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 September 30, 1996

OR

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

Commission file number 1-10962

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

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

2285 RUTHERFORD ROAD, CARLSBAD, CA 92008-8815
(619) 931-1771
(Address, including zip code and telephone number, including area code, of principal executive offices)

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 issuer's of Common Stock, $.01 par value, as of October 31, 1996 was 72,734,222.

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)

	September 30, 1996 (Unaudited)	December 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 140,331	$ 59,157
Accounts receivable, net	84,864	73,906
Inventories, net	82,169	51,584
Deferred taxes	25,623	22,688
Other current assets	7,496	2,370
Total current assets	340,483	209,705
Property and equipment, net	80,983	69,034
Other assets	23,189	11,236
	$ 444,655	$ 289,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 30,979	$ 26,894
Accrued employee compensation and benefits	34,410	10,680
Accrued warranty expense	27,289	23,769
Income taxes payable	12,894	1,491
Total current liabilities	105,572	62,834
Long-term liabilities	3,144	2,207
Commitments (Note 10)		
Shareholders' equity:		
Preferred Stock, $.01 par value 3,000,000 shares authorized, none issued and outstanding at September 30, 1996 and December 31, 1995, respectively	0	0
Common Stock, $.01 par value 240,000,000 shares authorized, 72,616,022 and 70,912,129 issued and outstanding at September 30, 1996 and December 31, 1995, respectively	726	709
Paid-in capital	302,270	214,846
Unearned compensation	(2,283)	(2,420)
Retained earnings	216,089	131,712
Less: Grantor Stock Trust (5,300,000 shares) at market (Note 9)	(180,863)	(119,913)
Total shareholders' equity	335,939	224,934
	$ 444,655	$ 289,975

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended				Nine months ended			
	September 30, 1996		September 30, 1995		September 30, 1996		September 30, 1995	
Net sales	$194,545	100%	$155,924	100%	$539,685	100%	$430,647	100%
Cost of goods sold	88,474	45%	75,130	48%	253,899	47%	209,541	49%
Gross profit	106,071	55%	80,794	52%	285,786	53%	221,106	51%
Selling expenses	21,728	11%	15,247	10%	61,727	11%	51,943	12%
General and administrative expenses	19,326	10%	15,896	10%	61,440	11%	43,790	10%
Research and development costs	5,245	3%	1,936	1%	11,653	2%	6,213	1%
Income from operations	59,772	31%	47,715	31%	150,966	28%	119,160	28%
Other income, net	1,619		1,361		3,952		3,008	
Income before income taxes	61,391	32%	49,076	31%	154,918	29%	122,168	28%
Provision for income taxes	22,973		18,898		58,108		47,756	
Net income	$ 38,418	20%	$ 30,178	19%	$ 96,810	18%	$ 74,412	17%
Earnings per common share	$ .54		$ .44		$ 1.38		$ 1.06	
Common equivalent shares	71,065		68,830		70,390		70,414	
Dividends paid per share	$.06		$.05		$.18		$.15	

See accompanying notes to consolidated condensed financial statements.

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

	Nine months ended	
	September 30, 1996	September 30, 1995
Cash flows from operating activities:		
Net income	$ 96,810	$ 74,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,377	7,721
(Gain) on disposal of fixed assets	(11)	0
Non-cash compensation	3,576	1,424
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	(7,485)	(42,301)
Inventories, net	(28,794)	33,087
Deferred taxes	(4,665)	2,062
Other assets	(13,168)	(584)
Accounts payable and accrued expenses	(1,524)	6,873
Accrued employee compensation and benefits	23,162	12,694
Accrued warranty expense	3,520	4,488
Income taxes payable	11,017	3,534
Other liabilities	937	187
Net cash provided by operating activities	92,752	103,597
Cash flows from investing activities:		
Capital expenditures	(21,156)	(16,831)
Intangible assets	(481)	0
Investment in subsidiary	(610)	0
Net cash used in investing activities	(22,247)	(16,831)
Cash flows from financing activities:		
Issuance of Common Stock	11,101	3,173
Tax benefit from exercise of stock options	11,951	5,552
Dividends paid	(12,303)	(10,115)
Retirement of Common Stock	0	(59,039)
Net cash provided (used in) financing activities	10,749	(60,429)
Effect of exchange rate changes on cash	(80)	5
Net increase in cash and cash equivalents	81,174	26,342
Cash and cash equivalents at beginning of period	59,157	54,356
Cash and cash equivalents at end of period	$140,331	$ 80,698

See accompanying notes to consolidated condensed financial statements.

