

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997

OR

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

Commission file number 1-10962

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

California  
(State or other jurisdiction of  
incorporation or organization)

95-3797580  
(I.R.S. Employer  
Identification No.)

2285 Rutherford Road  
Carlsbad, CA 92008-8815  
(760) 931-1771

(Address, including zip code, and telephone number, including area code of  
principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
Registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes     X     No  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of Registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K.     \_\_\_

As of February 24, 1998, the aggregate market value of the Registrant's  
Common Stock held by nonaffiliates of the Registrant was \$2,403,960,000 based on  
the closing sales price of the Registrant's Common Stock as reported in the  
consolidated transactions reporting system.

As of February 24, 1998, the number of shares of the Registrant's Common  
Stock outstanding was 74,680,325, and there were no shares of the Registrant's  
Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Parts I, II and IV incorporate certain information by reference from  
Registrant's Annual Report to shareholders for the fiscal year ended December  
31, 1997.

Part III incorporates certain information by reference from the  
Registrant's definitive proxy statement for the annual meeting of shareholders  
to be held on April 23, 1998 which proxy statement was filed on March 16, 1998.

Note: Statements used in this Annual Report on Form 10-K and the information incorporated herein by reference that relate to future plans, events, financial results or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which describe certain factors which affect the Company's business, including the disclosures set forth in Item 1 of this Report and the discussion incorporated by reference in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Certain Factors Affecting Callaway Golf," as well as the Company's periodic reports on Forms 10-Q and 8-K filed with the Securities and Exchange Commission.

PART I

Item 1. Business.

Callaway Golf Company (the "Company" or "Callaway Golf") is a California corporation formed in 1982 and has the following directly wholly-owned operating subsidiaries: Callaway Golf Sales Company, Callaway Golf Ball Company, Odyssey Golf, Inc., CGV, Inc., Callaway Golf Europe Ltd. (formerly Callaway Golf (UK) Limited), ERC International Company, Callaway Golf Korea, Ltd. and Callaway Golf (Germany) GmbH. The Company designs, develops, manufactures and markets high quality, innovative golf clubs. The Company's golf clubs are sold at premium prices to both average and skilled golfers on the basis of performance, ease of use and appearance. Callaway Golf's primary products, most of which incorporate the Company's S2H2(R) design concept, currently include Biggest Big Bertha(TM) Titanium Drivers, Great Big Bertha(R) Titanium Drivers and Fairway Woods, Big Bertha(R) Metal Woods with the War Bird(R) soleplate, Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Big Bertha(R) X-12 Irons, Big Bertha(R) Tour Series Wedges and various putters, including the Bobby Jones(R) Series Putters.

In August 1997, the Company consummated its acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc., by one of its wholly-owned subsidiaries, Odyssey Golf, Inc. ("Odyssey"), subject to certain adjustments as of the time of closing. Odyssey manufactures and markets the Odyssey(R) line of putters and wedges with Stronomic(R) and Lyconite(TM) face inserts.

Products

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

	Year Ended December 31,					
	1997		1996		1995	
Metal Woods	\$544,258	64%	\$479,127	71%	\$382,740	69%
Irons	233,977	28%	168,576	25%	140,620	25%
Putters, accessories and other*	64,692	8%	30,809	4%	29,927	6%
Net Sales	\$842,927	100%	\$678,512	100%	\$553,287	100%

\* 1997 net sales include \$20.5 million of Odyssey(R) putters and wedges.

The Company believes that the growth rate, if any, in the world-wide golf equipment market has been modest for the past several years, and this trend is likely to continue. In addition, recent economic turmoil in Southeast Asia and Korea has caused a significant contraction in the retail golf markets in these countries and had an adverse effect on the Company's sales and results of operations for the fourth quarter of 1997. The Company expects this situation to continue until economic stability returns to these areas. Potential economic disruption from this turmoil in other areas, such as Japan and elsewhere in Asia, also could adversely impact the Company's future sales and results of operations. Additionally, although demand for the Company's products was generally strong during 1997, no

assurances can be given that the demand for the Company's existing products or the introduction of new products will continue to permit the Company to experience its historical growth rates in sales.

