performance criteria.

5.2 Option Agreement. Each Option Agreement shall contain provisions regarding (a) the number of Shares that may be issued upon exercise of the Option, (b) the purchase price of the Shares, (c) the term of the Option, (d) such terms and conditions of exercise as may be determined from time to time by the Committee, (e) restrictions on the transfer of the Option and forfeiture provisions, and (f) such further terms and conditions, in each case not inconsistent with the Plan, as may be determined from time to time by the Committee.

5.3 ISOs and Nonqualified Options. Options that are intended to qualify as Incentive Stock Options ("ISOs") pursuant to Code Section 422 and Options that are not intended to qualify as ISOs ("Nonqualified Options") may be granted under this Section 5 as the Committee in its discretion shall determine. Option Agreements evidencing ISOs shall contain such terms and conditions as may be necessary to comply with the applicable provisions of Section 422 of the Code.

5.4 Option Price. The exercise price per Share of each Option granted under the Plan shall be not less than the Fair Market Value (as defined below) on the date the Option is granted.

Unless the Committee shall specify otherwise, for purposes of the Plan, the "Fair Market Value" of a Share as of a particular date shall be: (a) if the Shares are of a class listed on

an established stock exchange or exchanges (including, for this purpose, The Nasdaq National Market), the closing sale price of the Share quoted for such date in the Transactions Index of each such exchange, as published in The Wall Street Journal, or, if no sale price was quoted in any such Index for such date, then as of the next preceding date on which such a sale price was quoted; or (b) if the Shares are of a class not then listed on an exchange, the average of the closing bid and asked prices per share for the Share in the over-the-counter market as quoted on the NASDAQ system on such date; or (c) if the Shares are of a class not then listed on an exchange or quoted in the over-the-counter market, an amount determined in good faith by the Committee; provided, however, that when appropriate, the Committee in determining the Fair Market Value may take into account such other factors as it may deem appropriate under the circumstances. Notwithstanding the foregoing, the Fair Market Value for purposes of grants of ISOs shall be determined in compliance with applicable provisions of the Code.

5.5 Termination of Options. Unless determined otherwise by the Committee in its sole discretion, Options shall expire on the earliest of (a) one (1) year from the date on which the Participant ceases to be an Eligible Person of the Company for any reason other than death; (b) one (1) year from the date of the Participant's death; or (c) with respect to each installment of such Option, the fifth anniversary of the vesting date of such installment. If a Participant who is an employee of the Company (or of a subsidiary or affiliated entity) ceases for any reason to be such an employee, that portion of the Option that has not yet vested shall terminate, unless the Committee accelerates the vesting schedule in its sole discretion (in which case, the Committee may impose whatever conditions it considers appropriate on the accelerated portion). Options granted to a Participant who is not such an employee may be made subject to such other termination provisions as determined appropriate by the Committee.

5.6 Option Exercise.

(a) Partial Exercise. Unless otherwise provided by the Committee, an exercisable Option may be exercised in whole or in part.

(b) Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery to the Secretary of the Company at the Company's principal office all of the following: (i) notice of exercise specifying the number of Shares to be purchased and signed by the Participant, (ii) full payment of the exercise price for such number of Shares, (iii) such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act of 1933, as amended, and any other federal, state or foreign securities laws or regulations, (iv) in the event that the Option shall be exercised pursuant to Section 6.1 by any person or persons other than the Eligible Person, appropriate proof of the right of such person or persons to exercise the Option, and (v) such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to provide for the tax withholding pursuant to Section 9. Shares shall be registered in the name of the Participant as soon as administratively practicable after exercise of any Option, subject to reasonable delays and to delays beyond the reasonable control of the Company such

as but not limited to completion of registration of said Shares with the Securities and Exchange Commission (the "SEC") or compliance with any federal or state laws, rules or regulations.

(c) Payment of Exercise Price. The exercise price of an Option shall be paid in the form of one of more of the following, as the Committee shall specify, either through the terms of the Option Agreement or at the time of exercise of an Option: (i) cash, (ii) other property deemed acceptable by the Committee, (iii) a commitment by a brokerage firm acceptable to the Company to pay such exercise price from the proceeds of a sale of Shares issuable upon exercise of the Option, or (iv) any combination of (i) through (iii). The Company may, in its sole discretion, assist any person to whom an Option is granted hereunder in the payment of the purchase price (including, without limitation, by loan or the acceptance of a promissory note) payable in connection with the receipt or exercise of that Option.

SECTION 6. OTHER PROVISIONS APPLICABLE TO OPTIONS

6.1 Nonassignability. Unless the Committee shall otherwise determine on a case by case basis, no Option granted under the Plan shall be assignable or transferable except (a) by will or by the laws of descent and distribution, or (b) subject to the final sentence of this Section, upon dissolution of marriage pursuant to a qualified domestic relations order. Unless the Committee shall otherwise determine on a case by case basis, during the lifetime of a Participant, an Option granted to him or her shall be exercisable only by the Participant (or the Participant's permitted transferee) or his or her guardian or legal representative. Notwithstanding the foregoing, (i) no Option owned by a Participant subject to Section 16 of the Exchange Act may be assigned or transferred in any manner inconsistent with Rule 16b-3 thereunder as interpreted and administered by the Commission and its staff, and (ii) ISOs may not be assigned or transferred in violation of Section 422(b)(5) of the Code or the Treasury Regulations thereunder, and nothing herein is intended to allow such assignment or transfer.

6.2 Dividends. Unless otherwise provided by the Committee, no adjustment shall be made in Shares issuable under Options on account of cash dividends that may be paid or other rights that may be issued to the holders of Shares prior to their issuance under any Option. Unless otherwise provided by the Committee, no dividends or dividend equivalent amounts shall be paid to any Participant with respect to the Shares subject to any Option that has not vested or has not been exercised on the record date for dividends.

6.3 Consideration for Issuance of Shares. Any issuance of Shares may be conditioned upon payment of an amount equal to the minimum amount, if any, required by applicable law for the issuance of such Shares. The absence of any such condition shall be deemed to reflect a determination by the Committee that non-cash consideration in an amount at least equal to the minimum amount, if any, required by law has been or will be received prior to the issuance of such Shares.

6.4 Conditions for Issuance of Options. The Committee may, in its discretion and on such terms as it may specify, require as a condition to the grant of any Option that the Eligible Person surrender for cancellation some or all of any previously granted employee benefit arrangement (including other Options), or any rights under any such employee benefit arrangement. Any such Option that is conditioned upon the surrender and cancellation of another employee benefit arrangement or of rights thereunder may contain such other terms as the Committee deems appropriate.

6.5 Tandem Stock or Cash Rights. Either at the time an Option is granted or by subsequent action, the Committee may, but need not, provide that an Option shall contain as a term thereof, a right, either in tandem with the other rights under the Option or as an alternative thereto, of the Participant to receive, without payment to the Company, a number of Shares, cash or a combination thereof, the amount of which is determined by reference to the value of the Option.

6.6 No Repricing. The Committee may not decrease the exercise price of Shares that may be acquired pursuant to Options granted under the Plan unless such decrease is (a) made subject to approval by the shareholders of the Company or (b) made pursuant to the adjustment provisions of Section 7.2.

SECTION 7. CHANGES IN CAPITAL STRUCTURE

7.1 No Preferential Rights. The existence of outstanding Options shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations, exchanges, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of any Shares or other securities or subscription rights thereto, or any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

7.2 Adjustment in Shares. If the outstanding securities of the class then subject to the Plan are increased, decreased or exchanged for or converted into cash, property or a different number or kind of shares or securities, or if cash, property or shares or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, restructuring, reclassification, dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split, spin-off or the like, or if substantially all of the property and assets of the Company are sold, then, unless the terms of such transaction shall provide otherwise, the Committee shall make appropriate and proportionate adjustments in (a) the number and type of shares or other securities or cash or other property that may be acquired pursuant to Options theretofore granted under the Plan and the exercise or settlement price of such Options, provided, however, that such adjustment shall be made in such a manner that will not affect the status of any Option intended to qualify as an ISO under Code Section 422, and

(b) the maximum number and type of shares or other securities that may be issued pursuant to such Options thereafter granted under the Plan. Any adjustments made by the Committee pursuant to this Section shall be binding upon the holders of each then outstanding Option, without need for any consent or amendment signed by such holder, effective at such date as is fixed by the Committee.

SECTION 8. CHANGE OF CONTROL

The Committee may, through the terms of the Option or otherwise, provide that a Participant may have the ability to exercise any portion of the Option not previously exercisable, upon change of control related events or termination of the Participant's services for the Company following a change of control related event. The Committee shall have the authority from time to time to define change of control related events for purposes of this Section 8, which
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may include, without limitation, a merger, reorganization, sale of assets, liquidation, acquisition of a specified percentage of the Company's outstanding equity securities (which specified percentage may be less than 50%), or a significant change in composition of the Board.

SECTION 9. TAXES

9.1 Withholding Requirements. The Committee may make such provisions
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or impose such conditions as it may deem appropriate for the withholding or payment by the Participant, as appropriate, of any taxes that it determines are required in connection with any Options granted under the Plan, and a Participant's rights in any Option are subject to satisfaction of such conditions.

