UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2000

OR

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

Commission file number 1-10962

CALLAWAY GOLF COMPANY
(Exact name of registrant as specified in its charter)

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

2285 Rutherford Road, Carlsbad, CA 92008-8815
(760) 931-1771
(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of July 31, 2000 was 75,471,989.

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2000	December 31, 1999
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87,180	$112,602
Accounts receivable, net (Note 4)	144,412	54,252
Inventories, net	99,140	97,938
Deferred taxes	30,948	32,558
Other current assets	10,928	13,122
Total current assets	372,608	310,472
Property, plant and equipment, net	140,292	142,214
Intangible assets, net	116,145	120,143
Other assets	44,087	43,954
	$673,132	$616,783
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 50,091	$ 46,664
Accrued employee compensation and benefits	25,215	21,126
Accrued warranty expense	40,204	36,105
Accrued restructuring costs	324	1,379
Income taxes payable	21,846	
Total current liabilities	137,680	105,274
Long-term liabilities:		
Deferred compensation	11,162	11,575
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 2000 and December 31, 1999		
Common Stock, $.01 par value, 240,000,000 shares authorized, 78,052,930 and 76,302,196 issued at June 30, 2000, and December 31, 1999, respectively	781	763
Paid-in capital	323,664	307,329
Unearned compensation	(1,983)	(2,784)
Retained earnings	339,348	288,090
Accumulated other comprehensive income	(1,077)	280
Less: Grantor Stock Trust (5,300,000 shares) at market	(86,443)	(93,744)
	574,290	499,934
Less: Common Stock held in treasury, at cost, 2,580,941 shares at June 30, 2000 and none at December 31, 1999	(50,000)	
Total shareholders' equity	524,290	499,934
	$673,132	$616,783

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended June 30,				Six Months Ended June, 30			
	2000		1999		2000		1999	
Net sales	$289,034	100%	$229,708	100%	$495,642	100%	$415,452	100%
Cost of goods sold	141,507	49%	121,044	53%	253,687	51%	223,268	54%
Gross profit	147,527	51%	108,664	47%	241,955	49%	192,184	46%
Operating expenses:								
Selling	49,719	17%	34,942	15%	93,520	19%	66,242	16%
General and administrative	17,614	6%	22,852	10%	35,120	7%	44,455	11%
Research and development	8,132	3%	8,279	4%	16,349	3%	16,733	4%
Restructuring			362				487	
Income from operations	72,062	25%	42,229	18%	96,966	20%	64,267	15%
Other income (expense), net	2,141		(1,393)		3,725		(2,165)	
Income before income taxes	74,203	26%	40,836	18%	100,691	20%	62,102	15%
Provision for income taxes	29,233		16,065		39,516		24,509	
Net income	$ 44,970	16%	$ 24,771	11%	$ 61,175	12%	$ 37,593	9%
Earnings per common share:								
Basic	$ 0.64		$ 0.35		$ 0.86		$ 0.54	
Diluted	$ 0.62		$ 0.35		$ 0.84		$ 0.53	
Common equivalent shares:								
Basic	70,693		70,302		70,946		70,142	
Diluted	72,686		71,407		72,584		70,989	
Dividends paid per share	$ 0.07		$ 0.07		$ 0.14		$ 0.14	

See accompanying notes to consolidated condensed financial statements.

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

	Six months ended June 30,	
	2000	1999
Cash flows from operating activities:		
Net income	$ 61,175	$ 37,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,739	17,529
Loss on disposal of assets	332	636
Non-cash compensation	1,381	997
Tax benefit from exercise of stock options	4,475	1,294
Deferred taxes	2,663	2,753
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(92,139)	(52,677)
Inventories, net	(2,403)	64,089
Other assets	294	(5,731)
Accounts payable and accrued expenses	7,291	4,662
Accrued employee compensation and benefits	4,106	12,062
Accrued warranty expense	4,098	2,210
Income taxes payable	21,771	899
Accrued restructuring costs	(1,056)	(4,177)
Deferred compensation	(413)	1,394
Accrued restructuring costs - long term		(888)
Net cash provided by operating activities	31,314	82,645
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(426)	(495)
Capital expenditures	(16,168)	(41,456)
Proceeds from sale of assets	79	5,049
Net cash used in investing activities	(16,515)	(36,902)
Cash flows from financing activities:		
Issuance of Common Stock	18,599	3,919
Dividends paid	(9,917)	(9,851)
Acquisition of Treasury Stock	(50,000)	
Proceeds from sale-leaseback of equipment	1,268	
Proceeds from note payable		12,625
Line of credit, net		(70,919)
Net cash used in financing activities	(40,050)	(64,226)
Effect of exchange rate changes on cash	(171)	(237)
Net decrease in cash and cash equivalents	(25,422)	(18,720)
Cash and cash equivalents at beginning of period	112,602	45,618
Cash and cash equivalents at end of period	$ 87,180	$ 26,898

See accompanying notes to consolidated condensed financial statements.

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

	Common Stock		Paid-in	Unearned	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Compensation	Earnings	Income	GST
Balance, December 31, 1999	76,302	$763	$307,329	$(2,784)	$288,090	$ 280	$(93,744)
Exercise of stock options	1,561	16	16,610				
Cancellation of Restricted Common Stock	(5)		(163)	163			
Tax benefit from exercise of stock options			4,475				
Acquisition of Treasury Stock							
Compensatory stock and stock options			743	638			
Employee stock purchase plan	195	2	1,971				
Cash dividends					(10,659)		
Dividends on shares held by GST					742		
Adjustment of GST shares to market value			(7,301)				7,301
Equity adjustment from foreign currency translation						(1,357)	
Net income					61,175		
Balance, June 30, 2000	78,053	$781	$323,664	$(1,983)	$339,348	$(1,077)	$(86,443)

	Treasury Stock			Comprehensive
	Shares	Amount	Total	Income
Balance, December 31, 1999			$499,934	
Exercise of stock options			16,626	
Cancellation of Restricted Common Stock				
Tax benefit from exercise of stock options			4,475	
Acquisition of Treasury Stock	(2,581)	$(50,000)	(50,000)	
Compensatory stock and stock options			1,381	
Employee stock purchase plan			1,973	
Cash dividends			(10,659)	
Dividends on shares held by GST			742	
Adjustment of GST shares to market value				
Equity adjustment from foreign currency translation			(1,357)	$(1,357)
Net income			61,175	61,175
Balance, June 30, 2000	(2,581)	$(50,000)	$524,290	$59,818

See accompanying notes to consolidated condensed financial statements.

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

1. Basis of Presentation

The accompanying financial information for the three and six months ended June 30, 2000 and 1999 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1999. Interim operating results are not necessarily indicative of operating results for the full year.

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

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

2. Inventories

	June 30, 2000	December 31, 1999
	(Unaudited)	
Inventories, net (in thousands):		
Raw materials	$ 48,604	$ 45,868
Work-in-process	2,551	1,403
Finished goods	56,153	65,661
	107,308	112,932
Less reserve for obsolescence	(8,168)	(14,994)
	$ 99,140	$ 97,938

3. Bank Line of Credit

The Company has a revolving credit facility of up to $120.0 million (the "Amended Credit Agreement"). The Amended Credit Agreement is secured by substantially all of the assets of the Company and expires in February 2004. The Amended Credit Agreement bears interest at the Company's election at the London Interbank Offering Rate ("LIBOR") plus a margin or the higher of the base rate on corporate loans at large U.S. money center commercial banks (prime rate) or the Federal Funds Rate plus 50 basis points. The Amended Credit Agreement requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants. As of June 30, up to $118.6 million of the credit facility remained available for borrowings (including a reduction of $1.4 million for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

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

4. Accounts Receivable Securitization

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

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of June 30, 2000, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with this facility for the three and six months ended June 30, 2000 were $76,000 and $152,000, respectively, and for the three and six months ended June 30, 1999 were $315,000 and $673,000, respectively. These fees were recorded in other income (expense).

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

5. Earnings per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three and six months ended June 30, 2000 and 1999 is presented below.

(in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(Unaudited)			
Net income	$44,970	$24,771	$61,175	$37,593
Weighted-average shares outstanding:				
Weighted-average shares outstanding - Basic	70,693	70,302	70,946	70,142
Dilutive securities	1,993	1,105	1,638	847
Weighted average shares outstanding - Diluted	72,686	71,407	72,584	70,989
Earnings per common share				
Basic	$ 0.64	$ 0.35	$ 0.86	$ 0.54
Diluted	$ 0.62	$ 0.35	$ 0.84	$ 0.53

For the three months ended June 30, 2000 and 1999, 8,482,000 and 10,132,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive. For the six months ended June 30, 2000 and 1999, 8,986,000 and 11,027,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

6. Commitments and Contingencies

At June 30, 2000, the Company is contingently liable for lease payments totaling $6.6 million. This contingency is the result of the assignment of an operating lease to a third party and expires in February 2003.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 2000. Management believes, however, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

7. Treasury Stock

On May 3, 2000, the Company announced that its Board of Directors authorized it to repurchase its Common stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $100.0 million. The Company began its repurchase program in May 2000 and expects to complete it by December 31, 2000, unless market conditions change significantly or the program is terminated sooner by the Board of Directors. During the second quarter of 2000, the Company spent $50.0 million to repurchase 2.6 million shares of its Common Stock at an average cost of $19.37 per share.