The Company experienced an increase in its cost of goods sold during the third and fourth quarters of 1997 compared to historical levels, primarily due to a general increase in sales of irons, which have lower margins than metal woods, and an increase in sales to Japan, an area which has the lowest margins of all the areas in which the Company sells. In addition, the current operations of Odyssey have lower margins than the Company has experienced historically. If sales of irons or Odyssey(R) putters as a percentage of the Company's total sales remain at these levels or continue to rise and margins do not improve, the recent increase in cost of goods sold over historical levels will continue.

#### Metal Woods

##### Biggest Big Bertha(TM) Titanium Driver

In January 1997, the Company introduced Biggest Big Bertha(TM) Titanium Drivers. Biggest Big Bertha(TM) Drivers have titanium clubheads which are approximately 15% larger than Great Big Bertha(R) Driver clubheads described below, and ultralight graphite shafts which are longer than Great Big Bertha(R) Driver shafts. Although larger and longer, Biggest Big Bertha(TM) Drivers are lighter in overall weight than Great Big Bertha(R) Drivers. Biggest Big Bertha(TM) Drivers incorporate the S2H2(R) design concept, the War Bird(R) soleplate (which features a deep dish on either side of the central facet running rearward from the clubface) and an advanced internal weighting system which increases the degree of perimeter weighting of the titanium clubhead. The Company offers Biggest Big Bertha(TM) Drivers in lofts ranging from 6 to 12 degrees. It is expected that this product line will be offered as a driver only. Deliveries of significant quantities of this new product commenced in January 1997.

##### Great Big Bertha(R) Titanium Metal Woods

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

##### Big Bertha(R) Metal Woods with the War Bird(R) Soleplate

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

#### Irons

##### Big Bertha(R) X-12 Irons

In January 1998, the Company introduced and began delivery of significant quantities of Big Bertha(R) X-12 Irons. Big Bertha(R) X-12 Irons incorporate a low center of gravity which helps get the ball airborne more easily with the proper trajectory and spin. The varied 360-degree undercut channel creates a thinner profile and less drag and the narrower sole keeps the center of gravity low and reduces turf drag. The unique multi-layer design in the cavity allows for increased forgiveness on off-center hits. These new irons are offered in 1 through 9, and pitching, approach, sand, and lob wedges, with either graphite or steel shafts.

## Great Big Bertha(R) Tungsten.Titanium(TM) Irons

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

Big Bertha(R) Irons, Big Bertha Gold(TM) Irons, Big Bertha(R) Tour Series Wedges and Big Bertha Gold(TM) Tour Series Wedges

During 1997, the Company offered Big Bertha(R) Irons 1 through 9, and pitching, approach, sand, and lob wedges, with either graphite, steel or titanium shafts. Also during 1997, the Company offered Big Bertha Gold(TM) Irons, cast of aluminum bronze and including all of the design features of Big Bertha(R) Irons. The Company no longer offers as a current product its Big Bertha(R) Irons and Big Bertha Gold(TM) Irons.

In 1996, the Company introduced and began delivery of Big Bertha(R) Tour Series Wedges (pitching, approach, sand and lob wedges) with several new features geared toward enhancing playability for middle-to low-handicap amateurs as well as tour professionals. In January 1997, the Company also introduced Big Bertha Gold(TM) Tour Series Wedges.

## Putters

The Company has two lines of putters. As mentioned previously, the Company acquired substantially all of the assets and certain liabilities of Odyssey Sports, Inc. in August 1997 through its wholly-owned subsidiary, Odyssey. Odyssey produces putters incorporating a soft, sensitive black trapezoidal Stronomic(R) insert designed to provide better feel and forgiveness. Odyssey produces Rossie(TM) mallets and blade style putters in both stainless steel and bronze. The Company also has a Callaway Golf(R) line of steel and graphite shafted putters, some of which incorporate the S2H2(R) concept, including the Tuttle(R) and the Tuttle(R) II putters, the Big Bertha(R) War Bird(R) putter, and the steel shafted Big Bertha(R) Blade putter. In 1996, the Company introduced and commenced deliveries of the new Bobby Jones(R) line of putters, consisting of three styles of precision-machined putters with a double-radius bend, offset shaft and in 1997, additional styles of the Bobby Jones(R) line of putters were introduced. The Bobby Jones(R) line is available in stainless steel and aluminum bronze.