9.2 Payment of Withholding Taxes. Notwithstanding the terms of
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Section 9.1, the Committee may in its discretion, but need not, provide in the
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Option Agreement or otherwise that all or any portion of the taxes required to be withheld by the Company in connection with the exercise of a Nonqualified Option or the disposition of Shares issued under an ISO shall be paid or, at the election of the Participant, may be paid by the Company withholding shares of the Company's capital stock otherwise issuable or subject to such Option having a fair market value equal to the amount required to be withheld or paid. Any such elections are subject to such conditions or procedures as may be established by the Committee and may be subject to disapproval by the Committee.

SECTION 10. AMENDMENT AND TERMINATION

The Committee may, insofar as permitted by law, from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever, and the Plan as so revised or amended will govern all Options thereunder, including those granted before such revision or amendment, except that no such amendment shall alter or impair or diminish in any material respect any rights or obligations under any Option theretofore granted under the Plan without the consent of the person to whom such Option was granted. In addition, if an amendment to the Plan would materially increase the number of shares subject to the Plan (as adjusted under Section 7.2), materially modify the requirements as
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to eligibility for participation in the Plan,

extend the final date upon which Options may be granted under the Plan, or otherwise materially increase the benefits accruing to recipients in a manner not specifically contemplated herein and that affects the Plan's compliance with Rule 16b-3 under the Exchange Act or applicable provisions of the Code or requires the approval of the Company's shareholders so that the Options hereunder continue to qualify as "performance based compensation" described in Code Section 162(m) and the Treasury regulations thereunder, then the amendment shall be subject to approval by the Company's shareholders to the extent required to comply with Rule 16b-3 under the Exchange Act or applicable provisions of or rules under the Code. Notwithstanding the foregoing, the Committee may amend the Plan to comply with or take advantage of the rules or regulations (or interpretations thereof) promulgated under Section 16 of the Exchange Act or under the Code, subject to the shareholder approval requirement described above.

SECTION 11. COMPLIANCE WITH LAWS AND REGULATIONS

11.1 Applicability of Laws. The Company shall not be required to issue or deliver any certificates for Shares prior to the completion of any registration or qualification of such Shares under any federal, state or foreign law or any ruling or regulation of any government body that the Committee shall, in its sole discretion, determine to be necessary or advisable.

11.2 Compliance with Securities Laws. The Plan, the grant and exercise of Options thereunder, and the obligation of the Company to sell, issue or deliver Shares under such Options, shall be subject to all applicable federal, state and foreign laws, rules and regulations and to such approvals by any governmental or regulatory agency as may be applicable. The exercisability of any Option and the sale of any Share hereunder is conditioned upon the registration of the Shares to be offered and sold with the SEC. In no event shall any Shares be offered or sold hereunder prior to the effective date of registration with the SEC.

SECTION 12. NO RIGHT TO COMPANY EMPLOYMENT

Neither the Plan nor the terms of any Option shall be construed to give any Eligible Person the right to be retained in the employ of the Company or any subsidiary or affiliate. The Company and its subsidiaries and affiliates each retain the unqualified right to terminate the employment of any Eligible Person at any time. Any Option Agreement may contain such provisions as the Committee may approve with reference to the effect of approved leaves of absence.

SECTION 13. LIABILITY OF THE COMPANY

The Company and any affiliate of the Company that is in existence or hereafter comes into existence shall not be liable to a Participant, an Eligible Person or other persons as to the following:

13.1 The Non-Issuance of Shares. The non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction

the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder; and

13.2 Tax Consequences. Any tax consequence expected, but not realized, by any Eligible Person, Participant or other person due to the receipt, exercise or settlement of any Option granted hereunder.

SECTION 14. EFFECTIVENESS AND EXPIRATION OF PLAN

The Plan shall be effective as of the date designated by the Board, and shall continue (unless earlier terminated by the Board) until its expiration as set forth below; provided that the Plan shall be submitted for the approval of each class of capital stock eligible to vote on matters submitted to a vote of the Company's shareholders as soon as reasonably practicable; and provided, further, that any Options granted prior to such shareholder approval shall be considered subject to such approval. Unless previously terminated, the authority to grant Options under the Plan shall expire ten (10) years after the effective date of the Plan, but such expiration shall not affect any Option previously made or granted that is then outstanding.

SECTION 15. NON-EXCLUSIVITY OF THE PLAN

The adoption of the Plan by the Board shall not be construed as creating any limitations on the power of the Company to adopt such other incentive arrangements as it may deem desirable, including without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

SECTION 16. GOVERNING LAW

This Plan and any agreements hereunder shall be interpreted and construed in accordance with the laws of the State of California and applicable federal law. The Committee may provide that any dispute as to any Option shall be presented and determined in such forum as the Committee may specify, including through binding arbitration. Any reference in the Plan or in an Option Agreement to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

EXHIBIT 10.2

CALLAWAY GOLF COMPANY

1998 STOCK INCENTIVE PLAN

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CALLAWAY GOLF COMPANY

1998 STOCK INCENTIVE PLAN

ARTICLE I

PURPOSE OF PLAN

The Company has adopted this Plan to promote the interests of the Company and its shareholders by using investment interests in the Company to attract, retain and motivate employees and other persons, to encourage and reward their contributions to the performance of the Company, and to align their interests with the interests of the Company's shareholders. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in Article VIII.

ARTICLE II

EFFECTIVE DATE AND TERM OF PLAN

2.1 TERM OF PLAN. This Plan became effective as of the Effective Date and shall continue in effect until the Expiration Date, at which time this Plan shall automatically terminate.

2.2 EFFECT ON AWARDS. Awards may be granted only during the Plan Term, but each Award granted during the Plan Term shall remain in effect after the Expiration Date until such Award has been exercised, terminated or expired in accordance with its terms and the terms of this Plan.

2.3 SHAREHOLDER APPROVAL. This Plan shall be approved by the Company's shareholders within 12 months after the Effective Date. The effectiveness of any Awards granted prior to such shareholder approval shall be subject to such shareholder approval.

ARTICLE III

SHARES SUBJECT TO PLAN

3.1 NUMBER OF SHARES. The maximum number of shares of Common Stock that may be issued pursuant to Awards shall be 500,000, subject to adjustment as set forth in Section 3.4.

3.2 SOURCE OF SHARES. The Common Stock to be issued under this Plan will be made available, at the discretion of the Board, either from authorized but unissued shares of Common Stock or from previously issued shares of Common Stock reacquired by the Company.

3.3 AVAILABILITY OF UNUSED SHARES. Shares of Common Stock subject to unexercised portions of any Award that expire, terminate or are canceled, and shares of Common Stock issued pursuant to an Award that are reacquired by the Company pursuant to the terms of the Award under which such shares were issued, will again become available for the grant of further Awards under this Plan.

3.4 ADJUSTMENT PROVISIONS.

(a) If the outstanding shares of Common Stock are increased, decreased or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed in respect of such shares of Common Stock (or any stock or securities received with respect to such Common Stock), including without limitation through merger, consolidation, sale or exchange of all or substantially all of the assets of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or spin-off, an appropriate and proportionate adjustment may be made in (1) the maximum number and kind of shares subject to this Plan as provided in Section 3.1, (2) the number and kind of shares or other securities subject to then outstanding Awards, and/or (3) the price for each share or other unit of any other securities subject to, or measurement criteria applicable to, then outstanding Awards.

(b) No fractional interests will be issued under this Plan resulting from any adjustments.

(c) To the extent any adjustments relate to stock or securities of the Company, such adjustments shall be made by the Administering Body, whose determination in that respect shall be final, binding and conclusive.

(d) The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

(e) No adjustment to the terms of an Incentive Stock Option shall be made unless such adjustment either (i) would not cause such Option to lose its status as an Incentive Stock Option or (ii) is agreed to in writing by the Administering Body and the Recipient.

3.5 RESERVATION OF SHARES. The Company will at all times reserve and keep available shares of Common Stock equaling at least the total number of shares of Common Stock issuable pursuant to outstanding Awards.

ARTICLE IV

ADMINISTRATION OF PLAN

4.1 ADMINISTERING BODY.

(a) This Plan shall be administered by the Board or by a Committee of the Board appointed pursuant to Section 4.1(b).

(b) The Board in its sole discretion may from time to time appoint a Committee (which may be a subcommittee of an existing committee of the Board) of not less than two Board members to administer this Plan and, subject to applicable law, to exercise all of the powers, authority and discretion of the Board under this Plan. The Board may from time to time increase or decrease (but not below two) the number of members of the Committee, remove from membership on the Committee all or any portion of its members, and/or appoint such person or

persons as it desires to fill any vacancy existing on the Committee, whether caused by removal, resignation or otherwise. The Board may disband the Committee at any time and revest in the Board the administration of this Plan.

4.2 AUTHORITY OF ADMINISTERING BODY.

(a) Subject to the express provisions of this Plan, the Administering Body shall have the power to implement, (including the power to delegate such implementation to appropriate officers of the Company), interpret and construe this Plan and any Awards and Award Documents or other documents defining the rights and obligations of the Company and Recipients hereunder and thereunder, to determine all questions arising hereunder and thereunder, and to adopt and amend such rules and regulations for the administration hereof and thereof as it may deem desirable. The interpretation and construction by the Administering Body of any provisions of this Plan or of any Award or Award Document shall be conclusive and binding. Any action taken by, or inaction of, the Administering Body relating to this Plan or any Award or Award Document shall be within the absolute discretion of the Administering Body and shall be conclusive and binding upon all persons. Subject only to compliance with the express provisions hereof, the Administering Body may act in its absolute discretion in matters related to this Plan and any and all Awards and Award Documents.