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

	Common Shares Stock	Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	GST	Total
Balance, December 31, 1995	70,912	$709	$214,846	($2,420)	$131,712	($119,913)	$224,934
Exercise of stock options	1,536	15	11,086				11,101
Tax benefit from exercise of stock options			11,951				11,951
Compensatory stock options			1,165	137			1,302
Compensatory stock	168	2	2,272				2,274
Cash dividends					(12,939)		(12,939)
Dividends on shares held by GST					636		636
Equity adjustment from foreign currency translation					(130)		(130)
Adjustment of GST shares to market value			60,950			(60,950)	
Net income					96,810		96,810
Balance, September 30, 1996	72,616	$726	$302,270	($2,283)	$216,089	($180,863)	$335,939

See accompanying notes to consolidated condensed financial statements.

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

Note 1

The accompanying consolidated condensed balance sheet as of September 30, 1996 and the consolidated condensed statements of income, cash flows and shareholders' equity for the nine month periods ended September 30, 1996 and 1995 have been prepared by Callaway Golf Company (the Company) and have not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented. 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, 1995. Interim operating results are not necessarily indicative of operating results for the full year. The consolidated condensed financial statements include the accounts of the Company and its wholly owned subsidiaries, Callaway Golf Sales Company, Callaway Golf Ball Company, Callaway Golf (UK) Limited and Callaway Golf (Germany) GmbH. All significant intercompany transactions and balances have been eliminated.

Note 2

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.

Note 3

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period increased by dilutive common stock equivalents using the treasury stock method. Fully diluted earnings per share was substantially the same as primary earnings per share for the periods ended September 30, 1996 and 1995, respectively. Shares owned by the Callaway Golf Company Grantor Stock Trust are included in the number of weighted average shares outstanding using the treasury stock method with assumed proceeds from exercise equal to the aggregate closing price of those shares at the end of the reporting period. The dilutive effect of rights to purchase preferred or common shares under the Callaway Golf Shareholder Rights Plan have not been included in weighted average share amounts as the conditions necessary to cause these rights to be exercised were not met.

Note 4

Inventories at September 30, 1996 and December 31, 1995 consisted of:

	September 30, 1996	December 31, 1995
	(Unaudited)	
	(in thousands)	
Inventories:		
Raw materials	$36,838	$23,980
Work-in-process	1,586	1,109
Finished goods	48,205	31,291
	86,629	56,380
Less reserve for obsolescence	(4,460)	(4,796)
Net inventories	$82,169	$51,584

Note 5

The provision for income taxes is as follows:

	Nine months ended September 30, 1996	Nine months ended September 30, 1995
	(Unaudited)	(Unaudited)
	(in thousands)	
Current tax provision:		
Federal	$52,309	$35,676
State	9,317	8,444
Foreign	1,208	1,574
Deferred tax (benefit) expense:		
Federal	(4,234)	1,403
State	(446)	802
Foreign	(46)	(143)
Provisions for income taxes	$58,108	$47,756

Deferred tax assets are comprised of the following:

	September 30, 1996	December 31, 1995
	(Unaudited)	
	(in thousands)	
Reserves and allowances	$18,508	$16,381
Depreciation and amortization	6,086	4,297
Deferred compensation	2,420	2,019
Effect of inventory overhead adjustment	1,629	1,414
Compensatory stock options and rights	1,554	1,346
State taxes, net	877	972
Other	625	605
Net deferred tax assets	$31,699	$27,034

Note 6

On August 20, 1996, the Company paid a quarterly dividend of $.06 per share to shareholders of record on July 30, 1996. Additionally, on October 16, 1996, the Company declared a quarterly dividend of $.06 per share payable November 19, 1996 to shareholders of record on October 29, 1996.

Note 7

During the nine months ended September 30, 1996, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from its wholly owned foreign subsidiary. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At September 30, 1996, the Company had approximately $5,219,000 of foreign exchange contracts outstanding. The contracts mature between October and December of 1996. Realized and unrealized losses on these contracts are recorded in net income. The net realized and unrealized losses from foreign exchange contracts for the nine months ended September 30, 1996 totaled approximately $48,000.

Note 8

At September 30, 1996, the Company held investments in U.S. Treasury bills with maturities of three months or less in the aggregate amount of $124.2 million. Management determines the appropriate classification of its U.S. Government and other debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company has included these securities, net of amortization, in cash and cash equivalents and has designated them as "held-to-maturity."

Note 9

The Company's Grantor Stock Trust (GST) holds 5,300,000 shares of Company stock at September 30, 1996. During the term of the GST, shares in the GST may be used to fund the Company's obligations with respect to one or more of the Company's non-qualified or qualified employee benefit plans. Shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with employee benefits. Each period the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in capital in excess of par value. These shares have no impact on the net amount of shareholders' equity.