The Company's repurchases of shares of Common Stock are recorded at average cost in "Common Stock held in treasury" and result in a reduction of "Shareholders' equity." At June 30, 2000, retained earnings was restricted in the amount of $50.0 million, representing the cost of 2.6 million shares of Common Stock held in treasury.

8. Restructuring

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. The restructuring charges primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs. During 1999, the Company completed its restructuring initiatives. At June 30, 2000, the reserve balance of $0.3 million represents future cash outlays for excess lease costs for a facility in New York City. The Company expects these cash outlays to be completed by July 2000. The decrease in the reserve balance since December 31, 1999 of $1.1 million represents cash paid for excess lease costs. The Company also has a contingent liability related to this facility (Note 6).

9. Segment Information

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

Callaway Golf Ball Company. Beginning January 1, 2000, management changed its method of allocating certain corporate costs and other income (expense) used in evaluating segment income (loss) before tax. As a result, certain amounts are attributable to neither segment in the determination of its income (loss) before tax. Additionally, beginning April 1, 2000, management further changed its method of allocating these costs between segments. Prior period amounts have been reclassified to reflect the current allocation methodology. The table below contains information utilized by management to evaluate its operating segments for the interim periods presented.

	Three Months Ended June 30, (unaudited)					
	2000			1999		
	Net sales	Income (loss) before tax	Additions to long-lived assets	Net sales	Income (loss) before tax	Additions to long-lived assets
Golf Clubs	$278,564	$ 97,004	$ 6,265	$229,708	$ 64,070	$ 421
Golf Balls	10,470	(13,380)	1,075		(7,574)	9,458
Reconciling Items(1)		(9,421)			(15,660)	
Consolidated	$289,034	$ 74,203	$ 7,340	$229,708	$ 40,836	$ 9,879

	Six Months Ended June 30, (unaudited)					
	2000			1999		
	Net sales	Income (loss) before tax	Additions to long-lived assets	Net sales	Income (loss) before tax	Additions to long-lived assets
Golf Clubs	$479,213	$148,863	$13,271	$415,452	$106,897	$ 4,434
Golf Balls	16,429	(27,964)	2,897		(14,512)	37,900
Reconciling Items(1)		(20,208)			(30,283)	
Consolidated	$495,642	$100,691	$16,168	$415,452	$ 62,102	$42,334

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

10. Foreign Currency Exchange Contracts

During the three and six months ended June 30, 2000, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from certain wholly-owned foreign subsidiaries and on certain euro-denominated accounts receivable. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset the losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At June 30, 2000, the Company had approximately $49.3 million of foreign exchange contracts outstanding. The contracts mature between July and December 2000. Gains and losses on the contracts are recorded in income. The net realized and unrealized gains from foreign exchange contracts for the three and six months ended June 30, 2000 totaled approximately $2,307,000 and $1,980,000, respectively, and for the three and six months ended June 30, 1999, net realized gains totaled $188,000 and $828,000, respectively.

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

Statements used in this report that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including but not limited to market acceptance of current and future products, including its golf ball, seasonality, adverse market and economic conditions, competitive pressures, and costs and potential disruption of business as a result of the transition of the Company's Japanese distribution to a wholly-owned subsidiary, delays, difficulties or increased costs in the manufacturing of the Company's products, including its golf ball, or in the procurement of materials needed to manufacture the Company's products, as well as other risks and uncertainties detailed from time to time in the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of Operations

Three-month periods ended June 30, 2000 and 1999

For the quarter ended June 30, 2000, net sales increased $59.3 million, or 26%, to $289.0 million from $229.7 million in the comparable period of the prior year. The increase is attributable to an increase in sales of irons and metal woods, as well as sales of golf balls. The increase in sales of irons of 64% to $108.2 million is primarily attributable to sales of Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons in the second quarter of 2000, which were not sold during the comparable quarter of 1999. The increase in sales of irons also is attributable to sales of Steelhead(TM) X-14(TM) Stainless Steel Irons, which were introduced in January 2000, and which generated higher revenue during the second quarter of 2000 than its predecessor, Steelhead(TM) X-12(R) Stainless Steel Irons, did in the comparable quarter of the prior year. The overall increase in sales of metal woods of 4% to $146.1 million is attributable to the January 2000 introduction of Steelhead Plus(TM) Stainless Steel Metal Woods, which generated higher revenue in the second quarter of 2000 than its predecessor, Steelhead(TM) Stainless Steel Metal Woods, did in the comparable quarter of 1999, and to sales of ERC(TM) Forged Titanium Drivers, which began shipping in significant quantities in the second quarter of 2000. However, this increase was partially offset by a decrease in sales of titanium metal woods during the second quarter of 2000 from the comparable quarter of 1999, largely due to a decrease in sales of Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods. Sales of close-out products in the second quarter of 1999, which did not occur in the comparable period of 2000, also contributed to the decrease in sales of titanium metal woods during the quarter. The Company recorded sales of $10.5 million of its Rule 35(TM) Golf Balls in the second quarter of 2000. This product was not sold in the comparable period of 1999.

During the second quarter of 2000, sales increased in virtually all regions as compared with the second quarter of 1999. Sales in the United States increased $18.9 million (14%) to $154.2 million during the second quarter of 2000 versus the second quarter of 1999 and sales in Europe increased $10.6 million (27%) to $50.1 million during this same period. Sales in Japan increased $24.4 million (176%) to $38.2 million and sales in the Rest of Asia increased $5.4 million (25%) to $27.0 million in the second quarter of 2000 as compared with the second quarter of 1999. Sales in the regions comprising the Rest of World remained constant at $19.5 million in the second quarter of 2000 versus the second quarter of 1999.

For the second quarter of 2000, cost of goods sold increased to $141.5 million from $121.0 million in the second quarter of 1999, and as a percentage of net sales improved to 49% from 53%. The overall decrease in cost of goods sold as a percentage of net sales is attributable to a substantial improvement in cost of goods sold of golf club products to 46% of net sales in the second quarter of 2000 from 53% of net sales in the comparable period of 1999, partially offset by costs associated with manufacturing the Company's new golf balls. The improved cost of goods sold as a percentage of net sales for golf club products in the second quarter of 2000 is due primarily to reductions in manufacturing labor and overhead expenses, a favorable product sales mix primarily related to sales of ERC(TM) Forged Titanium Drivers during the quarter, and the negative effect that

close-out sales at substantially reduced prices during the second quarter of 1999 had on that period's cost of goods sold as a percentage of net sales. Cost of goods sold for the Company's golf ball products during the second quarter of 2000 was adversely affected by lower than expected plant utilization and production yields.

Selling expenses in the second quarter of 2000 increased to $49.7 million (17% of net sales) from $34.9 million (15% of net sales) in the second quarter of 1999. The increase was primarily attributable to incremental expenses associated with the launch of the Company's new Rule 35(TM) Golf Balls and with expanded golf club sales through the Company's Japanese subsidiary. Prior to 2000, Callaway Golf(R) products were sold in Japan through a third party distributor. Expenses related to product endorsement also contributed to the increase.

General and administrative expenses in the second quarter of 2000 decreased to $17.6 million (6% of net sales) from $22.9 million (10% of net sales) in the comparable quarter of 1999. This decrease is mainly attributable to the shifting of costs associated with the Company's golf ball pre-production period to cost of goods sold (i.e., the costs related to the production of golf balls during the quarter are now included in cost of goods sold rather than general and administrative expenses). This decrease was partially offset by an increase in bad debt expense.

Research and development expenses in the second quarter of 2000 decreased slightly to $8.1 million (3% of net sales) from $8.3 million (4% of net sales) in the second quarter of 1999. This decrease is primarily attributable to a decrease in research expenses, partially offset by increases in tooling expenses and employee-related costs.

Other income in the second quarter of 2000 increased to $2.1 million from an expense of $1.4 million in the comparable quarter of 1999. This $3.5 million increase is primarily attributable to foreign currency transaction gains during the quarter versus losses in the comparable quarter of the prior year, as well as lower interest expense, and increases in interest income and royalty income.

For the second quarter of 2000, the Company recorded a provision for income taxes of $29.2 million and recognized a decrease in deferred taxes of $2.0 million. The provision for income taxes as a percentage of income before tax for the second quarters of 2000 and 1999 was 39%. During the second quarter of 2000, the Company realized $4.0 million in tax benefits related to the exercise of employee stock options.

