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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1997

OR

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

Commission file number 1-10962

CALLAWAY GOLF COMPANY

(Exact name of registrant as specified in its charter)

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

2285 RUTHERFORD ROAD, CARLSBAD, CA 92008-8815
(760) 931-1771
(Address, including zip code and telephone number, including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .
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The number of shares outstanding of the issuer's of Common Stock, $.01 par value, as of April 30, 1997 was 72,661,132

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 113,623	$ 108,457
Accounts receivable, net	97,309	74,477
Inventories, net	96,191	98,333
Deferred taxes	26,058	25,948
Other current assets	9,187	4,298
Total current assets	342,368	311,513
Property and equipment, net	99,360	91,346
Other assets	24,502	25,569
	$ 466,230	$ 428,428
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 39,682	$ 14,996
Accrued employee compensation and benefits	13,112	16,195
Accrued warranty expense	27,280	27,303
Income taxes payable	9,134	2,558
Total current liabilities	89,208	61,052
Long-term liabilities	5,749	5,109
Commitments and Contingencies (Note 6)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at March 31, 1997 and December 31, 1996, respectively		
Common Stock, $.01 par value, 240,000,000 shares authorized, 72,842,675 and 72,855,222 issued and outstanding at March 31, 1997 and December 31, 1996, respectively	728	729
Paid-in capital	293,156	278,669
Unearned compensation	(3,309)	(3,105)
Retained earnings	232,411	238,349
Less: Grantor Stock Trust (5,300,000 shares) at market	(151,713)	(152,375)
Total shareholders' equity	371,273	362,267
	$ 466,230	$ 428,428

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended			
	March 31, 1997		March 31, 1996	
Net sales	$169,073	100%	$135,138	100%
Cost of goods sold	82,071	49%	66,506	49%
Gross profit	87,002	51%	68,632	51%
Selling expenses	26,579	16%	18,145	13%
General and administrative expenses	16,254	10%	17,191	13%
Research and development costs	5,953	4%	3,162	2%
Income from operations	38,216	23%	30,134	22%
Other income, net	1,383		863	
Income before income taxes	39,599	23%	30,997	23%
Provision for income taxes	15,133		11,542	
Net income	$ 24,466	14%	$ 19,455	14%
Earnings per common share	$.34		$.28	
Common equivalent shares	71,763		69,595	
Dividends paid per share	$.07		$.06	

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended	
	March 31, 1997	March 31, 1996
Cash flows from operating activities:		
Net income	$24,466	$19,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,460	2,939
Loss on disposal of fixed assets	0	11
Non-cash compensation	4,309	1,778
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	(23,174)	(11,017)
Inventories, net	1,489	(15,794)
Deferred taxes	(380)	(924)
Other assets	(3,945)	(1,627)
Accounts payable and accrued expenses	22,720	(1,339)
Accrued employee compensation and benefits	(351)	1,147
Accrued warranty expense	(23)	1,350
Income taxes payable	6,635	8,003
Other liabilities	640	221
Net cash provided by operating activities	35,846	4,203
Cash flows used in investing activities:		
Capital expenditures	(11,503)	(6,104)
Net cash used in investing activities	(11,503)	(6,104)
Cash flows used in financing activities:		
Issuance of Common Stock	4,359	5,942
Tax benefit from exercise of stock options	6,285	4,184
Dividends paid, net	(4,773)	(3,964)
Retirement of Common Stock	(25,091)	0
Net cash (used in) provided by financing activities	(19,220)	6,162
Effect of exchange rate changes on cash	43	(22)
Net increase in cash and cash equivalents	5,166	4,239
Cash and cash equivalents at beginning of period	108,457	59,157
Cash and cash equivalents at end of period	$ 113,623	$63,396

See accompanying notes to consolidated condensed financial statements.

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

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	GST	Total
Balance, December 31, 1996	72,855	$729	$278,669	($3,105)	$238,349	($152,375)	$362,267
Exercise of stock options	603	6	4,353				4,359
Tax benefit from exercise of stock options			6,285				6,285
Compensatory stock options			822	(204)			618
Employee stock purchase plan	233	2	3,689				3,691
Stock retirement	(848)	(9)			(25,082)		(25,091)
Cash dividends					(5,144)		(5,144)
Dividends on shares held by GST					371		371
Equity adjustment from foreign currency translation					(549)		(549)
Adjustment of GST shares to market value			(662)			662	
Net income					24,466		24,466
Balance, March 31, 1997	72,843	$728	$293,156	($3,309)	$232,411	($151,713)	$371,273

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying consolidated condensed balance sheet as of March 31, 1997 and the consolidated condensed statements of income, cash flows and shareholders' equity for the three month periods ended March 31, 1997 and 1996 have been prepared by Callaway Golf Company (the Company) and have not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1996. Interim operating results are not necessarily indicative of operating results for the full year.

2. INVENTORIES

Inventories at March 31, 1997 and December 31, 1996 (in thousands):

	March 31, 1997 (Unaudited)	December 31, 1996
Inventories, net:		
Raw materials	$ 47,638	$ 50,012
Work-in-process	1,491	1,651
Finished goods	52,266	51,954
	101,395	103,617
Less reserve for obsolescence	(5,204)	(5,284)
Net inventories	$ 96,191	$ 98,333

3. FOREIGN CURRENCY EXCHANGE CONTRACTS

During the three months ended March 31, 1997, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from a wholly owned foreign subsidiary. 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 March 31, 1997, the Company had approximately $3,843,000 of foreign exchange contracts outstanding. The contracts mature between April and July of 1997. Realized and unrealized losses on these contracts are recorded in net income. The net realized and unrealized gains from foreign exchange contracts for the three months ended March 31, 1997 totaled approximately $250,000.

4. CASH AND CASH EQUIVALENTS

At March 31, 1997, the Company held investments in U.S. Treasury bills with maturities of three months or less in the aggregate amount of $99.5 million. Management determines the appropriate classification of its U.S. Government and other debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company has included these securities, net of amortization, in cash and cash equivalents and has designated them as "held-to-maturity."

5. EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of shares outstanding during the period increased by the effect of dilutive stock options, when applicable, using the treasury stock method. Earnings per common and common equivalent share as presented on the face of the consolidated condensed statement of income represent primary earnings per share. Dual presentation of primary and fully diluted earnings per share has not been made because the differences are insignificant.

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings Per Share". SFAS No. 128 will be adopted by the Company as required in the fourth quarter of 1997. Upon adoption of SFAS No. 128, the Company will present basic earnings per share and diluted earnings per share. Basic earnings per share will be computed based on the weighted average number of shares outstanding during the period. Diluted earnings per share will be computed based on the weighted average number of shares outstanding during the period increased by the effect of dilutive stock options using the treasury stock method. Pro forma basic earnings per share for the three months ended March 31, 1997 and 1996 are $.36 and $.29, respectively. Pro forma diluted earnings per share for the three months ended March 31, 1997 and 1996 are $.34 and $.28, respectively.

6. COMMITMENTS AND 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 $40,880,000 from one of its vendors. These heads are to be shipped to the Company in accord with a production schedule that runs through the middle of 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. Pursuant to the joint venture agreement, the Company has a 50% equity interest in the new foundry and has contributed $7,000,000 in capital contributions for developing, designing and equipping the new facility, which has not commenced operations. The Company accounts for its investment in the joint venture pursuant to the equity method. 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, 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 "Schmidt Litigation"). 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 alleged oral contract and related claims; damages of approximately $10,000,000 for the wrongful termination; and unspecified punitive damages and costs. Formal discovery has commenced in preparation for trial. The trial is currently scheduled to commence on October 20, 1997. Following the Company's tender of the Schmidt Litigation to its insurers, the carriers denied coverage. On April 11, 1997, the Company initiated litigation against these carriers seeking a judicial declaration that such coverage is afforded under the applicable insurance policies (the "Insurance Litigation"). The Company believes there are meritorious defenses to the Schmidt Litigation, and thus no provision for liability has been made in the Company's financial statements. The Company also believes it is entitled to coverage by its insurers for all or some of the costs and claims asserted in the Schmidt Litigation. The ultimate resolution of the Schmidt Litigation and the Insurance Litigation, however, could result in a material liability and income statement charge.

The Company has certain additional contingent liabilities resulting from litigation and claims incident to the ordinary course of business. Except as noted above, 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 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

When used in this discussion, 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 describe certain factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Callaway Golf Company" below, as well as the Company's other periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

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 declining during 1996, but recent trends indicate the market may be stabilizing. Although demand for the Company's products has been generally strong during the quarter ended March 31, 1997, 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 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.

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. New product introductions by competitors continue to generate increased market competition. For example, in 1997 Taylor Made introduced two new products, the "Ti Bubble 2" Metal Wood Driver and the "Ti Bubble 2" Irons, and other competitors have increased their marketing activities with respect to existing products. 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.

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.

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.

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.

The Company has an active program of enforcing its proprietary rights against companies and individuals who market or manufacture counterfeits and "knock off" products, and aggressively asserts its rights against

infringers of its patents, trademarks, and trade dress. However, there is no assurance that these efforts will reduce the level of acceptance obtained by these infringers. Additionally, there can be no assurance that other golf club manufacturers will not be able to produce successful golf clubs which imitate the Company's designs without infringing any of the Company's patents, trademarks, or trade dress.

