SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITUES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

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
(619) 931-1771
(Address, including zip code, and telephone number, including area code of principal executive offices)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 26, 1997, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was $2,121,298,000 based on the closing sales price of the Registrant's Common Stock as reported in the consolidated transactions reporting system.

As of March 26, 1997, the number of shares of the Registrant's Common Stock outstanding was 73,690,775, and there were no shares of the Registrant's Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Parts I, II and IV incorporate certain information by reference from Registrant's Annual Report to shareholders for the fiscal year ended December 31, 1996.

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the annual meeting of shareholders to be held on April 17, 1997 which proxy statement was filed on March 10, 1997.

Note: When used in this Annual Report on Form 10-K and the information incorporated herein by reference, the words "expect(s)," "feel(s)," "believe(s), "will," "may," "anticipate(s)," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Callaway Golf 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 are also 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 factors set forth in Item 1 of this Report and the discussion incorporated by reference in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Certain Factors Affecting the Golf Club Industry and Callaway Golf," as well as the Company's periodic reports on Forms 10-Q and 8-K filed with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS.

Callaway Golf Company (the "Company" or "Callaway Golf") designs, develops, manufactures and markets high quality, innovative golf clubs. The Company's golf clubs are sold at premium prices to both average and skilled golfers on the basis of performance, ease of use and appearance. Callaway Golf's primary products, all of which incorporate the Company's S2H2(R) design concept, currently include the Biggest Big Bertha(TM) Titanium Driver, Great Big Bertha(R) Titanium Driver and Fairway Woods, Big Bertha(R) Metal Woods, Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Big Bertha(R) Irons, Big Bertha Gold(TM) Irons, Big Bertha(R) Tour Series Wedges and various putters, including the Bobby Jones(R) Series Putters.

PRODUCTS

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

	Year Ended December 31,					
	1996		1995		1994	
Metal Woods	$479,127	71%	$382,740	69%	$325,797	73%
Irons	168,576	25%	140,620	25%	98,913	22%
Putters, accessories and other	30,809	4%	29,927	6%	24,019	5%
Net Sales	$678,512	100%	$553,287	100%	$448,729	100%

The Company believes that the growth rate in the golf equipment industry in the United States has been modest for the past several years, and this trend is likely to continue through 1997. Sales of all golf clubs in Japan, the world's second largest consumer of golf clubs next to the United States, appeared to be stabilizing during early 1996, but recent trends indicate the market may be declining. Although demand for the Company's products has been generally strong during the year ended December 31, 1996, no assurances can be given that the demand for the Company's existing products or the introduction of new products will continue to permit the Company to experience its historical growth or maintain its historical profit margin. Additionally, given the Company's current size and market position, it is possible that further market penetration will prove more difficult.

METAL WOODS

Biggest Big Bertha(TM) Titanium Driver. In January 1997, the Company introduced the Biggest Big Bertha(TM) Titanium Driver. The Biggest Big Bertha(TM) Driver has a titanium clubhead which is approximately 15% larger than the Great Big Bertha(R) Driver clubhead described below, and has a 46" ultralight graphite shaft which is one inch longer than the Great Big Bertha(R) Driver's shaft. Although larger and longer, the Biggest Big Bertha(TM) Driver is lighter in overall weight than the Great Big Bertha(R) Driver. The Biggest Big Bertha(TM) Driver incorporates the S2H2(R) design

concept, the War Bird(R) soleplate (which features a deep dish on either side of the central facet running from clubface to trailing edge) and an advanced internal weighting system which increases the degree of perimeter weighting of the titanium clubhead. The Company offers the Biggest Big Bertha(TM) Driver in lofts ranging from 7 to 12 degrees. It is expected that this product line will be offered as a driver only. Deliveries of significant quantities of this new product commenced in January 1997.

Great Big Bertha(R) Titanium Metal Woods. The Company offers the Great Big Bertha(R) Titanium Driver, which has a titanium clubhead and a lightweight graphite shaft, in lofts ranging from 6.5 to 12 degrees. The head is 25% larger and the overall weight is 10% lighter than the Big Bertha(R) War Bird(R) Driver. The driver incorporates the S2H2(R) concept as well as the War Bird(R) soleplate. Deliveries of significant quantities of this product commenced in March 1995. In January 1996, the Company introduced Great Big Bertha(R) Fairway Woods (numbers 2, 3, 4, 5, 7 and 9). These fairway woods have titanium clubheads and also incorporate the S2H2(R) concept, the War Bird(R) soleplate and lightweight graphite shafts. Deliveries of significant quantities of these new products commenced in May 1996.

Big Bertha(R) Metal Woods with the War Bird(R) Soleplate. The Company offers Big Bertha(R) War Bird(R) Drivers in lofts ranging from 8 to 12 degrees with graphite, steel or titanium shafts. The Company also offers Big Bertha(R) War Bird(R) Fairway Woods (numbers 2, 3, strong 3, 4, strong 4, 5, HeavenWood(R), Divine Nine(R) and Ely Would(R)). The Company introduced the Heaven Wood(R), Divine Nine(R) and Ely Would(R) metal woods in 1992, 1993 and 1995, respectively. All of these clubs incorporate the War Bird(R) soleplate. In January 1996, the Company introduced new RCH series 96(TM) graphite shafts for its Big Bertha(R) War Bird(R) Metal Woods. The new shafts are lighter and more responsive. Delivery of this product commenced in February 1996.

IRONS

Big Bertha(R) Irons, Big Bertha Gold(TM) Irons, Big Bertha(R) Tour Series Wedges and Big Bertha Gold(TM) Tour Series Wedges. The Company offers Big Bertha(R) Irons 1 through 9, and pitching, approach, sand, and lob wedges, with either graphite, steel or titanium shafts. In January 1996, the Company introduced new and improved Big Bertha(R) Irons. These new Irons provide improved weight distribution and have a lighter, more responsive graphite shaft than the original Big Bertha(R) Irons. Delivery of this new product commenced in February 1996. In September 1996, the Company introduced Big Bertha Gold(TM) Irons, cast of aluminum bronze and including all of the design features of Big Bertha(R) Irons. Designed to have a softer feel and richer look than Big Bertha(R) Irons, deliveries of significant quantities of Big Bertha Gold(TM) Irons commenced in October 1996. In September 1996, the Company also introduced Big Bertha(R) Tour Series Wedges (pitching, approach, sand and lob wedges) with several new features geared toward enhancing playability for middle-to low-handicap amateurs as well as tour professionals. Deliveries of significant quantities of these new products commenced in September 1996. In January 1997, the Company also introduced Big Bertha Gold(TM) Tour Series Wedges. These wedges, which are cast of aluminum bronze, are expected to be available in May 1997.

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

PUTTERS, ACCESSORIES AND OTHER

Putters. The Company has a line of steel and graphite shafted putters, some of which incorporate the S2H2(R) concept, including the Tuttle(R) and the Tuttle(R) II putters, the Big Bertha(R) War Bird(R) putter, and the steel shafted Big Bertha(R) Blade putter. In September 1996, the Company introduced and commenced deliveries of the new Bobby Jones(R) line of putters, consisting of three styles of precision-machined putters with a double-radius bend, offset shaft.

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

LICENSING

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

Callaway Golf also has an exclusive licensing agreement with Nordstrom, Inc., under which Nordstrom, Inc. designs, produces and sells apparel at its own expense under the "Callaway Golf Apparel by Nordstrom" label. The line includes men's and women's golf apparel and footwear and is sold at Nordstrom stores throughout the United States.

PRODUCT DESIGN AND DEVELOPMENT

Product design at Callaway Golf is a result of the integrated efforts of its product development, manufacturing and sales departments, all of which work together to generate new ideas for golf equipment. The Company has not limited itself in its research efforts by trying to duplicate designs that are traditional or conventional and believes it has created an environment in which new ideas are valued and explored. The Company's research and development expenses were $16.2 million, $8.6 million and $6.4 million during 1996, 1995, and 1994, respectively. The Company intends to continue to invest substantial amounts in its research and development activities in 1997 and beyond. In addition to development of new golf equipment, these investments are expected to include, among others, significant expenditures in support of Callaway Golf Ball Company's efforts to develop and market a new golf ball product, as well as the continued enhancement of, and the development of additional applications for, the Company's Sir Isaac Performance System(TM), a high-tech evaluation system which permits golfers to compare the performance of different golf clubs and balls.

In January 1997, the Company announced agreements to establish the "Callaway Golf Experience" centers at the Walt Disney World Resort in Buena Vista, Florida and the Pebble Beach Resorts in Pebble Beach, California. The Callaway Golf Experience Centers feature the Sir Isaac Performance System(TM), a high-tech evaluation system which permits golfers to compare the performance of different golf clubs and balls. In connection with these arrangements, the Company also received certain exclusive promotional rights at these popular resorts.

Callaway Golf has the ability to build and modify clubhead designs by using computer aided design/computer aided manufacturing ("CAD/CAM") software and complete numerical control ("CNC") milling equipment. CAD/CAM software enables designers to develop computer models of new club designs. CNC milling equipment converts the digital output from CAD/CAM computer models into physical metal models produced by an electronically-controlled milling machine. Callaway Golf uses this software and equipment to facilitate the rapid design and production of physical models of clubheads, as well as casting tools for producing prototype clubheads for testing. In 1996, the Company purchased two induction furnaces (for casting ferrous and non-ferrous alloys) and one cold-walled furnace (for casting titanium, nickel and cobalt alloys). The Company is installing these furnaces in a state-of-the-art research facility at the Company's headquarters in Carlsbad, California, which should enable it to cast its own prototype clubheads on-site, as well as study new production processes and techniques. The Company expects that this new development facility will be operational in August 1997. The Company believes that this on-site casting capability will further facilitate the rapid design and development of prototype clubheads.

The Company believes that the introduction of new, innovative golf equipment will be 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. New designs must satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products. Moreover, 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.

In June 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. At this time, it has not been finally determined whether 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; by acquiring an existing golf ball manufacturer; by participating in a joint venture with another company; or by a combination of these factors. This business is in the early stages of development. It is expected, however, that it will have a negative impact on the Company's future cash flow and income from operations for 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, seasonality and new product introduction, also apply to the golf ball business. There can be no assurance if and when a successful golf ball product will be developed or that the Company's investment will ultimately be realized.

SALES AND MARKETING

Sales for Distribution in the United States

Approximately 68%, 66% and 74% of the Company's net sales were derived from sales for distribution within the United States in 1996, 1995 and 1994, respectively. The Company targets those golf retailers (both on-course and off-course) who sell "pro-line" clubs (professional quality golf clubs) and provide a level of customer service appropriate for the sale of premium golf clubs. No one customer that distributes golf clubs in the United States accounted for more than 5% of the Company's revenues in 1996, 1995, and 1994. The Company distributes its products in Hawaii through an exclusive distributor.

The Company employs 56 full-time regional field representatives, 16 in-house telephone salespersons and 19 customer service representatives. Each geographic region is covered by both a field representative and a telephone salesperson who work together to initiate and maintain relationships with customers through frequent telephone calls and in-person visits. The Company believes that this tandem approach of utilizing field representatives and telephone salespersons provides the Company a competitive advantage over other golf club manufacturers that distribute their golf clubs solely through independent sales representatives rather than employees. Notwithstanding the foregoing, Callaway Golf recognizes that other companies have marketing programs which may be equally or more effective than its own strategy.

While the Company seeks to control the distribution of its products to the extent permitted by law, it is still the case that 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 approved 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 an increase in sales returns over historical levels, and/or a potential decrease in sales to those customers who are selling Callaway Golf products to unauthorized distributors. 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 been successful in stopping such commerce to date.

Sales for Distribution Outside of the United States

Approximately 32%, 34% and 26% of the Company's net sales were derived from sales for distribution outside of the United States in 1996, 1995 and 1994, respectively. The majority of the Company's international sales are made through distributors specializing in the sale and promotion of golf clubs in specific countries or regions around the world. The Company currently has 21 distribution arrangements covering sales of the Company's products in over 40 foreign countries, including Japan, Canada, Singapore, Korea, Hong Kong, Australia, France, Spain, Argentina and South Africa. Prices of golf clubs for sales outside of the United States receive an export pricing discount to compensate international distributors for selling, advertising and distribution costs. A change in the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales.

The Company directly markets its products in the United Kingdom and Sweden through its wholly-owned British subsidiary, Callaway Golf (UK) Limited. In July 1996, the Company acquired a majority interest in its distributor in Germany, Golf Trading GmbH, which sells and promotes the Company's products in Germany, Austria, the Netherlands and Switzerland.

The Company, through a distribution agreement, appointed Sumitomo Rubber Industries, Ltd. ("Sumitomo") as the sole distributor of the Company's golf clubs in Japan. The distribution agreement requires Sumitomo to purchase specified minimum quantities. The current distribution agreement began in February 1993 and has an initial term of seven years. The Company has been engaged in discussions regarding a possible restructuring of the Company's distribution arrangements with Sumitomo, which is intended to streamline the distribution of the Company's products in Japan. There can be no assurance, however, that such a restructuring will occur, or if consummated, that the proposed restructuring will achieve its intended goals. It is possible that the attempt to restructure the Company's distribution arrangements in Japan, or the failure to succeed in that attempt, will adversely affect the Company's business in Japan. Sales to Sumitomo represented approximately $58.2 million (9%), $61.0 million (11%) and $45.9 million (10%) of the Company's net sales in 1996, 1995 and 1994, respectively. See Note 9 of Notes to Consolidated Financial Statements in the Company's Annual Report to shareholders for the fiscal year ended December 31, 1996 ("1996 Annual Report to Shareholders").

During 1995, the Company began to evaluate growth opportunities in and outside of the golf equipment industry. One of the opportunities identified by the Company relates to the Company's acquisition of selected foreign distributors. The Company's management believes that controlling the distribution of its products throughout the world will be a key element in the future growth and success of the Company. Executing a business strategy to achieve this has and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. It could also result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of the Company's foreign distributors will be successful, and it is possible that the attempt to do so will adversely affect the Company's business.