Six-month periods ended June 30, 2000 and 1999

For the six months ended June 30, 2000, net sales increased $80.1 million, or 19%, to $495.6 million from $415.5 million in the comparable period of the prior year. The increase is attributable to an increase in sales of irons and sales of golf balls, partially offset by a decrease in sales of metal woods. The increase in sales of irons of 67% to $190.8 million is primarily attributable to sales of Great Big Bertha(R) Hawk Eye(R) Tungsten Injected(TM) Titanium Irons in the first half of 2000, which were not sold during the comparable period of 1999 and to sales of Steelhead(TM) X-14(TM) Stainless Steel Irons, which were introduced in January 2000, and which generated higher revenues during the first half of 2000 than its predecessor, Steelhead(TM) X-12(R) Stainless Steel Irons, did in the comparable period of the prior year. The Company recorded sales of $16.5 million of its Rule 35(TM) Golf Balls in the first half of 2000. This product was not sold during the comparable period of the prior year. The overall decrease in sales of metal woods of 6% to $246.8 million is largely attributable to a decrease in sales of titanium metal woods, primarily Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods during the first half of 2000 from the comparable period of 1999. Sales of close-out products in the first half of 1999, which did not occur in the comparable period of 2000, also contributed to the decrease in sales of titanium metal woods during the first half of 2000. However, sales of ERC(TM) Forged Titanium Drivers, which began shipping in significant quantities in the second quarter of 2000, partially offset the decrease in sales of titanium metal woods. Also partially offsetting the decrease in sales of titanium metal woods was an increase in sales of stainless steel metal woods attributable to the January 2000 introduction of Steelhead Plus(TM) Stainless Steel Metal Woods, which generated higher revenues in the first half of 2000 than its predecessor, Steelhead(TM) Stainless Steel Metal Woods, did in the comparable period of 1999.

During the first half of 2000, sales increased in virtually all regions as compared with the first half of 1999. Sales in the United States increased $36.2 million (15%) to $1272.4 million during the first half of 2000 versus the first half of 1999 and sales in Europe increased $17.1 million (25%) to $86.5 million during this same period. Sales in Japan increased $20.5 million (53%) to $59.4 million and sales in the Rest of Asia increased $7.1 million (20%) to $43.3 million in the first half of 2000 as compared with the first half of 1999. Sales in the regions comprising the Rest of World remained relatively constant, decreasing $0.8 million (2%) to $34.0 million in the first half of 2000 versus the first half of 1999.

For the six months ended June 30, 2000, cost of goods sold increased to $253.7 million from $223.3 million in the comparable period of 1999, and as a percentage of net sales improved to 51% from 54%. The overall decrease in cost of goods sold as a percentage of net sales is attributable to a substantial improvement in cost of goods sold of golf club products to 51% of net sales in the first half of 2000 from 54% of net sales in the comparable period of 1999, partially offset by costs associated with manufacturing the Company's new golf balls. The improved cost of goods sold as a percentage of net sales for golf club products in the first half of 2000 is due primarily to reductions in manufacturing labor and overhead expenses, a favorable product sales mix primarily related to sales of ERC(TM) Forged Titanium Drivers and the negative effect that close-out sales at substantially reduced prices during the first six months of 1999 had on that period's cost of goods sold as a percentage of net sales. These improvements were partially offset by an increase in sales discounts. Cost of goods sold for the Company's golf ball products during the first half of 2000 was adversely affected by lower than expected plant utilization and production yields.

Selling expenses in the first half of 2000 increased to $93.5 million (19% of net sales) from $66.2 million (16% of net sales) in the first half of 1999. The increase was primarily attributable to incremental expenses associated with the launch of the Company's new Rule 35(TM) Golf Balls and with expanded golf club sales through the Company's Japanese subsidiary. Prior to 2000, Callaway Golf(R) products were sold in Japan through a third party distributor. Expenses related to product endorsement also contributed to the increase.

General and administrative expenses in the first half of 2000 decreased to $35.1 million (7% of net sales) from $44.5 million (11% of net sales) in the comparable period of 1999. This decrease is mainly attributable to the shifting of costs associated with the Company's golf ball pre-production period to cost of goods sold (i.e., the costs related to the production of golf balls during the period are now included in cost of goods sold rather than general and administrative expenses). This decrease was partially offset by an increase in bad debt expense.

Research and development expenses in the first half of 2000 decreased slightly to $16.3 million (3% of net sales) from $16.7 million (4% of net sales) in the first half of 1999. This decrease is primarily attributable to decreases in depreciation expense and overhead costs, partially offset by an increase in salary expenses.

Other income in the first half of 2000 increased to $3.7 million from an expense of $2.2 million in the comparable period of 1999. This $5.9 million increase is primarily attributable to foreign currency transaction gains during the period versus losses in the comparable period of the prior year, as well as lower interest expense and increases in interest income and royalty income.

For the six months ended June 30, 2000, the Company recorded a provision for income taxes of $39.5 million and recognized a decrease in deferred taxes of $2.7 million. The provision of income tax as a percentage of income before tax for the six months ended June 30, 2000 and 1999 was 39%. During the first half of 2000, the Company realized $4.5 million in tax benefits related to the exercise of employee stock options.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2000, cash and cash equivalents decreased to $87.2 million from $112.6 million at December 31, 1999. This decrease resulted primarily from cash used in financing and investing activities of $40.1 million and $16.5 million, respectively, partially offset by cash provided by operations of $31.3 million. Cash flows used

in financing activities are primarily attributable to the acquisition of 2.6 million shares of Treasury Stock, partially offset by cash flows from the issuance of Common Stock, and cash flows used in investing activities are primarily attributable to capital expenditures. Cash flows provided by operations reflects an increase in income taxes payable and an increase in accounts payable and accrued expenses. The cash flows from operations were partially offset by an increase in accounts receivable due to higher average sales in the first half of 2000 than in the first half of 1999.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's credit facilities. The Company currently expects this trend to continue. The Company has a revolving credit facility for up to $120.0 million (the "Amended Credit Agreement") and an $80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 3 and 4 to the unaudited Consolidated Condensed Financial Statements). During the first six months of 2000, the Company did not utilize either its Accounts Receivable Facility or its line of credit under the Amended Credit Agreement. At June 30, 2000, the Company had $118.6 million available, net of outstanding letters of credit, under the Amended Credit Agreement, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at June 30, 2000, there were no advances under the Accounts Receivable Facility, leaving up to $80.0 million available under this facility.

As a result of the implementation of its plan to improve operating efficiencies (see "Restructuring" below), the Company incurred charges of $54.2 million in the fourth quarter of 1998. Of these charges, $25.5 million were estimated to be non-cash. Since the adoption of this restructuring plan in the fourth quarter of 1998, the Company has made cash outlays for employee termination costs, contract cancellation fees, excess lease costs and other expenses totaling $19.9 million, of which $1.1 million occurred in 2000. As a result of the reversal of a portion of certain restructuring reserves totaling $8.6 million during 1999, expected future cash outlays for restructuring have been reduced and are estimated to be $0.3 million. This amount is expected to be paid by July 2000 (see Note 7 to the unaudited Consolidated Condensed Financial Statements). These cash outlays will be funded by cash flows from operations and, if necessary, the Company's credit facilities. If the actual actions taken by the Company differ from the plans on which these estimates are based, actual losses recorded and resulting cash outlays made by the Company could differ significantly.

Although the Company's golf club operations are mature and historically have generated cash from operations, the Company's golf ball operations are in its first year of operations and to date have not generated cash flows sufficient to fund these operations. The Company does not expect that its golf ball operations will generate sufficient cash to fund these operations for the remainder of 2000. However, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cash flows, together with its credit facilities, will be sufficient to finance current operating requirements, including planned capital expenditures and purchase commitments. There can be no assurance, however, that future industry specific or other developments, or general economic trends, will not adversely affect the Company's operations or its ability to meet its future cash requirements.

Restructuring

During the fourth quarter of 1998, the Company recorded a restructuring charge of $54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. The restructuring charges primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation

of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs. During 1999, the Company completed its restructuring initiatives. At June 30, 2000, the reserve balance of $0.3 million represents future cash outlays for excess lease costs for a facility in New York City. The Company expects these cash outlays to be completed by July 2000. The decrease in the reserve balance since December 31, 1999 of $1.1 million represents cash paid for excess lease costs. The Company also has a contingent liability related to this facility (see Note 6 to the unaudited consolidated condensed financial statements).

Certain Factors Affecting Callaway Golf

Sales

Golf Clubs. The Company previously reported that it believed that the prior decline in the dollar volume of the premium golf club market may have stabilized. Despite weather related variances in certain regions, the Company believes that there was growth overall in the premium golf club market in the United States and abroad in the first half of 2000. There is no assurance, however, that the overall dollar volume of the premium golf club market will grow, or that it will not decline, in the near future.

Overall sales of the Company's current club products were strong during the first half of 2000, and the Company's brands remained number one in the U.S. and the worldwide market for woods, irons and putters in 1999 and the first half of 2000. No assurances can be given, however, that market conditions, the demand for the Company's existing products, or the introduction of new products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future. Furthermore, the Company expects that the increase in club sales during the first half of 2000 will at least in part cannibalize sales for the third and fourth quarters. In addition, in the first half of 2000, the Company made more golf clubs than it had in any previous first half of any fiscal year, and this increased level of production enabled it to achieve the increased sales levels for this period. If the Company were to experience delays, difficulties or increased costs in its production of golf clubs, the Company's future club golf sales could be adversely affected.

Beginning January 1, 2000, the Company began selling Callaway Golf(R) products through its wholly-owned Japanese subsidiary, Callaway Golf Kabushiki Kaisha ("Callaway Golf K.K."), instead of through its former distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"). The Sumitomo distribution agreement required that Sumitomo purchase specific minimum quantities from the Company. As a direct distributor, the Company will not have the benefit of these guaranteed minimum purchases going forward. Furthermore, although the Company is encouraged by the success of direct distribution thus far, there is no assurance that the Company will be able to transcend the cultural and other barriers to successful distribution in Japan or that its sales in Japan will be comparable to or exceed its prior sales to Sumitomo.