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

Note 10

In the normal course of business, the Company enters into certain long term purchase commitments with various vendors. The Company has agreements with one of its suppliers which require the Company to purchase, under certain conditions, a minimum of 2,000,000 graphite shafts, or 25% of all graphite shafts required in the manufacture of its golf clubs, whichever is greater, through December 31, 1997, and 25% of all graphite shaft requirements from January 1998 through May 1998.

In April 1996, the Company entered into a clubhead supply agreement with one of its suppliers to purchase, under certain conditions, titanium club heads costing up to a maximum of $97,500,000 for the remainder of 1996 through December 1997. This agreement is cancelable by the Company at any time by giving six months notice.

Effective June 1995, the Company agreed to form a joint venture with Sturm, Ruger & Company, Inc. (Sturm, Ruger), its main supplier of Great Big Bertha(R) titanium heads, to construct a foundry that would significantly increase Sturm, Ruger's capacity to produce heads. Under the terms of the joint venture agreements, the Company shall have a 50% equity interest in the new foundry and is required to contribute up to $7,000,000 in capital contributions for developing, designing, equipping and operating the new facility. The Company accounts for its investment in the joint venture pursuant to the equity method. As of September 30, 1996, the Company had made capital contributions of $6,454,000 to the joint venture, which had not commenced operations. It was contemplated in 1995 that the Company would purchase from Sturm, Ruger and the joint venture at competitive prices a minimum quantity of 500,000 club heads per year in 1996, 1997 and 1998. The Company has placed orders that meet or exceed this minimum for 1996 and 1997. However, delays and cost overruns in the joint venture project, improved production at Sturm, Ruger and the development of new alternative sources for quality titanium castings at significantly lower prices than those originally contemplated for the joint venture have prompted the parties to enter into discussions about the continuing need for the joint venture.

Note 11

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock-Based Compensation." The Company will continue to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Adoption of SFAS 123 will not have a material impact on the Company's financial position or results of operations for the year ending December 31, 1996.

Note 12

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The new standard requires that the Company investigate potential impairments of long-lived assets, certain identifiable intangibles, and associated goodwill, on an exception basis, when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when the sum of the expected future net cash flows is less than the carrying amount of the asset. Adoption of SFAS 121 did not have a material impact on the Company's financial position or results of operations.

Note 13

On May 30, 1996, a lawsuit was filed against Callaway Golf Company and two of its officers by a former officer of the Company. The lawsuit asserts claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs and alleges facts which may be asserted by the plaintiff as an additional claim for wrongful termination of employment. The complaint seeks damages of $290,000,000, a royalty of $27,000,000 or compensatory damages for breach of alleged oral contract, as well as unspecified punitive damages and costs. The Company is vigorously defending the suit, and believes based on the information available to it at this time that it has good and valid defenses to the claims and that the suit will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

Note 14

On July 1, 1996 the Company acquired a majority ownership interest in its German distributor, Golf Trading GmbH. This acquisition was made through the formation of Callaway Golf (Germany) GmbH (a wholly owned subsidiary).

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

When used in this discussion, the words "believes," "anticipated" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting the Golf Club Industry and Callaway Golf" in this Report, as well as the Company's other periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

THREE MONTH PERIODS ENDED SEPTEMBER 30, 1996 AND 1995:

Net sales increased 25% to $194.5 million for the three months ended September 30, 1996 compared to $155.9 million for the same period in the prior year. This increase was primarily attributable to increased sales of Great Big Bertha(R) Metal Woods, including the Great Big Bertha(R) Fairway Woods which were introduced in January 1996, combined with increased sales of Big Bertha(R) Irons. These sales increases were offset by a decrease in net sales of Big Bertha(R) War Bird(R) Metal Woods.

For the three months ended September 30, 1996, gross profit increased to $106.1 million from $80.8 million for the same period in the prior year and gross margin increased to 55% from 52%. The increase in gross profit was primarily the result of decreases in component costs and manufacturing labor and overhead costs related to increased production volume and improved labor efficiencies.

Selling expenses increased to $21.7 million in the third quarter of 1996 compared to $15.2 million in the third quarter of 1995. As a percentage of net sales, selling expenses in the third quarter increased to 11% from 10% for the same period in 1995. The $6.5 million increase was primarily a result of increased sales representatives' salaries and commission expense in the quarter due to a new compensation package under which such expenses are incurred more evenly throughout the year, combined with increases in TV advertising and tour endorsement expenses.

General and administrative expenses for the three months ended September 30, 1996 increased to $19.3 million from the $15.9 million incurred during the third quarter of 1995. As a percentage of net sales, general and administrative expenses remained constant at 10% for the third quarter of 1996 and 1995. The $3.4 million increase in general and administrative expenses was primarily attributable to increased employee compensation and benefits, costs associated with the Company's business development initiatives and facility expenses. These increases were partially offset by a decrease in charitable contributions.