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

Advertising and Promotion

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

The Company also 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 ("SPGA"), the Professional Golf Association's Tour ("PGA"), the Ladies Professional Golf Association's Tour ("LPGA"), 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. If one or more of Callaway Golf's pro endorsers were to stop using Callaway Golf's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

During 1996, Callaway Golf continued its Big Bertha(R) Players' Pool ("Pool") for the PGA, SPGA, LPGA and Nike Tours. Those professional players participating in the Pool received cash for using Callaway Golf metal woods in professional tournaments. A select few of the Pool players also received compensation for wearing the Company's logos during tournament play. The Company has established the 1997 Big Bertha(R) Players' Pool similar to the 1996 Pool, in which professional players participating in the Pool will receive cash for using certain Callaway Golf products in professional tournaments. The Company believes that its staff professional program and its Pool contributed to its success on the professional tours in 1996. There is no guarantee, however, that the Company will be able to sustain this level of success.

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

The Company spent approximately $45.0 million, $37.7 million and $33.9 million on advertising, promotional and endorsement related expenditures, including compensation to professional golfers, in 1996, 1995 and 1994, respectively. The Company expects these expenditures to increase during 1997.

MANUFACTURING

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

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

The Company is dependent on a limited number of suppliers for its club heads and shafts. In addition, some of the Company's products require specifically developed techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if any significant delay or disruption in the supply of these component parts occurs, it may have a material adverse effect on the Company's business. In the event of a significant delay or disruption, the Company believes that suitable heads and shafts could be obtained from other manufacturers, although the transition to another supplier, particularly with respect to the Biggest Big Bertha(TM) Titanium Driver and Great Big Bertha(R) Tungsten.Titanium(TM) Irons, could result in significant production delays and would likely have an adverse impact on results of operations during the transition.

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

In the ordinary course of its manufacturing process, the Company uses paints and chemical solvents which are stored on-site. The waste created by use of these materials is transported off-site on a regular basis by registered waste haulers. To date, the Company has not experienced any material environmental compliance problems, although there can be no assurance that such problems will not arise in the future. Additionally, in the manufacturing process, the Company has used 1,1,1 trichloroethane ("trichloroethane") which is considered ozone depleting by the Environmental Protection Agency. Effective January 1996, the Company began using alternative products for trichloroethane in its manufacturing processes.

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.

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. Several companies introduced new products in 1996 (e.g.: Ping "ISI" Irons, Taylor Made "Burner Bubble Shaft" Irons, Cobra "Ti" Titanium Metal Woods, "King Cobra II" Irons and Armour "Ti 100" Irons) that have generated increased market competition. Others increased their marketing activities with respect to existing products in 1996. 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.

Additionally, the golf club industry, in general, has been characterized by widespread imitation of popular club designs. 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 may also 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.

As noted elsewhere in this Report, the Company has formed Callaway Golf Ball Company for the purpose of designing, manufacturing and selling golf balls. The golf ball business is highly competitive with a number of well-established and well-financed competitors, including Titleist, Spalding, Sumitomo Rubber Industries, Bridgestone and others. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

INTELLECTUAL PROPERTY

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

The 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 it 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.

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.

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. (See also Item 3, "Legal Proceedings"). 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 patent 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 action taken against it. Despite its efforts to avoid such infringements, there can be no assurance that Callaway Golf Ball Company will not infringe on the patents and 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.

SEASONALITY

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. Although the Company's business generally follows this seasonal trend, the Company's increasing sales volume in many years has tended to mitigate the impact of seasonality on the Company's operating results. However, in recent years, the Company's operating results have been more significantly affected by seasonal buying trends, and the Company expects this trend to continue.

PRODUCT WARRANTIES

The Company supports all of its golf clubs with a 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 has not to date 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, incorporates design and production changes to assure its customers of the highest quality available in the market. If Callaway Golf clubs were to experience a significant increase in the incidence of breakage or other product problems, the Company's sales and image with golfers would be materially adversely affected. At December 31, 1996, 1995 and 1994, the Company's reserves for warranty claims were approximately $27.3 million, $23.8 million and $18.2 million, respectively. The increase in this reserve was primarily attributable to increased sales volume and change in product mix. 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.

EMPLOYEES

As of December 31, 1996, the Company and its subsidiaries had 2,152 full-time employees, including 201 employed in sales and marketing, 145 employed in research and development and product engineering and 1,432 employed in production. The remaining full-time employees are administrative and support staff.

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

ITEM 2. PROPERTIES.

Operations of the Company and its subsidiaries are conducted in both owned and leased properties. The following table describes the general character of the important existing facilities:

Location	Interest	Size (sq.ft.)
United States		
Corporate Headquarters, Manufacturing and Research & Development Facilities:		
2285 Rutherford Road, Carlsbad, California	Owned	128,000
5960 Pascal Court, Carlsbad, California	Owned	73,000
5957 Landau Court, Carlsbad, California	Owned	46,000
5928 Pascal Court, Carlsbad, California	Owned	38,000
1911 Palomar Oaks Way, Carlsbad, California	Owned	22,000
5860 Dryden Place, Carlsbad, California	Owned	10,000
5858 Dryden Place, Carlsbad, California	Leased	63,000
5931 Priestly Drive, Carlsbad, California	Leased	46,000
2261 Rutherford Road, Carlsbad, California	Leased	20,000
5925 Priestly Drive, Carlsbad, California	Leased	15,000
5940 Priestly Drive, Carlsbad, California	Leased	11,000
5927 Priestly Drive, Carlsbad, California	Leased	11,000
2260 Rutherford Road, Carlsbad, California	Leased	6,000
Additional Manufacturing/Warehouse Facilities:		
2835 La Mirada Drive, Vista, California	Leased	32,000
985 Poinsettia Avenue, Vista, California	Leased	31,000
2105 Rutherford Road, Carlsbad, California	Leased	8,000
		560,000
United Kingdom		
Headquarters, Sales Office and Warehouse:		
Barwell Business Park, Chessington, Surrey, England	Leased	16,000
Germany		
Headquarters, Sales Office and Warehouse:		
Golf Trading GmbH		
Luruper Chaussee 125	Leased	13,000
Haus 6, 22761 Hamburg, Germany		

The Company believes that its facilities are adequate to meet its current requirements. The Company has experienced rapid growth in its business for the last several years, however, and in order to accommodate this growth, the Company has regularly acquired or leased new facilities for manufacturing, research and development, office and storage. Although there can be no assurance that the Company will achieve similar growth in its business in the future, the Company expects that its practice of regularly acquiring or leasing additional properties near its headquarters in Carlsbad, California is likely to continue in the near term, including the possible acquisition or leasing of facilities for Callaway Golf Ball Company.

ITEM 3. LEGAL PROCEEDINGS.

The Company, incident to its business activities, is the plaintiff in several legal proceedings, both domestically and abroad, in various stages of development. In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated a number of actions against alleged infringers under the Lanham Act, 15 USCA Sections 1051-1127, the U.S. Patent Act, 35 USCA Sections 1-376, 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 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 market place.

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.

On May 30, 1996, a lawsuit was filed against the Company and two of its officers by a former officer of the Company, captioned Glenn Schmidt v. Callaway Golf Company, et al., Case No. N 71548, in the Superior Court for the State of California, County of San Diego. The lawsuit asserts claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs. The plaintiff has also recently filed a first amended complaint asserting claims for wrongful termination and termination in violation of public policy. The first amended complaint seeks damages of $290,000,000, a royalty of $27,000,000, or compensatory damages for breach of the oral contract and related claims; damages of approximately $10,000,000 for the wrongful termination; and unspecified punitive damages and costs. The Company believes there are meritorious defenses to all of plaintiff's claims, and thus no provision for liability has been made in the Company's financial statements. Formal discovery has commenced in preparation for trial. The trial is currently scheduled to commence on October 20, 1997.

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, including but not limited to those described above. The Company believes that the majority of these proceedings involve matters as to which liability, if any, will be adequately covered by insurance. With respect to litigation outside the scope of applicable insurance coverage and to the extent insured claims may exceed liability limits, 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS.

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position(s) Held
Ely Callaway	77	Founder and Chairman of the Board
Donald H. Dye	54	President and Chief Executive Officer
Bruce Parker	41	Senior Executive Vice President, Chief Merchant
John P. Duffy	56	Senior Executive Vice President, Chief of Manufacturing
Richard C. Helmstetter	55	Senior Executive Vice President, Chief of New Products
Steven C. McCracken	46	Executive Vice President, Secretary and General Counsel
Frederick R. Port	55	Executive Vice President, International Sales, Licensing and Business Development
David A. Rane	42	Executive Vice President, Chief Financial Officer
Charles J. Yash	48	President and Chief Executive Officer, Callaway Golf Ball Company

Ely Callaway, Founder, has served as Chairman of the Board since the Company's formation in 1982, and is the Chairman of the Executive and Compensation Committee of the Company's Board of Directors. He served as Chief Executive Officer from 1982 to May 1996. From 1974 to 1981, Mr. Callaway founded and operated Callaway Vineyard and Winery in Temecula, California, until it was sold. From 1946 to 1973, Mr. Callaway worked in the textile industry, where he served as a Divisional President of several major divisions of Burlington Industries, Inc., and in 1968 was elected Corporate President and Director of Burlington, which at the time was the world's largest textile company. Prior to 1945, Mr. Callaway served a five-year tour of duty in the U.S. Army Quartermaster Corps.

Donald H. Dye serves as President and Chief Executive Officer of the Company. He has served as Chief Executive Officer since May 1996, as President since 1993, and as a Director of the Company since its formation in 1982. He served as Chief Operating Officer from October 1991 until May 1996. From 1973 to 1991, Mr. Dye was in the private practice of law in Riverside, California. During that period, he provided legal services to Callaway Vineyard & Winery, Mr. Callaway and the Company. Prior to 1973, Mr. Dye served five years in the U.S. Air Force as a member of the Judge Advocates General Corps.

Bruce Parker has served as Senior Executive Vice President since 1993, Chief Merchant since 1991 and as a Director of the Company since July 1996. Mr. Parker also served the Company in various vice presidential positions since 1984 and became Executive Vice President, Chief Merchant in October 1991. Prior to 1984, Mr. Parker worked as a sales manager for various golf club manufacturers in California.

John P. Duffy has served the Company in various vice presidential positions since 1989 and became Executive Vice President, Chief of Manufacturing in March 1990 and Senior Executive Vice President in April 1993. From 1988 to 1989, Mr. Duffy served as Vice President--Product Line Management of Taylor Made Golf Company. From 1984 to 1988, Mr. Duffy served as Vice President-Manufacturing of Taylor Made. From 1982 to 1984, Mr. Duffy served as General Manager--Western Division of Taylor Made. Prior to 1982, Mr. Duffy owned and operated golf retail outlets in Florida and California under the name "House of Golf."

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

Steven C. McCracken has served the Company as Executive Vice President since April 1996 and as Secretary and General Counsel since April 1994. He served as Vice President from April 1994 to April 1996. Prior to April 1994, Mr. McCracken was a partner at Gibson, Dunn & Crutcher for 11 years, and had been in the private practice of law for over 18 years. During part of that period, he provided legal services to the Company.

Frederick R. Port has served as Executive Vice President, International Sales, Licensing and Business Development since April 1996 and as a Director of the Company since October 1995. He served as Executive Vice President, Business Development of the Company from September 1995 to April 1996. From 1993 to 1995, Mr. Port was the Managing Director of Korn/Ferry International for the Southern California region (an executive recruiting and strategic consulting firm). From 1987 to 1992, he was the President and a Director of the Owl Companies (a company providing military base services management, construction materials production and sale, industrial and commercial real estate development and power development).

David A. Rane has served the Company as Executive Vice President since April 1996 and as Chief Financial Officer since January 1994. He served as Vice President from January 1994 to April 1996. Mr. Rane served as Director of Investor Relations from June 1993 to January 1994. Prior to 1993, Mr. Rane was a senior manager for the accounting firm of Price Waterhouse LLP, and served a total of 14 years in public accounting.

Charles J. Yash has served as President and Chief Executive Officer of Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, since June 1996 and as a Director of the Company since July 1996. From 1992 to June 1996, Mr. Yash was President and Chief Executive Officer and a Director of Taylor Made Golf Company. From 1979 to 1992, Mr. Yash was employed in various marketing positions with the golf products division of Spalding Sports Worldwide, including Corporate Vice President and General Manager-Golf Products, from 1988 to 1992.

The Company has employment agreements with Messrs. Callaway, Dye and Helmstetter for terms commencing January 1, 1995 and ending December 31, 1997. The Company is currently in negotiations with Messrs. Dye and Helmstetter with respect to new, long-term employment agreements. The Company has new employment agreements with Messrs. Parker, Duffy, McCracken, Port and Rane for terms commencing January 1, 1997 and ending on December 31, 1999. The Company also has an employment agreement with Mr. Yash which commenced May 15, 1996 and ends on May 14, 2001.

PART II

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

Information in response to Item 5 is contained on page 35 of the Company's 1996 Annual Report to Shareholders, which information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA.

Information in response to Item 6 is contained on page 19 of the Company's 1996 Annual Report to Shareholders, which information is incorporated herein by reference.

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

Information in response to Item 7 is contained on pages 20, 21 and 22 of the Company's 1996 Annual Report to Shareholders, which information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information in response to Item 8 is contained on pages 23 through 36 of the Company's 1996 Annual Report to Shareholders, which information is incorporated herein by reference.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain information concerning the Company's executive officers is included under the caption "Executive Officers of the Registrant" following Part I, Item 4. Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and greater than 10% shareholders to file initial reports of ownership (on Form 3) and periodic changes in ownership (on Forms 4 and 5) of Company securities with the Securities and Exchange Commission and the New York Stock Exchange. Based solely on its review of copies of such forms and such written representations regarding compliance with such filing requirements as were received from its executive officers, directors and greater than 10% shareholders, the Company believes that all such Section 16(a) filing requirements were complied with during 1996.

Other information required by Item 10 has been included in the Company's definitive proxy statement under the caption "Election of Directors," as filed with the Securities and Exchange Commission (the "Commission") on March 10, 1997 pursuant to Regulation 14A, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The Company maintains employee benefit plans and programs in which its executive officers are participants. Copies of certain of these plans and programs are set forth or incorporated by reference as Exhibits 10.1.1 to 10.19.2 to this Report. Information required by Item 11 has been included in the Company's definitive proxy statement under the captions "Compensation of Executive Officers," "Report of the Executive and Compensation Committee of the Board of Directors on Executive Compensation," "Performance Graph" and "Election of Directors," as filed with the Commission on March 10, 1997 pursuant to Regulation 14A, which information is incorporated herein by reference.