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

Various patents have been issued to the Company's competitors in the golf ball industry. As Callaway Golf Ball Company develops a new golf ball product, it must avoid infringing on these patent or other intellectual property rights, or it must obtain licenses to use them lawfully. If any new golf ball product was found to infringe on protected technology, the Company could incur substantial costs to redesign its golf ball product or to defend legal 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.

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.

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, the Professional Golf Association's Tour, the Ladies Professional Golf Association's Tour, the European Professional Golf Association's Tour and the Nike Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. 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 1995, the Company began to evaluate growth 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 be successful, and it is possible that the attempt to do so will adversely affect the Company's business.

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.

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, intellectual property rights of others, 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. 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.

RESULTS OF OPERATIONS

THREE-MONTH PERIODS ENDED MARCH 31, 1997 AND 1996:

Net sales increased 25% to $169.1 million for the three months ended March 31, 1997 compared to $135.1 million for the same period in the prior year. The increase was primarily attributable to the introduction of the Biggest Big Bertha(TM) Titanium Driver and increased sales of the Great Big Bertha(R) Titanium Metal Woods, Big Bertha Gold(TM) Irons and Big Bertha(R) Tour Series Wedges. These sales increases were offset by a decrease in net sales of Big Bertha War Bird(R) Metal Woods.

For the three months ended March 31, 1997, gross profit increased to $87.0 million from $68.6 million for the same period in the prior year and gross margin remained constant at 51%.

Selling expenses increased to $26.6 million in the first quarter of 1997 compared to $18.1 million in the first quarter of 1996. As a percentage of net sales, selling expenses in the first quarter of 1997 increased to 16% from 13% for the same period in 1996. The $8.5 million increase was primarily a result of increased profit sharing and bonus accruals, increased salaries, higher promotional expenses associated with demonstrating new products at a trade show, additional pro tour expenses with our staff players and increased print advertising of the Company's new products.

General and administrative expenses for the three months ended March 31, 1997 decreased to $16.3 million from the $17.2 million incurred during the first quarter of 1996. The $900,000 decrease in general and administrative expenses was primarily attributable to decreased charitable contributions, lower computer support expenses and decreased consulting fees in the first quarter of 1997.

Research and development expenses were $6.0 million for the three months ended March 31, 1997 as compared to $3.2 million for the same period in the prior year. The $2.8 million increase in research and development costs was attributable to increased product engineering and testing of molds and shafts with a continued focus on developing core products, increased spending on developing potential new business opportunities and additional staffing and overhead.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1997, cash and cash equivalents increased to $113.6 million from $108.5 million at December 31, 1996 due to $35.8 million provided by operating activities. This increase was offset by $19.2 million used in financing activities associated primarily with retirement of the Company's Common Stock and dividends paid. Also, the Company spent approximately $11.5 million in capital expenditures. The Company has available a $50.0 million line of credit and anticipates that its existing capital resources and cash flow generated from future operations will enable it to maintain its current level of operations, including capital expenditures and its planned operations for the foreseeable future.

The Company's net accounts receivable increased to $97.3 million at March 31, 1997 from $74.5 million at December 31, 1996 and $84.9 million at March 31, 1996, primarily as a result of the increase in net sales. Net inventory was $96.2 million at March 31, 1997 compared to $98.3 million at December 31, 1996 and $67.3 million at March 31, 1996. The inventory levels at March 31, 1997 are consistent with historical seasonality trends.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS:

The Company, incident to its business activities, is the plaintiff in several legal proceedings, both domestically and abroad, in various stages of development. In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated a number of actions against alleged infringers under the 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 Callaway Golf 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 "Schmidt Litigation"). 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 alleged oral contract and related claims; damages of approximately $10,000,000 for the wrongful termination; and unspecified punitive damages and costs. Formal discovery has commenced in preparation for trial. The trial is currently scheduled to commence on October 20, 1997. Following the Company's tender of the Schmidt Litigation to its insurers, the carriers denied coverage. On April 11, 1997, the Company initiated litigation against these carriers seeking a judicial declaration that such coverage is afforded under the applicable insurance policies (the "Insurance Litigation"). The Company believes there are meritorious defenses to the Schmidt Litigation, and thus no provision for liability has been made in the Company's financial statements. The Company also believes it is entitled to coverage by its insurers for all or some of the costs and claims asserted in the Schmidt Litigation. The ultimate resolution of the Schmidt Litigation and the Insurance Litigation, however, could result in a material liability and income statement charge.

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. Except as noted above, 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 2. CHANGES IN SECURITIES:

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K:

a. Exhibits:

10.1 Callaway Golf Company 1996 Stock Option Plan (as amended and restated through April 17, 1997)
10.2 Callaway Golf Company Executive Deferred Compensation Plan (as amended and restated through February 6, 1997)
10.3 Callaway Golf Company 1998 Executive Non-Discretionary Bonus Plan
11.1 Statement re: Computation of Earnings Per Share
27.1 Financial Data Schedule

b. Reports on Form 8-K:

None

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: May 13, 1997

/s/ Donald H. Dye

DONALD H. DYE
President and
Chief Executive Officer

/s/ David A. Rane

DAVID A. RANE
Executive Vice President, Golf Venues
and Chief Financial Officer

EXHIBIT 10.1

CALLAWAY GOLF COMPANY
1996 STOCK OPTION PLAN
(AS AMENDED AND RESTATED APRIL 17, 1997)

SECTION 1. PURPOSE OF THE PLAN

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

SECTION 2. ADMINISTRATION OF THE PLAN

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

2.2 Determinations. The Committee shall have full and exclusive power to construe and interpret the Plan, to determine and designate the class or classes of Eligible Persons (as defined in Section 4 below) of the Company and of its subsidiaries or affiliates who are eligible to participate in the Plan and any other criteria that must be satisfied in order for an Eligible Person to participate in the Plan, to determine the terms of Options, subject to the requirements and provisions of the Plan, and generally to determine answers to any and all questions arising under the Plan. All decisions, determinations and interpretations by the Committee regarding the Plan shall be final and binding on all Eligible Persons and Participants (as defined in Section 4 below). The Committee shall consider such factors as it

deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations, including, without limitation, the recommendations or advice of any officer of the Company or Eligible Person and such attorneys, consultants and accountants as it may select.

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

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

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

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

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

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

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

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

SECTION 3. STOCK SUBJECT TO THE PLAN

3.1 Aggregate Limits. Subject to adjustment as provided in Section 7.2, at any time, the aggregate number of shares of the Company's Common Stock ("Shares") issued and issuable pursuant to all Options (including all ISOs (as defined in Section 5.3 below)) granted under the Plan shall not exceed 3,000,000. 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 3,000,000. 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. Unless the Committee shall otherwise determine on a case by case basis, no Option granted under the Plan shall be assignable or transferable except (a) by will or by the laws of descent and distribution, or (b) subject to the final sentence of this Section, upon dissolution of marriage pursuant to a qualified domestic relations order. Unless the Committee shall otherwise determine on a case by case basis, during the lifetime of a Participant, an Option granted to him or her shall be exercisable only by the Participant (or the Participant's permitted transferee) or his or her guardian or legal representative. Notwithstanding the foregoing, (i) no Option owned by a Participant subject to Section 16 of the Exchange Act may be assigned or transferred in any manner inconsistent with Rule 16b-3 thereunder as interpreted and administered by the Commission and its staff, and (ii) ISOs may not be assigned or transferred in violation of Section 422(b)(5) of the Code or the Treasury Regulations thereunder, and nothing herein is intended to allow such assignment or transfer.

6.2 Dividends. Unless otherwise provided by the Committee, no adjustment shall be made in Shares issuable under Options on account of cash dividends that may be paid or other rights that may be issued to the holders of Shares prior to their issuance under any Option. Unless otherwise provided by the Committee, no dividends or dividend

equivalent amounts shall be paid to any Participant with respect to the Shares subject to any Option that has not vested or has not been exercised on the record date for dividends.

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

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

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

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

SECTION 7. CHANGES IN CAPITAL STRUCTURE

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

7.2 Adjustment in Shares. If the outstanding securities of the class then subject to the Plan are increased, decreased or exchanged for or converted into cash, property

or a different number or kind of shares or securities, or if cash, property or shares or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, restructuring, reclassification, dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split, spin-off or the like, or if substantially all of the property and assets of the Company are sold, then, unless the terms of such transaction shall provide otherwise, the Committee shall make appropriate and proportionate adjustments in (a) the number and type of shares or other securities or cash or other property that may be acquired pursuant to Options theretofore granted under the Plan and the exercise or settlement price of such Options, provided, however, that such adjustment shall be made in such a manner that will not affect the status of any Option intended to qualify as an ISO under Code Section 422, and (b) the maximum number and type of shares or other securities that may be issued pursuant to such Options thereafter granted under the Plan. Any adjustments made by the Committee pursuant to this Section shall be binding upon the holders of each then outstanding Option, without need for any consent or amendment signed by such holder, effective at such date as is fixed by the Committee.

SECTION 8. CHANGE OF CONTROL

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

SECTION 9. TAXES

9.1 Withholding Requirements. The Committee may make such
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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
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Section 9.1, the Committee may in its discretion, but need not, provide in the
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Option Agreement or otherwise that all or any portion of the taxes required to be withheld by the Company in connection with the exercise of a Nonqualified Option or the disposition of Shares issued under an ISO shall be paid or, at the election of the Participant, may be paid by the Company withholding shares of the Company's capital stock otherwise issuable or subject to such Option having a fair market value equal to the amount required to be withheld or paid. Any

such elections are subject to such conditions or procedures as may be established by the Committee and may be subject to disapproval by the Committee.