(b) Subject to the express provisions of this Plan, the Administering Body may from time to time in its discretion select the Eligible Persons to whom, and the time or times at which, Awards shall be granted or sold, the nature of each Award, the number of shares of Common Stock or the number of rights that make up or underlie each Award, the exercise price and period for the exercise of each Award, and such other terms and conditions applicable to each individual Award as the Administering Body shall determine. The Administering Body may grant at any time new Awards to an Eligible Person who has previously received Awards or other grants (including other stock options) regardless of whether such prior Awards or such other grants are still outstanding, have previously been exercised as a whole or in part, or are canceled in connection with the issuance of new Awards. The Administering Body may grant Awards singly, in combination or in tandem with other Awards, as it determines in its discretion. The purchase price, exercise price, initial value and any and all other terms and conditions of the Awards may be established by the Administering Body without regard to existing Awards or other grants.

(c) Any action of the Administering Body with respect to the administration of this Plan shall be taken pursuant to a majority vote of the authorized number of members of the Administering Body or by the unanimous written consent of its members; provided, however, that (i) if the Administering Body is the Committee and consists of two members, then actions of the Administering Body must be unanimous, and (ii) if the Administering Body is the Board, actions taken by the Board shall be valid if approved in accordance with applicable law.

4.3 NO LIABILITY. No member of the Board or the Committee or any designee thereof will be liable for any action or inaction with respect to this Plan or any Award or any transaction arising under this Plan or any Award, except in circumstances constituting bad faith of such member.

4.4 AMENDMENTS.

(a) The Administering Body may, insofar as permitted by applicable law, rule or regulation, and subject to Section 4.4(c), from time to time suspend or discontinue this Plan or revise or amend it in any respect whatsoever, and this Plan as so revised or amended will govern all Awards hereunder, including those granted before such revision or amendment. Without limiting the generality of the foregoing, the Administering Body is authorized to amend this Plan to comply with or take advantage of amendments to applicable laws, rules or regulations, including the Securities Act, Exchange Act, the IRC or the rules of any exchange or interdealer quotation system upon which the Common Stock is listed or traded. No shareholder approval of any amendment or revision shall be required unless (i) such approval is required by this Plan or by applicable law, rule or regulation or (ii) an amendment or revision to this Plan would materially increase the number of shares subject to this Plan (as adjusted under Section 3.4).

(b) The Administering Body may, with the written consent of a Recipient, make such modifications in the terms and conditions of an Award as it deems advisable. Without limiting the generality of the foregoing, the Administering Body may, in its discretion with the written consent of the Recipient, at any time and from time to time after the grant of any Award accelerate or extend the vesting or exercise period of any Award as a whole or in part.

(c) Except as otherwise provided in this Plan or in the applicable Award Document, no amendment, revision, suspension or termination of this Plan or any outstanding Award may impair or adversely affect any rights or obligations under any Award theretofore granted without the written consent of the Recipient to whom such Award was granted.

4.5 OTHER COMPENSATION PLANS. The adoption of this Plan shall not affect any other stock option, incentive or other compensation plans in effect from time-to-time for the Company, and this Plan shall not preclude the Company from establishing any other forms of incentive or other compensation for employees, directors, advisors or consultants of the Company, whether or not approved by shareholders.

4.6 PLAN BINDING ON SUCCESSORS. This Plan shall be binding upon the successors and assigns of the Company.

4.7 REFERENCES TO SUCCESSOR STATUTES, REGULATIONS AND RULES. Any reference in this Plan to a particular statute, regulation or rule shall also refer to any successor provision of such statute, regulation or rule.

4.8 ISSUANCES FOR COMPENSATION PURPOSES ONLY. This Plan is intended to constitute an "employee benefit plan," as defined in Rule 405 promulgated under the Securities Act, and shall be administered accordingly.

4.9 INVALID PROVISIONS. In the event that any provision of this Plan is found to be invalid or otherwise unenforceable under any applicable law, such invalidity or unenforceability shall not be construed as rendering any other provisions contained herein invalid or unenforceable, and all such other provisions shall be given full force and effect to the same extent as though the invalid and unenforceable provision were not contained herein.

4.10 GOVERNING LAW. This Agreement shall be governed by and interpreted in accordance with the internal laws of the State of California, without giving effect to the principles of the conflicts of laws thereof.

ARTICLE V

GENERAL AWARD PROVISIONS

5.1 PARTICIPATION IN THE PLAN.

(a) A person shall be eligible to receive grants of Awards under this Plan if, at the time of the grant of the Award, such person is an Eligible Person.

(b) Incentive Stock Options may be granted only to Eligible Persons meeting the employment requirements of Section 422 of the IRC.

(c) Notwithstanding anything to the contrary herein, the Administering Body may, in order to fulfill the purposes of this Plan, modify grants of Awards to Recipients who are foreign nationals or employed outside of the United States to recognize differences in applicable law, tax policy or local custom.

5.2 AWARD DOCUMENTS.

(a) Each Award granted under this Plan shall be evidenced by an agreement duly executed on behalf of the Company and by the Recipient, or by a confirming memorandum issued by the Company to the Recipient, setting forth such terms and conditions applicable to the Award as the Administering Body may in its discretion determine. Awards will not be binding upon the Company, and Recipients will have no rights thereto, until such an agreement is entered into between the Company and the Recipient or such a memorandum is delivered by the Company to the Recipient, but an Award may have an effective date on or after the date of grant but prior to the date of such an agreement or memorandum. Award Documents may but need not be identical and shall comply with and be subject to the terms and conditions of this Plan, a copy of which shall be provided to each Recipient and incorporated by reference into each Award Document. Any Award Document may contain such other terms, provisions and conditions not inconsistent with this Plan as may be determined by the Administering Body.

(b) In case of any conflict between this Plan and any Award Document, this Plan shall control.

5.3 EXERCISE OF STOCK OPTIONS. No Stock Option shall be exercisable except in respect of whole shares, and fractional share interests shall be disregarded. A Stock Option shall be deemed to be exercised when the Secretary or other designated official of the Company receives written notice of such exercise from the Recipient, together with payment of the exercise price made in accordance with Section 5.4 and any amounts required under Section 5.11. Notwithstanding any other provision of this Plan, the Company and/or the Administering Body may impose, by rule and/or in Award Documents, such conditions upon the exercise of Stock Options (including without limitation conditions limiting the time of exercise to specified periods) as may be required to satisfy applicable regulatory requirements.

5.4 PAYMENT FOR AWARDS.

(a) The exercise price or other payment for an Award shall be payable upon the exercise of a Stock Option or upon other purchase of shares pursuant to an Award granted hereunder by delivery of legal tender of the United States or payment of such other consideration as the Administering Body may from time to time deem acceptable in any particular instance.

(b) The Company may assist any person to whom an Award is granted hereunder (including without limitation any officer or director of the Company) in the payment of the purchase price, withholding taxes or other amounts payable in connection with the receipt or exercise of that Award, by lending such amounts to such person on such terms and at such rates of interest and upon such security (if any) as shall be approved by the Administering Body.

(c) The exercise price for Awards may be paid by delivery of Common Stock to the Company by or on behalf of the person exercising the Award and duly endorsed in blank or accompanied by stock powers duly endorsed in blank, with signatures guaranteed in accordance with the Exchange Act if required by the Company, or retained by the Company from the stock otherwise issuable upon exercise or surrender of vested and/or exercisable Awards or other equity Awards previously granted to the Recipient and being exercised (if applicable) (in either case valued at Fair Market Value as of the exercise date); or such other consideration as the Administering Body may from time to time in the exercise of its discretion deem acceptable in any particular instance; provided, however, that (i) the Company and/or the Administering Body may allow exercise of an Award in a broker-assisted or similar transaction in which the exercise price is not received by the Company until promptly after exercise, and/or (ii) the Administering Body may allow the Company to loan the exercise price to the person entitled to exercise the Award, if the exercise will be followed by a prompt sale of some or all of the underlying shares and a portion of the sale proceeds is dedicated to full payment of the exercise price and amounts required pursuant to Section 5.11.

(d) Recipients will have no rights to the assistance described in Section 5.4(b) or to the exercise techniques described in Section 5.4(c), and the Company may offer or permit such assistance or techniques on an ad hoc basis to any Recipient without incurring any obligation to offer or permit such assistance or techniques on other occasions or to other Recipients.

5.5 NO EMPLOYMENT RIGHTS. Nothing contained in this Plan (or in Award Documents or in any other documents related to this Plan or to Awards granted hereunder) shall confer upon any Eligible Person or Recipient any right to continue in the employ of the Company or any Affiliated Entity or constitute any contract or agreement of employment or engagement, or interfere in any way with the right of the Company or any Affiliated Entity to reduce such person's compensation or other benefits or to terminate the employment or engagement of such Eligible Person or Recipient, with or without cause. Except as expressly provided in this Plan or in any statement evidencing the grant of an Award pursuant to this Plan, the Company shall have the right to deal with each Recipient in the same manner as if this Plan and any such statement evidencing the grant of an Award pursuant to this Plan did not exist, including without limitation with respect to all matters related to the hiring, discharge, compensation and conditions of the employment or engagement of the Recipient. Any questions as to whether and when there has been a termination of a Recipient's employment or engagement,

the reason (if any) for such termination, and/or the consequences thereof under the terms of this Plan or any statement evidencing the grant of an Award pursuant to this Plan shall be determined by the Administering Body and the Administering Body's determination thereof shall be final and binding.