Research and development expenses were $5.2 million for the three months ended September 30, 1996 as compared to $1.9 million for the same period in the prior year. The increase in research and development costs was attributable to increased personnel and operating expenses associated with the Company's golf club testing facility and shaft and tooling departments.

NINE MONTH PERIODS ENDED SEPTEMBER 30, 1996 AND 1995:

For the nine months ended September 30, 1996, net sales increased 25% to $539.7 million compared to $430.6 million for the same period in the prior year. This increase was primarily attributable to increased sales of Great Big Bertha(R) Metal Woods, including the Great Big Bertha(R) Fairway Woods.

For the nine months ended September 30, 1996, gross profit increased to $285.8 million from $221.1 million for the same period in the prior year and gross margin increased to 53% from 51%. The increase in gross margin was primarily the result of decreases in component costs and manufacturing labor and overhead costs related to increased production volume and improved labor efficiencies.

Selling expenses increased to $61.7 million from $51.9 million for the nine months ended September 30, 1996 compared to the same period in the prior year. As a percentage of net sales, selling expenses in the first nine months of 1996 decreased to 11% from 12% for the same period in 1995. The decrease as a percentage of net sales was primarily attributable to costs being spread over a larger sales volume. The $9.8 million increase was primarily a result of compensation, tour endorsement and TV advertising expenses.

General and administrative expenses for the nine months ended September 30, 1996 increased to $61.4 million from the $43.8 million incurred during the nine months ended September 30, 1995. The $17.6 million increase was primarily attributable to increased employee compensation and benefits, costs associated with the Company's business development initiatives and increases in computer support, legal, depreciation and other general and administrative expenses.

Research and development expenses were $11.7 million for the nine months ended September 30, 1996 as compared to $6.2 million for the same period in the prior year. The increase in research and development costs is attributable to increased personnel and operating expenses associated with the Company's golf club testing facility and shaft and tooling departments.

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

The Company believes that the growth rate in the golf equipment industry in the United States has been modest for the past several years, and this trend is likely to continue through 1996. Sales of all golf clubs in Japan, the world's second largest consumer of golf clubs next to the United States, appeared to be stabilizing during early 1996, but recent trends indicate the market may be declining. Although demand for the Company's products has been generally strong during the three and nine months ended September 30, 1996, no assurances can be given that the demand for the Company's existing products or the introduction of new products will continue to permit the Company to experience its historical growth or maintain its historical profit margin. Additionally, given the Company's current size and market position, it is possible that further market penetration will prove more difficult.

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. Although the Company's business generally follows this seasonal trend, the success of the Company over the past several years has tended to mitigate the impact of seasonality on the Company's operating results. Beginning in the current year, the Company's operating results have been more significantly affected by seasonal buying trends.

The market in which the Company does business is highly competitive, and is served by a number of well established and well financed companies with recognized brand names. Several companies introduced new products in 1996 (e.g. Ping "ISI" irons, Taylor Made "Burner Bubble Shaft" irons, Cobra "Ti" titanium metal woods, "King Cobra II" irons and Armour "Ti 100" irons) that have generated increased market competition. Others increased their marketing activities with respect to existing products in 1996. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that these actions by others will not negatively impact the Company's future sales. Additionally, the golf club industry, in general, has been characterized by widespread imitation of popular club designs. A manufacturer's ability to compete is in part dependent upon its ability to satisfy various subjective requirements of golfers, including the golf club's look and "feel," and the level of acceptance that the golf club has among professional and other golfers. The subjective preferences of golf club purchasers may also be subject to rapid and unanticipated changes. There can be no assurance as to how long the Company's golf clubs will maintain market acceptance.

The Company began shipping significant quantities of its Great Big Bertha(R) Drivers in March 1995, and began shipping Great Big Bertha(R) Fairway Woods in March of 1996. This product line is an important part of the Company's business. Great Big Bertha(R) Metal Woods have a titanium club head and are priced substantially higher than the Company's stainless steel product line. The Company currently has three sources for its titanium club heads, but is currently receiving the vast majority of its club heads from two vendors. While the Company has been successful thus far in acquiring adequate quantities of high quality titanium castings at acceptable prices, there is no guarantee that its current suppliers will continue to meet those needs.

The Company believes that the introduction of new, innovative golf equipment will be important to its future success. New models and basic design changes are frequently introduced into the golf equipment market but are often met with consumer rejection. Although the Company has achieved certain successes in the introduction of its golf clubs, no assurances can be given that the Company will be able to continue to design and manufacture golf clubs that achieve market acceptance. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the market. The design of new golf equipment is also greatly influenced by rules and interpretations of the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A"). The golf equipment standards established by the USGA and R&A apply to competitive events sanctioned by each organization and are generally followed in competitions within their respective jurisdictions. Accordingly, it has become critical for designers of new clubs to assure compliance with USGA and R&A standards. While the Company believes that all of its clubs comply with USGA and R&A standards, no assurance can be given that any new products will receive USGA and R&A approval or that existing USGA and R&A standards will not be altered in ways that adversely affect the sales of the Company's products.