SECTION 10. AMENDMENT AND TERMINATION

The Committee may, insofar as permitted by law, from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever, and the Plan as so revised or amended will govern all Options thereunder, including those granted before such revision or amendment, except that no such amendment shall alter or impair or diminish in any material respect any rights or obligations under any Option theretofore granted under the Plan without the consent of the person to whom such Option was granted. In addition, if an amendment to the Plan would materially increase the number of shares subject to the Plan (as adjusted under Section 7.2), materially modify the requirements as
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to eligibility for participation in the Plan, extend the final date upon which Options may be granted under the Plan, or otherwise materially increase the benefits accruing to recipients in a manner not specifically contemplated herein and that affects the Plan's compliance with Rule 16b-3 under the Exchange Act or applicable provisions of the Code or requires the approval of the Company's shareholders so that the Options hereunder continue to qualify as "performance based compensation" described in Code Section 162(m) and the Treasury regulations thereunder, then the amendment shall be subject to approval by the Company's shareholders to the extent required to comply with Rule 16b-3 under the Exchange Act or applicable provisions of or rules under the Code. Notwithstanding the foregoing, the Committee may amend the Plan to comply with or take advantage of the rules or regulations (or interpretations thereof) promulgated under Section 16 of the Exchange Act or under the Code, subject to the shareholder approval requirement described above.

SECTION 11. COMPLIANCE WITH LAWS AND REGULATIONS

11.1 Applicability of Laws. The Company shall not be required to
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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
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exercise of Options thereunder, and the obligation of the Company to sell, issue or deliver Shares under such Options, shall be subject to all applicable federal, state and foreign laws, rules and regulations and to such approvals by any governmental or regulatory agency as may be applicable. The exercisability of any Option and the sale of any Share hereunder is conditioned upon the registration of the Shares to be offered and sold with the SEC. In no event shall any Shares be offered or sold hereunder prior to the effective date of registration with the SEC.

SECTION 12. NO RIGHT TO COMPANY EMPLOYMENT

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

SECTION 13. LIABILITY OF THE COMPANY

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

13.1 The Non-Issuance of Shares. The non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder; and

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

SECTION 14. EFFECTIVENESS AND EXPIRATION OF PLAN

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

SECTION 15. NON-EXCLUSIVITY OF THE PLAN

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

SECTION 16. GOVERNING LAW

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

EXHIBIT 10.2

CALLAWAY GOLF COMPANY
EXECUTIVE DEFERRED COMPENSATION PLAN
(AS AMENDED AND RESTATED FEBRUARY 6, 1997)

This Executive Deferred Compensation Plan ("Plan") has been adopted by the Board of Directors of Callaway Golf Company, a California corporation ("Company"), effective August 1, 1994, as amended and restated February 6, 1997.

1. PURPOSE

The primary purpose of the Plan is to provide deferred compensation to a select group of management or highly compensated employees through an unfunded "top hat" arrangement exempt from the fiduciary, funding, vesting, and plan termination insurance provisions of Title I and Title IV of the Employee Retirement Income Security Act ("ERISA"). More specifically, the Company has adopted this Plan to provide Employees with the opportunity to defer part or all of that portion of their Compensation including amounts they are unable to defer, receive or take into account under any tax qualified deferred compensation (i.e., 401(k), pension, profit sharing or stock bonus) plan which the Company may now or hereafter maintain, as a result of the limits imposed by Sections 401(a)(4), 401(a)(17), 401(k)(3), 401(m), 402(g) and 415 of the Internal Revenue Code ("Code") on plans to which those sections of the Code apply. To the extent that a separable part of the Plan is maintained for the purpose of providing benefits in excess of those permitted by Section 415 of the Code, that part of the Plan may be treated as an excess benefit plan within the meaning of Section 3(36) of ERISA.

2. DEFINITIONS AND CAPITALIZED TERMS

When used in this Plan document, the capitalized terms set forth in alphabetical order herein have the definitions specified below unless the context in which the term appears clearly requires a different meaning.

a. "ACCOUNT" refers to the bookkeeping entries established and maintained by the Company or the Committee for the purpose of recording (i) the amounts of Compensation deferred by an Employee under this Plan, (ii) any hypothetical investment earnings, losses, interest accruals or administrative expenses with respect to those amounts, and (iii) any distributions to an Employee or Beneficiary.

b. "BENEFICIARY" refers to the person or entity selected to receive any portion of an Employee's Account that has not been distributed from the Plan at the time of the Employee's death. Such designation shall be on a form provided or approved by the Plan Administrator. If an Employee fails to designate a Beneficiary or no designated Beneficiary survives the Employee, the Plan Administrator may direct payment of benefits to the following person or persons in the order given below: the Employee's

(i) spouse,
(ii) descendants, per stirpes,
(iii) parents,
(iv) brothers and sisters, or
(v) estate of the Participant.

c. "BOARD" or "BOARD OF DIRECTORS" refers to the Board of Directors of the Company.

d. "CODE" refers to the Internal Revenue Code of 1986, as amended from time to time.

e. "COMMITTEE" or "ADMINISTRATIVE COMMITTEE" refers to the officers of the Company who act on behalf of the Company in discharging the Company's duties as the Plan Administrator. Notwithstanding any other provision of the Plan document, any member of the Committee or any other officer or employee of the Company who exercises discretion or authority on behalf of the Company shall not be a fiduciary of the Plan merely by virtue of his or her exercise of such discretion or authority. The Board shall identify the Company officers who shall serve as members of the Committee. Because this Plan is a "top hat" arrangement, neither the Company nor the Committee shall be subject to the duties imposed by the provisions of Part 4 of Title I of ERISA.

f. "COMPANY," "CORPORATION" or "EMPLOYER" refers to Callaway Golf Company, a California corporation.

g. "COMPANY 401(K) PLAN" refers to the Callaway Golf Company defined contribution plan intended to satisfy the requirements of Sections 401(a), 401(k), 401(m) and 414(i) of the Code. References to the Company 401(k) Plan or to the Company Matching Contributions, below, are for purposes of measurement only. Nothing in this Plan contemplates a transfer of contributions or assets from the Company 401(k) Plan to this Plan or conditions participation in this Plan upon an Employee's participation or nonparticipation in the Company 401(k) Plan.

h. "COMPANY MATCHING CONTRIBUTIONS" refers to contributions, if any, made by the Company or any Subsidiary pursuant to Section 5.6 of this Plan. Said contributions may be measured with reference to matching contributions under the Company 401(k) Plan.

i. "COMPENSATION" refers to an Employee's gross salary, including any commissions, bonuses or awards, payable by the Company or any Subsidiary after an Employee first becomes eligible to participate in this Plan and during the period through which such participation continues. For the 1994 Plan Year, the Compensation an Employee may defer under the Plan is limited to bonuses earned in 1994 and determined after July 31, 1994.

j. "DISABLED" or "DISABILITY" refers to a physical or mental condition of an Employee which (i) occurs after an Employee first defers Compensation under this Plan, (ii) results from an injury, disease or disorder, and (iii)

renders the Employee totally and permanently incapable of continuing in his or her customary employment with the Company or any Subsidiary. In determining whether an Employee is disabled, the Committee may rely upon the conclusions of any insurance carrier that has issued a policy of insurance covering the Employee or upon the conclusions of any physician acceptable to the Committee. An Employee will automatically satisfy the requirements under this Plan, with respect to submission of evidence of disability, throughout the period that he or she remains qualified for Social Security disability benefits. Any Employee who believes that he or she is entitled to any advantage, benefit or other consideration under the Plan as a result of being Disabled shall apply to the Committee for such consideration and shall provide any evidence of Disability which the Committee in its discretion may request in a manner consistent with the Americans with Disabilities Act of 1990 and other relevant laws.

k. "EFFECTIVE DATE" refers to August 1, 1994 (with respect to Compensation first earned, determined or payable after that date) contingent upon approval of the Plan by the Board of Directors of the Company.

l. "EMPLOYEE" refers to any employee, within the meaning of Section 3121(d) of the Code, who is highly compensated or is a member of management selected by the Board to participate in this Plan or in any other executive deferred compensation arrangement maintained by the Company or any Subsidiary. In determining whether an employee is described in the preceding sentence, an employee shall be considered to be highly compensated if the employee's annual Compensation exceeds $150,000 or such greater amount permitted to be considered under Section 401(a)(17) of the Code. Where the Plan Administrator considers appropriate in applying the provisions of this Plan, the term Employee shall include only persons who are Participants or Inactive Participants under the Plan. If the Board amends the Plan to allow participation by outside directors or other independent contractors, the term Employee shall refer to such outside director or independent contractor.

m. "ERISA" refers to the Employee Retirement Income Security Act of 1974, as amended from time to time.

n. "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

o. "HARDSHIP" refers to an Employee's immediate and heavy financial need caused by an unforeseeable emergency, as described in Treasury Regulations Section 1.457-2(h)(4) and (5). In general, but without limitation, the Plan Administrator shall approve a Hardship withdrawal from an Employee's Account if the reduction does not exceed the amount needed to pay for the following unreimbursed expenses: (i) medial expenses defined in Code Section 213(d) and incurred (or to be incurred) during the calendar year by the Employee, or his or her spouse or dependents (as described in Code Section 152) as a result of a sudden or unexpected illness or accident; (ii) loss of a participant's property as a result of a casualty or other extraordinary, unforeseeable circumstances attributable to forces beyond the participant's control; and (iii) other costs recognized by the