5.6 RESTRICTIONS UNDER APPLICABLE LAWS AND REGULATIONS.

(a) All Awards granted under this Plan shall be subject to the requirement that, if at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares subject to Awards granted under this Plan upon any securities exchange or interdealer quotation system or under any federal, state or foreign law, or the consent or approval of any government or regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such an Award or the issuance, if any, or purchase of shares in connection therewith, such Award may not be exercised as a whole or in part unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. During the term of this Plan, the Company will use its reasonable efforts to seek to obtain from the appropriate governmental and regulatory agencies any requisite qualifications, consents, approvals or authorizations in order to issue and sell such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of this Plan. The inability of the Company to obtain any such qualifications, consents, approvals or authorizations shall relieve the Company of any liability in respect of the nonissuance or sale of such stock as to which such qualifications, consents, approvals or authorizations pertain.

(b) The Company shall be under no obligation to register or qualify the issuance of Awards or underlying securities under the Securities Act or applicable state securities laws. Unless the issuance of Awards and underlying securities have been registered under the Securities Act and qualified or registered under applicable state securities laws, the Company shall be under no obligation to issue any Awards or underlying securities unless the Awards and underlying securities may be issued pursuant to applicable exemptions from such registration or qualification requirements. In connection with any such exempt issuance, the Company may require the Recipient to provide a written representation and undertaking to the Company, satisfactory in form and scope to the Company and upon which the Company may reasonably rely, that such Recipient is acquiring such Awards and underlying shares for such Recipient's own account as an investment and not with a view to, or for sale in connection with, the distribution of any such securities, and that such person will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act and other applicable law, and that if shares of stock are issued without such registration, a legend to this effect (together with any other legends deemed appropriate by the Company) may be endorsed upon the securities so issued. The Company may also order its transfer agent to stop transfers of such securities. The Company may also require the Recipient to provide the Company such information and other documents as it may request in order to satisfy the Company as to the investment sophistication and experience of the Recipient and as to any other conditions for compliance with any such exemptions from registration or qualification.

5.7 ADDITIONAL CONDITIONS. Any Award may also be subject to such other provisions (whether or not applicable to any other Award or Recipient) as the Administering Body

determines appropriate, including without limitation provisions to assist the Recipient in financing the purchase of Common Stock through the exercise of Stock Options, provisions for the forfeiture of or restrictions on resale or other disposition of shares of Common Stock acquired under any Award, provisions giving the Company the right to repurchase shares of Common Stock acquired under any Award in the event the Recipient elects to dispose of such shares, and provisions to comply with federal and state securities laws and federal and state income tax withholding requirements.

5.8 NO PRIVILEGES OF STOCK OWNERSHIP. Except as otherwise set forth herein, a Recipient or a permitted transferee of an Award shall have no rights as a shareholder with respect to any shares issuable or issued in connection with the Award until the date of the receipt by the Company of all amounts payable and performance by the Recipient of all obligations in connection with the exercise of the Award. Status as an Eligible Person shall not be construed as a commitment that any Award will be granted under this Plan to an Eligible Person or to Eligible Persons generally. No person shall have any right, title or interest in any fund or in any specific asset (including shares of capital stock) of the Company by reason of any Award granted hereunder. Neither this Plan (or any documents related hereto) nor any action taken pursuant hereto shall be construed to create a trust of any kind or a fiduciary relationship between the Company and any person. To the extent that any person acquires a right to receive an Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

5.9 NONASSIGNABILITY. Unless the Administering Body shall otherwise determine on a case-by-case basis, no Award granted under this Plan shall be assignable or transferable except (i) by will or by the laws of descent and distribution, or (ii) subject to the final sentence of this Section 5.9, upon dissolution of marriage pursuant to a qualified domestic relations order. Unless the Administering Body shall otherwise determine on a case-by-case basis, during the lifetime of a Recipient, an Award granted to such person shall be exercisable only by the Recipient (or the Recipient's permitted transferee) or such person's guardian or legal representative. Notwithstanding the foregoing, (i) no Award owned by a Recipient subject to Section 16 of the Exchange Act may be assigned or transferred in any manner inconsistent with Rule 16b-3, and (ii) Incentive Stock Options (or other Awards subject to transfer restrictions under the IRC) may not be assigned or transferred in violation of Section 422(b)(5) of the IRC (or any comparable or successor provision) or the regulations thereunder, and nothing herein is intended to allow such assignment or transfer.

5.10 INFORMATION TO RECIPIENTS.

(a) The Company shall determine what, if any, financial and other information shall be provided to Recipients and when such financial and other information shall be provided after giving consideration to applicable federal and state laws, rules and regulations, including without limitation applicable federal and state securities laws, rules and regulations.

(b) The furnishing of financial and other information that is confidential to the Company shall be subject to the Recipient's agreement that the Recipient shall maintain the confidentiality of such financial and other information, shall not disclose such information to third parties, and shall not use the information for any purpose other than evaluating an

investment in the Company's securities under this Plan. The Company may impose other restrictions on the access to and use of such confidential information and may require a Recipient to acknowledge the Recipient's obligations under this Section 5.10(b) (which acknowledgment shall not be a condition to Recipient's obligations under this Section 5.10(b)).

5.11 WITHHOLDING TAXES. Whenever the granting, vesting or exercise of any Award, or the issuance of any shares upon exercise of any Award or transfer thereof, gives rise to tax or tax withholding liabilities or obligations, the Company shall have the right to require the Recipient to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements arising in connection therewith. The Company may, in the exercise of its discretion, allow satisfaction of tax withholding requirements by accepting delivery of stock of the Company or by withholding a portion of the stock otherwise issuable in connection with an Award, in each case valued at Fair Market Value as of the date of such delivery or withholding.

5.12 LEGENDS ON AWARDS AND STOCK CERTIFICATES. Each Award Document and each certificate representing shares acquired upon vesting or exercise of an Award shall be endorsed with all legends, if any, required by applicable federal and state securities and other laws to be placed on the Award Document and/or the certificate. The determination of which legends, if any, shall be placed upon Award Documents or the certificates shall be made by the Company and such decision shall be final and binding.

5.13 EFFECT OF TERMINATION OF EMPLOYMENT ON AWARDS.

(A) TERMINATION OF VESTING. Awards will be exercisable by a Recipient (or the Recipient's successor-in-interest) following such Recipient's termination of employment with the Company or any Affiliated Entity only to the extent that installments thereof had become exercisable on or prior to the date of such termination.

(B) ALTERATION OF VESTING AND EXERCISE PERIODS. Notwithstanding anything to the contrary herein, (i) the Administering Body may, in its discretion, designate shorter or longer periods for the vesting or exercise of any Award, or the lapse of transfer or other restrictions pertaining thereto, following a Recipient's termination of employment with the Company or any Affiliated Entity; provided, however, that any shorter periods determined by the Administering Body shall be effective only if provided for in the Award Document that evidences the grant to the Recipient of such Award or if such shorter period is agreed to in writing by the Recipient; and (ii) the Administering Body may, in its discretion, elect to accelerate the vesting of all or any portion of any Award that had not become exercisable on or prior to the date of such termination or to extend the vesting period beyond the date of such termination.

(C) LEAVE OF ABSENCE. In the case of any employee on an approved leave of absence, the Administering Body may make such provision respecting continuance of Awards granted to such employee as the Administering Body in its discretion deems appropriate.

5.14 LIMITS ON AWARDS TO ELIGIBLE PERSONS. Notwithstanding any other provision of this Plan, in order for the compensation attributable to Awards hereunder to qualify as Performance-Based Compensation, no one Eligible Person shall be granted any Awards with

respect to more than 250,000 shares of Common Stock in any one calendar year. The limitation set forth in this Section 5.14 shall be subject to adjustment as provided in Section 3.4 or under Article VII, but only to the extent such adjustment would not affect the status of compensation attributable to Awards hereunder as Performance-Based Compensation.

ARTICLE VI

AWARDS

6.1 STOCK OPTIONS.

(A) NATURE OF STOCK OPTIONS. Stock Options may be Incentive Stock Options or Nonqualified Stock Options.

(B) OPTION EXERCISE PRICE. The exercise price for each Stock Option shall be determined by the Administering Body as of the date such Stock Option is granted. The exercise price shall be no less than the Fair Market Value of the Common Stock subject to the Stock Option as of the date of grant. Subject to approval by the shareholders, the Administering Body may, with the consent of the Recipient and subject to compliance with statutory or administrative requirements applicable to Incentive Stock Options, amend the terms of any Stock Option to provide that the exercise price of the shares remaining subject to the Stock Option shall be reestablished at a price not less than 100% of the Fair Market Value of the Common Stock on the effective date of the amendment. No modification of any other term or provision of any Stock Option that is amended in accordance with the foregoing shall be required, although the Administering Body may, in its discretion, make such further modifications of any such Stock Option as are not inconsistent with this Plan.

(C) OPTION PERIOD AND VESTING. Stock Options granted hereunder shall vest and may be exercised as determined by the Administering Body, except that exercise of such Stock Options after termination of the Recipient's employment shall be subject to Section 5.13. Each Stock Option granted hereunder and all rights or obligations thereunder shall expire on such date as shall be determined by the Administering Body, but not later than l0 years after the date the Stock Option is granted and shall be subject to earlier termination as provided herein or in the Award Document. The Administering Body may, in its discretion at any time and from time to time after the grant of a Stock Option, accelerate vesting of such Stock Option as a whole or part by increasing the number of shares then purchasable, provided that the total number of shares subject to such Stock Option may not be increased. Except as otherwise provided herein, a Stock Option shall become exercisable, as a whole or in part, on the date or dates specified by the Administering Body and thereafter shall remain exercisable until the expiration or earlier termination of the Stock Option.