The Company previously reported that there would be a delay in the recording of revenues for sales in Japan as compared to prior periods because revenue is now recorded upon sale to retailers and not upon sale to Sumitomo. The Company believes that such delayed recording of revenues negatively affected sales in Japan in the first quarter of 2000, which declined 15% as compared to the first quarter of 1999. The Company believes that the negative effect of the delayed recording of revenue is limited to the first quarter of 2000. The Company does not believe that the delayed recording of revenues affected materially its second quarter performance and does not expect it to affect materially its future performance.

Golf Balls. In 1996, the Company formed Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, for the purpose of designing, manufacturing and selling golf balls. In February 2000, the Company introduced its new Rule 35(TM) Golf Balls. These golf balls are the product of more than three years of research and development and are manufactured in a new facility built by the Company for that purpose. The development of the Company's golf ball business, by plan, has had a significant negative impact on the Company's cash flows, financial position and results of operations and will continue to affect the Company's performance in 2000. The pre-tax loss generated by the Company's golf ball operations was $28.0 million in the first half of 2000 and the

Company's golf ball operations could generate approximately $15 million to $18 million in additional pre-tax losses in the remaining half of the year.

Although initial demand for the Company's golf balls is promising, there is no assurance that such demand will result in a proportionate amount of actual sales or that consumers will enjoy the balls sufficiently to sustain future sales. Moreover, the success of the Company's new golf ball business could be adversely affected by various factors, including, among others, delays, difficulties or increased costs in manufacturing or in distribution of the golf balls. To date, the Company has experienced higher than expected production costs attributable to yield and other ramp-up issues. The Company is aggressively seeking solutions to these issues and expects production of the golf balls to increase as 2000 progresses. There is no assurance, however, that the Company will be able to manufacture enough balls to meet demand or be able to achieve the operational or sales efficiencies necessary to make its golf ball business profitable. Consequently, there can be no assurance as to whether the golf ball will be commercially successful or that a return on the Company's investment will ultimately be realized. Furthermore, if these issues are not resolved satisfactorily in a timely manner, the Company's results of operations, cash flows and financial position will continue to be negatively affected.

Gross Margin

Consumer acceptance of current and new products, the sale and disposal of non-current products at reduced sales prices, the sales mix of the Company's high and low margin products (e.g. irons generally have lower margins than woods) and continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin. The Company's margins also have been negatively affected by its golf ball business, and the Company expects that its golf ball business will continue to affect negatively its margins for the remainder of 2000. See above "Certain Factors Affecting Callaway Golf--Sales."

Seasonality

In the golf club and golf ball industries, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the Company's fourth and first quarters. The Company's golf club business has generally followed this seasonal trend and the Company expects this to continue generally for both its golf club and golf ball businesses. Although the Company expects to realize operational improvements in its golf ball business as 2000 progresses, expected normal seasonality will limit the positive impact of any operational improvements in 2000. Furthermore, unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997 through 1998 may compound or otherwise distort these seasonal effects.

Competition

The worldwide market for premium golf clubs is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions and/or price reductions by competitors continue to generate increased market competition. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

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

The premium golf ball business is also highly competitive with a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50% of the premium

golf ball business. These competitors have established market share in the golf ball business, which the Company will need to penetrate for its golf ball business to be successful. Although initial sales of the Company's golf balls are promising, there can be no assurance that the Company's golf balls will obtain the market acceptance necessary to penetrate this established market and be commercially successful.

New Product Introduction

The Company believes that the introduction of new, innovative golf clubs and golf balls is important to its future success. The Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. Further, any new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase.

New golf club and golf ball products generally seek to satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products. On November 2, 1998, the USGA announced the adoption of a test protocol to measure the so-called "spring-like effect" in certain golf clubheads. The R&A announced in a Notice to Manufacturers sent on May 3, 2000 that it was considering a regulation that would specify minimum thickness for the walls of a driver, including the face. Action on such a regulation could happen as early as October 1, 2000. Currently, all of the Company's products are believed to be "conforming" under the Rules of Golf as published by the R&A and the USGA with the exception of the ERC(TM) Forged Titanium Driver ("ERC Driver"), some lofts of which have been found by the USGA to be "non-conforming." The ERC Driver is not marketed or sold by the Company in the United States, and the Company does not promote its use by professionals or amateurs in competitive events governed by the USGA's rules. Future actions by the USGA or the R&A may impede the Company's ability to introduce new products and could affect market acceptance of any new products which do not conform to current USGA and R&A regulations. Such actions therefore could have a material adverse effect on the Company's results of operations and cash flows.

Some countries, such as Japan and Canada, have local golf associations that exert some control over the game of golf within their jurisdictions. On April 18, 2000, The Royal Canadian Golf Association ("RCGA") announced that the Company's ERC Driver would be considered a "non-conforming club for all RCGA sanctioned events." The Company has filed a lawsuit against the RCGA for unfairly, improperly and unlawfully interfering with the commercial launch of the ERC Driver. If the RCGA's action is not reversed, it could adversely affect the acceptance of the ERC Driver in Canada. So far, no other local organization within the R&A's general jurisdiction has deviated from the R&A's position and ruled the ERC Driver "non-conforming."

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have often resulted in higher prices for the Company's products relative to other products in the marketplace. For example, the Company's golf balls are premium golf balls and there are many lower priced non-premium golf balls sold by others. There can be no assurance that a significant percentage of the public will always be willing to pay such premium prices for golf equipment or that the Company will be able to continue to design and manufacture premium products that achieve market acceptance in the future.

The rapid introduction of new golf club or golf ball products by the Company could result in close-outs of existing inventories at both the wholesale and retail levels. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices. The Company experienced some of these effects in 1999 with respect to golf clubs and could experience similar effects in future years as the Company from time to time introduces new golf club or golf ball products or misjudges demand.

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

Product Returns

The Company supports all of its golf clubs with a limited two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors that use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned to date has not been material in relation to the volume of clubs that have been sold.

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

During the first quarter of 2000, the Company began selling its Rule 35(TM) Golf Balls. To date, the Company has not experienced significant returns of defective golf balls, and in light of the quality control procedures implemented in the production of golf balls, the Company does not expect a significant amount of defective ball returns. If there were a significant amount, however, it could have a material adverse effect upon its golf ball business.

Credit Risk

The Company primarily sells its products to golf equipment retailers, wholly-owned domestic and foreign subsidiaries and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, a downturn in the retail golf equipment market, like the one experienced in 1998 and 1999, primarily in the United States, could result in increased delinquent or uncollectible accounts for some of the Company's significant customers. In addition, the Company's transition in Japan from selling to one distributor to selling directly to many retailers could increase the Company's delinquent or uncollectible accounts. There can be no assurance that failure of the Company's customers to meet their obligations to the Company will not adversely impact the Company's results of operations, financial position or cash flows.

Dependence on Certain Vendors and Materials

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

to deliver or the transition to other suppliers could have a material adverse impact on the Company's results of operations.

The Company is also dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials, including the golf ball cover, are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its U.S. customers. The Company is continually reviewing alternative methods of ground shipping to supplement its use and reduce its reliance on UPS. To date, a limited number of alternative vendors have been identified and are being used by the Company. Nevertheless, any interruption in UPS services could have a material adverse effect on the Company's sales and results of operations.

The Company's size has made it a large consumer of certain materials, including titanium alloys and carbon fiber. The Company does not make these materials itself, and must rely on its ability to obtain adequate supplies in the world marketplace in competition with other users of such materials. While the Company has been successful in obtaining its requirements for such materials thus far, there can be no assurance that it always will be able to do so. An interruption in the supply of such materials or a significant change in costs could have a material adverse effect on the Company.

Intellectual Property and Proprietary Rights

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

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

Various patents have been issued to the Company's competitors in the golf ball industry. As Callaway Golf Ball Company developed its Rule 35(TM) Golf Ball, it attempted to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that competitors will not assert and/or a court will not find that the Rule 35(TM) Golf Ball infringes any patent or other rights of competitors (see Part II, Item I-Legal Proceedings). If the Rule 35(TM) Golf Ball is found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and it could incur substantial costs to redesign it and/or defend legal actions.

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

"Gray Market" Distribution

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

Golf Professional Endorsements

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf(R) and Odyssey(R) branded products. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour, the PGA European Tour, the Japan Golf Tour and the buy.com Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If certain of the Company's professional endorsers were to stop using the Company's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so and do not grant any endorsement to the Company. The Company has created cash pools ("Pools") that reward such usage. However, in 1999 and so far in 2000, as compared to 1998, the Company significantly reduced these Pools for both Callaway Golf(R) and Odyssey(R) brand products for the PGA and the Senior PGA Tours, and has significantly reduced the Pools for Odyssey(R) brand products and eliminated the Pools for Callaway Golf(R) brand products for the LPGA and buy.com tours. The Company expects that the Pools for 2000 will be comparable to 1999. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. As a result, in 1999 and so far in 2000, usage of the Company's drivers on the Senior PGA, PGA, LPGA and buy.com tours was substantially reduced compared to 1998.