Plan Administrator to pose an immediate and heavy financial need on the Employee as a result of an unforeseeable emergency.

p. "INACTIVE PARTICIPANT" refers to an Employee who deferred Compensation under the Plan during a previous Plan Year but who does not defer any Compensation payable during the current Plan Year.

q. "INSOLVENCY" shall exist if Callaway Golf Company is (a) unable to pay its debts as they come due or (b) subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

r. "PARTICIPANT" refers to an eligible Employee who elects to defer under the Plan part or all of his or her Compensation payable during the current Plan Year.

s. "PLAN" shall mean this Callaway Golf Company Executive Deferred Compensation Plan, as amended from time to time.

t. "PLAN ADMINISTRATOR" refers to the Company.

u. "PLAN YEAR" refers to the calendar year; however, the first Plan Year shall be the period beginning August 1, 1994 and ending December 31, 1994.

v. "TERMINATION OF EMPLOYMENT" refers to an Employee's (i) separation from service with the Company or any Subsidiary, (ii) refusal or failure to return to work within five working days after the date requested by the Company or any Subsidiary or (iii) failure to return to work at the conclusion of a leave of absence. If the Board amends the Plan to allow participation by outside directors or other independent contractors, the phrase Termination of Employment shall refer to the cessation of all services rendered to the Company or any Subsidiary by the outside director or independent contractor.

w. "TRUST" shall mean any trust or other vehicle established by the Company to meet its obligations under the Plan.

x. "SUBSIDIARY" refers to any corporation, partnership, limited liability company or other entity, domestic or foreign, in which the Company directly or indirectly owns 50% or more of the total combined power to cast votes in the election of directors, managing partners, managers or similar officials, and which has been included within the coverage of the Plan by the Board of Directors, in its sole discretion.

3. ELIGIBILITY

The Board or the Committee, in its sole discretion, may designate from time to time those Employees of the Company or any Subsidiary who are eligible to participate in the Plan for one or more Plan Years and the date upon which each such Employee's participation may commence. All designated Employees shall be notified by the Board or the Committee of their eligibility to

participate. An Employee shall cease to be eligible when the Employee ceases both (i) to be a member of a select group of management and (ii) to be highly compensated as described in Section 2(k) above. Additionally, at the discretion of the Board or Committee, an Employee shall not be eligible to participate in the Plan (a) while the Employee has an unpaid loan from any tax-qualified deferred compensation plan maintained by the Company or any Subsidiary or (b) during the Plan Year immediately following the Plan Year in which the Employee takes a Hardship withdrawal from the Plan. The Effective Date of any such ineligibility shall be the first day of the Plan Year coinciding with or next following the date on which the Board or Committee provides the Employee with notice of revocation of eligibility. An Employee's eligibility to participate in the Plan does not confer upon the Employee any right to any award, bonus or remuneration of any kind.

4. DEFERRAL OF COMPENSATION

4.1 ELECTION TO DEFER

An Employee who is eligible to participate in the Plan may elect to defer the receipt of Compensation by completing a deferral election form provided or approved by the Company or Committee. Pursuant to the deferral election form, an eligible Employee may elect to defer any whole percentage or fixed dollar amount of his or her Compensation. An Employee who elects to participate in the Plan must defer at least $2,000 in Compensation for each Plan Year in which he or she remains eligible to participate.

4.2 DATE OF DEFERRAL

An eligible Employee must submit his or her deferral election form to the Committee no later than the last day of the deferral election period. The last day of the deferral election period shall be (a) the last day preceding the calendar year in which the eligible Employee will render the services for which he or she will receive any part of the Compensation (including bonus) payable to the Employee during that year or (b) with respect to the deferral of Compensation earned during 1994 Plan Year, not later than 30 days after the Effective Date. At the time of the deferral election, the Employee must specify the form in which distributions shall occur under the Plan.

4.3 MULTIPLE ELECTIONS

An election to defer Compensation shall be effective on the date an eligible Employee delivers a completed deferral election to the Committee; provided, however, that, if the eligible Employee delivers another properly completed deferral election form to the Committee prior to the close of the deferral election period described in Section 4.2, the deferral election on the form bearing the latest date shall control. After the last day of the election period, the controlling election made prior to the close of the period shall be irrevocable.

4.4 ANNUAL ELECTIONS

In order to defer any portion of Compensation earned in any calendar year after the 1994 calendar year, an eligible Employee must submit at least one completed deferral election form during the 3-month period immediately preceding the start of that calendar year.

4.5 NO DEFERRAL ADJUSTMENTS

After an annual election has taken effect for any Plan Year, a Participant may not increase or decrease the percentage or amount of Compensation to be deferred during that Plan Year; except that a Participant must cease deferrals under the Plan to the extent that such cessation may relieve the Participant of one or more Hardships without any withdrawals under this Plan.

5. DEFERRED COMPENSATION ACCOUNTS

5.1 MAINTENANCE OF ACCOUNTS

The Plan Administrator shall maintain one or more bookkeeping Accounts with respect to any Compensation deferred by an eligible Employee under Section 4 above. The Plan Administrator shall credit the Account with the full amount of Compensation deferred in any payroll period. If the Compensation deferred is subject to federal or state employment taxes (e.g. taxes under the Federal Insurance Contributions Act or Federal Unemployment Tax Act), said taxes shall be withheld and deducted from a portion of the Employee's Compensation not deferred under this Plan. A Participant or Inactive Participant shall be fully vested at all times in amounts deferred under Section 4 above, as adjusted for any earnings, losses, interest accruals, administrative expenses or distributions as described below.

5.2 INVESTMENT ELECTIONS

In accordance with rules, procedures and options established by the Committee, a Participant shall have the right to express preferences with respect to the investment of his or her Account, except for any period of time during which the Company limits Account earnings to interest accruals under Section 5.4 below. Although the Company shall have the hypothetical obligation to follow the Participant's investment preferences, the Company, in its sole discretion, may satisfy its hypothetical obligation from time to time in one or both of the following ways. First, the Company may invest assets hypothetically allocable to the Participant's Accounts in the specific investments, in the specific amounts and for the specific periods requested by the Participant; and the Company must credit or charge the Participant's Accounts with the earnings, gains or losses resulting from such investments. Second, the Company may invest assets hypothetically allocable to the Participant's Accounts in any manner, in any amount and for any period of time which the Company in its sole discretion may select; but the Company must credit or charge the Participant's Accounts with the same earnings, gains or losses that the Participant would have incurred if the Company had invested the assets

hypothetically allocable to the Participant's Accounts in the specific investments, in the specific amounts and for the specific periods requested by the Participant. In accordance with procedures established by the Plan Administrator, a Participant may change his or her investment preferences twice each Plan Year. Such changes may be made, if at all, during the three-week period immediately following the quarterly distribution of individual account statements. If this Plan is determined to be subject to the fiduciary provisions of Part 4 of Title I of ERISA, this Plan shall be treated as a Plan described in Section 404(c) of ERISA and Title 29 of the Code of Federal Regulations Section 2550.404c-1, in which Plan fiduciaries may be relieved of liability for any losses which are the direct and necessary result of investment instructions given by a Participant or Beneficiary.

5.3 INVESTMENT EARNINGS OR LOSSES

Except for any period of time during which the Company limits bookkeeping Account earnings to hypothetical interest accruals under Section 5.4 below, any amounts credited to the bookkeeping Account of a Participant or Inactive Participant as a result of the deferral of all or part of his or her Compensation may increase or decrease as a result of the Company's investment of such amounts during the Plan Year, as described in Section 5.2 above. A ratable share of the Plan's hypothetical investment earnings or losses under this Section 5.3 shall be credited to the bookkeeping Account of a Participant or Inactive Participant, as determined in good faith by the Committee. At the sole discretion of the Committee, for any Plan Year, the Committee may allocate to the Participant's bookkeeping Account either (i) the full amount of the Participant's share of the Plan's hypothetical investment earnings or losses or (ii) the full amount of such share adjusted for any federal, state or local income or employment tax consequences attributable to such hypothetical earnings or losses. If the full amount of such hypothetical investment earnings or losses are allocated to a Participant's Account, any federal, state or local income or employment tax consequences attributable to such earnings or losses under this Section 5.3 shall be borne by or inure to the benefit of the Company. The Participant and his or her Beneficiary understand and agree that they assume all risk in connection with any decrease in the value of the Compensation deferred under the Plan and invested in accordance with these Sections 5.2 and 5.3.

5.4 INTEREST ACCRUALS

During each Plan Year in which the Company does not invest an Employee's deferred Compensation as described in Sections 5.2 and 5.3 above, any amounts credited to the bookkeeping Account of a Participant or Inactive Participant as a result of the deferral of all or part of his or her Compensation shall accrue hypothetical interest compounded annually, as consideration for the use or forbearance of money. The hypothetical accrual of interest begins and the compounding of interest occurs on January 1 of each Plan Year or, if later, the date on which an eligible Employee first defers Compensation under the Plan. The rate at which interest accrues shall equal the prime rate, plus one percent, offered to borrowers by a commercial bank in San Diego, California on December 31st of the Plan Year during which the accrual occurs. The Committee shall select the

commercial bank before December 1 of the Plan Year during which the accrual occurs. At the sole discretion of the Company, for any Plan Year (i) the full amount of such hypothetical accrued interest may be allocated to a Participant's Account or (ii) adjusted for any federal, state or local income or employment tax consequences attributable to such interest, prior to allocating such hypothetical interest to a Participant's Account. If the full amount of such interest accruals are allocated to a Participant's Account, any federal, state or local income or employment tax consequences attributable to interest accruals under this Section 5.4 shall be borne by or inure to the benefit of the Company.