In June 1996, the Company formed Callaway Golf Ball Company ("CGB"), a wholly owned subsidiary of Callaway Golf Company for the purpose of designing, manufacturing and selling golf balls. The Company has previously licensed the manufacture and distribution of a golf ball product in Japan and Korea. The Company also distributed a golf ball under the trademark "Bobby Jones". Both previous golf ball ventures were not commercially successful. At this time, it has not been determined whether CGB will enter the golf ball business by developing a new product, by acquiring an existing golf ball manufacturer, by participating in a joint venture with another company, or by a combination of these factors. This business is in early stages of development, the impact of this new business on the Company's future cash flow and income from operations is uncertain. The Company believes that factors affecting the golf equipment industry described above, including growth rate in the golf equipment industry, seasonality and new product introduction will also apply to the golf ball business. There can be no assurance if and when a successful golf ball product will be developed or that the Company's investment will ultimately be realized. In addition, the golf ball business is highly competitive with a number of well established and well financed competitors including Titleist, Spalding, Maxfli, Bridgestone and others. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

The Company is dependent on a limited number of suppliers for its club heads and shafts. In addition, some of the Company's products require specifically developed techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if any significant delay or disruption in the supply of these component parts occurs, it may have a material adverse effect on the Company's business.

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

During 1995, there was an increase in unauthorized distribution of the Company's products (i.e. product sold by the Company to authorized distributors being ultimately sold at retail by unauthorized distributors). The

Company is making further efforts to reduce this unauthorized distribution of its products in both domestic and international markets. While efforts to reduce unauthorized distribution have had only limited success to date, these efforts could result in an increase in sales returns over historical levels, and/or a potential decrease in sales to those customers who are selling Callaway(R) products to unauthorized distributors.

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

During 1995, the Company established a department to evaluate opportunities in and outside of the golf equipment industry. Such ventures will present new challenges for the Company and there can be no assurance that this activity will be successful. One of the opportunities identified by this department relates to the Company's acquisition of selected foreign distributors. The Company's management believes that controlling the distribution of its products in these areas will be a key element in the future growth and success of the Company. Executing this business strategy has and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. There can be no assurance that the acquisition of the Company's foreign distributors will achieve these stated goals.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1996, cash and cash equivalents increased to $140.3 million from $59.2 million at December 31, 1995, due to $92.7 million provided by operating activities and $10.7 million provided by financing activities. These increases were offset by $22.2 million used in investing activities associated primarily with capital expenditures. The Company has available a $50.0 million line of credit and anticipates that its existing capital resources and cash flow generated from future operations will enable it to maintain its current level of operations and its planned operations for the foreseeable future.

The Company's net accounts receivable increased to $84.9 million at September 30, 1996 from $73.9 million at December 31, 1995 and $72.3 million at September 30, 1995, primarily as a result of the increase in net sales. The 1996 third quarter sales included certain sales with extended payment terms to qualified customers. These terms are comparable to those traditionally offered by our competitors. Net inventory was $82.2 million at September 30, 1996 compared to $51.6 million at December 31, 1995 and $41.1 million at September 30, 1995. The increase in inventory levels at September 30, 1996 is consistent with historical seasonality trends. Component costs related to the Great Big Bertha(R) product line which are higher in relation to other product lines also contributed to the increase in inventory.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings:

The Company, incident to its business activities, is the plaintiff in several legal proceedings, both domestically and abroad, in various stages of development. In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated a number of actions against alleged infringers under the Lanham Act, 15 USCA Sections 1051-1127, the U.S. Patent Act, 35 USCA Sections 1-376, and other pertinent laws. Some defendants in these actions have, among other things, contested the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others have asserted counterclaims against the Company. The Company believes that the outcome of these matters individually and in the aggregate will not have a material adverse effect upon the financial position or results of operations of the Company. It is possible, however, that in the future one or more defenses or claims asserted by defendants in those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company, or some other loss to the Company. One or more of these results could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the market place.