## Accessories

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

## Licensing

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

Callaway Golf also has an exclusive licensing agreement with Nordstrom, Inc., under which Nordstrom, Inc. designs, produces and sells apparel at its own expense under the "Callaway Golf Apparel by Nordstrom" label. The licensing agreement was recently extended through 2004. The line includes men's and women's golf apparel, golf footwear and certain other products and is sold at Nordstrom stores throughout the United States.

In 1997, Callaway Golf and Bausch & Lomb Incorporated signed a multi-year agreement to jointly develop and globally market an exclusive line of premium sunglasses specifically for golf enthusiasts. The sunglasses, to be

co-branded with the Ray-Ban(R) and Callaway Golf(R) names, will be marketed in the second half of 1998 or early 1999 at golf pro shops and other retailers of premium golf equipment, better sporting goods and better department stores, sunglass specialty shops and optical channels.

#### Product Design and Development

Product design at Callaway Golf is a result of the integrated efforts of its product development, manufacturing and sales departments, all of which work together to generate new ideas for golf equipment. The Company has not limited itself in its research efforts by trying to duplicate designs that are traditional or conventional and believes it has created an environment in which new ideas are valued and explored. The Company's research and development expenses were \$30.3 million, \$16.2 million and \$8.6 million during 1997, 1996, and 1995, respectively. The Company intends to continue to invest substantial amounts in its research and development activities in 1998 and beyond. In addition to development of new golf equipment, these investments are expected to include, among others, significant expenditures in support of Callaway Golf Ball Company's efforts to develop and market a new golf ball product, as well as the continued enhancement of, and the development of additional applications for, the Company's Sir Isaac Performance System(TM), a high-tech evaluation system which permits golfers to compare the performance of different golf clubs and balls.

In January 1997, the Company opened Callaway Golf Performance Centers which feature the Sir Isaac Performance System(TM) at Walt Disney World in Orlando, Florida, and at the Pebble Beach Golf Resort in Carmel, California. In connection with these arrangements, the Company also received certain exclusive promotional rights at these popular resorts. A third Callaway Golf Performance Center opened in October 1997 in Las Vegas, Nevada.

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

The Company believes that the introduction of new, innovative golf equipment will be important to its future success. As a result, the Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be cannibalized or rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. New designs should generally satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products. Moreover, the Company's new products have tended to incorporate significant innovations in design and manufacture, which have resulted in increasingly higher prices for the Company's products relative to products already in the marketplace. There can be no assurance that a significant percentage of the public will always be willing to pay such prices for golf equipment. Thus, although the Company has achieved certain successes in the introduction of its golf clubs in the past, no assurances can be given that the Company will be able to continue to design and manufacture golf clubs that achieve market acceptance in the future.

The rapid introduction of new products by the Company can result in close-outs of existing inventories, both at the Company and at retailers. So far, the Company has managed such close-outs so as to avoid any material negative impact on the Company's operations. There can be no assurance that the Company will always be able to do so.

As the Company introduces new products, it plans its manufacturing capacity based upon the forecasted demand for such new products. Actual demand for such new products may exceed forecasted demand. The Company's

unique product designs often require sophisticated manufacturing techniques, which can limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for new products. If the Company is unable to produce sufficient quantities of new products in time to fulfill actual demand, especially during the Company's traditionally busy second and third quarters, it could limit the Company's sales and adversely affect its financial performance.

In 1996, the Company formed Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, for the purpose of designing, manufacturing and selling golf balls. The Company has previously licensed the manufacture and distribution of a golf ball product in Japan and Korea. The Company also distributed a golf ball under the trademark "Bobby Jones." These golf ball ventures were not commercially successful.