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

The information required by Item 12 has been included in the Company's definitive proxy statement under the caption "Beneficial Ownership of the Company's Securities," as filed with the Commission on March 10, 1997 pursuant to Regulation 14A, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 13 has been included in the Company's definitive proxy statement under the caption "Certain Transactions," as filed with the Commission on March 10, 1997 pursuant to Regulation 14A, which information is incorporated herein by reference.

PART IV

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

(a) Documents filed as part of this report:

1. Financial Statements. The following consolidated financial statements of Callaway Golf Company and its subsidiaries included in Part II, Item 8, are incorporated by reference from pages 23 through 35 of the 1996 Annual Report to Shareholders:

Consolidated Balance Sheet at December 31, 1996 and 1995

Consolidated Statement of Income for the three years ended December 31, 1996

Consolidated Statement of Cash Flows for the three years ended December 31, 1996

Consolidated Statement of Shareholders' Equity for the three years ended December 31, 1996

Notes to Consolidated Financial Statements

Report of Independent Accountants

2. Financial Statement Schedule.

Report of Independent Accountants on Financial Statement Schedule

II Consolidated Valuation and Qualifying Accounts

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

3. Exhibits.

3.1.1	Restated Articles of Incorporation of the Company.(1)
3.1.2	Certificate of Amendment of Articles of Incorporation, effective February 10, 1995.(2)
3.2	Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock. (3)
3.3	Bylaws of the Company (as amended through May 10, 1996).(4)
4.1	Dividend Reinvestment and Stock Purchase Plan. (5)
4.2	Rights Agreement by and between the Company and Chemical Mellon Shareholder Services as Rights Agent dated as of June 21, 1995.(3)

Executive Compensation Contracts/Plans

10.1.1 Officer Employment Agreement by and between the Company and Ely Callaway dated January 1, 1995. (6)

10.1.2 Amendment No. 1 to Officer Employment Agreement by and between the Company and Ely Callaway dated July 19, 1995.(3)

10.2.1 Officer Employment Agreement by and between the Company and Donald H. Dye dated January 1, 1995.(6)

10.2.2 Amendment No. 1 to Officer Employment Agreement by and between the Company and Donald H. Dye dated July 19, 1995.(3)

10.3 Executive Officer Employment Agreement by and between the Company and Bruce Parker dated as of January 1, 1997.

10.4.1 Officer Employment Agreement by and between the Company and Richard Helmstetter dated January 1, 1995.(6)

10.4.2 Amendment No. 1 to Officer Employment Agreement by and between the Company and Richard Helmstetter dated July 19, 1995.(3)

10.5 Executive Officer Employment Agreement by and between the Company and John Duffy dated January 1, 1997.

10.6 Executive Officer Employment Agreement by and between the Company and Steven C. McCracken dated January 1, 1997.

10.7.1 Executive Officer Employment Agreement by and between the Company and Frederick R. Port dated January 1, 1997.

10.7.2 Stock Option Agreement by and between the Company and Frederick R. Port dated as of September 1, 1995.(7)

10.8 Executive Officer Employment Agreement by and between the Company and David Rane dated January 1, 1997.

10.9.1 Officer Employment Agreement by and between the Company and Charles J. Yash dated May 10, 1996. (8)

10.9.2 Stock Option Agreement by and between the Company and Charles J. Yash.(9)

10.10 Employment Agreement by and between the Company and Elmer Ward dated July 1, 1996.(10)

10.11.1 Form of Tax Indemnification Agreement.(3)

10.11.2 Form of Amendment No. 1 to Tax Indemnification Agreement.(10)

10.12 Executive Deferred Compensation Plan (amended and restated July 1995).(3)

10.13 Callaway Golf Company Executive Non-Discretionary Bonus Plan.(6)

10.14 Executive Bonus Pool.(11)

10.15 1991 Stock Incentive Plan (as amended and restated April 1994).(2)

10.16 Amended and Restated Stock Option Plan effective April 2, 1991.(12)

10.17 1996 Stock Option Plan.

10.18 Callaway Golf Company Non-Employee Directors Stock Option Plan (as Amended and Restated April 17, 1996).(9)

10.19.1 Form of Indemnification Agreement by and between the Company and the following directors: William Baker, Richard Rosenfield, William Schreyer and Michael Sherwin, all dated January 25, 1995.(2)

10.19.2 Indemnification Agreement by and between the Company and Ms. Aulana L. Peters, Director, dated July 18, 1996.(11)

Other Contracts

10.20.1 Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1994.(2)

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

10.21 Trust Agreement between Callaway Golf Company and Sanwa Bank California as Trustee, for the benefit of participating employees, dated July 14, 1995.(13)

10.22.1 Industrial lease by and between Dwight and Donna Johnson and the Company, dated July 16, 1993, for 2261 Rutherford Road, Carlsbad, California ("Johnson Lease").(14)

10.22.2 Amendment No. 1 to Johnson Lease dated October 24, 1994.(8)
10.23.1 Industrial Real Estate Lease by and between Mark IV Properties, Inc. ("Mark IV") and the Company, dated March 14, 1994, for 5931 Priestly Drive, Carlsbad, California.(2)
10.23.2 Assignment and Assumption dated December 15, 1995 by Seltzer Chemicals, Inc. ("Seltzer") to the Company of Interest in Lease Agreement between Seltzer and Mark IV, as amended through January 20, 1993, for additional space at 5931 Priestly Drive.(8)
10.24.1 Standard Net Industrial Lease by and between National Life Insurance Company and Callaway Golf Company dated March 13, 1996 for 5858 Dryden Place, Carlsbad, California.(15)
10.24.2 Lease Amendment made as of October 4, 1996 between National Life Insurance Company and Callaway Golf Company.
11.1 Computation of earnings per share.
13.1 Portions of the Company's 1996 Annual Report to Shareholders (with the exception of the information incorporated by reference specifically in this Report on Form 10-K, the 1996 Annual Report to Shareholders is not deemed to be filed as a part of this Report on Form 10-K).
21.1 List of Subsidiaries.
23.1 Consent of Price Waterhouse LLP.
27.1 Financial Data Schedule.

/(1)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 33-85692), as filed with the Securities and Exchange Commission on October 28, 1994, and incorporated herein by reference.

/(2)/ Included as an exhibit to the Company's 1994 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 31, 1995, and incorporated herein by reference.

/(3)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1995, as filed with the Securities and Exchange Commission on August 12, 1995, and incorporated herein by reference.

/(4)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-5719), as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.

/(5)/ Included as the Prospectus in the Company's Registration Statement on Form S-3 (No. 33-77024), as filed with the Securities and Exchange Commission on March 29, 1994, and incorporated herein by reference.

/(6)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1995, as filed with the Securities and Exchange Commission on May 10, 1995, and incorporated herein by reference.

/(7)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 33-98750), as filed with the Securities and Exchange Commission on October 30, 1995, and incorporated herein by reference.

/(8)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1996, as filed with the Securities and Exchange Commission on August 14, 1996, and incorporated herein by reference.

/(9)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-5721), as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.

/(10)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996, as filed with the Securities and Exchange Commission on November 13, 1996, and incorporated herein by reference.

/(11)/ Included as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-44556), as declared effective by the Securities and Exchange Commission on February 27, 1992, and incorporated herein by reference.

/(12)/ Included as an exhibit to the Company's 1995 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on April 1, 1996, and incorporated herein by reference.

/(13)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1995, as filed with the Securities and Exchange Commission on November 14, 1995, and incorporated herein by reference.

/(14)/ Included as an exhibit to the Company's 1993 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 25, 1994, and incorporated herein by reference.

/(15)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1996, as filed with the Securities and Exchange Commission on May 15, 1996, and incorporated herein by reference.

(b) Reports on Form 8-K:

No Reports on Form 8-K were filed by the Company during the quarter ended December 31, 1996.

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: March 26, 1997

/s/ ELY CALLAWAY
Ely Callaway
Chairman of the Board

/s/ DONALD H. DYE
Donald H. Dye
President and Chief Executive Officer

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

SIGNATURE	TITLE	DATE
PRINCIPAL EXECUTIVE OFFICERS AND DIRECTORS:		
/s/ ELY CALLAWAY Ely Callaway	Chairman of the Board	March 26, 1997
/s/ DONALD H. DYE Donald H. Dye	President and Chief Executive Officer	March 26, 1997
PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER:		
/s/ DAVID A. RANE David A. Rane	Executive Vice President, Chief Financial Officer	March 26, 1997
OTHER DIRECTORS:		
/s/ WILLIAM C. BAKER William C. Baker	Director	March 26, 1997
/s/ BRUCE PARKER Bruce Parker	Director	March 26, 1997
/s/ AULANA L. PETERS Aulana L. Peters	Director	March 26 , 1997
/s/ FREDERICK R. PORT Frederick R. Port	Director	March 26, 1997
/s/ RICHARD ROSENFIELD Richard Rosenfield	Director	March 26, 1997
/s/ WILLIAM SCHREYER William Schreyer	Director	March 26, 1997
/s/ MICHAEL SHERWIN Michael Sherwin	Director	March 26, 1997
/s/ ELMER WARD Elmer Ward	Director	March 26, 1997
/s/ CHARLES J. YASH Charles J. Yash	Director	March 26, 1997

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders
of Callaway Golf Company

Our audits of the consolidated financial statements referred to in our report dated January 20, 1997 appearing on page 35 of the 1996 Annual Report to Shareholders of Callaway Golf Company (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICE WATERHOUSE LLP
PRICE WATERHOUSE LLP

San Diego, California
January 20, 1997

SCHEDULE II

CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEAR PERIOD ENDED DECEMBER 31, 1996

Date	Allowance for Doubtful Accounts	Allowance for Obsolete Inventory	Allowance for Warranty Costs
	(in thousands)		
Balance, December 31, 1993	$3,035	$5,155	$ 9,730
Provision	3,479		13,302
Write-off	(108)	(215)	(4,850)
Recovery	6	19	
Balance, December 31, 1994	6,412	4,959	18,182
Provision	101		12,002
Write-off	(103)	(163)	(6,415)
Recovery			
Balance, December 31, 1995	6,410	4,796	23,769
Provision	231	800	10,735
Write-Off	(304)	(312)	(7,201)
Recovery			
Balance, December 31, 1996	$6,337	$5,284	$27,303

EXHIBIT 10.3

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and Bruce Parker ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating December 31, 1999 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Senior Executive Vice President, Chief Merchant of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to the President and Chief Executive Officer of the Company, or to such other person as the Chief Executive Officer shall designate. Employee's title, position and/or duties may be changed by the Board of Directors and/or the Chief Executive Officer of the Company.

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

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

4. COMPENSATION. The Company agrees to pay Employee:

(a) a base salary at the rate of $600,000.00 per year; and

(b) an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may exist from time to time.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive four (4) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from reasonably qualifying for such insurance coverage;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time: and

(v) participate in any other benefit plans the Company provides from time to time to executive officers.

(d) Club Membership. The Company shall pay the reasonable cost

of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

(e) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other executive officers from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

6. DISABILITY. If on account of any physical or mental disability Employee shall fail or be unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of up to six (6) months during any twelve month period during the term of this Agreement, Employee shall be entitled to his or her full compensation and benefits as set forth in this Agreement. If Employee's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law Employee agrees that, while employed by the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date such person ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the

Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon giving 90 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under this Agreement may be terminated immediately by Employee at his or her convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance.

(c) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the

same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of drugs or alcohol during work, disloyalty and/or felony criminal conduct.

(d) Termination by Employee for Substantial Cause.

Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this subsection in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(e) Termination Due to Permanent Disability. Subject to all

applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (v) the continuation of all benefits and perquisites provided by Section 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the

term of this Agreement or two years; and (vi) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his or her time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; and (v) no other severance. At Employee's option, Employee may elect in writing at least 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 8 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee

in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Termination By Mutual Agreement of the Parties.

Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises prior to the effective date of termination as determined above, and to cease any and all activities on the Company's behalf.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit A hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date shall be that date which would permit the Extended Employment Agreement to continue in effect for an additional period of time equal to the full term of this Agreement.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a) of this Agreement. Furthermore, the termination events and consequences described in Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Sections 6 and 8(e)), Employee's death, and any of the factors enumerated in Section 8(c) as providing to the Company "substantial cause" for terminating Employee's employment:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF BOOKS AND RECORDS. Employee agrees that upon termination of employment in any manner, Employee will immediately surrender to the Company all lists, books and records of or connected with the business of the Company, and all other properties belonging to the Company, it being distinctly understood that all such lists, books, records and other documents are the property of the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

(a) Employee agrees that any trade secret or proprietary information of the Company to which Employee has become privy or may become privy to as a result of his or her employment with the Company shall not be divulged or disclosed to any other party (including, without limit, any person or entity with whom or in whom Employee has a business interest) without the express written consent of the Company, except as otherwise required by law. In addition, Employee agrees to use such information only during the term of this Agreement and only in a manner which is consistent with the purposes of this Agreement. In the event Employee believes that he

or she is legally required to disclose any trade secret or proprietary information of the Company, Employee shall give reasonable notice to the Company prior to disclosing such information and shall take such legally permissible steps as are reasonably necessary to protect such Company trade secrets or proprietary information, including but not limited to, seeking orders from a court of competent jurisdiction preventing disclosure or limiting disclosure of such information beyond that which is legally required. The Company shall reimburse Employee for reasonable legal expenses incurred in seeking said orders.

(b) Except as otherwise required by law, Employee shall hold in confidence all trade secret and proprietary information received from the Company until such information is available to the public generally or to the Company's competitors through no unauthorized act or fault of Employee. Upon termination of this Agreement, Employee shall promptly return any written proprietary information in his or her possession to the Company.

(c) As used in this Agreement, "trade secret and proprietary information" means information, whether written or oral, not generally available to the public; it includes the concepts and ideas involved in the Company's products whether patentable or not; and includes, but is not limited to, the processes, formulae, and techniques disclosed by the Company to Employee or observed by Employee. It does not include:

(i) Information, which at the time of disclosure, had been previously published;

(ii) Information which is published after disclosure, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or

(iii) Information which, subsequent to disclosure, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and does not require Employee to refrain from disclosing such information to others.

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

13. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean new ideas and improvements, whether or not patentable, relating to the design,

manufacture, use or marketing of golf equipment or other products of the Company. This includes, but is not limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

(b) Employee agrees to disclose to the Chief Executive Officer and the Board of Directors of the Company any invention or innovation which he or she develops, either alone or with anyone else, during the term of Employee's employment with the Company, as well as any invention or innovation based on proprietary information of the Company which Employee develops, whether alone or with anyone else, within twelve (12) months after the termination of Employee's employment with the Company.