In the past, the Company has experienced an exceptional level of driver penetration on the world's major professional tours, and the Company has heavily advertised that fact. While it is not clear to what extent professional usage contributes to retail sales, it is possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

Many golf ball manufacturers, including the leading U.S. manufacturer of premium golf balls, have focused a great deal of their marketing efforts on promoting the fact that tour professionals use their balls. Some of these golf ball competitors spend large amounts of money to secure professional endorsements, and the market leader has obtained a very high degree of tour penetration. While many of the Company's staff professionals have decided to use the Company's golf balls in play, there are others who are already under contract with other golf ball manufacturers or, for other reasons, may not choose to play the Company's golf ball products. In addition, several professionals who are not on the Company's staff have expressed an interest in playing the Company's ball, but it is too early to predict if a significant number will actually do so. The Company does not plan to match in 2000 the endorsement spending levels of the leading manufacturer, and will instead rely more heavily upon the performance of the ball and other factors to attract professionals to the product. In the future the Company may or may not increase its tour spending in support of the golf ball. It is not clear to what extent use by professionals is important to the commercial success of the Company's golf ball, but it is possible that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

International Distribution

The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will be an element in the future growth and success of the Company. The Company has reorganized a substantial portion of its international operations, including the acquisition of distribution rights in certain key countries in Europe, Asia and North America. These efforts have resulted and will continue to result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. The integration of foreign distribution into the Company's international sales operations will continue to require the dedication of management and other Company resources.

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

The Company previously appointed Sumitomo as the sole distributor of Callaway Golf(R) clubs in Japan, through a distribution agreement that ended December 31, 1999. In 1999, 1998 and 1997, sales to Sumitomo accounted for 7%, 8% and 10%, respectively, of the Company's net sales. In the fourth quarter of 1999, the Company successfully completed negotiations with Sumitomo to provide a smooth transition of its business. Effective January 1, 2000, the Company began distributing Callaway Golf(R) brand products through Callaway Golf K. K., which also distributes Odyssey(R) products and will also distribute Callaway Golf(TM) balls. There are significant risks associated with the Company's intention to effectuate distribution of Callaway Golf(R) products in Japan through Callaway Golf K. K. rather than through Sumitomo. Some of these risks include increased delinquent and uncollectible accounts now that the Company will be collecting its receivables from many retailers as opposed to only one distributor. Furthermore, the Company will no longer have the benefit of the minimum purchases that Sumitomo was required to make. It is possible that these circumstances could have a material adverse effect on the Company's operations and financial performance.

Information Systems

The Company is in the process of upgrading its enterprise-wide business system to a more current software release. This upgrade will affect almost all of the Company's major systems functions, including sales, manufacturing, and accounting. The estimated cost to the Company of this upgrade is not material and the Company expects to fund such costs from its operating cash flows. The Company expects to complete the upgrade for its worldwide operations by the end of 2000. Although the Company does not expect any significant problems with this upgrade, if there were any significant problems, the Company would revert to its current version until such problems could be rectified. If such problems, however, caused a delay in, or prevented the Company from, reverting to the Company's current version, or if there were other unforeseen significant problems with the upgrade, such problems could have material adverse effect upon the Company and its operations.

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999, Member States of the EMU have the option of trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships until 2002 when their local currencies will be phased out. The current version of the Company's enterprise-wide business system does not support transactions denominated in euro. When implemented, the upgrade of the Company's business systems will support transactions denominated in euro. The Company intends to enable the euro functionality of its upgraded system no later than the end of its third quarter in 2001. Until such time as the upgrade has occurred and the euro

functionality has been enabled, transactions denominated in euro will be processed manually. To date, the Company has not experienced, and does not anticipate in the near future, a large demand from its customers to transact in euro. Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to the impact of foreign currency fluctuations due to its international operations and certain export sales. The Company is exposed to both transactional currency/functional currency and functional currency/reporting currency exchange rate risks. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in the value of foreign currencies. Pursuant to its foreign exchange hedging policy, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables. During the first quarter of 2000, the Company entered into such contracts on behalf of three of its wholly-owned subsidiaries, Callaway Golf Europe Ltd., Callaway Golf K.K. and Callaway Golf Canada Ltd. The Company also hedged certain euro-denominated accounts receivable during the first quarter of 2000. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

Also pursuant to its foreign exchange hedging policy, the Company expects that it also may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives will be used only to the extent considered necessary to meet the Company's objectives and the Company does not enter into forward contracts for speculative purposes. The Company's foreign currency exposures include most European currencies, Japanese yen, Canadian dollars and Korean won.

Additionally, the Company is exposed to interest rate risk from its Accounts Receivable Facility and Amended Credit Agreement (see Notes 3 and 4 to the Company's unaudited Consolidated Condensed Financial Statements) which are indexed to the LIBOR and Redwood Receivables Corporation Commercial Paper Rate. No amounts were advanced or outstanding under these facilities at June 30, 2000.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at June 30, 2000 through its derivative financial instruments.

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

The estimated maximum one-day loss in earnings from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $4.4 million at June 30, 2000. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

Notes 3 and 4 to the unaudited Consolidated Condensed Financial Statements outline the principal amounts, if any, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. To date, the Company has not experienced any material expense or disruption associated with any such potential infringement matters. It is possible, however, that 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 July 24, 2000, Bridgestone Sports Co., Ltd. ("Bridgestone") filed a complaint for patent infringement in the United States District Court for the Northern District of Georgia, Civil Action No. 100-CV-1871, against Callaway Golf Company, Callaway Golf Ball Company, and a golf retailer located in Georgia. Bridgestone alleges that the manufacture and sale of Callaway Golf Ball Company's Rule 35(TM) Golf Ball infringes four Bridgestone golf ball patents. Bridgestone is seeking unspecified damages and injunctive relief. Callaway Golf Company and Callaway Golf Ball Company have denied the allegations and are defending the action.

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

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

On May 3, 2000, the Company held its 2000 Annual Meeting of Shareholders near the Company's headquarters in Carlsbad, California. Ely Callaway, William C. Baker, Vernon E. Jordan, Jr., Yotaro Kobayashi, Aulana L. Peters, Richard L. Rosenfield and Charles J. Yash were elected to the Board of Directors. Additionally

the Company's shareholders approved: (i) the 2001 Non-Employee Directors Stock Option Plan; and (ii) the amendment to the Company's 1996 Stock Option Plan to increase by 3,000,000 shares, to an aggregate of 9,000,000 shares, the number of shares that may be issued upon exercise of stock options granted or to be granted under the plan.

The voting results for the election of directors are as follows:

NAME	VOTES FOR	VOTES WITHHELD
Ely Callaway	65,862,700	860,149
William C. Baker	65,872,080	850,769
Vernon E. Jordan, Jr.	63,758,928	2,963,921
Yotaro Kobayashi	64,289,660	2,433,189
Aulana L. Peters	63,388,588	3,334,261
Richard L. Rosenfield	65,871,365	851,484
Charles J. Yash	65,887,278	835,571

The voting results for the proposal to approve the 2001 Non-Employee Directors Stock Option Plan are as follows:

VOTES FOR	VOTES AGAINST	ABSTAIN	BROKER NON-VOTE
55,086,902	11,252,064	383,883	None

The voting results for the proposal to approve an amendment to the Company's 1999 Stock Option Plan to increase by 3,000,000 shares to an aggregate of 9,000,000 shares, the number of shares that may be issued upon exercise of stock options granted or to be granted under the plan are as follows:

VOTES FOR	VOTES AGAINST	ABSTAIN	BROKER NON-VOTE
43,971,946	22,390,449	360,454	None

Item 5. Other Information

None

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

a. Exhibits

3.1 Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission (the "Commission") on July 1, 1999 (file no. 1-10962).

3.2 Bylaws, incorporated herein by this reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, as filed with the Commission on July 1, 1999 (file no. 1-10962).

10.43 Executive Officer Employment Agreement, entered into as of January 1, 2000, by and between the Company and Mr. Callaway.(+)

10.44 Amended and Restated 1996 Stock Option Plan (as amended and restated May 3, 2000).(+)

27.1 Financial Data Schedule.(+)

b. Reports on Form 8-K

Form 8-K, dated May 3, 2000, reporting the issuance of a press release of even date therewith, which press release was captioned, "Callaway Golf Company Announces Plans to Repurchase up to $100 Million in Stock; Declares First Quarter Dividend"

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(+) Included with this Report.

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: August 11, 2000

PRINCIPAL EXECUTIVE OFFICER:

/s/ Ely Callaway

Ely Callaway
Chairman and Chief Executive Officer

ACTING PRINCIPAL FINANCIAL OFFICER:

/s/ Charles J. Yash

Charles J. Yash
President

ACTING PRINCIPAL ACCOUNTING OFFICER:

/s/ Kenneth E. Wolf

Kenneth E. Wolf
Senior Vice President, Finance
and Controller

EXHIBIT 10.43

EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 2000, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Ely Callaway ("Mr. Callaway").

1. TERM.

(a) The Company hereby employs Mr. Callaway and Mr. Callaway hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing January 1, 2000 and terminating June 30, 2003 (the "Initial Term"), unless this Agreement is earlier terminated as hereinafter provided.

(b) On July 1, 2002, and on each July 1 thereafter (the "Extension Dates"), the expiration date of this Agreement shall be automatically extended one year, through June 30 of the following year, so long as (a) this Agreement is otherwise still in full force and effect, (b) Mr. Callaway is still employed by the Company pursuant to this Agreement, (c) Mr. Callaway is not otherwise in breach of this Agreement, and (d) neither the Company nor Mr. Callaway has given notice as provided in Section 1(c) of this Agreement.