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

On May 30, 1996, a lawsuit was filed against Callaway Golf Company and two of its officers by a former officer of the Company, captioned Glenn Schmidt v. Callaway Golf Company, et al., Case No. N 71548, in the Superior Court for the State of California, County of San Diego. On July 10, 1996, the defendants removed the case to the United States District Court for the Southern District of California, Case No. 961235 B AJB. On September 12, 1996, the District Court entered an order returning the case to state court, holding that the plaintiff's claims arose under state law. The lawsuit asserts claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs and alleges facts which may be asserted by the plaintiff as an additional claim for wrongful termination of employment. The complaint seeks damages of $290,000,000, a royalty of $27,000,000, or compensatory damages for breach of the alleged oral contract, as well as unspecified punitive damages and costs. The Company believes based on the information available to it at this time that it has good and valid defenses to the claims, is vigorously defending the suit, and has asserted its own counterclaims for breach of fiduciary duty, fraud and negligent misrepresentation. Formal discovery has commenced in preparation for trial.

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of legal proceedings in various stages of development, including but not limited to those described above. The Company believes that the majority of these proceedings involve matters as to which liability, if any, will be adequately covered by insurance. With respect to litigation outside the scope of applicable insurance coverage and to the extent insured claims may exceed liability limits, it is the opinion of the management of the Company that these matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

Item 2. Changes in Securities:

None

Item 3. Defaults Upon Senior Securities:

None

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

None

Item 5. Other Information

None

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

a. Exhibits:

10.9.2	Amendment No. 1 to Form of Tax Indemnification Agreement
10.16.2	Indemnification Agreement by and between the Company and Aulana L. Peters dated as of July 18, 1996
10.18	Employment agreement by and between the Company and Elmer L. Ward Jr. dated July 1, 1996
11.1	Statement re: Computation of Earnings Per Common Share
27	Financial Data Schedule

b. Reports on Form 8-K:

None

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: November 13, 1996

/s/ DONALD H. DYE

DONALD H. DYE
President
Chief Executive Officer

/s/ DAVID A. RANE

DAVID A. RANE
Executive Vice President
Chief Financial Officer

AMENDMENT NO. 1 TO
TAX INDEMNIFICATION AGREEMENTS

This Amendment No. 1 to Tax Indemnification Agreements (this "First Amendment") is made effective as of January 1, 1996 by and between Callaway Golf Company, a California corporation (the "Company") and those certain employees of the Company listed on Schedule A hereto (the "Employees").

WHEREAS the Company and the Employees are signatories and parties to certain Tax Indemnification Agreements effective as of September 1, 1995 (the "Tax Agreements"); and

WHEREAS the Company desires to amend the Tax Agreements in a manner that is fully consistent with the original agreements, and clarifies those agreements to make clear that the benefits of the Tax Agreements are to be realized to the fullest extent appropriate; and

WHEREAS such an amendment to the Tax Agreements would not work contrary to the contractual rights, benefits or obligations of the Employees under the Tax Agreements, and therefore can be implemented by the Company unilaterally;

NOW THEREFORE it is agreed as follows:

1. Each and every one of the Tax Agreements is hereby deemed to be amended, effective January 1, 1996, as follows:

(a) Exhibit A to said Tax Agreements is hereby stricken and deleted, and otherwise rendered null and void as of the effective date of this First Amendment; and

(b) A new paragraph 7 to said Tax Agreements is hereby added to each and every one of the Tax Agreements, and made a part thereof effective as of the effective date of this First Amendment, the contents of which are as follows:

> 7. It is intended that this Agreement shall apply in any and all situations where Recipient might be subject to Sections 280G and/or 4999 of the Code or similar successor provisions or similar state or local tax laws, and therefore, for purposes of this Agreement, Change of Control shall mean a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the Company's assets, as defined under the Code and/or such other tax laws.

2. Except as set forth in this First Amendment, the Tax Agreements shall continue as in effect prior to the effectiveness hereof.

3. To the extent this First Amendment is held by a court of law or any other properly authorized tribunal to be ineffective or invalid, the Tax Agreements so affected shall be deemed to have not been amended and shall remain in force and effect as they were prior to the attempted amendment.

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed unilaterally on behalf of the Company effective as of the date set forth above.

COMPANY
Callaway Golf Company,
a California corporation

By: /s/DONALD H. DYE

Name: Donald H. Dye

Title: President and COO

SCHEDULE A
AMENDMENT NO. 1 TO TAX INDEMNIFICATION AGREEMENT

Ely Callaway
Donald H. Dye
Bruce Parker
John Duffy
Richard C. Helmstetter
Kim D. Carpenter
Ann Barthelmess
David Biddle
Victor Dennis
Dean Ellis
Michael Galeski
Joel Hamilton
Chris Holiday
Marv Hosenfeld
Scott Howard
Bret Larsen
Steven McCracken
Richard Merk
Elizabeth O'Mea
Stuart Orr
David Rane
Kenneth Wolf

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of this 18th day of July, 1996, by and between Callaway Golf Company, a California corporation (the "Company"), and Aulana L. Peters ("Indemnitee"), a director of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

2. INDEMNIFICATION

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

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

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason

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

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

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

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referenced in Section 2.1 or 2.2 hereof. Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby or that such indemnification is not otherwise permitted by applicable law. The

advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor or by Indemnitee to the Company.