(c) Employee agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Employee is employed by the Company;

(ii) for which Employee used any of the Company's equipment, supplies, facilities or proprietary information, even if any or all of such items are relatively minor, and have little or no monetary value; or

(iii) which results in any way from Employee's work for the Company or relates in any way to the Company's business or the Company's current or anticipated research and development.

(d) Employee understands and agrees that the existence of any condition set forth in either (c)(i), (ii) or (iii) above is sufficient to require Employee to assign his or her inventions or innovations to the Company.

(e) All provisions of this Agreement relating to the assignment by Employee of any invention or innovation are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Employee agrees that any invention or innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all inventions or innovations belonging to the Company.

(g) Employee shall disclose all inventions and innovations to the Company, even if Employee does not believe that he or she is required under this

Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such invention or innovation to the Company. If the Company and Employee disagree as to whether or not an invention or innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled, if, and only if, the arbitrator finds that the non-prevailing party's position, taken as a whole, was frivolous or baseless. The prevailing party in any such proceeding shall be entitled to recover from the other party the reasonable costs and expenses of any such proceeding (not including attorneys' fees).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Bruce Parker
2455 El Amigo Road
Del Mar, CA 92014

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Donald H. Dye

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to arbitration. The arbitration shall be conducted by a retired judge from the Judicial Arbitration and Mediation Service/Endispute ("JAMS") office located in Orange County, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

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

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

20. SUPERSEDES OLD OFFICER EMPLOYMENT CONTRACT.

Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective January 1, 1995

(the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement shall control and both agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE:	COMPANY:
	CALLAWAY GOLF COMPANY,
	a California corporation
/s/ BRUCE PARKER	By: /s/ DONALD H. DYE
- -------------------------	-------------------------
Bruce Parker	Donald H. Dye, President & CEO

EXHIBIT A

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

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

EXHIBIT 10.5

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and John Duffy ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating December 31, 1999 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Senior Executive Vice President and Chief of Manufacturing of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to the President and Chief Executive Officer of the Company, or to such other person as the Chief Executive Officer shall designate. Employee's title, position and/or duties may be changed by the Board of Directors and/or the Chief Executive Officer of the Company.

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

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

4. COMPENSATION. The Company agrees to pay Employee:

(a) a base salary at the rate of $400,000.00 per year; and

(b) an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may exist from time to time.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive paid vacation in the following amounts for each of the twelve (12) month periods of employment with the Company indicated: for 1997, four (4) weeks; for 1998, six (6) weeks; and for 1999, eight (8) weeks. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit.The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from reasonably qualifying for such insurance coverage;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time: and

(v) participate in any other benefit plans the Company provides from time to time to executive officers.

(d) Club Membership. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

(e) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other executive officers from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

6. DISABILITY. If on account of any physical or mental disability Employee shall fail or be unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of up to six (6) months during any twelve month period during the term of this Agreement, Employee shall be entitled to his or her full compensation and benefits as set forth in this Agreement. If Employee's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date such person ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company to diminish or cease

furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon giving 90 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under this Agreement may be terminated immediately by Employee at his or her convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance.

(c) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued

and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of drugs or alcohol during work, disloyalty and/or felony criminal conduct.

(d) Termination by Employee for Substantial Cause.

Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this subsection in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(e) Termination Due to Permanent Disability. Subjct to all

applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in

that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (v) the continuation of all benefits and perquisites provided by Section 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his or her time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; and (v) no other severance. At Employee's option, Employee may elect in writing at least 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 8 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of

employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Termination By Mutual Agreement of the Parties.

Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises prior to the effective date of termination as determined above, and to cease any and all activities on the Company's behalf.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit A hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date shall be that date which would permit the Extended Employment Agreement to continue in effect for an additional period of time equal to the full term of this Agreement.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a) of this Agreement. Furthermore, the termination events and consequences described in Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Sections 6 and 8(e)), Employee's death, and any of the factors enumerated in Section 8(c) as providing to the Company "substantial cause" for terminating Employee's employment:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF BOOKS AND RECORDS. Employee agrees that upon termination of employment in any manner, Employee will immediately surrender to the Company all lists, books and records of or connected with the business of the Company, and all other properties belonging to the Company, it being distinctly understood that all such lists, books, records and other documents are the property of the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

(a) Employee agrees that any trade secret or proprietary information of the Company to which Employee has become privy or may become privy to as a result of his or her employment with the Company shall not be divulged or disclosed to

any other party (including, without limit, any person or entity with whom or in whom Employee has a business interest) without the express written consent of the Company, except as otherwise required by law. In addition, Employee agrees to use such information only during the term of this Agreement and only in a manner which is consistent with the purposes of this Agreement. In the event Employee believes that he or she is legally required to disclose any trade secret or proprietary information of the Company, Employee shall give reasonable notice to the Company prior to disclosing such information and shall take such legally permissible steps as are reasonably necessary to protect such Company trade secrets or proprietary information, including but not limited to, seeking orders from a court of competent jurisdiction preventing disclosure or limiting disclosure of such information beyond that which is legally required. The Company shall reimburse Employee for reasonable legal expenses incurred in seeking said orders.

(b) Except as otherwise required by law, Employee shall hold in confidence all trade secret and proprietary information received from the Company until such information is available to the public generally or to the Company's competitors through no unauthorized act or fault of Employee. Upon termination of this Agreement, Employee shall promptly return any written proprietary information in his or her possession to the Company.

(c) As used in this Agreement, "trade secret and proprietary information" means information, whether written or oral, not generally available to the public; it includes the concepts and ideas involved in the Company's products whether patentable or not; and includes, but is not limited to, the processes, formulae, and techniques disclosed by the Company to Employee or observed by Employee. It does not include:

(i) Information, which at the time of disclosure, had been previously published;

(ii) Information which is published after disclosure, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or

(iii) Information which, subsequent to disclosure, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and does not require Employee to refrain from disclosing such information to others.

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

13. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean new ideas and improvements, whether or not patentable, relating to the design, manufacture, use or marketing of golf equipment or other products of the Company. This includes, but is not limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

(b) Employee agrees to disclose to the Chief Executive Officer and the Board of Directors of the Company any invention or innovation which he or she develops, either alone or with anyone else, during the term of Employee's employment with the Company, as well as any invention or innovation based on proprietary information of the Company which Employee develops, whether alone or with anyone else, within twelve (12) months after the termination of Employee's employment with the Company.

(c) Employee agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Employee is employed by the Company;

(ii) for which Employee used any of the Company's equipment, supplies, facilities or proprietary information, even if any or all of such items are relatively minor, and have little or no monetary value; or

(iii) which results in any way from Employee's work for the Company or relates in any way to the Company's business or the Company's current or anticipated research and development.

(d) Employee understands and agrees that the existence of any condition set forth in either (c)(i), (ii) or (iii) above is sufficient to require Employee to assign his or her inventions or innovations to the Company.

(e) All provisions of this Agreement relating to the assignment by Employee of any invention or innovation are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Employee agrees that any invention or innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, assignments to the Company, and all other applicable documents, and will give

testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all inventions or innovations belonging to the Company.

(g) Employee shall disclose all inventions and innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such invention or innovation to the Company. If the Company and Employee disagree as to whether or not an invention or innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled, if, and only if, the arbitrator finds that the non-prevailing party's position, taken as a whole, was frivolous or baseless. The prevailing party in any such proceeding shall be entitled to recover from the other party the reasonable costs and expenses of any such proceeding (not including attorneys' fees).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: John Duffy
2212 Plaza Bonita
Carlsbad, CA 92009

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Donald H. Dye

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to arbitration. The arbitration shall be conducted by a retired judge from the Judicial Arbitration and Mediation Service/Endispute ("JAMS") office located in Orange County, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

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

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not

be affected thereby.

20. SUPERSEDES OLD OFFICER EMPLOYMENT CONTRACT.

Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective January 1, 1995 (the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement shall control and both agreements shall be construed as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE:	COMPANY: CALLAWAY GOLF COMPANY, a California corporation
/s/ JOHN DUFFY - ---------- John Duffy	By: /s/ DONALD H. DYE ---------- Donald H. Dye, President & CEO

EXHIBIT A

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

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

EXHIBIT 10.6

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and Steven C. McCracken ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating December 31, 1999 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Executive Vice President, General Counsel and Secretary of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to the President and Chief Executive Officer of the Company, or to such other person as the Chief Executive Officer shall designate. Employee's title, position and/or duties may be changed by the Board of Directors and/or the Chief Executive Officer of the Company.

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

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

4. COMPENSATION. The Company agrees to pay Employee:

(a) a base salary at the rate of $350,000.00 per year; and

(b) an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may exist from time to time.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive three (3) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from reasonably qualifying for such insurance coverage;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time: and

(v) participate in any other benefit plans the Company

provides from time to time to executive officers.

(d) Club Membership. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

(e) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other executive officers from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

6. DISABILITY. If on account of any physical or mental disability Employee shall fail or be unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of up to six (6) months during any twelve month period during the term of this Agreement, Employee shall be entitled to his or her full compensation and benefits as set forth in this Agreement. If Employee's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date such person ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon giving 90 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under this Agreement may be terminated immediately by Employee at his or her convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance.

(c) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing

Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of drugs or alcohol during work, disloyalty and/or felony criminal conduct.

(d) Termination by Employee for Substantial Cause.

Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this subsection in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(e) Termination Due to Permanent Disability. Subject to all

applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the

number of days in the option vesting period that elapsed prior to Employee's termination; (v) the continuation of all benefits and perquisites provided by Section 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his or her time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; and (v) no other severance. At Employee's option, Employee may elect in writing at least 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 8 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance

compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Termination By Mutual Agreement of the Parties.

Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(i) Pre-Termination Rights. The Company shall have the

right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises prior to the effective date of termination as determined above, and to cease any and all activities on the Company's behalf.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit A hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date shall be that date which would permit the Extended Employment Agreement to continue in effect for an additional period of time equal to the full term of this Agreement.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a) of this Agreement. Furthermore, the termination events and consequences described in Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability

(defined in Sections 6 and 8(e)), Employee's death, and any of the factors enumerated in Section 8(c) as providing to the Company "substantial cause" for terminating Employee's employment:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF BOOKS AND RECORDS. Employee agrees that upon termination of employment in any manner, Employee will immediately surrender to the Company all lists, books and records of or connected with the business of the Company, and all other properties belonging to the Company, it being distinctly understood that all such lists, books, records and other documents are the property of the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

(a) Employee agrees that any trade secret or proprietary information of the Company to which Employee has become privy or may become privy to as a result of his or her employment with the Company shall not be divulged or disclosed to any other party (including, without limit, any person or entity with whom or in whom Employee has a business interest) without the express written consent of the Company,

except as otherwise required by law. In addition, Employee agrees to use such information only during the term of this Agreement and only in a manner which is consistent with the purposes of this Agreement. In the event Employee believes that he or she is legally required to disclose any trade secret or proprietary information of the Company, Employee shall give reasonable notice to the Company prior to disclosing such information and shall take such legally permissible steps as are reasonably necessary to protect such Company trade secrets or proprietary information, including but not limited to, seeking orders from a court of competent jurisdiction preventing disclosure or limiting disclosure of such information beyond that which is legally required. The Company shall reimburse Employee for reasonable legal expenses incurred in seeking said orders.

(b) Except as otherwise required by law, Employee shall hold in confidence all trade secret and proprietary information received from the Company until such information is available to the public generally or to the Company's competitors through no unauthorized act or fault of Employee. Upon termination of this Agreement, Employee shall promptly return any written proprietary information in his or her possession to the Company.

(c) As used in this Agreement, "trade secret and proprietary information" means information, whether written or oral, not generally available to the public; it includes the concepts and ideas involved in the Company's products whether patentable or not; and includes, but is not limited to, the processes, formulae, and techniques disclosed by the Company to Employee or observed by Employee. It does not include:

(i) Information, which at the time of disclosure, had been previously published;

(ii) Information which is published after disclosure, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or

(iii) Information which, subsequent to disclosure, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and does not require Employee to refrain from disclosing such information to others.

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

13. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean new ideas and improvements, whether or not patentable, relating to the design, manufacture, use or marketing of golf equipment or other products of the Company. This includes, but is not limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

(b) Employee agrees to disclose to the Chief Executive Officer and the Board of Directors of the Company any invention or innovation which he or she develops, either alone or with anyone else, during the term of Employee's employment with the Company, as well as any invention or innovation based on proprietary information of the Company which Employee develops, whether alone or with anyone else, within twelve (12) months after the termination of Employee's employment with the Company.

(c) Employee agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Employee is employed by the Company;

(ii) for which Employee used any of the Company's equipment, supplies, facilities or proprietary information, even if any or all of such items are relatively minor, and have little or no monetary value; or

(iii) which results in any way from Employee's work for the Company or relates in any way to the Company's business or the Company's current or anticipated research and development.

(d) Employee understands and agrees that the existence of any condition set forth in either (c)(i), (ii) or (iii) above is sufficient to require Employee to assign his or her inventions or innovations to the Company.

(e) All provisions of this Agreement relating to the assignment by Employee of any invention or innovation are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Employee agrees that any invention or innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and

without the United States) in all inventions or innovations belonging to the Company.

(g) Employee shall disclose all inventions and innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such invention or innovation to the Company. If the Company and Employee disagree as to whether or not an invention or innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled, if, and only if, the arbitrator finds that the non-prevailing party's position, taken as a whole, was frivolous or baseless. The prevailing party in any such proceeding shall be entitled to recover from the other party the reasonable costs and expenses of any such proceeding (not including attorneys' fees).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Steven C. McCracken
5186 Chelterham Terrace
San Diego, CA 92130

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Donald H. Dye

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to arbitration. The arbitration shall be conducted by a retired judge from the Judicial Arbitration and Mediation Service/Endispute ("JAMS") office located in Orange County, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

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

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not

be affected thereby.