(c) At any time prior to an Extension Date, either Mr. Callaway or the Company may give written notice to the other ("Notice") that the automatic extension of the expiration date of this Agreement pursuant to Section 1(b) shall end with the next extension, which shall be the final such automatic extension of the expiration date of this Agreement. Thus, if either Mr. Callaway or the Company gives Notice on or before January 1, 2002, and all other conditions for automatic extension of the expiration date of this Agreement pursuant to Section 1(b) exist, then on January 1, 2002 the expiration date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2002 to December 31, 2003, with this Agreement expiring on that date (if not earlier terminated pursuant to its terms) without any further automatic extensions.

(d) Upon expiration of this Agreement, Mr. Callaway's status shall be one of at will employment.

2. SERVICES.

(a) Mr. Callaway shall serve as Chief Executive Officer of Callaway Golf Company and Chairman of the Board of Callaway Golf Ball Company until such time as he chooses to retire from one or both positions. Upon his retirement as Chief Executive Officer of Callaway Golf Company, which is currently expected to occur on or before January 1, 2001, Mr. Callaway shall assume the title of Founder of Callaway Golf Company and Chief Executive Officer Emeritus. Mr. Callaway's duties shall be the usual and customary duties of the offices in which he serves. As Founder of the Company and CEO Emeritus, Mr. Callaway shall advise and consult with management on such matters as may be requested by the CEO or the Board. Mr.

Callaway shall report to the Board of Directors of Callaway Golf Company.

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

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

4. COMPENSATION.

(a) The Company agrees to pay Mr. Callaway a base salary at the rate of $780,000.00 per year. On the date Mr. Callaway retires as Chief Executive Officer of Callaway Golf Company, his base salary will decrease to a rate of $500,000.00 per year. As Founder and CEO Emeritus, Mr. Callaway may elect to have some or all of his compensation pursuant to this Agreement paid to his company, known and operating under the name Ely Callaway and Associates Advisory Services, LLC, such company having been granted a limited license by the Company.

(b) The Company shall provide Mr. Callaway an opportunity to earn an annual bonus based upon participation in the Company's officer bonus plan, as it may or may not exist from time to time. Mr. Callaway acknowledges that currently all bonuses are discretionary, that the current officer bonus plan does not include any nondiscretionary bonus plan, and that the Company does not currently contemplate establishing any nondiscretionary bonus plan applicable to Mr. Callaway.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Mr. Callaway for all reasonable,

customary, and necessary expenses incurred in the performance of Mr. Callaway's duties hereunder. Mr. Callaway shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company.

(b) Vacation. Mr. Callaway shall not receive vacation benefits during the term of this Agreement.

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

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

(ii) receive, if Mr. Callaway is insurable under usual underwriting standards, life insurance coverage on Mr. Callaway's life, payable to whomever Mr. Callaway directs, in the face amount of $2,000,000.00, provided that Mr. Callaway's physical condition does not prevent Mr. Callaway from qualifying for such insurance coverage under reasonable terms and conditions;

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

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

(v) participate in any other benefit plans the Company provides from time to time to senior executive officers. It is understood that benefit plans within the meaning of this subsection do not include compensation or bonus plans.

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

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

(f) Stock Options. Pursuant to separate written stock option agreements and subject to the approval of the Stock Option Committee (Employee Plans) of the Board of Directors of the Company, beginning in January 2001, and continuing in January of each year

thereafter that this Agreement is in effect and Mr. Callaway remains an employee of the Company, Mr. Callaway shall be granted options to purchase at least 100,000 shares of the Common Stock of the Company. The options shall vest as stated in the respective stock option agreements, provided Mr. Callaway is then currently employed by the Company and not in breach of this Agreement. The option price per share shall be the NYSE closing price of Callaway Golf Common Stock on the date of the respective grants. The options will contain such reasonable restrictions as determined by the Stock Option Committee (Employee Plans), including without limitation, cancellation of options or forfeiture of gain upon exercise if Mr. Callaway discloses the Company's confidential information or competes with the business of the Company.

(g) Travel. The Company believes that travel by Mr. Callaway, as the Founder of the Company and as a goodwill ambassador whose entire persona is closely tied to Company and its brand, benefits the Company, and wishes to encourage Mr. Callaway to travel, as appropriate, during the term of this Agreement. To facilitate such travel, and to assure the continued good health of Mr. Callaway while performing his duties on behalf of the Company, it is agreed that all such travel shall be by chartered aircraft (preferably a Citation X) or first class commercial airline service, and shall be conducted at the Company's expense. Moreover, to preserve Mr. Callaway's continued good health, safety and vigor, the Company requires that he advise the Company of any personal trips that he plans to take during the term of this Agreement, and that he permit the Company to make travel arrangements, at the Company's expense, for such travel, including the provision of chartered aircraft service (preferably a Citation X) or first class commercial airline service where air travel is required. It is understood that these travel restrictions are for the good of the Company and its shareholders, and that they should not impose undue burdens upon Mr. Callaway, and therefore, to the extent any travel benefits provided to Mr. Callaway by the Company are taxable to Mr. Callaway as income under state or federal tax laws, then the Company shall provide annually a "gross up" payment such that Mr. Callaway is reimbursed for such taxes as well as any taxes on the "gross up" payment itself. It is understood that, for purposes of this Agreement, Mr. Callaway's travel is expected to take place throughout the United States and to, from and within any of the Company's foreign markets for golf clubs and golf balls.

(h) Office Support. At such time as Mr. Callaway retires as Chief Executive Officer, it is expected that much of Mr. Callaway's work on behalf of the Company as Founder and CEO Emeritus will be conducted at a location of Mr. Callaway's choice off the Company's premises, but reasonably convenient to the Company's headquarters. In that event, the Company shall provide during the term of this Agreement, at its expense, for the rental of appropriate office space, the furnishing of the space, the provision of appropriate office equipment, including computers, phones, a fax, and a copier, and appropriate office support, as mutually agreed upon between Mr. Callaway and the Company. It is expected that, if he so desires and she accepts, Mr. Callaway's Executive Assistant, Diana Duvall, shall continue on the Company's payroll as Mr. Callaway's Executive Assistant during the period he serves as Founder and CEO Emeritus. Should Mr. Callaway elect to conduct the business of his company, Ely Callaway and Associates Advisory Services, LLC, from this same location, the parties shall equitably and reasonably allocate costs and expenses.

6. TAX INDEMNIFICATION. Mr. Callaway shall be indemnified by the Company for certain excise tax obligations, as more specifically set forth in Exhibit A to this Agreement.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Mr. Callaway agrees that, while employed by the Company or otherwise receiving compensation or other consideration from the Company (including any severance pursuant to Section 8 of this Agreement), Mr. Callaway will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(b) Other Employees. Except as may be required in the performance of his duties hereunder, Mr. Callaway shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment while employed by the Company and for a period of one (1) year thereafter.

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

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

(e) Non-Interference. While employed by the Company, and for one (1)year thereafter, Mr. Callaway shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. Mr. Callaway understands that it is the policy of the Company that the Chief Executive Officer, the Vice President of Press, Public and Media Relations and their specific designees may speak to the press or media about the Company or its business.

(f) The provisions of this Section 7 shall survive the termination or expiration of this Agreement, and shall be binding upon Mr. Callaway in perpetuity.

8. TERMINATION.

(a) Termination at the Company's Convenience. Mr. Callaway's employment under this Agreement may be terminated by the Company at its convenience at any time. In the

event of a termination by the Company for its convenience, Mr. Callaway shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Mr. Callaway as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Mr. Callaway shall be entitled to Special Severance equal to (i) severance payments equal to Mr. Callaway's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or eighteen (18) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to eighteen (18) months from the date of termination; and (iii) no other severance.

(b) Termination by the Company for Substantial Cause. Mr. Callaway's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Mr. Callaway shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean for purposes of this subsection failure by Mr. Callaway to substantially perform his duties, material breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of illegal drugs during work and/or felony criminal conduct.

(c) Termination by Mr. Callaway for Substantial Cause. Mr. Callaway's employment under this Agreement may be terminated immediately by Mr. Callaway for substantial cause at any time. In the event of a termination by Mr. Callaway for substantial cause, Mr. Callaway shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) the immediate vesting of all unvested stock options held by Mr. Callaway as of the date of such termination. In addition to the foregoing, and subject to the provisions of Section 20, Mr. Callaway shall be entitled to Special Severance equal to (i) severance payments equal to Mr. Callaway's former base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or eighteen (18) months from the date of termination; (ii) the payment of premiums owed for COBRA insurance benefits for a period of time equal to eighteen (18) months from the date of termination; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement.

(d) Termination Due to Permanent Disability. Subject to all applicable laws, Mr. Callaway's employment under this Agreement may be terminated immediately by the Company in the event Mr. Callaway becomes permanently disabled. Permanent disability shall be defined as Mr. Callaway's failure to perform or being unable to perform all or substantially all of Mr. Callaway's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Mr. Callaway, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to Mr. Callaway's permanent disability, Mr. Callaway shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) severance payments equal to Mr. Callaway's former

base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or eighteen (18) months from the date of termination; (iii) the immediate vesting of outstanding but unvested stock options held by Mr. Callaway as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Mr. Callaway's termination; (iv) the payment of premiums owed for COBRA insurance benefits for a period of time equal to eighteen (18) months from the date of termination; and (v) no other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsections (i) and (ii) above, any amounts received by Mr. Callaway pursuant to disability or other insurance, or similar sources, provided by the Company.