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

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

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

3.5 Selection of Counsel. In the event the Company shall be obligated under Section 3.1 hereof to pay the expenses of any proceeding against Indemnitee, the Company shall be entitled to assume the defense of such proceeding, with counsel approved by Indemnitee, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (a) Indemnitee shall have the right to employ separate counsel in any such proceeding at Indemnitee's expense; and (b) if (i) the employment of counsel by Indemnitee has been previously authorized by the Company, (ii) Indemnitee shall have reasonably concluded that

there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company (subject to the provisions of this Agreement).

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

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

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

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

5. PARTIAL INDEMNIFICATION

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

6. MUTUAL ACKNOWLEDGMENT

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

7. LIABILITY INSURANCE

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

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

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

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

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

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

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include any resulting or surviving corporation in any merger or consolidation in which the Company (as then constituted) is not the resulting or surviving corporation so that Indemnitee will continue to have the full benefits of this Agreement.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of

the Company" shall include any service as a director, officer, employee or agent of the Company which impose duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "reasonably believed to be in the best interests of the Company and its shareholders" as referred to in this Agreement.

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

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

If to Indemnitee:	To the address set forth below the signature line of Indemnitee on the signature page hereof.
If to Company:	Callaway Golf Company 2285 Rutherford Road Carlsbad, CA 92008 Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding which arises out of or related to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of California.

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

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

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

"Company" Callaway Golf Company, a California corporation

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

Donald H. Dye
(Name)

President and CEO
(Title)

"Indemnitee" Aulana L. Peters
(Name)

/s/ AULANA L. PETERS
(Signature)

Address:
Gibson, Dunn & Crutcher
333 South Grand Avenue, 47th Floor
Los Angeles, CA 90071

Exhibit 10.18

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into as of July 1, 1996, by and between Callaway Golf Company, a California corporation (the "Company"), and Elmer L. Ward, Jr. ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing July 1, 1996, and terminating June 30, 1999 unless this Agreement is earlier terminated as hereinafter provided. Neither the Company nor Employee have any expectation, obligation, commitment or other agreement with respect to further employment of Employee by the Company following the termination of this Agreement, it being understood that Employee intends to retire as of that time.

2. SERVICES.

(a) Employee shall have the title Manager, Special Licenses, or such other title as shall be given to him from time to time by the Chief Executive Officer. Employee's duties shall be those assigned to him from time to time by the Chief Executive Officer. It is expected that Employee shall initially report directly to the Executive Vice President, International Sales, Licensing and Business Development, or to such other persons as shall be specified from time to time by the Chief Executive Officer.

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

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

4. COMPENSATION. The Company agrees to pay Employee:

(a) a base salary paid at the rate of $250,000.00 per year; and

(b) an opportunity to earn and receive, in the Company's sole discretion, an annual discretionary bonus, payable in accordance with the Company's general policies and practices regarding employee bonuses.

5. EXPENSES AND BENEFITS.

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

(b) Vacation. Employee shall receive three (3) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Vacation benefits, including the accumulation of unused vacation time, shall be subject to the Company's general policies and practices, as they may exist from time to time.

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

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

(ii) 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.

(d) Stock Options. Pursuant to a separate stock option agreement, the Company shall provide to Employee options to purchase up to 25,000 shares of the Common Stock of the Company in accord with the following pricing and vesting schedule:

SHARES	VESTING DATE	PRICE
10,000	January 1, 1997	Base Price (the closing price on the NYSE on August 30, 1996, as reported in the Wall Street Journal
10,000	January 1, 1998	Base Price
5,000	January 1, 1999	Base Price

All shares of stock that are issuable upon the exercise of such options granted to Employee shall be registered as promptly as possible with the Securities and Exchange Commission, and shall be approved for listing on the New York Stock Exchange upon notice of issuance. It is expressly understood that the vesting of such options shall be dependent upon Employee's continued employment by the Company on the specified vesting dates, as provided in the separate stock option agreement.

6. NONCOMPETITION.

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

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

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

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

7. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon giving 30 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as specified in this Agreement for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) the payment of the minimum discretionary bonuses specified in this Agreement; (iv) the immediate vesting of those outstanding but unvested stock options held by Employee as of such termination date that would have vested had Employee remained in the employ of the Company for a period of time equal to the greater of the remainder of the term of this Agreement plus one day or six months; (v) the continuation of the benefits provided by Sections 5(c)(i) and (ii) for a period of time equal to the greater of the remainder of the term of this Agreement or six months; and (vi) no other severance. At his option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under this Agreement may be terminated immediately by Employee at his convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance.