20. SUPERSEDES OLD OFFICER EMPLOYMENT CONTRACT.

Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective January 1, 1996 (the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement shall control and both agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE:	COMPANY: CALLAWAY GOLF COMPANY, a California corporation
/s/ STEVEN C. McCRACKEN - ---------- Steven C. McCracken	By: /s/ DONALD H. DYE ---------- Donald H. Dye, President & CEO

EXHIBIT A

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

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

EXHIBIT 10.7.1

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and Frederick R. Port ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating December 31, 1999 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Executive Vice President, International Sales, Licensing and Business Development of the Company, and President of Callaway Golf International, a Division of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to the President and Chief Executive Officer of the Company, or to such other person as the Chief Executive Officer shall designate. Employee's title, position and/or duties may be changed by the Board of Directors and/or the Chief Executive Officer of the Company.

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

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

4. COMPENSATION. The Company agrees to pay Employee:

(a) a base salary at the rate of $550,000.00 per year, with the opportunity to receive increases (but not decreases) in such base salary in accord with the Company's plans and policies as they may exist from time to time for its senior executive officers; and

(b) an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may exist from time to time.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer. Notwithstanding the foregoing, Employee shall also receive a Special Expense Allowance of $20,000.00 per year to be used to cover the actual costs of reasonable, customary and necessary expenses incurred in the performance of Employee's duties hereunder, for which Employee shall not be required to submit supporting documentation as might otherwise be required by the Company.

(b) Vacation. Employee shall receive three (3) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $3,000,000.00, provided that Employee's physical condition does not prevent Employee from reasonably qualifying for such insurance coverage;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time: and

(v) participate in any other benefit plans the Company provides from time to time to senior executive officers.

(d) Club Membership. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

(e) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other senior executive officers from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

(f) Office Support. At its expense, the Company shall provide Employee, for Company business purposes, with a secretary, an office and a mobile telephone. At its expense, the Company shall provide Employee, for Company business purposes, with computers, facsimile machines and business telephones for use at Employee's office and at two homes.

6. DISABILITY. If on account of any physical or mental disability Employee shall fail or be unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of up to six (6) months during any twelve month period during the term of this Agreement, Employee shall be entitled to his or her full compensation and benefits as set forth in this Agreement. If Employee's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date such person ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon giving 90 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under this Agreement may be terminated immediately by Employee at his or her convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary

cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance.

(c) Termination by the Company for Substantial Cause.

Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of drugs or alcohol during work, disloyalty and/or felony criminal conduct.

(d) Termination by Employee for Substantial Cause.

Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this subsection in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection the elimination of Employee's position, a reduction in Employee's base salary, a material reduction in Employee's authority or responsibilities (including, but not limited to, any failure to include Employee as a nominee for the Board of Directors at any election of Directors during the term of this

Agreement), or a material breach of this Agreement by the Company.

(e) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (v) the continuation of all benefits and perquisites provided by Section 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his or her time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock

options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; and (v) no other severance. At Employee's option, Employee may elect in writing at least 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 8 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Termination By Mutual Agreement of the Parties.

Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(i) Pre-Termination Rights. The Company shall have the
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right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises prior to the effective date of termination as determined above, and to cease any and all activities on the Company's behalf.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit A hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date

shall be that date which would permit the Extended Employment Agreement to continue in effect for an additional period of time equal to the full term of this Agreement.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a) of this Agreement. Furthermore, the termination events and consequences described in Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Sections 6 and 8(e)), Employee's death, and any of the factors enumerated in Section 8(c) as providing to the Company "substantial cause" for terminating Employee's employment:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF BOOKS AND RECORDS. Employee agrees that upon termination of employment in any manner, Employee will immediately

surrender to the Company all lists, books and records of or connected with the business of the Company, and all other properties belonging to the Company, it being distinctly understood that all such lists, books, records and other documents are the property of the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

(a) Employee agrees that any trade secret or proprietary information of the Company to which Employee has become privy or may become privy to as a result of his or her employment with the Company shall not be divulged or disclosed to any other party (including, without limit, any person or entity with whom or in whom Employee has a business interest) without the express written consent of the Company, except as otherwise required by law. In addition, Employee agrees to use such information only during the term of this Agreement and only in a manner which is consistent with the purposes of this Agreement. In the event Employee believes that he or she is legally required to disclose any trade secret or proprietary information of the Company, Employee shall give reasonable notice to the Company prior to disclosing such information and shall take such legally permissible steps as are reasonably necessary to protect such Company trade secrets or proprietary information, including but not limited to, seeking orders from a court of competent jurisdiction preventing disclosure or limiting disclosure of such information beyond that which is legally required. The Company shall reimburse Employee for reasonable legal expenses incurred in seeking said orders.

(b) Except as otherwise required by law, Employee shall hold in confidence all trade secret and proprietary information received from the Company until such information is available to the public generally or to the Company's competitors through no unauthorized act or fault of Employee. Upon termination of this Agreement, Employee shall promptly return any written proprietary information in his or her possession to the Company.

(c) As used in this Agreement, "trade secret and proprietary information" means information, whether written or oral, not generally available to the public; it includes the concepts and ideas involved in the Company's products whether patentable or not; and includes, but is not limited to, the processes, formulae, and techniques disclosed by the Company to Employee or observed by Employee. It does not include:

(i) Information, which at the time of disclosure, had been previously published;

(ii) Information which is published after disclosure, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or

(iii) Information which, subsequent to disclosure, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and does not require Employee to refrain from disclosing such information to others.

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

13. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean new ideas and improvements, whether or not patentable, relating to the design, manufacture, use or marketing of golf equipment or other products of the Company. This includes, but is not limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

(b) Employee agrees to disclose to the Chief Executive Officer and the Board of Directors of the Company any invention or innovation which he or she develops, either alone or with anyone else, during the term of Employee's employment with the Company, as well as any invention or innovation based on proprietary information of the Company which Employee develops, whether alone or with anyone else, within twelve (12) months after the termination of Employee's employment with the Company.

(c) Employee agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Employee is employed by the Company;

(ii) for which Employee used any of the Company's equipment, supplies, facilities or proprietary information, even if any or all of such items are relatively minor, and have little or no monetary value; or

(iii) which results in any way from Employee's work for the Company or relates in any way to the Company's business or the Company's current or

anticipated research and development.

(d) Employee understands and agrees that the existence of any condition set forth in either (c)(i), (ii) or (iii) above is sufficient to require Employee to assign his or her inventions or innovations to the Company.

(e) All provisions of this Agreement relating to the assignment by Employee of any invention or innovation are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Employee agrees that any invention or innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all inventions or innovations belonging to the Company.

(g) Employee shall disclose all inventions and innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such invention or innovation to the Company. If the Company and Employee disagree as to whether or not an invention or innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled, if, and only if, the arbitrator finds that the non-prevailing party's position, taken as a whole, was frivolous or baseless. The prevailing party in any such proceeding shall be entitled to recover from the other party the reasonable costs and expenses of any such proceeding (not including attorneys' fees).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter

have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Frederick R. Port
c/o Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Donald H. Dye

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to arbitration. The arbitration shall be conducted by a retired judge from the Judicial Arbitration and Mediation Service/Endispute ("JAMS") office located in Orange County, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs

of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

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

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

20. SUPERSEDES OLD OFFICER EMPLOYMENT CONTRACT.

Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective July 20, 1995 (the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement shall control and both agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE:	COMPANY: CALLAWAY GOLF COMPANY, a California corporation
/s/ FREDERICK R. PORT - ------------------------ Frederick R. Port	By: /s/ DONALD H. DYE --------------------------------- Donald H. Dye, President & CEO

EXHIBIT A

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

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

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and David Rane ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1997 and terminating December 31, 1999 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as Executive Vice President, Chief Financial Officer of the Company. Employee's duties shall be the usual and customary duties of the offices in which he or she serves. Employee shall report to the President and Chief Executive Officer of the Company, or to such other person as the Chief Executive Officer shall designate. Employee's title, position and/or duties may be changed by the Board of Directors and/or the Chief Executive Officer of the Company.

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

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

4. COMPENSATION. The Company agrees to pay Employee:

(a) a base salary at the rate of $325,000.00 per year; and

(b) an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may exist from time to time.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive three (3) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $1,000,000.00, provided that Employee's physical condition does not prevent Employee from reasonably qualifying for such insurance coverage;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time: and

(v) participate in any other benefit plans the Company provides from time to time to executive officers.

(d) Club Membership. The Company shall pay the reasonable cost

of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

(e) Estate Planning and Other Perquisites. To the extent the Company provides estate planning and related services, or any other perquisites and personal benefits to other executive officers from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

6. DISABILITY. If on account of any physical or mental disability Employee shall fail or be unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of up to six (6) months during any twelve month period during the term of this Agreement, Employee shall be entitled to his or her full compensation and benefits as set forth in this Agreement. If Employee's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company, Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date such person ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the

Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon giving 90 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under this Agreement may be terminated immediately by Employee at his or her convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance.

(c) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the

same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Employee to substantially perform his her duties, breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of drugs or alcohol during work, disloyalty and/or felony criminal conduct.

(d) Termination by Employee for Substantial Cause.

Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or two years; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this subsection in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(e) Termination Due to Permanent Disability. Subject to

all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or two years; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (v) the continuation of all benefits and perquisites provided by Section 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the

term of this Agreement or two years; and (vi) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his or her time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; and (v) no other severance. At Employee's option, Employee may elect in writing at least 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 8 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8, Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee

in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Termination By Mutual Agreement of the Parties.

Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate his or her office or otherwise remain off the Company's premises prior to the effective date of termination as determined above, and to cease any and all activities on the Company's behalf.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit A hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date shall be that date which would permit the Extended Employment Agreement to continue in effect for an additional period of time equal to the full term of this Agreement.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a) of this Agreement. Furthermore, the termination events and consequences described in Section 8 shall continue to apply during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Sections 6 and 8(e)), Employee's death, and any of the factors enumerated in Section 8(c) as providing to the Company "substantial cause" for terminating Employee's employment:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF BOOKS AND RECORDS. Employee agrees that upon termination of employment in any manner, Employee will immediately surrender to the Company all lists, books and records of or connected with the business of the Company, and all other properties belonging to the Company, it being distinctly understood that all such lists, books, records and other documents are the property of the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

(a) Employee agrees that any trade secret or proprietary information of the Company to which Employee has become privy or may become privy to as a result of his or her employment with the Company shall not be divulged or disclosed to any other party (including, without limit, any person or entity with whom or in whom Employee has a business interest) without the exeress written consent of the Company, except as otherwise required by law. In addition, Employee agrees to use such information only during the term of this Agreement and only in a manner which is consistent with the purposes of this Agreement. In the event Employee believes that he

or she is legally required to disclose any trade secret or proprietary information of the Company, Employee shall give reasonable notice to the Company prior to disclosing such information and shall take such legally permissible steps as are reasonably necessary to protect such Company trade secrets or proprietary information, including but not limited to, seeking orders from a court of competent jurisdiction preventing disclosure or limiting disclosure of such information beyond that which is legally required. The Company shall reimburse Employee for reasonable legal expenses incurred in seeking said orders.

(b) Except as otherwise required by law, Employee shall hold in confidence all trade secret and proprietary information received from the Company until such information is available to the public generally or to the Company's competitors through no unauthorized act or fault of Employee. Upon termination of this Agreement, Employee shall promptly return any written proprietary information in his or her possession to the Company.

(c) As used in this Agreement, "trade secret and proprietary information" means information, whether written or oral, not generally available to the public; it includes the concepts and ideas involved in the Company's products whether patentable or not; and includes, but is not limited to, the processes, formulae, and techniques disclosed by the Company to Employee or observed by Employee. It does not include:

(i) Information, which at the time of disclosure, had been previously published;

(ii) Information which is published after disclosure, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or

(iii) Information which, subsequent to disclosure, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Employee) and does not require Employee to refrain from disclosing such information to others.

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

13. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean new ideas and improvements, whether or not patentable, relating to the design,

manufacture, use or marketing of golf equipment or other products of the Company. This includes, but is not limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

(b) Employee agrees to disclose to the Chief Executive Officer and the Board of Directors of the Company any invention or innovation which he or she develops, either alone or with anyone else, during the term of Employee's employment with the Company, as well as any invention or innovation based on proprietary information of the Company which Employee develops, whether alone or with anyone else, within twelve (12) months after the termination of Employee's employment with the Company.

(c) Employee agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Employee is employed by the Company;

(ii) for which Employee used any of the Company's equipment, supplies, facilities or proprietary information, even if any or all of such items are relatively minor, and have little or no monetary value; or

(iii) which results in any way from Employee's work for the Company or relates in any way to the Company's business or the Company's current or anticipated research and development.

(d) Employee understands and agrees that the existence of any condition set forth in either (c)(i), (ii) or (iii) above is sufficient to require Employee to assign his or her inventions or innovations to the Company.

(e) All provisions of this Agreement relating to the assignment by Employee of any invention or innovation are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Employee agrees that any invention or innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all inventions or innovations belonging to the Company.

(g) Employee shall disclose all inventions and innovations to the Company, even if Employee does not believe that he or she is required under this

Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such invention or innovation to the Company. If the Company and Employee disagree as to whether or not an invention or innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled, if, and only if, the arbitrator finds that the non-prevailing party's position, taken as a whole, was frivolous or baseless. The prevailing party in any such proceeding shall be entitled to recover from the other party the reasonable costs and expenses of any such proceeding (not including attorneys' fees).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: David Rane
2402 Calle San Clemente
Encinitas, CA 92024

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Donald H. Dye

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to arbitration. The arbitration shall be conducted by a retired judge from the Judicial Arbitration and Mediation Service/Endispute ("JAMS") office located in Orange County, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

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

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

20. SUPERSEDES OLD OFFICER EMPLOYMENT CONTRACT. Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective January 1, 1996

(the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement shall control and both agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE:	COMPANY: CALLAWAY GOLF COMPANY, a California corporation
/s/ DAVID RANE - ---------- David Rane	By: /s/ DONALD H. DYE ---------- Donald H. Dye, President & CEO

EXHIBIT A

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

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

CALLAWAY GOLF COMPANY
1996 STOCK OPTION PLAN

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(a) 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 2,000,000. 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 2,000,000. 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 85% of 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. 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 or, in the discretion of the Committee and under circumstances that would not adversely affect the interests of the Company, pursuant to a nominal transfer that does not result in a change in beneficial ownership. 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 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 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 Section 9.1, the Committee may in its discretion, but need not, provide in the 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 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 10.24.2

LEASE AMENDMENT

THIS LEASE AMENDMENT (this "Amendment"), is made as of the 4th day of October, 1996 between NATIONAL LIFE INSURANCE COMPANY ("Landlord") and CALLAWAY GOLF COMPANY ("Tenant").