5.5 INVESTMENT OF UNPAID BALANCES

The unpaid balance of all Accounts payable under the Plan shall continue to be credited with the hypothetical investment earnings or losses described in Sections 5.2 and 5.3 above or hypothetical accruals of interest as described in Section 5.4 above.

5.6 COMPANY MATCHING CONTRIBUTIONS

a. At the end of any Plan Year for which an eligible Employee has deferred Compensation under this Plan, the Committee may add to his or her Accounts no more than the lesser of (1) $25,000 or (2) an amount equal to the Company Matching Contribution which the Employee would have received if (i) the Employee had contributed, to the Company 401(k) Plan, the amounts deferred under this Plan and (ii) the limitations described in Section 1 above did not apply to the Company 401(k) Plan. Nothing in the preceding sentence shall require the Company to make Matching Contributions to the Account of any Participant in any Plan Year or create a presumption that Matching Contributions allocated under this Plan shall be determined with reference to Matching Contributions under the Company 401(k) Plan. Once credited to an Employee's Accounts under this Plan, the amounts described in the preceding sentence shall accrue the hypothetical investment return described in Sections 5.2, 5.3, 5.4 and 5.5 above, and shall be payable in accordance with Section 7 below.

b. Subject to the provisions of Section 5.6(c) below, an Employee shall be fully vested in amounts allocated to his or her Account as described in Section 5.6(a).

c. Without regard to the number of years of service an Employee has completed with the Company or any Subsidiary and without regard to an Employee's Disability, if an Employee separates from service with the Company or any Subsidiary as a result of the Employee's gross misconduct, within the meaning of Part 6 of Title I of ERISA, regarding group health continuation coverage, or if the Employee engages in unlawful business competition with the Company or any of its subsidiaries, the Employee shall forfeit all amounts allocated to his or her bookkeeping Accounts under Section 5.6(a) above and all hypothetical earnings thereon. Such forfeitures will be used to reduce the Company's obligation, if any, to make Matching Contributions to other Participants or to defray the expenses of administering the Plan.

d. References to the Company 401(k) Plan or to Company Matching Contributions are for purposes of measurement only. Nothing in this Plan contemplates a transfer of contributions or assets from the Company 401(k) Plan to this Plan or conditions participation in this Plan upon an Employee's participation or nonparticipation in the Company 401(k) Plan.

5.7 COMPANY'S GENERAL ASSETS

Participant understands and agrees that all Compensation deferred under the Plan and all amounts credited to a Participant's Account under the Plan (a) are the general assets of the Company, (b) may be used in the operation of the Company's business or in any other manner permitted by law, and (c) remain subject to the claims of the Company's creditors. Participant agrees, on behalf of Participant and his or her Beneficiary, that (i) title to any amounts deferred under the Plan or credited to a Participant's Account remains in the Company and (ii) neither Participant nor his or her Beneficiary has any property interests whatsoever in said amounts, except as general creditors of the Company.

6. EFFECT ON EMPLOYEE BENEFITS

Amounts deferred under this Plan or distributed pursuant to the terms of this Plan are not taken into account in the calculation of an Employee's benefits under any employee pension or welfare benefit program or under any other compensation practice maintained by the Company or any Subsidiary, except to the extent provided in such program or practice.

7. PAYMENT OF DEFERRED COMPENSATION ACCOUNTS

7.1 INCOME TAX OBLIGATIONS

The Plan Administrator may make payments before they would otherwise be due if, based on a change in the federal tax or revenue laws, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury, a decision by a court of competent jurisdiction involving a Participant, Inactive Participant or Beneficiary or a closing agreement made under Section 7121 of the Internal Revenue Code that is approved by the Internal Revenue Service and involves a Participant, Inactive Participant or Beneficiary, the Plan Administrator determines that the Participant, Inactive Participant or Beneficiary has or will recognize income for federal income tax purposes with respect to amounts that are or will be payable under the Plan before they are to be paid. If an Employee is assessed federal, state or local income taxes by reason of, and computed on the basis of, his or her undistributed deferred Compensation or undistributed interest accruals, earnings or gains on his or her Account, the Employee shall notify the Company in writing of such assessment and there shall be distributed, within thirty (30) days following such notice, from the Employee's bookkeeping Account deferred Compensation, accrued interest, earnings or gains in an amount equal to such tax assessment, together with any interest due and penalties assessed thereupon; provided however, that if the Company

determines that such assessment is improper, it may request that the Employee contest the assessment, at the expense of the Company (which expense shall include all costs of appeal and litigation, including legal and accounting fees, and any additional interest assessed on the deficiency from and after the date of the Employee's notice to the Company); and during the period such contest is pending, the sums otherwise distributable pursuant to this Section 7.1 shall not be distributed.

7.2 IN-SERVICE WITHDRAWALS

A. WITHDRAWALS TO MEET HARDSHIPS

If at any time following the first anniversary of participation in the Plan, an Employee incurs a Hardship, described in Section 2(o), the Employee may, by written notice to the Committee, request that all or any specified part of his or her Account, but not less than $1,000 per withdrawal, be paid to the Employee; and such distribution, if approved by the Company, shall be made in a lump sum within thirty (30) days following the Company's receipt of such notice. The Company shall have exclusive authority to determine whether to make a Hardship distribution from an Employee's Account but shall not unreasonably deny a request for such a distribution. The Company's decision shall be final and binding on all parties. Any Hardship withdrawals from an Account shall reduce the amount available for subsequent distributions from the Account, as the Company in good faith may determine.

B. OTHER WITHDRAWALS

Prior to the termination of his or her employment, a Participant may not withdraw any funds from his or her Account, except as provided in Section 7.2.a. above. Notwithstanding the foregoing, the Plan Administrator may make in-service distributions upon the termination of the Plan.

7.3 TERMINATION OF EMPLOYMENT

Upon termination of the employment of a Participant or Inactive Participant, the Company shall distribute his or her Account under the Plan, as elected by the Participant or Inactive Participant, in a lump sum or in five, ten or fifteen substantially equal annual installments. The payment from the Account shall occur or commence within 30 days after the first day of the calendar year immediately following the calendar year in which the termination of employment occurs.

7.4 DISABILITY

Upon the Disability of a Participant or Inactive Participant prior to termination of employment, the Company shall distribute his or her Account under the Plan, as elected by the Participant or Inactive Participant, in a lump sum or in five or more (but not more than 15) substantially equal annual installments. The payment from the Account shall occur or commence within 30 days after the first

day of the calendar year immediately following the calendar year in which the Disability results in the Employee's termination of employment. Prior to the death of the Participant or Inactive Participant, during any period in which a Participant or Inactive Participant remains Disabled, he or she (or his or her legal representative) may request Hardship withdrawals from any undistributed portion of his or her Account. Any such Hardship withdrawals shall reduce the amount available for subsequent distributions from the Account, as the Company in good faith may determine.

7.5 DEATH PRIOR TO COMMENCEMENT OF DISTRIBUTIONS

Upon the death of a Participant or Inactive Participant prior to the commencement of any distribution under Sections 7.3. or 7.4 above, the Account of such Participant or Inactive Participant shall be distributed to his or her Beneficiary, in a lump sum or in five or more (but not more than 15) substantially equal annual installments, as elected at the time of the deferral of Compensation under the Plan. The payment from the Account shall occur or commence within 30 days after the first day of the calendar year immediately following the calendar year in which the death of the Participant or Inactive Participant occurs. During the period between the death of the Participant or Inactive Participant and the commencement of distributions to the Beneficiary, the Beneficiary may request Hardship withdrawals from any undistributed portion of his or her Account. Any such Hardship withdrawals shall reduce the amount available for subsequent distributions from the Plan, as the Company in good faith may determine.

7.6 DEATH AFTER COMMENCEMENT OF DISTRIBUTIONS

Upon the death of a Participant or Inactive Participant after the commencement of any distribution in accordance with Sections 7.3 or 7.4 above, the balance remaining in the Account of such Participant or Inactive Participant shall be distributed to his or her Beneficiary in accordance with the terms elected by the Participant or Inactive Participant under Sections 7.3 or 7.4.

7.7 DEFAULT DISTRIBUTION

The Company or any Subsidiary shall accelerate the payment of Accounts under the Plan as a lump sum payment (i) if an Employee terminates employment with the Company or any Subsidiary at a time when the value of his or her Account is less than $10,000 or (ii) if an Employee who has elected installment distributions, terminates employment with the Company or any of its subsidiaries and works for a competitor of the Company. Additionally, if a Participant or Inactive Participant fails to make an election offered under Section 7.3 or 7.4 above, the Committee shall distribute the Account in a lump sum within 30 days after the Account first becomes payable under the Plan.