(e) Termination Due to Death. Mr. Callaway's employment under this Agreement shall be terminated immediately by the Company in the event of Mr. Callaway's death. In the event of a termination due to Mr. Callaway's death, Mr. Callaway's estate or other designee shall be entitled to (i) any compensation accrued and unpaid as of the date of death; (ii) severance payments equal to Mr. Callaway's former base salary at the same rate and on the same schedule as in effect at the time of death for a period of time equal to the greater of the remainder of the Initial Term of this Agreement or eighteen (18) months from the date of death; (iii) the immediate vesting of outstanding but unvested stock options held by Mr. Callaway as of the date of death in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Mr. Callaway's death; and (iv) no other severance.

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

(g) Termination By Mutual Agreement of the Parties. Mr. Callaway's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(h) Pre-Termination Rights. The Company shall have the right, at its option, to require Mr. Callaway to vacate his office or otherwise remain off the Company's premises and to

cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit B hereto) occurs before the termination of Mr. Callaway's employment hereunder, then this Agreement shall be automatically renewed (the "Renewed Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the Initial Term, as specified pursuant to Section 1 of this Agreement, shall be three (3) years commencing with the effective date of the Change in Control, and the Extension Dates shall commence with the second anniversary of the effective date of the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one (1) year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Mr. Callaway shall be treated as if he had been terminated for the convenience of the Company pursuant to Section 8(a), and Mr. Callaway shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a), as appropriate, of this Agreement. Furthermore, the provisions of Section 8 shall continue to apply during the term of the Renewed Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Mr. Callaway described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of Mr. Callaway's permanent disability (defined in Section 8(d)), Mr. Callaway's death, and any of the factors enumerated in Section 8(b) providing for termination by the Company for substantial cause:

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

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

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

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

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

10. SURRENDER OF EQUIPMENT, BOOKS AND RECORDS. Mr. Callaway understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Mr. Callaway remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Mr. Callaway make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Mr. Callaway shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Mr. Callaway's employment with the Company.

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

12. TRADE SECRETS AND CONFIDENTIAL INFORMATION.

(a) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to (i) concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, (ii) the processes, formulae and techniques disclosed by the Company and/or its affiliates to Mr. Callaway or observed by Mr. Callaway, (iii) the designs, inventions and innovations and related plans, strategies and applications which Mr. Callaway develops during the term of this Agreement in connection with the work performed by Mr. Callaway for the Company and/or its affiliates; and (iv) third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(b) Notwithstanding the provisions of subsection 12(a), the term "Trade Secrets and Confidential Information" does not include (i) information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed; (ii) information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of contractual, legal or fiduciary duties owed to the Company, which violation is known to Mr. Callaway; or (iii) information which, subsequent to disclosure or observation, is obtained by Mr. Callaway from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by Mr. Callaway) and who is not required to refrain from

disclosing such information to others.

(c) While employed by the Company, Mr. Callaway will have access to and become familiar with various Trade Secrets and Confidential Information. Mr. Callaway acknowledges that the Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Mr. Callaway agrees that he will not, at any time, whether during or subsequent to Mr. Callaway's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Mr. Callaway is compelled to disclose it by governmental process. In the event Mr. Callaway believes that he is legally required to disclose any Trade Secrets or Confidential Information, Mr. Callaway shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to, execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

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

13. ASSIGNMENT OF RIGHTS.

(a) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

(b) As a material part of the terms and understandings of this Agreement, Mr. Callaway agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Mr. Callaway, alone or with anyone else, in connection with the work performed by Mr. Callaway for the Company during his employment with the Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(c) Mr. Callaway agrees to disclose in writing to the Board of Directors and the Chief Legal Officer of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Mr. Callaway develops, conceives and/or reduces to practice in connection with any work performed by Mr. Callaway for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Mr. Callaway shall disclose all Designs, Inventions and Innovations to the Company, even if he does not believe that he is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his interest in such Design, Invention or Innovation to the Company. If the Company and Mr. Callaway disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Mr. Callaway to prove that it is not included.

(d) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Mr. Callaway developed entirely on his own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information except those Designs, Inventions or Innovations that either:

(i) Relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or

(ii) Result from any work performed by Mr. Callaway for the Company and/or its affiliates.

(e) Mr. Callaway agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company 's request, at no expense to Mr. Callaway, Mr. Callaway shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(f) The provisions of this Section 13 shall survive the termination or expiration of this Agreement, and shall be binding upon Mr. Callaway in perpetuity.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Mr. Callaway shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Mr. Callaway, except that it is understood and agreed that at such time as Mr. Callaway retires as CEO, and subject to the written approval of the Company, such approval not to be unreasonably withheld, a portion of Mr. Callaway's rights, benefits, duties, obligations or other interests may be assigned to a personal corporation controlled by Mr. Callaway.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding as provided in Section 18(f).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Mr. Callaway or the Company. This Agreement shall not be modified, amended or terminated

except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Mr. Callaway and the Company regarding employment.

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

Mr. Callaway: Ely Callaway
_____
_____

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Charles J. Yash
President

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

18. IRREVOCABLE ARBITRATION OF DISPUTES.

(a) Mr. Callaway and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Mr. Callaway's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes; provided, however, that the parties shall have the right to seek provisional relief in an ancillary court action in connection with an arbitrable dispute.

(b) Any demand for arbitration shall be in writing and must be communicated to the other party within one (1) year after the discovery of the alleged claim or cause of action by the aggrieved party, or, if later, within the time period stated in the applicable statute of limitations.

(c) The arbitration shall be conducted pursuant to the procedural rules stated in the National Rules for Resolution of Employment Disputes of the American

Arbitration Association ("AAA"). The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator from the American Arbitration Association will be selected pursuant to the American Arbitration Association National Rules for Resolution of Employment Disputes.

(d) The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to one deposition.

(e) The parties understand and agree that the arbitrator has no authority to award punitive damages.

(f) The prevailing party shall be entitled to an award by the arbitrator of reasonable attorneys' fees and other costs reasonably incurred in connection with the arbitration, including witness fees and expert witness fees, unless the arbitrator for good cause determines otherwise.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ PARAGRAPH 18 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

_____ (Mr. Callaway) _____ (Company)

19. MISCELLANEOUS.

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

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

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

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

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

(f) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

20. CONDITIONS ON SPECIAL SEVERANCE. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to:

(a) Mr. Callaway's continued compliance with the terms and conditions of Sections 7(a), 7(b), 7(c), 7(e), 12, 13 and 18;

(b) Mr. Callaway must not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business which engages directly or indirectly in competition with the businesses of the Company or any of its affiliates, or have any interest, direct or indirect, in any person, firm, corporation, or venture which directly or indirectly competes with the businesses of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund; and

(c) Mr. Callaway must not, directly, indirectly, or in any other way, disparage the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfere with the Company's press, public and media relations.

22. SUPERSEDES OLD EXECUTIVE OFFICER EMPLOYMENT AND TAX INDEMNIFICATION AGREEMENTS. Mr. Callaway and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Employment Agreement, as amended, (the "Old Officer Employment Agreement") and a certain Tax Indemnification Agreement (the "Old Tax Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment

Agreement and the Old Tax Agreement, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15 and 18 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement or the Old Tax Agreement and this Agreement, this Agreement shall control and all agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

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

MR. CALLAWAY	COMPANY Callaway Golf Company, a Delaware corporation
_____	By: _____
Ely Callaway	Charles J. Yash, President

EXHIBIT A

TAX INDEMNIFICATION

Pursuant to Section 6 of Mr. Callaway's Employment Agreement ("Section 6"), the Company agrees to indemnify Mr. Callaway with respect to certain excise tax obligations as follows:

1. Definitions. For purposes of Section 6 and this Exhibit A, the following terms shall have the meanings specified herein:

(a) "Claim" shall mean any written claim (whether in the form of a tax assessment, proposed tax deficiency or similar written notification) by the Internal Revenue Service or any state or local tax authority that, if successful, would result in any Excise Tax or an Underpayment.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended. All references herein to any section, subsection or other provision of the Code shall be deemed to refer to any successor thereto.

(c) "Excise Tax" shall mean (i) any excise tax imposed by Section 4999 of the Code or any comparable federal, state or local tax, and (ii) any interest and/or penalties incurred with respect to any tax described in 1(c)(i).

(d) Gross-Up Payment shall mean a cash payment as specified in Section 2.

(e) "Overpayment" and "Underpayment" shall have the meanings specified in Section 4.

(f) "Payment" shall mean any payment, benefit or distribution (including, without limitation, cash, the acceleration of the granting, vesting or exercisability of stock options or other incentive awards, or the accrual or continuation of any other payments or benefits) granted or paid to or for the benefit of Mr. Callaway by the Company or by any person or persons whose actions result in a Taxable Event (as defined in this Section), or by any person affiliated with the Company or such person(s), whether paid or payable pursuant to the terms of this Agreement or otherwise. Notwithstanding the foregoing, a Payment shall not include any Gross-Up Payment required under Section 6 and this Exhibit A

(g) "Taxable Event" shall mean any change in control or other event which triggers the imposition of any Excise Tax on any Payment.