(D) TERMINATION . Unless determined otherwise by the Administering Body in its sole discretion, Stock Options shall expire on the earliest of (i) one year from the date on which the Recipient ceases to be an Eligible Person for any reason other than death; (ii) one year from the date of the Recipient's death; or (iii) with respect to each installment of such Stock Option, the fifth anniversary of the vesting date of such installment. If a Recipient who is an employee of the Company or any Affiliated Entity ceases for any reason to be such an employee, that portion of the Stock Option that has not yet vested shall terminate, unless the Administering Body

accelerates the vesting schedule in its sole discretion (in which case, the Administering Body may impose whatever conditions it considers appropriate on the accelerated portion). Stock Options granted to a Recipient who is not such an employee may be made subject to such other termination provisions as determined appropriate by the Administering Body.

(E) SPECIAL PROVISIONS REGARDING INCENTIVE STOCK OPTIONS.

(i) Notwithstanding anything in this Section 6.1 to the contrary, the exercise price and vesting period of any Stock Option intended to qualify as an Incentive Stock Option shall comply with the provisions of Section 422 of the IRC and the regulations thereunder. As of the Effective Date, such provisions require, among other matters, that (A) the exercise price must not be less than the Fair Market Value of the underlying stock as of the date the Incentive Stock Option is granted, and not less than 110% of the Fair Market Value as of such date in the case of a grant to a Significant Shareholder; and (B) that the Incentive Stock Option not be exercisable after the expiration of ten years from the date of grant of such Incentive Stock Option, or five years from the date of grant in the case of an Incentive Stock Option granted to a Significant Shareholder.

(ii) The aggregate Fair Market Value (determined as of the respective date or dates of grant) of the Common Stock for which one or more Stock Options granted to any Recipient under this Plan (or any other option plan of the Company or any of its subsidiaries or affiliates) may for the first time become exercisable as Incentive Stock Options under the federal tax laws during any one calendar year shall not exceed $100,000.

(iii) Any Options granted as Incentive Stock Options pursuant to this Plan that for any reason fail or cease to qualify as such shall be treated as Nonqualified Stock Options.

6.2 PERFORMANCE AWARDS.

(A) GRANT OF PERFORMANCE AWARDS. The Administering Body shall determine in its discretion the performance criteria (which need not be identical and may be established on an individual or group basis) governing Performance Awards, the terms thereof, and the form and time of payment of Performance Awards.

(B) PAYMENT OF PERFORMANCE AWARDS. Upon satisfaction of the conditions applicable to a Performance Award, payment will be made to the Recipient in shares of Common Stock valued at Fair Market Value.

6.3 RESTRICTED STOCK.

(A) AWARD OF RESTRICTED STOCK. The Administering Body shall determine the Purchase Price (if any), the terms of payment of the Purchase Price, the restrictions upon the Restricted Stock, and when such restrictions shall lapse.

(B) REQUIREMENTS OF RESTRICTED STOCK. All shares of Restricted Stock granted or sold pursuant to this Plan will be subject to the following conditions:

(I) NO TRANSFER. The shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, alienated or encumbered until the restrictions are removed or expire;

(II) CERTIFICATES. The Company Administering Body may require that the certificates representing Restricted Stock granted or sold to a Recipient pursuant to this Plan remain in the physical custody of an escrow holder or the Company until all restrictions are removed or expire;

(III) RESTRICTIVE LEGENDS. Each certificate representing Restricted Stock granted or sold to a Recipient pursuant to this Plan will bear such legend or legends making reference to the restrictions imposed upon such Restricted Stock as the Company Administering Body in its discretion deems necessary or appropriate to enforce such restrictions; and

(IV) OTHER RESTRICTIONS. The Administering Body may impose such other conditions on Restricted Stock as the Administering Body may deem advisable, including, without limitation, restrictions under the Securities Act, under the Exchange Act, under the requirements of any stock exchange or interdealer quotation system upon which such Restricted Stock or shares of the same class are then listed or traded and under any blue sky or other securities laws applicable to such shares.

(C) LAPSE OF RESTRICTIONS. The restrictions imposed upon Restricted Stock will lapse in accordance with such terms or other conditions as are determined by the Administering Body.

(D) RIGHTS OF RECIPIENT. Subject to the provisions of Section 6.3(b) and any restrictions imposed upon the Restricted Stock, the Recipient will have all rights of a shareholder with respect to the Restricted Stock granted or sold to such Recipient under this Plan, including, without limitation, the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

(E) TERMINATION OF EMPLOYMENT. Unless the Administering Body in its discretion determines otherwise, if a Recipient's employment with the Company or any Affiliated Entity terminates for any reason, all of the Recipient's Restricted Stock remaining subject to restrictions on the date of such termination of employment shall be repurchased by the Company at the Purchase Price (if any) paid by the Recipient to the Company, without interest or premium, and otherwise returned to the Company without consideration.

6.4 STOCK APPRECIATION RIGHTS.

(A) GRANTING OF STOCK APPRECIATION RIGHTS. The Administering Body may at any time and from time to time approve the grant to Eligible Persons of Stock Appreciation Rights, related or unrelated to Stock Options.

(B) STOCK APPRECIATION RIGHTS RELATED TO OPTIONS.

(i) A Stock Appreciation Right granted in connection with a Stock Option granted under this Plan will entitle the holder of the related Stock Option, upon exercise of the Stock Appreciation Right, to surrender such Stock Option, or any portion thereof to the extent previously vested but unexercised, with respect to the number of shares as to which such Stock

Appreciation Right is exercised, and to receive payment of an amount computed pursuant to Section 6.2(b)(iii). Such Stock Option will, to the extent surrendered, then cease to be exercisable.

(ii) A Stock Appreciation Right granted in connection with a Stock Option hereunder will be exercisable only when, and only to the extent that, the related Stock Option is exercisable, will not be transferable except to the extent that such related Stock Option may be transferable, will not expire later than the underlying Stock Option, and will be exercisable only when the Fair Market Value of the Common Stock subject to the underlying Stock Option exceeds the exercise price of such Stock Option.

(iii) Upon the exercise of a Stock Appreciation Right related to a Stock Option, the Recipient will be entitled to receive payment of an amount determined by multiplying (A) the difference obtained by subtracting the exercise price of a share of Common Stock specified in the related Stock Option from the Fair Market Value of a share of Common Stock on the date of exercise of such Stock Appreciation Right (or as of such other date or as of the occurrence of such event as may have been specified in the instrument evidencing the grant of the Stock Appreciation Right), by (B) the number of shares as to which such Stock Appreciation Right is exercised.

(C) STOCK APPRECIATION RIGHTS UNRELATED TO OPTIONS. The Administering Body may grant Stock Appreciation Rights unrelated to Stock Options to Eligible Persons. Section 6.2(b)(iii) shall be used to determine the amount payable at exercise under such Stock Appreciation Right, except that in lieu of the exercise price specified in the related Stock Option, the initial base amount specified in the Award shall be used.

(D) LIMITS. Notwithstanding the foregoing, the Administering Body, in its discretion, may place a dollar limitation on the maximum amount that will be payable upon the exercise of a Stock Appreciation Right under this Plan.

(E) PAYMENTS. Payment of the amount determined under the foregoing provisions may be made solely in whole shares of Common Stock valued at their Fair Market Value on the date of exercise of the Stock Appreciation Right or, alternatively, at the sole discretion of the Administering Body, in cash or in a combination of cash and shares of Common Stock as the Administering Body deems advisable. The Administering Body has full discretion to determine the form in which payment of a Stock Appreciation Right will be made and to consent to or disapprove the election of a Recipient to receive cash in full or partial settlement of a Stock Appreciation Right. If the Administering Body decides to make full payment in shares of Common Stock, and the amount payable results in a fractional share, payment for the fractional share will be made in cash.

6.5 STOCK PAYMENTS. The Administering Body may approve Stock Payments of the Company's Common Stock to any Eligible Person for all or any portion of the compensation (other than base salary) or other payment that would otherwise become payable by the Company to the Eligible Person in cash.

6.6 DIVIDEND EQUIVALENTS. The Administering Body may grant Dividend Equivalents to any Recipient who has received a Stock Option, Stock Appreciation Right or other Award denominated in shares of Common Stock. Dividend Equivalents may be paid in cash, Common Stock or other Awards; the amount of Dividend Equivalents paid other than in cash shall be determined by the Administering Body by application of such formula as the Administering Body may deem appropriate to translate the cash value of dividends paid to the alternative form of payment of the Dividend Equivalent. Dividend Equivalents shall be computed as of each dividend record date and shall be payable to recipients thereof at such time as the Administering Body may determine. Notwithstanding the foregoing, the payment of a Dividend Equivalent with respect to a Stock Option intended to constitute Performance-Based Compensation shall not be contingent upon the exercise of such Stock Option.

6.7 STOCK BONUSES. The Administering Body may issue shares of Common Stock to Eligible Persons as bonuses for services rendered or for any other valid consideration on such terms and conditions as the Administering Body may determine.

6.8 STOCK SALES. The Administering Body may sell to Eligible Persons shares of Common Stock on such terms and conditions as the Administering Body may determine.

6.9 PHANTOM STOCK. The Administering Body may grant Awards of Phantom Stock. Phantom Stock is a cash bonus granted under this Plan measured by the Fair Market Value of a specified number of shares of Common Stock on a specified date, or measured by the excess of such Fair Market Value over a specified minimum, which may but need not include a Dividend Equivalent.