7.8 WITHHOLDING AND OTHER TAX CONSEQUENCES

From any payments made under this Plan, the Company shall withhold any taxes or other amounts which federal, state or local law requires the Company

to deduct, withhold and deposit. The Company's determination of the type and amount of taxes to be withheld from any payment shall be final and binding on all persons having or claiming to have an interest in this Plan or in any Account under this Plan. Any adverse consequences incurred by a Participant or Inactive Participant with respect to his or her participation in the Plan or in connection with a distribution from or vesting under the Plan shall be the sole responsibility of the Participant or Inactive Participant.

8. UNFUNDED STATUS OF PLAN

All amounts deferred under this Plan remain or become general assets of the Company. All payments under this Plan shall come from the general assets of the Company. The amounts credited to an Employee's Account are not secured by any specific assets of the Company or any Subsidiary. This Plan shall not be construed to require the Company or any Subsidiary to fund any of the benefits provided hereunder or to establish a trust or purchase an insurance or other product for such purpose. The Company or any Subsidiary may make such arrangements as it desires to provide for the payment of benefits. Neither an Employee, Participant or Inactive Participant nor his or her Beneficiary or estate shall have any rights against the Company with respect to any portion of any Account under the Plan except as general unsecured creditors nor against any Subsidiary. No Employee, Participant, Inactive Participant, Beneficiary or estate has an interest in any Account under this Plan until the Employee, Participant, Inactive Participant, Beneficiary or estate has a right to receive payment from the Account.

9. SUSPENSION OF PAYMENTS IN THE EVENT OF COMPANY'S INSOLVENCY

At all times during the continuance of any trust established in connection with this Plan ("Trust"), if the Plan Administrator determines that the Company's financial condition is likely to result in the suspension of benefit payments from the Trust, the Plan Administrator shall advise Participants, Inactive Participants and Beneficiaries that payments from the Trust shall be suspended during the Company's insolvency. If the Trustee subsequently resumes such payments, the Administrator shall advise Participants, Inactive Participants and Beneficiaries that, if Trust assets are sufficient, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants, Inactive Participants and Beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made directly by the Company during any period of discontinuance. At not time shall any insufficiency of Trust assets relieve the Company of its obligation to make payments when due under the Plan.

10. NON-ALIENATION OF BENEFITS

The interest of any Employee, Participant, Inactive Participant or Beneficiary shall not be subject to sale, assignment, transfer, conveyance, hypothecation, encumbrance, garnishment, attachment, anticipation, pledge, alienation or other disposition prior to actual distribution from the Plan; and any

attempt to effect such disposition shall be void. No portion of any Account shall, prior to receipt thereof, be subject to the debts, contracts, liabilities, or engagements of any Employee, Participant, Inactive Participant, or Beneficiary. Nothing in the preceding sentence shall prohibit the Company from recovering from an Employee, Participant, Inactive Participant or Beneficiary any payments to which he or she was not entitled under the Plan.

11. LIMITATION OF RIGHTS

Nothing in this Plan document or in any related instrument shall cause this Plan to be treated as a contract of employment within the meaning of the Federal Arbitration Act, 9 U.S.C. 1 et seq., or otherwise shall be construed as evidence of any agreement or understanding, express or implied, that the Company or any Subsidiary (a) will employ any person in any particular position or level of Compensation, (b) will offer any person initial or continued participation or awards in any commission, bonus or other compensation program, or (c) will continue any person's employment with the Company or any Subsidiary.

12. NOTICE UNDER WARN

Any amounts paid (i) to any Employee under the Worker Adjustment and Retraining Notification Act of 1988 ("WARN") or under any other laws regarding termination of employment, or (ii) to any third party for the benefit of said Employee or for the benefit of his or her dependents shall not be offset or reduced by any amounts paid or determined to be payable by the Company to said Employee or to his or her dependents under this Plan.

13. AMENDMENT OR TERMINATION OF PLAN

a. The Board of Directors may modify, suspend or terminate the Plan in any manner at any time. Such modification, suspension or termination may not reduce any accrued vested benefits allocated to a Participant's Account under this Plan, but may modify, suspend or terminate future accruals or allocations under the Plan and may alter any other aspects of the Plan.

b. In modifying, suspending or terminating the Plan, or in taking any other action with respect to the implementation, operation, maintenance or administration of the Plan, the Board of Directors may act by a resolution of the Board.

c. This Plan shall terminate immediately if an impartial arbitrator or court of competent jurisdiction determines that this Plan is not exempt from the fiduciary provisions of Part 4 of Title I of ERISA. The Plan shall terminate as of the date it ceased to be exempt.

d. Upon termination of the Plan, the Plan Administrator shall distribute all Accounts, as determined by the Plan Administrator (i) in a lump sum to all Participants or (ii) in accordance with the method designated by Participants at the time of their deferrals.

14. ADMINISTRATIVE PROCEDURES AND DISPUTE RESOLUTION

14.1 PLAN ADMINISTRATOR

The Plan Administrator shall be the Company. The Board of Directors may establish an Administrative Committee composed of any persons, including officers or employees of the Company, who act on behalf of the Company in discharging the duties of the Company in administering the Plan. No Administrative Committee member who is a full-time officer or employee of the Company shall receive compensation with respect to his or her service on the Administrative Committee. Any member of the Administrative Committee may resign by delivering his or her written resignation to the Board of Directors of the Company. The Board may remove any Committee member by providing him or her with written notice of the removal.

14.2 COMMITTEE ORGANIZATION AND PROCEDURES

a. The President or the Secretary of the Company may designate a chairperson from the members of the Administrative Committee. The Administrative Committee may appoint its own secretary, who may or may not be a member of the Administrative Committee and may or may not be a person distinct from the Secretary of the Company. The Committee secretary shall have the primary responsibility for keeping a record of all meetings and acts of the Administrative Committee and shall have custody of all documents, the preservation of which shall be necessary or convenient to the efficient functioning of the Administrative Committee. All reports required by law may be signed by the Chairperson or another member of the Administrative Committee, as designated by the Chairperson, on behalf of the Company.

b. The Administrative Committee shall act by a majority of its members in office and may adopt such rules and regulations as it deems desirable for the conduct of its affairs. If the Company, the Plan, any Participant or Inactive Participant is or becomes subject to the Exchange Act, the Securities and Exchange Commission or any national or regional securities exchange, the Company and the members of the Administrative Committee shall take any actions which are necessary or desirable for the maintenance, modification or operation of the Plan in accordance with applicable rules thereunder.

14.3 ADMINISTRATIVE AUTHORITY

The Company and the Committee have discretionary authority to perform all functions necessary or appropriate to the operation of the Plan, including without limitation authority to (a) construe and interpret the provisions of the Plan document and any related instrument and determine any question arising under the Plan document or related instrument, or in connection with the administration or operation thereof; (b) determine in its sole discretion all facts and relevant considerations affecting the eligibility of any Employee to be or become a

Participant; (c) decide eligibility for, and the amount of, benefits for any Participant, Inactive Participant or Beneficiary; (d) authorize and direct all investments and disbursements under the Plan; and (e) employ and engage such persons, counsel and agents and to obtain such administrative, clerical, medical, legal, audit and actuarial services as it may deem necessary in carrying out the provisions of the Plan. The Company shall be the "administrator" as defined in Section 3(16)(A) of ERISA for purposes of the reporting and disclosure requirements of ERISA and the Code. The President of the Company, or in his or her absence, the Secretary of the Company shall be the agent for service of process on the Plan.

14.4 EXPENSES

Reasonable expenses which are necessary to operate and administer the Plan, including but not limited to expenses incurred in connection with the provisions of Section 14.3 shall be paid directly by the Company. Such expenses may not be charged against Participant Accounts or reduce the amount of Compensation, investment earnings or interest accruals allocated to Participant Accounts under the Plan. All reasonable costs incurred by a Committee member in the discharge of the Company's or his or her duties under the Plan shall be paid or reimbursed by the Company. Such costs shall include fees or expenses arising from the Committee's retention, with the consent of the Company, of any attorneys, accountants, actuaries, consultants or recordkeepers required by the Committee to discharge its duties under the Plan. Nothing in the preceding two sentences or in any other provisions of the Plan shall require the Company to pay or reimburse any Committee member or any other person for any cost, liability, loss, fee or expense incurred by the Committee member or other person in any dispute with the Company; nor may any Committee member or other person reimburse himself, herself or itself, for any such cost, liability, loss, fee or expense, from any Plan contributions or from the principal or income of any investment or other vehicle established by the Company to assist it in meeting its obligations under the Plan.

14.5 INSURANCE

The Company may, but need not, obtain liability insurance to protect its directors, officers, employees or representatives against liability in the operation of the Plan. An Employee, Participant or Inactive Participant may use his or her own funds to obtain any policy of insurance with respect to the Company's payment of any amounts under the Plan.

14.6 CLAIMS PROCEDURE

a. A claim for benefits shall be considered filed only when actually received by the Plan Administrator.

b. Any time a claim for benefits is wholly or partially denied, the Participant, Inactive Participant or Beneficiary (hereinafter "Claimant") shall be given written notice of such denial within 90 days after the claim is filed, unless special circumstances require an extension of time for processing the claim. If there is an extension, the Claimant shall be notified of the extension and the reason for the

extension within the initial 90 day period. The extension shall expire within 180 days after the claim is filed. Such notice will indicate the reason for denial, the pertinent provisions of the Plan on which the denial is based, an explanation of the claims appeal procedure set forth herein, and a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary.