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

(d) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as specified in this Agreement for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) the immediate vesting of those outstanding but unvested stock options held by Employee as of such termination date that would have vested had Employee remained in the employ

of the Company for a period of time equal to the greater of the remainder of the term of this Agreement plus one day or six months; (iv) the continuation of the benefits provided by Sections 5(c)(i) and (ii) for a period of time equal to the greater of the remainder of the term of this Agreement or six months; and (v) no other severance. At his option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company.

(e) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (iii) the continuation of the benefits provided by Sections 5(c)(i) and (ii) for a period of time equal to the greater of the remainder of the term of this Agreement or six months; and (v) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to six months; (iii) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; and (iv) no other severance.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 7 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 7,

Employee shall not be entitled to any further compensation, bonus, damages, restitution, or other severance benefits upon termination of employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 7 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his employment with the Company, or any amounts which might have been earned by Employee in other employment had he sought such other employment. The provisions of this Section 7 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

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

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

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

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

10. PROPRIETARY INFORMATION.

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

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

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

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

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

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

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

(d) The provisions of this Section 10 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

11. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean new ideas

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

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

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

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

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

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

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

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

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

(g) Employee shall disclose all inventions and innovations to the

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

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

13. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled, if, and only if, the arbitrator finds that the non-prevailing party's position, taken as a whole, was frivolous or baseless.

14. ENTIRE UNDERSTANDING. This Agreement, together with all applicable stock option plans and agreements and other employee benefit plans and agreements to which Employee is a beneficiary, sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

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

Employee: Elmer L. Ward, Jr.
P.O. Box 1447
Rancho Santa Fe, California 92067

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

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

in writing, to the other.

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

17. MISCELLANEOUS.

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

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

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

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

18. SUPERSEDES OLD CONSULTING AGREEMENT. Employee and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Consulting Agreement effective March 1, 1993, as amended, (the "Old Consulting 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 Consulting Agreement entirely and that the Old Consulting Agreement shall no longer be of any force or effect, except as to Section 7 thereof, and that to the extent there is any conflict between the Old Consulting Agreement and this Agreement, this Agreement shall control and both agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

19. DIRECTOR COMPENSATION. It is recognized that at the time Employee commences his employment with the Company pursuant to this Agreement, Employee will have been serving as an elected Director on the Board of Directors of the Company. Employee and the Company both acknowledge that immediately upon the effective date of this Agreement, and throughout the term of this Agreement should Employee remain a Director of the Company, Employee shall not be entitled to any form of compensation offered solely to non-employee Directors, including participation in the Company's Non-Employee Director Stock Option Plan, and that options previously granted to Employee under such Plan, but not yet vested, shall not vest and shall be lost. In lieu of any such compensation as a non-employee Director, including the loss of any unvested stock options previously granted to Employee pursuant to the Non-Employee Director Stock Option Plan, and as further consideration for the promises and obligations contained in this Agreement, the Company shall pay to Employee a one time signing bonus of $60,000.00 upon execution of this Agreement.

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

EMPLOYEE:	COMPANY: CALLAWAY GOLF COMPANY, a California corporation
/s/ ELMER L. WARD JR.	By: /s/ DONALD H. DYE
Elmer L. Ward, Jr.	Donald H. Dye, President & CEO

EXHIBIT 11.1

CALLAWAY GOLF COMPANY
COMPUTATION OF EARNINGS PER SHARE

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
	(in thousands, except per share data)			
Primary earnings per share computation:				
Net income	$38,418	$30,178	$96,810	$74,412
Weighted average shares outstanding	67,128	65,858	66,624	67,240
Dilutive options	3,937	2,972	3,766	3,174
Common equivalent shares	71,065	68,830	70,390	70,414
Primary earnings per share:				
Net income	$ .54	$ .44	$ 1.38	$ 1.06
Fully diluted earnings per share computation:				
Net income	$38,418	$30,178	$96,810	$74,412
Weighted average shares outstanding	67,128	65,858	66,624	67,240
Dilutive options	4,052	3,026	4,051	3,257
Common equivalent shares	71,180	68,884	70,675	70,497
Fully diluted earnings per share:				
Net income	$ .54	$ .44	$ 1.37	$ 1.06

9-MOS	
DEC-31-1995	
JAN-01-1996	
SEP-30-1996	
	140,331
	0
	91,301
	6,437
	86,629
	340,483
	111,635
	30,652
	444,655
	105,572
	0
	0
	0
	726
	335,213
	444,655
	539,685
	539,685
	253,899
	253,899
	0
	0
	14
	154,918
	58,108
	96,810
	0
	0
	0
	96,810
	1.38
	1.37