6.10 OTHER STOCK-BASED BENEFITS. The Administering Body is authorized to grant Other Stock-Based Benefits. Other Stock-Based Benefits are any arrangements granted under this Plan not otherwise described above that (a) by their terms might involve the issuance or sale of Common Stock or (b) involve a benefit that is measured, as a whole or in part, by the value, appreciation, dividend yield or other features attributable to a specified number of shares of Common Stock.

6.11 TERMINATION OF EMPLOYMENT. Except as otherwise provided for in this Plan or determined by the Administering Body in its discretion, all Awards granted to a Recipient, and all of such Recipient's rights thereunder, shall terminate upon termination for any reason of such Recipient's employment with the Company or any Affiliated Entity.

ARTICLE VII
REORGANIZATIONS

7.1 CORPORATE TRANSACTIONS NOT INVOLVING A CHANGE IN CONTROL. If the Company shall consummate any Reorganization not involving a Change of Control in which holders of shares of Common Stock are entitled to receive in respect of such shares any securities, cash or other consideration (including without limitation a different number of shares of Common Stock), each Award outstanding under this Plan shall thereafter be exercisable, in accordance with this Plan, only for the kind and amount of securities, cash and/or other consideration receivable upon such Reorganization by a holder of the same number of shares of Common

Stock as are subject to that Award immediately prior to such Reorganization, and any adjustments will be made to the terms of the Award in the sole discretion of the Administering Body as it may deem appropriate to give effect to the Reorganization.

7.2 CORPORATE TRANSACTIONS INVOLVING A CHANGE IN CONTROL. As of the effective time and date of any Change in Control, this Plan and any then outstanding Awards (whether or not vested) shall automatically terminate unless (a) provision is made in writing in connection with such transaction for the continuance of this Plan and for the assumption of such Awards, or for the substitution for such Awards of new awards covering the securities of a successor entity or an affiliate thereof, with appropriate adjustments as to the number and kind of securities and exercise prices, in which event this Plan and such outstanding Awards shall continue or be replaced, as the case may be, in the manner and under the terms so provided; or (b) the Board otherwise shall provide in writing for such adjustments as it deems appropriate in the terms and conditions of the then-outstanding Awards (whether or not vested), including without limitation (i) accelerating the vesting of outstanding Awards and/or (ii) providing for the cancellation of Awards and their automatic conversion into the right to receive the securities, cash or other consideration that a holder of the shares underlying such Awards would have been entitled to receive upon consummation of such Change in Control had such shares been issued and outstanding immediately prior to the effective date and time of the Change in Control (net of the appropriate option exercise prices). If, pursuant to the foregoing provisions of this Section 7.2, this Plan and the Awards shall terminate by reason of the occurrence of a Change in Control without provision for any of the actions described in clause (a) or (b) hereof, then any Recipient holding outstanding Awards shall have the right, at such time immediately prior to the consummation of the Change in Control as the Board shall designate, to exercise the Recipient's Awards to the full extent not theretofore exercised, including any installments which have not yet become vested.

ARTICLE VIII
DEFINITIONS

Capitalized terms used in this Plan and not otherwise defined shall have the meanings set forth below:

"ADMINISTERING BODY" means the Board as long as no Committee has been appointed and is in effect and shall mean the Committee as long as the Committee is appointed and in effect.

"AFFILIATED ENTITY" means any Parent Corporation or Subsidiary Corporation.

"APPLICABLE DIVIDEND PERIOD" means (i) the period between the date a Dividend Equivalent is granted and the date the related Stock Option, Stock Appreciation Right, or other Award is exercised, terminates, or is converted to Common Stock, or (ii) such other time as the Administering Body may specify in the written instrument evidencing the grant of the Dividend Equivalent.

"AWARD" means any Stock Option, Performance Award, Restricted Stock, Stock Appreciation Right, Stock Payment, Stock Bonus, Stock Sale, Phantom Stock, Dividend Equivalent, or Other Stock-Based Benefit granted or sold to an Eligible Person under this Plan.

"AWARD DOCUMENT" means the agreement or confirming memorandum setting forth the terms and conditions of an Award.

"BOARD" means the Board of Directors of the Company.

"CHANGE IN CONTROL" means the following and shall be deemed to occur if any of the following events occur:

(a) Any Person becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

(b) Individuals who, as of the effective date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company'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, twenty percent (20%) or more of either the outstanding shares of Common Stock or the combined voting power of the Company'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 the Company's Shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

(c) Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

(i) a reorganization or merger or consolidation that would result in the voting securities of the Company 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 five percent (5%) or more of the combined voting power of all securities of the Company, 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 fifty percent (50%) of the combined voting power of the voting securities of the Company 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

(ii) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not

result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

(d) Approval by the Shareholders of the Company or any order by a court of competent jurisdiction of a plan of liquidation of the Company.

"COMMISSION" means the Securities and Exchange Commission.

"COMMON STOCK" means the common stock of the Company, as constituted on the Effective Date of this Plan, and as thereafter adjusted as a result of any one or more events requiring adjustment of outstanding Awards under Section 3.4 above.

"COMPANY" means Callaway Golf Company, a California corporation.

"COMMITTEE" means the committee appointed by the Board to administer this Plan pursuant to Section 4.1.

"DIVIDEND EQUIVALENT" means a right granted by the Company under Section 6.6 to a holder of a Stock Option, Stock Appreciation Right or other Award denominated in shares of Common Stock to receive from the Company during the Applicable Dividend Period payments equivalent to the amount of dividends payable to holders of the number of shares of Common Stock underlying such Stock Option, Stock Appreciation Right, or other Award.

"EFFECTIVE DATE" means February 18, 1998, which is the date this Plan was adopted by the Board.

"ELIGIBLE PERSON" shall include directors, officers, employees, consultants and advisors of the Company or of any Affiliated Entity.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"EXPIRATION DATE" means the 10th anniversary of the Effective Date.

"FAIR MARKET VALUE" of a share of the Company's capital stock as of a particular date shall be (i) if the stock is listed on an established stock exchange or exchanges (including for this purpose, the Nasdaq National Market), the closing price of the stock quoted for such date as reported in the Transactions Index of each such exchange, as published in The Wall Street Journal and determined by the Administering Body, or, if no closing price was quoted in any such Index for such date, then as of the next preceding date on which such a closing price was quoted; or (ii) if the stock is not then listed on an exchange or the Nasdaq National Market, the average of the closing bid and asked prices per share for the stock in the over-the-counter market as quoted on The Nasdaq Small Cap Market on such date (in the case of (i) or (ii), subject to adjustment as and if necessary and appropriate to set an exercise price not less than 100% of the fair market value of the stock on the date an option is granted); or (iii) if the stock is not then listed on an exchange or quoted in the over-the-counter market, an amount determined in good faith by the Administering Body; provided, however, that (A) when appropriate, the

Administering Body, in determining Fair Market Value of capital stock of the Company, may take into account such other factors as it may deem appropriate under the circumstances and (B) if the stock is traded on the Nasdaq Small Cap Market and both sales prices and bid and asked prices are quoted or available, the Administering Body may elect to determine Fair Market Value under either clause (i) or (ii) above. Notwithstanding the foregoing, the Fair Market Value of capital stock for purposes of grants of Incentive Stock Options shall be determined in compliance with applicable provisions of the IRC. The Fair Market Value of rights or property other than capital stock of the Company means the fair market value thereof as determined by the Committee on the basis of such factors as it may deem appropriate.

"INCENTIVE STOCK OPTION" means a Stock Option that qualifies as an incentive stock option under Section 422 of the IRC, or any successor statute thereto.

"IRC" means the Internal Revenue Code of 1986, as amended.

"NONQUALIFIED STOCK OPTION" means a Stock Option that is not an Incentive Stock Option.

"OTHER STOCK-BASED BENEFITS" means an Award granted under Section 6.9 of this Plan.

"PARENT CORPORATION" means any Parent Corporation as defined in Section 424(e) of the IRC.

"PAYMENT EVENT" means the event or events giving rise to the right to payment of a Performance Award.

"PERFORMANCE AWARD" means an Award payable in Common Stock that vests and becomes payable over a period of time upon attainment of performance criteria established in connection with the grant of the Award.

"PERFORMANCE-BASED COMPENSATION" means performance-based compensation as described in Section 162(m) of the IRC. If the amount of compensation an Eligible Person will receive under any Award is not based solely on an increase in the value of Common Stock after the date of grant or award, the Committee, in order to qualify an Award as performance-based compensation under Section 162(m) of the IRC, can condition the grant, award, vesting, or exercisability of such an Award on the attainment of a preestablished, objective performance goal. For this purpose, a preestablished, objective performance goal may include one or more of the following performance criteria: (a) cash flow, (b) earnings per share (including earning before interest, taxes, depreciation and amortization), (c) return on equity, (d) total Shareholder return, (e) return on capital, (f) return on assets or net assets, (g) income or net income, (h) operating income or net operating income, (i) operating margin, (j) return on operating revenue, and (k) any other similar performance criteria.

"PERSON" means any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Exchange Act, but excluding (i) the Company and its subsidiaries, (ii) any employee stock ownership or other employee benefit plan maintained by the Company that is qualified under ERISA and (iii) an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof.

"PHANTOM STOCK" means an Award granted under Section 6.9 of this Plan.