14.7 APPEAL PROCEDURES

a. Any person who has had a claim for benefits denied by the Plan Administrator, or is otherwise adversely affected by the action or inaction of the Plan Administrator, shall have the right to request review by the Plan Administrator. Such request must be in writing, and must be received by the Plan Administrator within 60 days after such person receives notice of the Plan Administrator's action. If written request for review is not made within such 60-day period, the Claimant shall forfeit his or her right to review. The Claimant or a duly authorized representative of the Claimant may review all pertinent documents and submit issues and comments in writing.

b. The Plan Administrator shall then review the claim. The Plan Administrator may issue a written decision reaffirming, modifying or setting aside its former action within 60 days after receipt of the written request for review, or 120 days if special circumstances require an extension. The Claimant shall be notified in writing of any such extension within 60 days following the request for review. An original or copy of the decision shall be furnished to the Claimant. The decision shall set forth the reasons and pertinent plan provisions or relevant laws on which the decision rests. The decision shall be final and binding upon the Claimant and the Plan Administrator and all other persons having or claiming to have an interest in the Plan or in any Account established under the Plan.

14.8 ARBITRATION

a. Any Participant's, Inactive Participant's or Beneficiary's claim remaining unresolved after exhaustion of the procedures in Sections 14.6 and 14.7 (and to the extent permitted by law any dispute concerning any breach or claimed breach of duty regarding the Plan) shall be settled solely by binding arbitration at the Employer's principal place of business at the time of the arbitration, in accordance with the Employment Claims Rules of the American Arbitration Association. Judgment on any award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party to any dispute regarding the Plan shall pay the fees and costs of presenting his, her or its case in arbitration. All other costs of arbitration, including the costs of any transcript of the proceedings, administrative fees, and the arbitrator's fees shall be borne equally by the parties.

b. Except as otherwise specifically provided in this Plan, the provisions of this Section 14.8 shall be absolutely exclusive for any and all purposes and fully applicable to each and every dispute regarding the Plan including any claim which, if pursued through any state or federal court or administrative proceeding, would arise at law, in equity or pursuant to statutory, regulatory or common law

rules, regardless of whether such claim would arise in contract, tort or under any other legal or equitable theory or basis. The arbitrator who hears or decides any claim under the Plan shall have jurisdiction and authority to award only compensatory damages to make whole a person or entity suffering foreseeable economic damages; and apart from such foreseeable economic damages, the arbitrator shall not have any authority or jurisdiction to make any award of any kind including, without limitation, punitive damages, unforeseeable economic damages, damages for pain and suffering or emotional distress, adverse tax consequences or any other kind or form of damages. The remedy, if any, awarded by such arbitrator shall be the sole and exclusive remedy for each and every claim which is subject to arbitration pursuant to this Section 14.8. Any limitations on the relief that can be awarded by the arbitrator are in no way intended (i) to create rights or claims that can be asserted outside arbitration or (ii) in any other way to reduce the exclusivity of arbitration as the sole dispute resolution mechanism with respect to this Plan.

c. The Plan and the Company will be the necessary parties to any action or proceeding involving the Plan. No person employed by the Company, no Participant, Inactive Participant or Beneficiary or any other person having or claiming to have an interest in the Plan will be entitled to any notice or process, unless such person is a named party to the action or proceeding. In any arbitration proceeding all relevant statutes of limitation shall apply. Any final judgment or decision that may be entered in any such action or proceeding will be binding and conclusive on all persons having or claiming to have any interest in the Plan.

14.9 NOTICES

Any notice from the Company or the Committee to an Employee, Participant, Inactive Participant or Beneficiary regarding this Plan may be addressed to the last known residence of said person as indicated in the records of the Company. Any notice to, or any service of process upon, the Company or the Committee with respect to this Plan may be addressed as follows:

Chief Financial Officer
Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008

14.10 INDEMNIFICATION

To the extent permitted by law, the Company shall, and hereby does, indemnify and hold harmless any director, officer or employee of the Company or any Subsidiary who is or may be deemed to be responsible for the operation of the Plan, from and against any and all losses, claims, damages or liabilities (including attorneys' fees and amounts paid, with the approval of the Board, in settlement of any claim) arising out of or resulting from a duty, act, omission or decision with respect to the Plan, so long as such duty, act, omission or decision does not involve gross negligence or willful misconduct on the part of such director, officer or employee. Any individual so indemnified, shall, within 10 days after receipt of notice of any action, suit or proceeding, notify the President of the Company (or in

the President's absence, the Chief Financial Officer of the Company) and offer in writing to the President (or Chief Financial Officer) the opportunity, at the Company's expense, to handle and defend such action, suit or proceeding, and the Company shall have the right, but not the obligation, to conduct the defense in any such action, suit or proceeding. An individual's failure to give the President (or Chief Financial Officer) such notice and opportunity shall relieve the Company of any liability to said individual under this Section 14.10. The Company may satisfy its obligations under this provision (in whole or in part) by the purchase of insurance. Any payment by an insurance carrier to or on behalf of such individual shall, to the extent of such payment, discharge any obligation of the Company to the individual under this indemnification.

15. MISCELLANEOUS

15.1 ALTERNATIVE ACTS AND TIMES

If it becomes impossible or burdensome for the Company or the Committee to perform a specific act at a specific time required by this Plan, the Company or Committee may perform such alternative act which most nearly carries out the intent and purpose of this Plan and may perform such required or alternative act at a time as close as administratively feasible to the time specified in this Plan for such performance. Without limiting the foregoing, neither the Company nor the Committee shall accelerate or delay distributions, except as expressly permitted herein, such as upon termination of the Plan.

15.2 MASCULINE AND FEMININE, SINGULAR AND PLURAL

Whenever used herein, pronouns shall include both genders, and the singular shall include the plural, and the plural shall include the singular, whenever the context shall plainly so require.

15.3 GOVERNING LAW AND SEVERABILITY

This Plan shall be construed in accordance with the laws of the State of California (exclusive of its provisions regarding conflicts of law) to the extent that such laws are not preempted by ERISA or other federal laws. If any provision of this Plan shall be held illegal or invalid for any reason, such determination shall not affect the remaining provisions of this Plan which shall be construed as if said illegal or invalid provision had never been included.

15.4 FACILITY OF PAYMENT

If the Plan Administrator, in its sole discretion, determines that any Employee, Participant, Inactive Participant or Beneficiary by reason of infirmity, minority or other disability, is physically, mentally or legally incapable of giving a valid receipt for any payment due him or her or is incapable of handling his or her own affairs and if the Plan Administrator is not aware of any legal representative appointed on his or her behalf, then the Plan Administrator, in its sole discretion, may direct (a) payment to or for the benefit of the Employee, Participant, Inactive

Participant or Beneficiary; (b) payment to any person or institution maintaining custody of the Employee, Participant, Inactive Participant or Beneficiary; or (c) payment to any other person selected by the Plan Administrator to receive, manage and disburse such payment for the benefit of the Employee, Participant, Inactive Participant or Beneficiary. The receipt by any such person of any such payment shall be a complete acquittance therefor; and any such payment, to the extent thereof, shall discharge the liability of the Company, the Committee, and the Plan for any amounts owed to the Employee, Participant, Inactive Participant or Beneficiary hereunder. In the event of any controversy or uncertainty regarding who should receive or whom the Plan Administrator should select to receive any payment under this Plan, the Plan Administrator may seek instruction from a court of proper jurisdiction or may place the payment (or entire Account) into such court with final distribution to be determined by such court.

15.5 CORRECTION OF ERRORS

Any crediting of Compensation or interest accruals to the Account of any Employee, Participant, Inactive Participant or Beneficiary under a mistake of fact or law shall be returned to the Company. If an Employee, Participant, Inactive Participant or Beneficiary in an application for a benefit or in response to any request by the Company or the Plan Administrator for information, makes any erroneous statement, omits any material fact, or fails to correct any information previously furnished incorrectly to the Company or the Plan Administrator, or if the Plan Administrator makes an error in determining the amount payable to an Employee, Participant, Inactive Participant or Beneficiary, the Company or the Plan Administrator may correct is error and adjust any payment on the basis of correct facts. The amount of any overpayment or underpayment may be deducted from or added to the next succeeding payments, as directed by the Plan Administrator. The Plan Administrator and the Company reserve the right to maintain any action, suit or proceeding to recover any amounts improperly or incorrectly paid to any person under the Plan or in settlement of a claim or satisfaction of a judgment involving the Plan.

15.6 MISSING PERSONS

In the event a distribution of part or all of an Account is required to be made from the Plan to an Employee, Participant, Inactive Participant or Beneficiary, and such person cannot be located, the relevant portion of the Account shall escheat in accordance with the laws of the State of California. If the affected Employee, Participant, Inactive Participant or Beneficiary later contacts the Company, his or her portion of the Account shall be reinstated and distributed as soon as administratively feasible. The Company shall reinstate the amount forfeited by reclaiming such amount from the State of California, and allocating it to the Account of the affected Employee, Participant, Inactive Participant or Beneficiary. Prior to forfeiting any Account, the Company shall attempt to contact the Employee, Participant, Inactive Participant or Beneficiary by return receipt mail (or other carrier) at his or her last known address according to the Company's records, and, where practical, by letter-forwarding services offered through the Internal Revenue Service,

or the Social Security Administration, or such other means as the Plan Administrator deems appropriate.