2. In the event that any Payment is determined to be subject to any Excise Tax, then Mr. Callaway shall be entitled to receive from the Company a Gross-Up Payment in an amount such that, after the payment of all income taxes, Excise Taxes and any other taxes imposed with respect to the Gross-Up Payment (together with payment of all interest and penalties imposed with

respect to any such taxes), Mr. Callaway shall retain a net amount of the Gross-Up Payment equal to the Excise Tax imposed with respect to the Payments.

3. All determinations required to be made under Section 6 and this Exhibit A, including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations, shall be made by the accounting firm of Pricewaterhouse Coopers LLP or, if applicable, its successor as the Company's independent auditor (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Taxable Event to which a possible Gross-Up Payment is related, another nationally recognized accounting firm that is mutually acceptable to the Company and Mr. Callaway shall be appointed to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide detailed supporting calculations to the Company and to Mr. Callaway regarding the amount of Excise Tax (if any) which is payable, and the Gross-Up Payment (if any) required hereunder, with respect to any Payment or Payments, with such calculations to be provided at such time as may be requested by the Company but in no event later than fifteen (15) business days following receipt of a written notice from Mr. Callaway that there has been a Payment that may be subject to an Excise Tax. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to Section 6 and this Exhibit A shall be paid by the Company to Mr. Callaway within five (5) business days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Mr. Callaway, the Accounting Firm shall furnish Mr. Callaway with a written opinion that failure to disclose, report or pay the Excise Tax on Mr. Callaway's federal or other applicable tax returns will not result in the imposition of a negligence penalty, understatement penalty or other similar penalty. All determinations by the Accounting Firm shall be binding upon the Company and Mr. Callaway in the absence of clear and indisputable mathematical error. Following receipt of a Gross-Up Payment as provided herein, Mr. Callaway shall be obligated to properly and timely report his Excise Tax liability on the applicable tax returns or reports and to pay the full amount of Excise Tax with funds provided through such Gross-Up Payment. Notwithstanding the foregoing, if the Company reasonably determines that Mr. Callaway will be unable or otherwise may fail to make such Excise Tax payment, the Company may elect to pay the Excise Tax to the Internal Revenue Service and/or other applicable tax authority on behalf of Mr. Callaway, in which case the Company shall pay the net balance of the Gross-Up Payment (after deduction of such Excess Tax payment) to Mr. Callaway.

4. As a result of uncertainty in the application of Section 4999 of the Code, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made (an "Underpayment") or that a Gross-Up Payment is made that should not have been made (an "Overpayment"). In the event that Mr. Callaway is required to make a payment of any Excise Tax, due to an Underpayment, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to Mr. Callaway in which case Mr. Callaway shall be obligated to make a timely payment of the full amount of the applicable Excise Tax to the applicable tax authority, provided, however, the Company may elect to pay the Excise Tax to the applicable tax authority on behalf of Mr. Callaway

consistent with the provisions of Section 3, in which case the Company shall pay the net balance of the Underpayment (after deduction of such Excise Tax payment) to Mr. Callaway. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be repaid by Mr. Callaway to the Company within ninety (90) days after written demand to Mr. Callaway by the Company, provided, however, that Mr. Callaway shall have no obligation to repay any amount of the Overpayment that has been paid to, and not recovered from, a tax authority, provided further, however, in such event the Company may direct Mr. Callaway to prosecute a claim for a refund of such amount consistent with the principles set forth in Section 5.

5. Mr. Callaway shall notify the Company in writing of any Claim. Such notice (a) shall be given as soon as practicable, but in no event later than fifteen (15) business days, following Mr. Callaway's receipt of written notice of the Claim from the applicable tax authority, and (b) shall include a compete and accurate copy of the tax authority's written Claim or otherwise fully inform the Company of the nature of the Claim and the date on which any payment of the Claim must be paid, provided that Mr. Callaway shall not be required to give notice to the Company of facts of which the Company is already aware, and provided further that failure or delay by Mr. Callaway to give such notice shall not constitute a breach of Section 6 or this Exhibit A except to the extent that the Company is prejudiced thereby. Mr. Callaway shall not pay any portion of a Claim prior to the earlier of (a) the expiration of thirty (30) days following the date on which Mr. Callaway gives the foregoing notice to the Company, (b) the date that any Excise Tax payment under the Claim is due, or (c) the date the Company notifies Mr. Callaway that it does not intend to contest the Claim. If, prior to expiration of such period, the Company notifies Mr. Callaway in writing that it desires to contest the Claim, Mr. Callaway shall:

(a) give the Company any information reasonably requested by the Company relating to the Claim;

(b) take such action in connection with contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to the Claim by an attorney selected and compensated by the Company who is reasonably acceptable to Mr. Callaway;

(c) cooperate with the Company in good faith in order to effectively contest the Claim; and

(d) permit the Company to participate (at its expense) in any and all proceedings and conferences pertaining to the Claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in connection with any such contest, and shall indemnify and hold Mr. Callaway harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and all costs imposed or incurred in connection with such contests. Without limitation upon the foregoing provisions of this Section 5, and except as provided below,

the Company shall control all proceedings concerning any such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with tax authorities pertaining to the Claim. At the written request of the Company, and upon payment to Mr. Callaway of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court, Mr. Callaway shall pay the same and sue for a refund or otherwise contest the Claim in any permissible manner as directed by the Company. Mr. Callaway agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company requests Mr. Callaway to pay the Claim and sue for a refund, the Company shall indemnify and hold Mr. Callaway harmless, on an after-tax basis, from any Excise Tax or income tax (including, without limitation, interest and penalties with respect thereto) and costs imposed or incurred in connection with such contest or with respect to any imputed income attributable to any advances or payments by the Company hereunder. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of Mr. Callaway which is the subject of a Claim is to be limited solely to the Claim. Furthermore, the Company's control of a contest as provided hereunder shall be limited to issues for which a Gross-Up Payment would be payable hereunder, and Mr. Callaway shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other tax authority.

6. If Mr. Callaway receives a refund from a tax authority of all or any portion of an Excise Tax paid by or on behalf of Mr. Callaway with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, Mr. Callaway shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). Mr. Callaway shall, if so directed by the Company, file and otherwise prosecute a claim for refund of any Excise Tax payment made by or on behalf of Mr. Callaway with amounts advanced by the Company pursuant to Section 6 and this Exhibit A, with any such refund claim to be effected in accordance with the principles set forth in Section 5. If a determination is made that Mr. Callaway shall not be entitled to any refund and the Company does not notify Mr. Callaway in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then Mr. Callaway shall have no further obligation hereunder to contest such denial or to repay to the Company the amount involved in such unsuccessful refund claim. The amount of any advances which are made by the Company in connection with any such refund claim hereunder, to the extent not refunded by the applicable tax authority to Mr. Callaway, shall offset, as appropriate consistent with the purposes of Section 6 and this Exhibit A, the amount of any Gross-Up Payment required hereunder to be paid by the Company to Mr. Callaway.

EXHIBIT B

CHANGE IN CONTROL

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

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

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

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

(a) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such reorganization

or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

(b) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.

CALLAWAY GOLF COMPANY
1996 STOCK OPTION PLAN
(As Amended and Restated May 3, 2000)

SECTION 1. PURPOSE OF THE PLAN

This 1996 Stock Option Plan (the "Plan") of Callaway Golf Company, a Delaware 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 9,000,000. 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 9,000,000. Such maximum number does not include the number of Shares subject to the unexercised portion of any ISO granted under the Plan that expires or is terminated. Notwithstanding anything to the contrary in the Plan, such aggregate number of Shares shall be subject to adjustment under Section 7.2 only to the extent that such adjustment will not affect the status of any ISO granted under the Plan.

3.4 Calculating Plan Limits. For purposes of Section 3.1,

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

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

SECTION 4. PERSONS ELIGIBLE UNDER THE PLAN

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

SECTION 5. STOCK OPTION GRANTS

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

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

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

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

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

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

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

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

5.6 Option Exercise.

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

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

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

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

SECTION 6. OTHER PROVISIONS APPLICABLE TO OPTIONS

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

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

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

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

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

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

SECTION 7. CHANGES IN CAPITAL STRUCTURE

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

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

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

SECTION 8. CHANGE OF CONTROL

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

SECTION 9. TAXES

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

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

SECTION 10. AMENDMENT AND TERMINATION

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

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

SECTION 11. COMPLIANCE WITH LAWS AND REGULATIONS

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

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

SECTION 12. NO RIGHT TO COMPANY EMPLOYMENT

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

SECTION 13. LIABILITY OF THE COMPANY

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

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

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

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

SECTION 14. EFFECTIVENESS AND EXPIRATION OF PLAN

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

SECTION 15. NON-EXCLUSIVITY OF THE PLAN

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

SECTION 16. GOVERNING LAW

This Plan and any agreements hereunder shall be interpreted and construed in accordance with the internal laws of the State of Delaware 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.

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEET AND UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF INCOME AT JUNE 30, 2000 AND FOR THE SIX MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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