"PLAN" means this 1998 Stock Incentive Plan of the Company.

"PLAN TERM" means the period during which this Plan remains in effect (commencing the Effective Date and ending on the Expiration Date).

"PURCHASE PRICE" means the purchase price (if any) to be paid by a Recipient for Restricted Stock as determined by the Committee (which price shall be at least equal to the minimum price required under applicable laws and regulations for the issuance of Common Stock which is nontransferable and subject to a substantial risk of forfeiture until specific conditions are met).

"RECIPIENT" means an Eligible Person who has received an Award under this Plan.

"REORGANIZATION" means any merger, consolidation or other reorganization.

"RESTRICTED STOCK" means Common Stock that is the subject of an Award made under Section 6.3 and that is nontransferable and subject to a substantial risk
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of forfeiture until specific conditions are met, as set forth in this Plan and in any statement evidencing the grant of such Award.

"RULE 16B-3" means Rule 16b-3 under the Exchange Act.

"SECURITIES ACT" means the Securities Act of 1933, as amended.

"SIGNIFICANT SHAREHOLDER" is an individual who, at the time a Stock Option is granted to such individual under this Plan, owns more than ten percent (10%) of the combined voting power of all classes of stock of the Company or of any Parent Corporation or Subsidiary Corporation (after application of the attribution rules set forth in Section 424(d) of the IRC).

"STOCK APPRECIATION RIGHT" means a right granted under Section 6.4 to
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receive a payment that is measured with reference to the amount by which the Fair Market Value of a specified number of shares of Common Stock appreciates from a specified date, such as the date of grant of the Stock Appreciation Right, to the date of exercise.

"STOCK BONUS" means an issuance or delivery of unrestricted or restricted shares of Common Stock under Section 6.7 of this Plan as a bonus for services
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rendered or for any other valid consideration under applicable law.

"STOCK PAYMENT" means a payment in shares of the Company's Common Stock to replace all or any portion of the compensation (other than base salary) that would otherwise become payable to a Recipient.

"STOCK OPTION" means a right to purchase stock of the Company granted under Section 6.1 of this Plan.
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INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of this 4th day of June, 1998, by and between Callaway Golf Company, a California corporation (the "Company"), and Yotaro Kobayashi ("Indemnitee"), a director of the Company.

WHEREAS, the Company and Indemnitee recognize the increasing difficulty in obtaining liability insurance covering directors, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance;

WHEREAS, although the Company currently has directors' liability insurance, the coverage of such insurance is such that many claims which may be brought against Indemnitee may not be covered, or may not be fully covered, and the Company may be unable to maintain such insurance;

WHEREAS, the Company and the Indemnitee further recognize the substantial increase in corporate litigation subjecting directors to expensive litigation risks at the same time that liability insurance has been severely limited;

WHEREAS, the current protection available may not be adequate given the present circumstances, and Indemnitee may not be willing to serve as a director without adequate protection;

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as directors of the Company and to indemnify its directors so as to provide them with the maximum protection permitted by law;

NOW, THEREFORE, the Company and Indemnitee hereby agree as follows:

1. DEFINITIONS. The following terms, as used herein, have the following meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any corporation, any officer, director or 10% or more shareholder of such corporation, or (ii) with respect to any individual, any partner or immediate family member of such individual or the estate of such individual, or (iii) with respect to any partnership, trust or joint venture, any partner, co-venturer or trustee of such partnership, trust of joint venture, or any beneficiary or owner having 10% or more interest in the equity, property or profits of such partnership, trust or joint venture, or (iv) with respect to any Person, any other Person which, directly or indirectly, controls, is controlled by, or is under common control with such Person or any Affiliate of such Person.

1.2 Agreement. "Agreement" shall mean this Indemnification Agreement, as the same may be amended from time to time hereafter.

1.3 Code. "Code" shall mean the California Corporations Code, as amended.

1.4 Person. "Person" shall mean any individual, partnership, corporation, joint venture, trust, estate, or other entity.

1.5 Subsidiary. "Subsidiary" shall mean any corporation of which the Company owns, directly or indirectly, through one or more subsidiaries, securities having more than 50% of the voting power of such corporation.

2. INDEMNIFICATION

2.1 Third Party Proceedings. The Company shall indemnify Indemnitee if Indemnitee is or was a party or witness or other participant in, or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director of the Company or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while a director of the Company or any Subsidiary, and/or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expense, liability and loss (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such action, suit or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company or that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure

a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 2.1 or 2.2 or the defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee in connection therewith.

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim for indemnification or an advance of expenses which is payable pursuant to the terms of this Agreement, and that claim is not paid by the Company, or on its behalf, within ninety days after a written claim has been received by the Company, the Indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall be entitled to be paid also all expenses actually and reasonably incurred in connection with prosecuting such claim.

2.5 Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense,

settlement or appeal of any civil or criminal action, suit or proceeding referenced in Section 2.1 or 2.2 hereof. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby or that such indemnification is not otherwise permitted by applicable law. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor or by Indemnitee to the Company.

3.2 Determination of Conduct. Any indemnification (unless ordered by a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, (2) if such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be given in the manner set forth in Section 10.3 hereof and to the address stated therein, or such other address as the Company shall designate in writing to Indemnitee. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

3.4 Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 3.3 hereof, the Company has director liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable actions to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

3.5 Selection of Counsel. In the event the Company shall be obligated under Section 3.1 hereof to pay the expenses of any proceeding against Indemnitee, the Company shall be entitled to assume the defense of such proceeding, with counsel approved by Indemnitee, upon the delivery to Indemnitee of written notice of its election

so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (a) Indemnitee shall have the right to employ separate counsel in any such proceeding at Indemnitee's expense; and (b) if (i) the employment of counsel by Indemnitee has been previously authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company (subject to the provisions of this Agreement).

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed applicable to all actual or alleged actions or omissions by Indemnitee during any and all periods of time that Indemnitee was, is, or shall be serving as a director of the Company or a Subsidiary.

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Articles of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a California corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a California corporation to indemnify a member of its board of directors, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which an Indemnitee may be entitled under the Company's Articles of Incorporation, its Bylaws, any agreement, any vote of shareholders or disinterested directors, the Code, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for an action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in such capacity at the time of any action, suit or other covered proceeding.

5. PARTIAL INDEMNIFICATION

5.1 Partial Indemnity. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by Indemnitee in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceedings but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for that portion to which Indemnitee is entitled.

6. MUTUAL ACKNOWLEDGMENT

6.1 Acknowledgment. Both the Company and Indemnitee acknowledge that in certain instances, federal law or public policy may override applicable state law and prohibit the Company from indemnifying its directors under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the Securities and Exchange Commission (the "SEC") has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

7. LIABILITY INSURANCE

7.1 Obtaining Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable, insurance companies providing the directors with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all such policies of liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors. Notwithstanding the foregoing, the Company shall have no obligation, to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a parent or Subsidiary of the Company.

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its

obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, unless said proceedings or claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against liability for any transactions from which Indemnitee, or any Affiliate of Indemnitee, derived an improper personal benefit, including, but not limited to, self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final adjudication adverse to Indemnitee established that Indemnitee committed acts of active and deliberate dishonesty, with actual dishonest purpose and intent, which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses or liabilities of any type whatsoever (including but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) which have been paid directly to Indemnitee (i) by an insurance carrier under a policy of liability insurance maintained by the Company, or (ii) otherwise by any other means.

(e) Claims Under Section 16(b). To indemnify Indemnitee for an accounting of profits in fact realized from the purchase and sale of securities within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include any resulting or surviving corporation in any merger or consolidation in which

the Company (as then constituted) is not the resulting or surviving corporation so that Indemnitee will continue to have the full benefits of this Agreement.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which impose duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "reasonably believed to be in the best interests of the Company and its shareholders" as referred to in this Agreement.

10.2 Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs, legal representatives and assigns. Notwithstanding the foregoing, the Indemnitee shall have no right or power to voluntarily assign or transfer any rights granted to Indemnitee, or obligations imposed upon the Company, by or pursuant to this Agreement. Further, the rights of the Indemnitee hereunder shall in no event accrue to the benefit of, or be enforceable by, any judgment creditor or other involuntary transferee of the Indemnitee.

10.3 Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if mailed by domestic certified or registered mail with postage prepaid, properly addressed to the parties at the addresses set forth below, or to such other address as may be furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be, on the third business day after the date postmarked, or (ii) otherwise notice shall be deemed received when such notice is actually received by the party to whom it is directed.

If to Indemnitee: To the address set forth below the signature line of Indemnitee on the signature page hereof.

If to Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008
Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding which arises out of or related

to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of California.

10.5 Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the laws of the State of California, as applied to contracts between California residents entered into and to be performed entirely within California.

10.6 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which together shall constitute one and the same instrument.

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

"Company" Callaway Golf Company,
a California corporation

By: /s/ DONALD H. DYE
(Signature)

Donald H. Dye
(Name)

President and CEO
(Title)

"Indemnitee" /s/ YOTARO KOBAYASHI
(Signature)

Yotaro Kobayashi
(Name)

Address:
Fuji Xerox Co., Ltd.