W I T N E S S E T H: That:

WHEREAS, Landlord and Tenant have entered into that certain Lease Agreement (the "Lease"), dated March 16, 1996, whereby Tenant leased from Landlord certain space (the "Premises") located at 5858 Dryden Place, Carlsbad, California (the "Lease"):

WHEREAS, Landlord and Tenant desire to amend the Lease in certain particulars.

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein, the above premises, the sum of TEN AND NO/100 DOLLARS ($10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. Definitions. Terms not otherwise defined herein and which are defined in the lease shall have the meanings given them therein.

2. Lease Amendments. Effective as of October 4, 1996 (the "Effective Date"), the Lease is hereby amended as follows:

2.1 Extension of Term. The expiration date of the Term of the Lease is hereby extended through October 15, 2002.

2.2 Base Rent. Exhibit E of the Lease is deleted in its entirety and the following is inserted in lieu thereof:

Rental Period	Annual Base Rent Per Square Foot of Agreed Rentable Area	Bare Annual Rent	Bare Monthly Rent
7/1/96 - 12/15/96	$0.00*	$0.00	$0.00
12/16/96 - 12/15/97	$5.40	$340,648.20	$28,387.35
12/16/97 - 12/15/98	$5.56	$350,867.64	$29,238.97
12/16/98 - 12/15/99	$5.73	$361,393.68	$30,116.14
12/16/99 - 12/15/00	$5.90	$372,235.44	$31,019.62
12/16/00 - 12/15/01	$6.08	$383,402.52	$31,950.21
12/16/01 - 12/15/02	$6.26	$394,904.64	$32,908.72

*Tenant shall pay Additional Rent as defined in Section 5.2(a) of the Lease from July 1, 1996 through December 15, 1996 and thereafter pursuant to the lease.

2.3 Term of Option. Section 25.2 of the Lease is deleted in its entirety and the following is inserted in lieu thereof:

The term of the Option granted herein shall begin on October 16, 1996 and expire October 15, 1997.

Ratification. Except as expressly amended hereby, the terms and conditions of the Lease are hereby ratified and the Lease remains in full force and effect.

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

Counterparts. This Amendment may be executed in any number of counterparts, each of which shall constitute an original and all of which taken together shall constitute one and the same agreement.

Governing Law. This Amendment shall be construed under and governed by the Laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the day and year first above written.

LANDLORD:

NATIONAL LIFE INSURANCE COMPANY
By: Koll Investment Management
Its Authorized Agent

By: /s/
Senior Vice President

on 11/18/96

TENANT:

CALLAWAY GOLF COMPANY
A California Corporation

By: /s/ RICHARD S. MERK
Title: Vice President of Operations and Planning
on 10/25/96

EXHIBIT 11.1

CALLAWAY GOLF COMPANY
COMPUTATION OF EARNINGS PER SHARE

	Year ended December 31, 1996	1995	1994
	(in thousands, except per share data)		
Primary earnings per share computation:			
Net income	$122,337	$ 97,736	$ 78,022
Weighted average shares outstanding	66,832	66,641	68,435
Dilutive options	3,829	3,214	4,669
Common equivalent shares	70,661	69,855	73,104
Primary earnings per share:			
Net income	$ 1.73	$ 1.40	$ 1.07
Fully diluted earnings per share computation:			
Net income	$122,337	$ 97,736	$ 78,022
Weighted average shares outstanding	66,832	66,641	68,435
Dilutive options	4,046	3,419	4,675
Common equivalent shares	70,878	70,060	73,110
Fully diluted earnings per share:			
Net income	$ 1.73	$ 1.40	$ 1.07

EXHIBIT 13.1

Portions of the Callaway Golf Company 1996 Annual Report to Shareholders

Selected Financial Data

(in thousands, except per share data)	Year ended December 31,				
	1996	1995	1994	1993	1992
Statement of Income Data:					
Net sales	$678,512	$553,287	$448,729	$254,645	$132,058
Cost of goods sold	317,353	270,125	208,906	115,458	62,970
Gross profit	361,159	283,162	239,823	139,187	69,088
Selling, general and administrative expenses	155,177	120,201	106,913	67,118	34,800
Research and development costs	16,154	8,577	6,380	3,653	1,585
Income from operations	189,828	154,384	126,530	68,416	32,703
Other income, net	5,767	4,017	2,875	1,184	472
Income before income taxes and cumulative effect of accounting change	195,595	158,401	129,405	69,600	33,175
Provision for income taxes	73,258	60,665	51,383	28,396	13,895
Income before cumulative effect of accounting change	122,337	97,736	78,022	41,204	19,280
Cumulative effect of accounting change				1,658	
Net income	$122,337	$ 97,736	$ 78,022	$ 42,862	$ 19,280
Earnings per Common Share:					
Income before cumulative effect of accounting change	$ 1.73	$ 1.40	$ 1.07	$ 0.60	$ 0.32
Cumulative effect of accounting change				.02	
Net income	$ 1.73	$ 1.40	$ 1.07	$ 0.62	$ 0.32
Dividends paid per share	$ 0.24	$ 0.20	$ 0.10	$ 0.03	

(in thousands)	December 31,				
	1996	1995	1994	1993	1992
Balance Sheet Data:					
Cash and cash equivalents	$108,457	$ 59,157	$ 54,356	$ 48,996	$ 20,019
Working capital	250,461	146,871	130,792	83,683	39,363
Total assets	428,428	289,975	243,622	144,360	68,937
Long-term liabilities	5,109	2,207	610		3,366
Total shareholders' equity	362,267	224,934	186,414	116,577	49,750

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

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When used in this discussion and the financial statements that follow, the words "expect(s)", "feel(s)", "believe(s)", "will", "may", "anticipate(s)" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. 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 are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including the discussion under the caption "Certain Factors Affecting the Golf Club Industry and Callaway Golf" in this report, as well as the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

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YEARS ENDED DECEMBER 31, 1996 AND 1995

For the year ended December 31, 1996, net sales increased 23% to $678.5 million compared to $553.3 million for the prior year. This increase was attributable primarily to increased sales of Great Big Bertha(R) Drivers, and Great Big Bertha(R) Fairway Woods which were introduced in January 1996, combined with increased sales of Big Bertha(R) Irons. These sales increases were offset by a decrease in net sales of Big Bertha(R) War Bird(R) Metal Woods.

For the year ended December 31, 1996, gross profit increased to $361.2 million from $283.2 million for the prior year and gross margin increased to 53% from 51%. The increase in gross margin was primarily the result of decreases in component costs and manufacturing labor and overhead costs associated with increased production volume and improved labor efficiencies.

The Company accrues a provision for warranty expense at the time of sale of its products. Based on the Company's warranty policies and historical rates of product returns, the Company believes its accrual for warranty expense to be adequate.

Selling expenses increased to $80.7 million in 1996 from $64.3 million in 1995. The $16.4 million increase was primarily due to increased tour endorsement, TV advertising and employee compensation expenses. As a percentage of net sales, selling expenses remained constant at 12%.

General and administrative expenses increased to $74.5 million in 1996 from $55.9 million in 1995. The $18.6 million increase was related primarily to increased employee compensation and benefits, consulting costs associated with the Company's business development initiatives and increases in computer support and other general and administrative expenses. As a percentage of net sales, general and administrative expenses increased to 11% from 10%.

Research and development expenses increased to $16.2 million in 1996 as compared to $8.6 million in 1995. This increase resulted from increased staffing and operational expenses consistent with the Company's efforts to pursue potential new business opportunities and the continued focus on developing core products.

Net interest income increased to $5.0 million in 1996 compared to $3.5 million in 1995. The increase in interest income was due to the investment of higher average cash balances.

YEARS ENDED DECEMBER 31, 1995 AND 1994

For the year ended December 31, 1995, net sales increased 23% to $553.3 million compared to $448.7 million for the prior year. This increase was attributable to sales of Great Big Bertha(R) Drivers, which were initially announced at the PGA International Show in August of 1994, and for which shipments, in significant quantities, began in March 1995. also contributing to the growth in net sales were increased sales of Big Bertha(R) Metal Woods with the War Bird(R) soleplate and Big Bertha(R) Irons.

For the year ended December 31, 1995, gross profit increased to $283.2 million from $239.8 million for the prior year, and gross margin decreased to 51% from 53%. The decrease in gross margin was related to increased labor and overhead costs associated with the Company's inventory reduction program, increased sales discounts related to the Company's improved Big Bertha(R) Iron "demo" sales program and price concessions offered to customers during the fourth quarter of 1995 in anticipation of the introduction of new products in 1996, and increases in the sales of irons, which had a lower margin as a percentage of net sales than metal woods.

The Company accrues a provision for warranty expense at the time of sale of its products. Based on the Company's warranty policies and historical rates of product returns, the Company believes its accrual for warranty expense to be adequate.

Selling expenses increased to $64.3 million in 1995 from $59.1 million in 1994. The $5.2 million increase was due to increased tour endorsement expenses, TV advertising, and sales salaries and commissions expense. As a percentage of net sales, selling expenses decreased to 12% from 13%, primarily attributable to management's efforts to control its operating expenses.

General and administrative expenses increased to $55.9 million in 1995 from $47.8 million in 1994. The $8.1 million increase was primarily related to increased employee compensation commensurate with the overall growth of the Company's operations combined with an increase in depreciation expense associated with the larger depreciable asset base as compared to 1994. These increases were partially offset by decreases in the accrual for the allowance for doubtful accounts and in legal expenses. As a percentage of net sales, general and administrative expenses decreased to 10% from 11%, primarily attributable to management's efforts to control its operating expenses.

Research and development expenses increased to $8.6 million in 1995 as compared to $6.4 million in 1994. This increase resulted from personnel and facilities expansion, including creation of a shaft development department.

Net interest income amounted to $3.5 million in 1995 compared to $2.5 million in 1994. The increase in interest income was due to the investment of higher average cash balances along with higher interest rates during 1995.

CERTAIN FACTORS AFFECTING THE GOLF CLUB INDUSTRY AND CALLAWAY GOLF

The Company believes that the growth rate in the golf equipment industry in the United States has been modest for the past several years, and this trend is likely to continue through 1997. Sales of all golf clubs in Japan, the world's second largest consumer of golf clubs next to the United States, appeared to be stabilizing during early 1996, but recent trends indicate the market may be declining. Although demand for the Company's products has been generally strong during the year ended December 31, 1996, no assurances can be given that the demand for the Company's existing products or the introduction of new products will continue to permit the Company to experience its historical growth or maintain its historical profit margin. Additionally, given the Company's current size and market position, it is possible that further market penetration will prove more difficult.

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. Although the Company's business generally follows this seasonal trend, the success of the Company over the past several years has tended to mitigate the impact of seasonality on the Company's operating results. However, in recent years, the Company's operating results have been more significantly affected by seasonal buying trends and we expect this trend to continue.

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. Several companies introduced new products in 1996 (e.g.: Ping "ISI" Irons, Taylor Made "Burner Bubble Shaft" Irons, Cobra "Ti" Titanium Metal Woods, "King Cobra II" Irons and Armour "Ti 100" Irons) that have generated increased market competition. Others increased their marketing activities with respect to existing products in 1996. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that actions by others will not negatively impact the Company's future sales.

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

The Company believes that the introduction of new, innovative golf equipment will be 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. New designs must satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products. Moreover, the Company's new products have tended to incorporate significant new 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 Company is dependent on a limited number of suppliers for its club heads and shafts. In addition, some of the Company's products require specifically developed techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if any significant delay or disruption in the supply of these component parts occurs, it may have a material adverse effect on the Company's business.

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.

The Company continues to experience high levels of unauthorized distribution of its products (i.e., products sold by the Company to authorized distributors being ultimately sold at retail by unauthorized distributors). The Company is making further efforts to reduce this unauthorized distribution of its products in both domestic and international markets. While efforts to reduce unauthorized distribution have had only limited success to date, these efforts could result in an increase in sales returns over historical levels, and/or a potential decrease in sales to those customers who are selling Callaway(R) products to unauthorized distributors.

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 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. Such effect may have a material adverse impact on the Company.

During 1995, the Company began to evaluate opportunities in and outside of the golf equipment industry. Such ventures will present new challenges for the Company and there can be no assurance that these activities will be successful. Two of these opportunities identified by the Company relate to the Company's acquisition of selected foreign distributors and the golf ball business. The Company's management believes that controlling the distribution of its products throughout the world will be a key element in the future growth and success of the Company. Executing a business strategy to achieve this has and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. It could also result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of the Company's foreign distributors will achieve these stated goals, and it is possible that the attempt to do so will adversely affect the Company's business.

In June 1996, the Company formed Callaway Golf Ball Company, a wholly owned subsidiary of Callaway Golf 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. At this time, it has not been determined whether Callaway Golf Ball Company will enter the golf ball business by developing a new product, by acquiring an existing golf ball manufacturer, by participating in a joint venture with another company, or by a combination of these factors. This business is in the early stages of development. It is expected, however, that it will have a negative impact on the Company's future cash flow and income from operations for several years. The Company believes that factors affecting the golf equipment industry described above, including growth rate in the golf equipment industry, seasonality and new product introduction will also apply to the golf ball business. There can be no assurance if and when a successful golf ball product will be developed or that the Company's investment will ultimately be realized. In addition, the golf ball business is highly competitive with a number of well established and well financed competitors including Titleist, Spalding, Sumitomo Rubber Industries, Bridgestone and others. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996, cash and cash equivalents increased to $108.5 million from $59.2 million at December 31, 1995, due to cash flows from operations of $74.7 million, a tax benefit of $14.2 million related primarily to the exercise of non-qualified stock options, Common Stock transactions totaling $12.3 million, offset by $35.9 million of net capital expenditures and $16.0 million related to dividend payments. The Company has available a $50.0 million line of credit and it anticipates that its existing capital resources and cash flow generated from future operations will enable it to maintain its current level of operations and its planned operations including capital expenditures for the foreseeable future.

Net capital expenditures for the years ended December 31, 1996 and 1995 were $35.9 million and $29.5 million, respectively. The increase in capital expenditures for the year ended December 31, 1996 over 1995 was primarily attributable to the purchase of computer and manufacturing equipment, various building and facility improvements and the Company's purchase of land and a building intended for research and development expansion.

CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)	December 31,	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 108,457	$ 59,157
Accounts receivable, net	74,477	73,906
Inventories, net	98,333	51,584
Deferred taxes	25,948	22,688
Other current assets	4,298	2,370
Total current assets	311,513	209,705
Property, plant and equipment, net	91,346	69,034
Other assets	25,569	11,236
	$ 428,428	$ 289,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 14,996	$ 26,894
Accrued employee compensation and benefits	16,195	10,680
Accrued warranty expense	27,303	23,769
Income taxes payable	2,558	1,491
Total current liabilities	61,052	62,834
Long-term liabilities (Note 6)	5,109	2,207
Commitments (Note 7)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 1996 and 1995		
Common Stock, $.01 par value, 240,000,000 shares authorized, 72,855,222 and 70,912,129 issued and outstanding at December 31, 1996 and 1995 (Note 4)	729	709
Paid-in capital	278,669	214,846
Unearned compensation	(3,105)	(2,420)
Retained earnings	238,349	131,712
Less: Grantor stock trust (5,300,000 shares at December 31, 1996 and 1995) at market (Note 4)	(152,375)	(119,913)
Total shareholders' equity	362,267	224,934
	$ 428,428	$ 289,975

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)	Year ended December 31,					
	1996		1995		1994	
Net sales	$678,512	100%	$553,287	100%	$448,729	100%
Cost of goods sold	317,353	47%	270,125	49%	208,906	47%
Gross profit	361,159	53%	283,162	51%	239,823	53%
Selling expenses	80,701	12%	64,310	12%	59,065	13%
General and administrative expenses	74,476	11%	55,891	10%	47,848	11%
Research and development costs	16,154	2%	8,577	2%	6,380	1%
Income from operations	189,828	28%	154,384	28%	126,530	28%
Interest and other income, net	5,767		4,017		2,875	
Income before income taxes	195,595	29%	158,401	29%	129,405	29%
Provision for income taxes	73,258		60,665		51,383	
Net income	$122,337	18%	$ 97,736	18%	$ 78,022	17%
Earnings per common share	$1.73		$1.40		$1.07	
Common equivalent shares	70,661		69,855		73,104	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year ended December 31,		
	1996	1995	1994
Cash flows from operating activities:			
Net income	$ 122,337	$ 97,736	$ 78,022
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,691	10,778	6,184
Non-cash compensation	4,194	2,027	2,070
Increase (decrease) in cash resulting from changes in:			
Accounts receivable, net	3,510	(43,923)	(12,400)
Inventories, net	(44,383)	22,516	(45,045)
Deferred taxes	(4,420)	4,978	(11,737)
Other assets	(12,889)	(6,573)	(4,531)
Accounts payable and accrued expenses	(15,395)	9,227	5,569
Accrued employee compensation and benefits	2,031	1,322	3,247
Accrued warranty expense	3,534	5,587	8,451
Income taxes payable	626	(9,845)	11,372
Other liabilities	2,902	1,597	610
Net cash provided by operating activities	74,738	95,427	41,812
Cash flows from investing activities:			
Capital expenditures	(35,352)	(29,510)	(26,137)
Sale of fixed assets	72	55	
Acquisition of a business, net of cash acquired	(610)		
Net cash used in investing activities	(35,890)	(29,455)	(26,137)
Cash flows from financing activities:			
Issuance of Common Stock	12,258	7,991	5,050
Retirement of Common Stock		(67,022)	(14,942)
Tax benefit from exercise of stock options	14,244	11,236	6,410
Dividends paid, net	(16,025)	(13,350)	(6,850)
Net cash provided by (used in) financing activities	10,477	(61,145)	(10,332)
Effect of exchange rate changes on cash	(25)	(26)	17
Net increase in cash and cash equivalents	49,300	4,801	5,360
Cash and cash equivalents at beginning of year	59,157	54,356	48,996
Cash and cash equivalents at end of year	$ 108,457	$ 59,157	$ 54,356

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands)	Common Stock		Paid-in	Unearned	Retained		
	Shares	Amount	Capital	Compensation	Earnings	GST	Total
Balance, December 31, 1993	67,590	$ 677	$ 60,398	$ (2,591)	$ 58,093		$116,577
Exercise of stock options	1,410	13	5,045		(8)		5,050
Tax benefit from exercise of stock options			6,410				6,410
Compensatory stock options			3,114	(1,079)			2,035
Compensatory stock	2		35				35
Stock retirement	(907)	(10)			(14,932)		(14,942)
Cash dividends					(6,850)		(6,850)
Equity adjustment from foreign currency					77		77
Net income					78,022		78,022
Balance, December 31, 1994	68,095	680	75,002	(3,670)	114,402		186,414
Exercise of stock options	2,329	24	7,971		(4)		7,991
Tax benefit from exercise of stock options			11,236				11,236
Compensatory stock options			759	1,250			2,009
Compensatory stock	1		18				18
Stock retirement	(4,813)	(48)			(66,974)		(67,022)
Cash dividends					(13,550)		(13,550)
Dividends on shares held by GST					200		200
Equity adjustment from foreign currency					(98)		(98)
Establishment of GST	5,300	53	86,785			$ (86,838)	
Adjustment of GST shares to market value			33,075			(33,075)	
Net income					97,736		97,736
Balance, December 31, 1995	70,912	709	214,846	(2,420)	131,712	(119,913)	224,934
Exercise of stock options	1,775	18	12,240				12,258
Tax benefit from exercise of stock options			14,244				14,244
Compensatory stock options			2,604	(685)			1,919
Employee stock purchase plan	168	2	2,273				2,275
Cash dividends					(17,297)		(17,297)
Dividends on shares held by GST					1,272		1,272
Equity adjustment from foreign currency					325		325
Adjustment of GST shares to market value			32,462			(32,462)	
Net income					122,337		122,337
Balance, December 31, 1996	72,855	$ 729	$278,669	$ (3,105)	$ 238,349	$(152,375)	$ 362,267

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1
THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS
Callaway Golf Company ("Callaway" or the "Company") is a California corporation formed in 1982. The Company designs, develops, manufactures and markets high-quality, innovative golf clubs. Callaway's primary products during 1996, 1995 and 1994 included Big Bertha(R) Metal Woods, Big Bertha(R) Metal Woods with the War Bird (R)soleplate, Great Big Bertha(R) Metal Woods, Big Bertha(R) Irons, S2H2(R) Irons, and various putters. The consolidated financial statements include the accounts of the Company and its subsidiaries, Callaway Golf Sales Company, Callaway Golf Ball Company, Callaway Golf (UK) Limited and Callaway Golf (Germany) GmbH. All significant intercompany transactions and balances have been eliminated.

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

ADVERTISING COSTS
The Company advertises primarily through television and print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 1996, 1995 and 1994 were $18,321,000, $12,148,000 and $9,833,000, respectively.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS
The accounts of the Company's foreign subsidiaries have been translated into United States dollars at appropriate rates of exchange. Cumulative translation gains or losses are recorded as a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in the consolidated statement of income and are not material.

During 1996, 1995 and 1994, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on inter-company transactions by its wholly owned foreign subsidiary, Callaway Golf (UK) Limited. Realized and unrealized gains and losses on these contracts are recorded in income. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At December 31, 1996, 1995 and 1994, the Company had approximately $5,774,000, $446,000 and $2,348,000, respectively, of foreign exchange contracts outstanding. The contracts outstanding at December 31, 1996 mature between January and April of 1997. The Company had net realized and unrealized losses on foreign exchange contracts of approximately $521,000 in 1996, net realized and unrealized gains of $106,000 in 1995 and net realized and unrealized losses of $132,000 in 1994.

EARNINGS PER COMMON SHARE
Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period increased by dilutive common stock equivalents using the treasury stock method. Fully diluted earnings per share was substantially the same as primary earnings per share in 1996, 1995 and 1994. Shares owned by the Callaway Golf Company Grantor Stock Trust (Note 4) are included in the number of weighted average shares outstanding using the treasury stock method with assumed proceeds from exercise equal to the aggregate closing price of those shares at the end of the reporting period. The dilutive effect of rights to purchase preferred shares under the Callaway Golf Shareholder Rights Plan (Note 5) have not been included in weighted average share amounts as the conditions necessary to cause these rights to be redeemed were not met.

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

CASH EQUIVALENTS
Cash equivalents are highly liquid investments purchased with maturities of three months or less. Cash equivalents consist of investments in money market accounts and U.S. Treasury bills.

At December 31, 1996 and 1995, the Company held investments in U.S. Treasury bills with maturities of three months or less in the aggregate amount of $96.4 million and $44.7 million, respectively. Management determines the appropriate classification of its U.S. Government securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company has recorded these securities at amortized costs as it has designated them as "held-to-maturity."

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

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of three to fifteen years. Repairs and maintenance costs are charged to expense as incurred.

STOCK-BASED COMPENSATION
During the year ended December 31, 1996, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock-Based Compensation". The Company will continue to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees". See Note 5 for pro forma disclosures of net income and earnings per share as if the fair value-based method prescribed by SFAS 123 had been applied in measuring compensation expense.

LONG-LIVED ASSETS
In accordance with Statement of Financial Accounting Standard (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company reviews for the impairment of long-lived assets, certain identifiable intangibles, and associated goodwill, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when the estimated future cash flows is less than the carrying amount of the asset. No impairment losses have been identified by the Company.

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

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

The Company invests its excess cash in money market accounts and U.S. Government securities and has established guidelines relative to diversification and maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Company operates in the golf equipment industry and primarily sells its products to golf equipment retailers. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company maintains reserves for potential credit losses.

Note 2
SELECTED FINANCIAL STATEMENT INFORMATION

(in thousands)	December 31,	
	1996	1995
Cash and cash equivalents:		
U.S. Treasury bills	$ 96,407	$ 44,687
Cash, interest bearing	11,415	3,598
Cash, non-interest bearing	635	10,872
	$108,457	$ 59,157
Accounts receivable, net:		
Trade accounts receivable	$ 80,814	$ 80,316
Allowance for doubtful accounts	(6,337)	(6,410)
	$ 74,477	$ 73,906
Inventories, net:		
Raw materials	$ 50,012	$ 23,980
Work-in-progress	1,651	1,109
Finished goods	51,954	31,291
	103,617	56,380
Reserve for obsolescence	(5,284)	(4,796)
	$ 98,333	$ 51,584
Property, plant and equipment, net:		
Land	$ 9,589	$ 7,689
Buildings and improvements	35,076	28,578
Machinery and equipment	29,778	17,359
Furniture, computers and equipment	20,329	15,447
Production molds	9,399	7,908
Construction in progress	21,003	13,338
	125,174	90,319
Accumulated depreciation	(33,828)	(21,285)
	$ 91,346	$ 69,034
Accounts payable and accrued expenses:		

Accounts payable	$ 2,442	$ 9,486
Accrued expenses	12,554	17,408
	$ 14,996	$ 26,894
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$ 12,914	$ 7,997
Accrued vacation and sick pay	3,017	2,659
Accrued commissions	264	24
	$ 16,195	$ 10,680

Total rent expense was $1,363,000, $1,181,000 and $531,000 in 1996, 1995 and 1994, respectively.

Note 3
BANK LINE OF CREDIT

The Company has a $50,000,000 bank line of credit with an interest rate equal to the bank's prime rate. The interest rate at December 31, 1996 was 8.25%. The line of credit has been primarily utilized to support the issuance of letters of credit of which there were $3,921,000 outstanding at December 31, 1996, reducing the amount available under the Company's line of credit to $46,079,000.

The line of credit is unsecured and is subject to renewal on December 15, 1997. The line 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.

Note 4
COMMON AND PREFERRED STOCK

As of December 31, 1996, the Company had 240,000,000 authorized shares of Common Stock, $.01 par value, of which 72,855,222 were issued and outstanding.

During 1995 and 1994, the Company repurchased and retired 4,813,000 and 908,000 shares of its Common Stock at an average price per share of $13.93 and $16.45, respectively, for a total purchase price of $67,022,000 in 1995 and $14,942,000 in 1994.

As of December 31, 1996, the Company was authorized to issue up to 3,000,000 shares of $.01 par value Preferred Stock. No preferred shares have been issued.

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

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

Note 5
STOCK OPTIONS AND RIGHTS

During 1991, the Company adopted the 1991 Stock Incentive Plan ("the Incentive Plan") for its officers, directors, key employees and consultants. All directors, officers, key employees of and consultants to the Company were eligible for awards under the Incentive Plan except that no director of the Company who is not also an employee of the Company is eligible to receive any award under the Incentive Plan. Under the Incentive Plan, options to purchase Common Stock may be granted with an option price less than the then current market value of such stock. A total of 10,000,000 shares have been reserved for issuance under the Incentive Plan. Options to purchase 25,500, 2,281,000 and 220,000 shares of Common Stock at exercise prices of $12.75 to $33.13 per share were granted in 1996, 1995 and 1994, respectively. At December 31, 1996, 138,100 shares were available for grant under this Plan.

During 1992, the Company adopted the Promotion, Marketing and Endorsement Stock Incentive Plan ("the Promotion Plan") for golf professionals and other parties who endorse the Company's products. Under the Promotion Plan, up to 3,560,000 shares of Common Stock may be granted in the form of stock options or other stock awards at prices which may be less than the then current market value of the stock. Options to purchase 220,000, 79,000 and 892,000 shares of Common Stock at exercise prices of $5.25 to $33.88 per share were granted in 1996, 1995 and 1994, respectively. Common Stock grants totalling 1,300 and 2,000 were granted under the Promotion Plan in 1995 and 1994, respectively. At December 31, 1996, 1,007,700 shares were available for grant under this Plan.

During 1993, the Company adopted the Non-Employee Directors Stock Option Plan. Under the Plan, options to purchase up to 840,000 shares of Common Stock may be granted at prices less than the then current market value of the stock to the non-employee directors based on a non-discretionary formula. Options to purchase 112,000, 10,000 and 256,000 shares of Common Stock at exercise prices of $10.98 to $33.63 per share were issued to non-employee directors in 1996, 1995 and 1994, respectively. At December 31, 1996, 276,000 shares were available under this Plan.