15.7 EMPLOYEE ACKNOWLEDGMENT

By executing this Plan document or related enrollment or election form, the undersigned Employee hereby acknowledges that Employee has read and understood this Plan document. Employee also acknowledges that Employee knowingly and voluntarily agrees to be bound by the provisions of the Plan, as amended from time to time, including those Plan provisions which require the resolution of disputes by binding out-of-court arbitration. Employee further acknowledges that Employee has had the opportunity to consult with counsel of Employee's own choosing with respect to all of the financial, tax and legal consequences of participating in this Plan, including in particular the effects of participation on any community property or other interest which the Employee and his or her spouse, if any, may have in the Compensation deferred and any amounts allocated to the Employee's Account under the Plan.

IN WITNESS WHEREOF, each of the undersigned has executed this document on the date set forth adjacent to his or her signature below.

CALLAWAY GOLF COMPANY
A California Corporation

Dated:_____ By_____
David Rane
Chief Financial Officer

EMPLOYEE

Dated: _____ _____
Employee's Signature

_____
Employee's Printed Name

EXHIBIT 10.3

CALLAWAY GOLF COMPANY
1998 EXECUTIVE NON-DISCRETIONARY BONUS PLAN
(EFFECTIVE JANUARY 1, 1998)

1. PURPOSE

The 1998 Executive Non-Discretionary Plan (the "Non-Discretionary Plan") is designed to promote the interests of Callaway Golf Company (the "Company") and its shareholders by providing incentive to participating officers of the Company and its subsidiaries to make significant contributions to the performance of the Company and its subsidiaries and to reward outstanding performance on the part of those individuals whose decisions and actions most significantly affect the growth, profitability and efficient operation of the Company and its subsidiaries. The Non-Discretionary Plan is intended to satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

2. ADMINISTRATION

The Non-Discretionary Plan shall be administered by a special subcommittee of the Executive and Compensation Committee of the Board of Directors (the "Executive Non-Discretionary Bonus Plan Subcommittee"), which will at all times be constituted to meet the "outside director" requirements of Section 162(m) of the Code. The Executive Non-Discretionary Bonus Plan Subcommittee shall have the power to make rules and regulations for the administration of the Non-Discretionary Plan. In making any determination under the Non-Discretionary Plan, the Executive Non-Discretionary Bonus Plan Subcommittee shall be entitled to rely on reports, opinions or statements of officers or employees of the Company and its affiliates as well as those of counsel, public accountants and other professional or expert persons. The interpretations and decisions of the Executive Non-Discretionary Bonus Plan Subcommittee with regard to the Non-Discretionary Plan shall be final and conclusive. No member of the Executive Non-Discretionary Bonus Plan Subcommittee shall be liable for any action or determination made in good faith with respect to the Non-Discretionary Plan.

3. ELIGIBILITY

The Executive Non-Discretionary Bonus Plan Subcommittee will initially designate 24 officers of the Company and its subsidiaries ("Participants") as eligible to participate in the Non-Discretionary Plan for 1998. Additional persons may be added as Participants in the discretion of the Executive Non-Discretionary Bonus Plan Subcommittee.

4. DETERMINATION

The Executive Non-Discretionary Bonus Plan Subcommittee will designate performance targets under the Non-Discretionary Plan within the time period required by the Department of Treasury Regulations adopted to implement Section 162(m) of the Code ("Regulations") for each year. The performance targets will be based on achievement of specified levels of pre-tax earnings. The performance targets will be set by the Executive Non-Discretionary Bonus Plan Subcommittee based on the prior year's performance and other relevant factors. The performance targets designated by the Executive Non-Discretionary Bonus Plan Subcommittee may differ for each Participant in the Non-Discretionary Plan. The maximum bonus amount payable under the Non-Discretionary Plan to any Participant shall not exceed $2,000,000 for any year. The Executive Non-Discretionary Bonus Plan Subcommittee may, in its sole discretion, establish maximum bonus amounts payable to individual Participants under the Non-Discretionary Plan of less than $2,000,000 for any year.

5. CERTIFICATION OF ACHIEVEMENT OF PERFORMANCE TARGETS

Provided that the Code and/or Regulations so require, the Executive Non-Discretionary Bonus Plan Subcommittee shall, prior to any payment under the Non-Discretionary Plan, certify in writing the extent, if any, of achievement of performance targets for each Participant. For purposes of this provision, and for so long as the Code and/or Regulations permit, the approved minutes of the Executive Non-Discretionary Bonus Plan Subcommittee meeting in which the certification is made may be treated as a written certification.

6. WITHHOLDING TAXES

The Company shall have the right to deduct from all awards granted under the Non-Discretionary Plan any federal, state, local or foreign taxes required by law to be withheld with respect to such awards.

7. OTHER BENEFITS

In addition to awards granted to Participants under the Non-Discretionary Plan, discretionary bonuses may be awarded by the Executive and Compensation Committee under the discretionary portion of the Company's Executive Bonus Pool, pursuant to contract, or as otherwise determined by the Executive and Compensation Committee. Awards granted to Participants under the Non-Discretionary Plan shall not be considered as part of a Participant's salary or used for the calculation of any other pay, allowance, pension or other benefit unless otherwise permitted by the other benefit plans provided by the Company or any of its subsidiaries, or as required by law or by contractual obligations of the Company or any of its subsidiaries.

8. AMENDMENT OR TERMINATION

The Executive Non-Discretionary Bonus Plan Subcommittee may from time to time amend the Non-Discretionary Plan in any respect or terminate or suspend the Non-Discretionary Plan at any time in whole or in part, provided that, if shareholder approval of an amendment is required for continued compliance with the requirements of Section 162(m) of the Code, such amendment shall be subject to obtaining the required shareholder approval.

9. NO ASSIGNMENT

Except as expressly authorized by the Executive Non-Discretionary Bonus Plan Subcommittee, the rights under the Non-Discretionary Plan, including without limitation the rights to receive any payment, shall not be sold, assigned, transferred, encumbered or hypothecated by a Participant (except by testamentary disposition or intestate succession), and during the lifetime of any Participant, any payment shall be payable only to such Participant.

10. NO RIGHT TO CONTINUED EMPLOYMENT

Nothing in the Non-Discretionary Plan shall confer upon any Participant any right to continue in the employ of the Company or any of its subsidiaries or shall interfere with or restrict in any way the right of the Company or any of its subsidiaries to discharge a Participant at any time for any reason whatsoever, with or without cause. If any Participant ceases to be employed by the Company or any of its subsidiaries, any unpaid bonuses shall be paid in accordance with the Participant's termination agreement, if any, and as otherwise determined by the Executive Non-Discretionary Bonus Plan Subcommittee.

11. COSTS AND EXPENSES

The costs and expenses of administering the Non-Discretionary Plan shall be borne by the Company and not charged to any award nor to any Participant receiving an award under the Non-Discretionary Plan.

12. FUNDING

The Non-Discretionary Plan shall be unfunded. Neither the Company nor any of its subsidiaries shall be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any award under the Non-Discretionary Plan.

13. SEPARABILITY

If any of the terms or provisions of the Non-Discretionary Plan conflict with

the requirements of Section 162(m) of the Code, the Regulations or applicable law, then such terms or provisions shall be deemed inoperative to the extent necessary to avoid the conflict with the requirements of Section 162(m) of the Code, the Regulations or applicable law without invalidating the remaining provisions hereof. With respect to Section 162(m) of the Code, if the Non-Discretionary Plan does not contain any provision required to be included herein under Section 162(m) of the Code or the Regulations, such provisions shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out at length herein.

14. TERM

The Non-Discretionary Plan shall be effective as of the first day of the Company's 1998 fiscal year, subject to shareholder approval, and shall continue for a period until the first shareholder meeting that occurs in the fifth year following the year in which the shareholders of the Company previously approved this Non-Discretionary Plan, unless amended or terminated by the Company (see Amendment or Termination above), subject to any future shareholder re-approval requirements of the Code and the Regulations.

15. GOVERNING LAW

The validity, construction and effect of the Non-Discretionary Plan and any action taken or relating to the Non-Discretionary Plan shall be determined in accordance with the laws of the State of California and applicable federal law.

EXHIBIT 11.1

CALLAWAY GOLF COMPANY
COMPUTATION OF EARNINGS PER SHARE

	Three months ended March 31,	
	1997	1996
	(in thousands, except per share data)	
Primary earnings per share computation:		
Net Income	$24,466	$19,455
Weighted average shares outstanding	68,016	66,082
Dilutive Options	3,747	3,513
Common equivalent shares	71,763	69,595
Primary earnings per share:		
Net Income	$.34	$.28
Fully diluted earnings per share computation:		
Net Income	$24,466	$19,455
Weighted average shares outstanding	68,016	66,082
Dilutive options	3,745	3,953
Common equivalent shares	71,761	70,035
Fully diluted earnings per share:		
Net Income	$.34	$.28

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3-MOS
       DEC-31-1996
          JAN-01-1997
            MAR-31-1997
                       113,623
                       0
                  103,669
                     6,360
                   101,395
            342,368
                       136,637
                  37,277
                 466,230
        89,208
                            0
             0
                       0
                        728
                   370,545
466,230
                      169,073
            169,073
                         82,071
                82,071
                  0
                  0
                3
               39,599
                  15,133
          24,466
                    0
                   0
                         0
                 24,466
                  0.34
                  0.34
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