2-17-22 Akasaka, Minato-ku

Tokyo 107-0052, Japan

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED) AND CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED) AT JUNE 30, 1998 AND FOR THE SIX MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS
DEC-31-1998
JAN-01-1998
JUN-30-1998
35,110
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146,570
7,579
156,328
363,784
232,563
65,910
677,827
153,368
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749
514,193
677,827
410,160
410,160
217,664
217,664
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755
902
53,165
20,868
32,297
0
0
0
32,297
0.47
0.45

EXHIBIT 99

Contact: Krista Mallory
(760) 931-1771

CALLAWAY GOLF REPORTS SECOND QUARTER SALES AND EARNINGS

CARLSBAD, Calif./ July 22, 1998/ Callaway Golf Company (NYSE:ELY) today reported net sales of $233.3 million for the second quarter ended June 30, 1998, a decrease of 8% compared to net sales of $253.0 million reported in the second quarter of 1997. Net income decreased 55% to $21.1 million in the second quarter of 1998 from $46.8 million in the comparable quarter of 1997, and diluted earnings per share decreased 55% to $0.30 in 1998 from $0.66 in the second quarter of 1997.

For the six months ended June 30, 1998, net sales decreased 3% to $410.2 million from $422.1 million for the same period in 1997. Net income decreased 55% to $32.3 million ($0.45 per diluted share) from $71.3 million ($1.00 per diluted share) for the six months ended June 30, 1998 and 1997, respectively.

Net sales of $233.3 million for the second quarter were comprised of: $87.6 million from sales of Biggest Big Bertha(TM) and Great Big Bertha(R) Titanium Drivers and Fairway Woods, $33.0 million from sales of Big Bertha(R) War Bird(R) Stainless Steel Metal Woods, $74.5 million from sales of Big Bertha(R) X-12(TM) Irons, $10.7 million from sales of Great Big Bertha(R) Tungsten.Titanium(TM) Irons, $14.7 million from Odyssey Golf product sales, and $12.8 million from other sales.

Net sales of $410.2 million for the six months ended June 30, 1998, were comprised of: $160.4 million from sales of Biggest Big Bertha(TM) and Great Big Bertha(R) Titanium Drivers and Fairway Woods, $59.9 million from sales of Big Bertha(R) War Bird(R) Stainless Steel Metal Woods, $119.4 million from sales of Big Bertha(R) X-12(TM) Irons, $22.6 million from sales of Great Big Bertha(R) Tungsten.Titanium(TM) Irons, $25.1 million from Odyssey Golf product sales, and $22.8 million from other sales.

Cost of goods sold as a percentage of net sales increased to 53% from 47% in the second quarter of the previous year. This increase was primarily due to increased sales of irons, which carry a lower margin, a metal woods price reduction and accompanying customer compensation implemented during the quarter, and an increase in warranty expense.

Selling expenses in the second quarter increased to $42.2 million from $36.0 million in the same quarter in the prior year. This increase was attributable primarily to expenses associated with Odyssey Golf, which the Company did not own in the second quarter of 1997.

General and administrative expenses for the second quarter of 1998 were $23.7 million compared to $16.1 million for the second quarter of 1997. This increase was primarily due to (1) an increase in Callaway Golf Ball Company expense associated with non-capitalized construction costs of its new facility, as well as an increase in staffing for operations; (2) expenses associated with Odyssey Golf and foreign subsidiaries, which the Company did not own in the corresponding quarter of 1997; and (3) expenses related to the implementation of the Company's new computer software system.

"The second quarter of 1998 was a very tough quarter for Callaway Golf Company," said Donald H. Dye, President and Chief Executive Officer of Callaway Golf. "While our sales continued to be the best in the industry, as the largest player we felt the greatest negative impact from the worsening Asian economic problems and what appears to be a general softening of demand in the United States. Not only are our direct sales to Asia down over 25% from last year, but our sales to U.S. customers who rely on Asian trade are also down significantly. Moreover, although our iron sales are up due to the success of the new Big Bertha(R) X-12(TM) Irons, our much more profitable metal wood sales are down across the board, and we have lost some metal wood market share to competitors. Some of this drop in wood sales was due, we believe, to the USGA's announcement that it might prohibit the use of current metal woods -- a situation that was not clarified until June when the USGA announced that products currently on the market would not be challenged. As a result of these factors, revenues have fallen well below our plan for the year."

Dye added, "While we hoped that a metal woods wholesale price reduction announced in May would stimulate sales at both the wholesale and retail levels -- - and we believe that it had some positive effect on our business -- it is clear that this action will not overcome the negative factors affecting the market."

"We see no significant improvement in sales in the near term," continued Mr. Dye. "Accordingly, we are initiating a thorough review of all business elements in order to reduce costs to reflect the current state of our business. While we believe that our core golf club business remains strong, and our planned entry into the golf ball business remains viable, all initiatives will be reviewed and those that are not essential to our core will be either delayed or eliminated. Moreover, our core businesses will be reviewed with the expectation that we can reduce operating expenses to better reflect the reduced size of our current operations. We expect this downturn in business and our cost reduction initiatives will negatively impact earnings for the remainder of 1998. We further expect that, based on a preliminary assessment, the Company may have a net loss of up to $0.20 per share for the second half of 1998 resulting in aggregate net earnings per share for 1998 of as low as $0.25. It is too early to predict results for 1999, but we do not expect at this time to see a significant improvement in revenues from golf club sales during that period. However, we expect that our cost reduction initiatives will result in improved margins in 1999."

"During the remainder of the year, and throughout our review of costs, we will preserve our strengths in our core business," stated Mr. Dye. "We expect that our sales in 1998 will be substantially greater than any competitor has ever achieved."

"Golf ball development continues to be on track for a ball introduction in late 1999. Construction of our new ball plant is well under way. In addition, we will continue to develop and introduce what we consider to be demonstrably superior golf clubs at a pace consistent with past practices --including a new metal wood to be introduced next month. We also expect that we will continue with our ongoing efforts to consolidate our international distribution in Europe and Asia. We believe, based upon our experience and our view of the market, that direct control of our distribution in Europe, which we hope to achieve by early 1999, and our distribution in Japan and elsewhere in Asia, which we hope to achieve by 2000, will give us the opportunity to increase sales and capture greater profit margins in these countries."

Ely Callaway, Founder and Chairman, stated, "Even though the first half of 1998 has been a constant challenge and the rest of the year does not look any easier, our customers, investors, employees and friends should remember that we are the largest U.S. golf club manufacturer -- by far -- with sales that are the envy of all of our competition. We have and will continue to have, what we believe to be the best golf clubs available, and we have the strength to meet the current and near term challenges without jeapordizing our fundamental core business."

It was also announced that the Board of Directors has approved a quarterly dividend of $.07 per share payable August 25, 1998, to shareholders of record as of August 5, 1998.

Callaway Golf makes and sells Big Bertha(R) metal woods and irons, including Big Bertha(R) War Bird(R) Stainless Steel Metal Woods, Great Big Bertha(R) Titanium Metal Woods, Biggest Big Bertha(TM) Titanium Drivers, Great Big Bertha(R) Tungsten.Titanium(TM) Irons and Big Bertha(R) X-12(TM) Irons. Callaway Golf's wholly-owned subsidiary, Odyssey Golf, Inc., makes and sells Odyssey(R) putters and wedges with Stronomic(R) and Lyconite(TM) inserts.

Statements used in this press release that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including but not limited to market acceptance of current and future products, competitive pressures, and costs and potential disruption of business as a result of the reorganization of international operations, as well as other risks and uncertainties detailed from time to time in the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

For more information about Callaway Golf Company, please visit our web site on the Internet at www.callawaygolf.com

Callaway Golf Company
Consolidated Condensed Income Statement(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,				Six Months Ended June 30,			
	1998		1997		1998		1997	
Net sales	$233,251	100%	$253,032	100%	$410,160	100%	$422,105	100%
Cost of goods sold	124,461	53%	118,290	47%	217,664	53%	200,360	47%
Gross profit	108,790	47%	134,742	53%	192,496	47%	221,745	53%
Operating expenses:								
Selling	42,236	18%	36,016	14%	78,029	19%	62,595	15%
General and administrative	23,679	10%	16,074	6%	44,184	11%	32,328	8%
Research and development	8,413	4%	8,089	3%	17,078	4%	14,042	3%
Income from operations	34,462	15%	74,563	29%	53,205	13%	112,780	27%
Other income (expense), net	296		1,031		(40)		2,414	
Income before income taxes	34,758	15%	75,594	30%	53,165	13%	115,194	27%
Provision for income taxes	13,621		28,773		20,868		43,906	
Net income	$ 21,137	9%	$ 46,821	19%	$ 32,297	8%	$ 71,288	17%
Earnings per common share:								
Basic	$0.30		$0.69		$0.47		$1.05	
Diluted	$0.30		$0.66		$0.45		$1.00	
Common equivalent shares:								
Basic	69,350		67,528		69,267		67,771	
Diluted	71,591		70,728		71,383		71,244	

Callaway Golf Company
Consolidated Condensed Balance Sheet
(In thousands)

	June 30, 1998	December 31, 1997
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 35,110	$ 26,204
Accounts receivable, net	138,991	124,470
Inventories, net	150,801	97,094
Deferred taxes	27,002	23,810
Other current assets	11,880	10,208
Total current assets	363,784	281,786
Property, plant and equipment, net	166,653	142,503
Intangible assets, net	123,859	112,141
Other assets	23,531	25,284
	$677,827	$561,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 52,021	$ 30,063
Line of credit	55,000	
Accrued employee compensation and benefits	13,856	14,262
Accrued warranty expense	32,162	28,059
Income taxes payable	329	
Total current liabilities	153,368	72,384
Long-term liabilities	9,517	7,905
Shareholders' equity	514,942	481,425
	$677,827	$561,714