During 1995, the Company adopted the 1995 Employee Stock Incentive Plan ("1995 Plan") for its employees and consultants. All employees of and consultants to the Company are eligible for awards under the 1995 Plan, except that no director or officer of the Company is eligible to receive any award under the 1995 Plan. Under the 1995 Plan, options to purchase Common Stock may be granted with an option price less than the then current market value of such stock. A total of 3,000,000 shares have been reserved for issuance under the 1995 Plan. Options to purchase 1,482,500 and 275,000 shares of Common Stock at exercise prices of $19.13 to $34.38 per share were granted in 1996 and 1995, respectively. At December 31, 1996, 1,244,500 shares were available for grant under this Plan.

During 1995, the Company granted options to purchase 500,000 shares of Common Stock at prices of $14.88 and $19.88 per share to a key officer, in conjunction with the terms of his initial employment.

During 1996, the Company adopted the 1996 Stock Option Plan ("1996 Plan"). This plan is intended primarily for officers, although all employees, consultants and advisors to the Company are eligible for awards under the 1996 Plan. No director of the Company is eligible to receive any award under the 1996 Plan. Under the 1996 Plan, options to purchase Common Stock may be granted with an option price up to 15% less than the then current market value of such stock. A total of 2,000,000 shares have been reserved for issuance under the 1996 Plan. Options to purchase 320,000 shares of Common Stock at an exercise price of $31.13 were granted in 1996. At December 31, 1996, 1,680,000 shares were available for grant under this Plan.

During 1996, the Company granted options to purchase 600,000 shares of Common Stock at $25.13 per share to a key officer, in conjunction with the terms of his initial employment.

As of December 31, 1996, 3,939,000 options were exercisable under the Company Plans. The following summarizes stock option transactions for the years ended December 31, 1996, 1995 and 1994:

(shares in thousands)	Year ended December 31,		
	1996	1995	1994
Outstanding at beginning of period	9,842	10,652	10,756
Granted	2,760	3,145	1,368
Exercised	(1,775)	(2,329)	(1,410)
Canceled	(27)	(1,626)	(62)
Outstanding at end of year	10,800	9,842	10,652
Price range of outstanding options	$.44-$34.38	$.19-$19.88	$.19-$18.06

The Company has granted officers, consultants and employees rights to receive an aggregate of 826,880 shares of Common Stock for services or other consideration. No rights were granted or exercised during 1996, 1995 or 1994. At December 31, 1996, rights to receive 80,000 shares of Common Stock remained outstanding.

During August 1995, the Company canceled 634,000 employee stock options, exclusive of those held by directors, with option prices in excess of the then current market price of the Company's stock. The Company then reissued an equivalent number of options at the current market price.

The Company has an Employee Stock Purchase Plan (ESPP) for all eligible employees to purchase shares of Common Stock at 85% of the lower of the fair market value on the first day of a two year offering period or last day of each six month exercise period. Employees may authorize the Company to withhold compensation during any offering period, subject to certain limitations. At December 31, 1996, the ESPP had purchased, or was obligated to buy, approximately 401,000 shares of the Company's Common Stock and 99,000 shares were reserved for future issuance.

During 1996, 1995, and 1994, the Company recorded $1,919,000, $2,009,000 and $2,035,000, respectively, in compensation expense as the value of options and rights to purchase shares of Common Stock granted to employees of and consultants to the Company. The valuation of the options and rights granted to employees is based on the difference between the exercise price and the market value of the stock on the date of the grant. The valuation of the options and rights granted to non-employees is based on an option pricing model.

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

In 1995, the Company implemented a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding Common Stock carries one Right to Purchase Series A Junior Participating Preferred Stock ("the Right"). The Right entitles the holder, under certain circumstances, to purchase Common Stock of Callaway Golf Company or of the acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding Common Stock. The Rights are redeemable by the Company at $.01 per Right and expire in 2005.

Under the Company's employee stock option plans, options to purchase Common Stock may be granted with an option price less than the fair market value of the shares on the date of grant. Currently outstanding options vest over periods ranging from zero to five years from the grant date and expire up to ten years after the date of grant.

The Company adopted Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) during the year ended December 31, 1996. In accordance with the provisions of SFAS 123, the Company applies APB Opinion No.

25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans other than for options granted to non-employees. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS 123, the Company's net income and earnings per share would be reduced to the pro forma amounts indicated on the following page:

(thousands, except per share amounts)	December 31, 1996	1995
Net income:		
As reported	$122,337	$97,736
Pro forma	$113,587	$95,510
Earnings per common share:		
As reported	$ 1.73	$ 1.40
Pro forma	$ 1.59	$ 1.36

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for the years ended December 31, 1996 and 1995, respectively; dividend yields of .9 percent, expected volatility of 31.5 percent, risk free interest rates ranging from 5.32 to 7.66 percent, and expected lives ranging from 2 to 6 years.

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

The following table summarizes information about stock based compensation plans outstanding at December 31, 1996:

OPTIONS OUTSTANDING AND EXERCISABLE BY PRICE RANGE
AS OF DECEMBER 31, 1996

(options outstanding and exercisable in thousands)

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life-Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0-$12	4,371	4.4	$ 5.68	2,626	$ 5.09
$ 12-$20	3,779	5.4	$16.49	1,028	$14.55
$ 21-$34	2,650	6.4	$28.82	285	$25.53
$ 0-$34	10,800			3,939	

During the years ended December 31, 1996 and 1995, the number of shares of stock granted under the ESPP and the weighted average fair values were 302,000 and $17.47; and 99,000 and $8.80, respectively.

Note 6
EMPLOYEE BENEFIT PLANS

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to the maximum permitted under federal law, and the Company is obligated to contribute annually an amount equal to 100% of the participant's contribution up to 6% of that participant's annual compensation. Additionally, the Company can make discretionary contributions based on the profitability of the Company. For the years ended December 31, 1996, 1995 and 1994, the Company recorded compensation expense for discretionary contributions of $6,390,000, $6,481,000 and $5,000,000, respectively, and employees contributed $3,315,000, $3,336,000 and $2,271,000, respectively, to the 401(k) Plan. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $1,988,000, $1,458,000 and $1,087,000 during 1996, 1995 and 1994, respectively.

The Company also has an unfunded, non-qualified deferred compensation plan. The plan allows officers and certain other employees of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. For the years ended December 31, 1996, 1995 and 1994, the total participant deferrals, which is reflected in long-term liabilities, was $2,564,000, $1,460,000 and $610,000, respectively. The plan expenses for 1996, 1995 and 1994 were approximately $9,000, $5,000 and $18,000, respectively.

Note 7
COMMITMENTS & CONTINGENCIES

In the normal course of business, the Company enters into certain long term purchase commitments with various vendors. The Company has agreements with one of its suppliers which require the Company to purchase, under certain conditions, a minimum of 25% of all graphite shafts required in the manufacture of its golf clubs through May 1998.

The Company has committed to purchase titanium golf club heads costing approximately $68,550,000 from one of its vendors. These heads are to be shipped to the Company in accord with a production schedule that runs through September 1998.

Effective June 1995, the Company agreed to form a joint venture with Sturm, Ruger & Company, Inc. ("Sturm, Ruger"), its main supplier of Great Big Bertha(R) titanium heads, to construct a foundry that would significantly increase Sturm, Ruger's capacity to produce heads. Under the terms of the joint venture agreement, the Company shall have a 50% equity interest in the new foundry and is required to contribute up to $7,000,000 in capital contributions for developing, designing, equipping and operating the new facility. The Company accounts for its investment in the joint venture pursuant to the equity method. As of December 31, 1996, the Company had made capital contributions of $6,460,000 to the joint venture, which had not commenced operations. Delays and cost overruns in the joint venture project, improved production at Sturm, Ruger and the development of new alternative sources for quality titanium castings at significantly lower prices than those originally contemplated for the joint venture have prompted the parties to enter into discussions about the continuing need for the joint venture. While the costs of a possible dissolution of the joint venture are not known at this time, management does not believe that such costs would have an adverse material impact on the financial position, results of operations or cash flows of the Company.

On May 30, 1996, a lawsuit was filed against Callaway Golf Company and two of its officers by a former officer of the Company. The lawsuit asserts claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs. The plaintiff has also recently filed a first amended complaint asserting claims for wrongful termination and termination in violation of public policy. The first amended complaint seeks damages of $290,000,000, a royalty of $27,000,000, or compensatory damages for breach of the oral contract and related claims; damages of approximately $10,000,000 for the wrongful termination; and unspecified punitive damages and costs. The Company believes there are meritorious defenses to all plaintiff's claims and thus no provision for any liability has been made in the financial statements.

The Company has certain contingent liabilities resulting from litigation and claims incident to the ordinary course of business. Management believes the probable resolution of such contingencies will not materially affect the financial position, results of operations or cash flows of the Company.

Note 8
INCOME TAXES

Income before income taxes for the years ended December 31 was taxed under the following jurisdictions:

(in thousands)	Year ended December 31, 1996	1995	1994
Domestic	$193,170	$154,054	$126,471
Foreign	2,425	4,347	2,934
Total	$195,595	$158,401	$129,405

The provision for income taxes is as follows:

(in thousands)	Year ended December 31, 1996	1995	1994
Current tax provision:			
Federal	$ 65,287	$ 48,563	$ 50,069
State	11,154	9,840	13,007
Foreign	1,244	1,626	777
Deferred tax (benefit) expense			
Federal	(3,911)	(317)	(10,467)
State	(437)	1,053	(2,003)
Foreign	(79)	(100)	
Provision for income taxes	$ 73,258	$ 60,665	$ 51,383

During 1996, 1995, and 1994, the Company recognized certain tax benefits related to stock option plans in the amount of $14,244,000, $11,236,000 and $6,410,000, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in additional paid-in capital.

Deferred tax assets are comprised of the following:

(In thousands)	Year ended December 31, 1996	1995
Reserves and allowances	$15,056	$16,381
Depreciation and amortization	5,585	4,297
Deferred compensation	3,088	2,019
Effect of inventory overhead adjustment	2,057	1,414
Compensatory stock options and rights	1,541	1,346
State taxes, net	697	972
Other	3,437	605
Net deferred tax asset	$31,461	$27,034

The Company did not require a deferred tax asset valuation allowance at December 31, 1996 or 1995. A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate to income before income taxes is as follows:

(in thousands)	Year ended December 31, 1996	1995	1994
Amounts computed at statutory federal tax rate	$ 68,458	$ 55,440	$ 45,292
State income taxes, net of federal benefit	6,966	7,081	7,153
Other	(2,166)	(1,856)	(1,062)
Provision for income taxes	$ 73,258	$ 60,665	$ 51,383

Note 9
SALES INFORMATION

The Company is engaged in domestic and international sales within the following geographic areas:

(In thousands)	Year ended December 31,		
	1996	1995	1994
United States	$460,611	$367,359	$331,493
Japan	58,156	60,971	45,944
All others--individually less than 10% of net sales	159,745	124,957	71,292
	$678,512	$553,287	$448,729

The Company, through a distribution agreement, appointed Sumitomo Rubber Industries, Ltd. (Sumitomo) as the sole distributor of Callaway Golf clubs in Japan. The distribution agreement requires Sumitomo to purchase specified minimum quantities. The current distribution agreement began in February 1993 and has an initial term of seven years. In 1996, 1995 and 1994, sales to Sumitomo accounted for 9%, 11% and 10%, respectively, of the Company's net sales.

Note 10
SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

Cash paid for interest during 1996, 1995 and 1994 was $37,000, $21,000 and $4,000, respectively.

Income taxes paid in 1996, 1995 and 1994 amounted to $62,938,000, $58,543,000 and $45,776,000, respectively.

Note 11
SUBSEQUENT EVENT

On January 22, 1997, the Company declared a quarterly cash dividend of $.07 per share payable on February 25, 1997, to shareholders of record on February 4, 1997.

REPORT OF INDEPENDENT ACCOUNTANTS

[LOGO OF PRICE WATERHOUSE LLP]

To the Board of Directors and Shareholders of Callaway Golf Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Callaway Golf Company and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICE WATERHOUSE LLP
San Diego, California
January 20, 1997

MARKET FOR COMMON SHARES AND RELATED SHAREHOLDER MATTERS

The Company's Common Shares are traded on the New York Stock Exchange (NYSE). The Company's symbol for its Common Shares is "ELY." The stock price information set forth below has been retroactively restated to reflect the two-for-one stock split effective February 10, 1995.

As of February 20, 1997, the approximate number of holders of record of the Company's Common Stock was 6,684.

STOCK INFORMATION

	FISCAL 1996			FISCAL 1995		
PERIOD:	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
FIRST QUARTER	$28.13	$18.50	$.06	$18.13	$13.25	$.05
SECOND QUARTER	33.88	24.50	.06	16.88	11.25	.05
THIRD QUARTER	36.63	27.88	.06	17.00	13.38	.05
FOURTH QUARTER	36.63	26.63	.06	22.63	14.38	.05

Summarized Quarterly Financial Data (unaudited)

(in thousands, except per share data)	Fiscal Year 1996 Quarters				
	1st	2nd	3rd	4th	Total
Net sales	$135,138	$210,002	$194,545	$138,827	$678,512
Gross profit	68,632	111,083	106,071	75,373	361,159
Net income	19,455	38,937	38,418	25,527	122,337
Earnings per common share	$ 0.28	$ 0.55	$ 0.54	$ 0.36	$ 1.73

	Fiscal Year 1995 Quarters				
	1st	2nd	3rd	4th	Total
Net sales	$119,025	$155,699	$155,924	$122,639	$553,287
Gross profit	60,476	79,836	80,794	62,056	283,162
Net income	16,904	27,329	30,178	23,325	97,736
Earnings per common share	$ 0.23	$ 0.39	$ 0.44	$ 0.34	$ 1.40

EXHIBIT 21.1

SUBSIDIARIES OF CALLAWAY GOLF COMPANY

NAME	JURISDICTION OF FORMATION
Callaway Golf Sales Company	California
Callaway Golf Ball Company	California
CGV, Inc.	California
Callaway Golf (Germany) GmbH	Germany
Callaway Golf Trading GmbH (owned 80% by Callaway Golf (Germany) GmbH	Germany
Callaway Golf (UK) Limited	United Kingdom
ERC International Company	Japan

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-77024) and in the Registration Statements on Form S-8 (No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 33-92302, No. 333-242, No. 333-5719, and No. 333-5721) of Callaway Golf Company of our report dated January 20, 1997 appearing on page 35 of the Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 19 of this Form 10-K.

/s/ PRICE WATERHOUSE LLP
PRICE WATERHOUSE LLP

San Diego, California
March 27, 1997

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