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by developing a new product in a new plant to be constructed just for this purpose. The successful implementation of the Company's strategy could be adversely affected by various risks, including, among others, delays in product development, construction delays and unanticipated costs. There can be no assurance if and when a successful golf ball product will be developed or that the Company's investments will ultimately be realized.

The Company's golf ball business is in the early stages of development. It is expected, however, that it will have a negative impact on the Company's future cash flows and results of operations for several years. The Company believes that many of the same factors which affect the golf equipment industry, including growth rate in the golf equipment industry, intellectual property rights of others, seasonality and new product introductions, also apply to the golf ball business. In addition, the golf ball business is highly competitive with a number of well-established and well-financed competitors. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

#### Sales and Marketing

##### Sales for Distribution in the United States

Approximately 65%, 68% and 66% of the Company's net sales were derived from sales for distribution within the United States in 1997, 1996 and 1995, respectively. The Company targets those golf retailers (both on-course and off-course) who sell "pro-line" clubs (professional quality golf clubs) and provide a level of customer service appropriate for the sale of premium golf clubs. No one customer that distributes golf clubs in the United States accounted for more than 5% of the Company's revenues in 1997, 1996, and 1995. The Company distributes its products in Hawaii through an exclusive distributor.

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

Some quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" in the Company's products can undermine authorized retailers and distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the other hand, stopping such commerce could result in a potential decrease in sales to those customers who are selling Callaway Golf products to unauthorized distributors and/or an increase in sales returns over historical levels. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both domestic and international markets, it has not stopped such commerce. The Company's efforts to address gray market issues could have an adverse impact on the Company's sales and financial performance.

## Sales for Distribution Outside of the United States

Approximately 35%, 32% and 34% of the Company's net sales were derived from sales for distribution outside of the United States in 1997, 1996 and 1995, respectively. The majority of the Company's international sales are made through distributors specializing in the sale and promotion of golf clubs in specific countries or regions around the world. The Company currently has distribution arrangements covering sales of the Company's products in over 40 foreign countries, including Japan, Canada, Singapore, Spain, Italy, France, Hong Kong, Australia, Argentina and South Africa. Prices of golf clubs for sales outside of the United States receive an export pricing discount to compensate international distributors for selling, advertising and distribution costs. A change in the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales.

The Company directly markets its products in the United Kingdom, Belgium, Finland, Denmark and Sweden through its wholly-owned British subsidiary, Callaway Golf Europe Ltd. (formerly Callaway Golf (UK) Limited). In 1996, the Company acquired a majority interest in its distributor in Germany, Golf Trading GmbH, which sells and promotes the Company's products in Germany, Austria, the Netherlands and Switzerland. In February 1998, the Company purchased the distribution rights of its Korean distributor and began directly marketing its products in that country through its subsidiary, Callaway Golf Korea, Ltd.

The Company, through a distribution agreement, appointed Sumitomo Rubber Industries, Ltd. ("Sumitomo") as the sole distributor of the Company's golf clubs in Japan. The current distribution agreement began in February 1993 and runs through December 31, 1999. The Company does not intend to extend this agreement. Sales to Sumitomo represented approximately \$83.0 million (10%), \$58.2 million (9%), and \$61.0 million (11%) of the Company's net sales in 1997, 1996 and 1995, respectively. See Note 12 of Notes to Consolidated Financial Statements in the Company's Annual Report to shareholders for the year ended December 31, 1997 ("1997 Annual Report to Shareholders").

The Company has established ERC International Company ("ERC"), a wholly-owned Japanese corporation, for the purpose of distributing Odyssey(R) products immediately, golf balls when ready and Callaway Golf clubs beginning January 1, 2000. There will be significant costs and capital expenditures invested in ERC before there will be sales sufficient to support such costs. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution in Japan through ERC, and it is possible that doing so will have a material adverse effect on the Company's operations and financial performance.

The Company's management believes that controlling the distribution of its products throughout the world will be an element in the future growth and success of the Company. The Company is actively pursuing a reorganization of its international operations, including the acquisition of distribution rights in certain key countries in Europe and Asia. These efforts have and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. The integration of foreign distributors into the Company's international sales operations will require the dedication of management resources which may temporarily detract from attention to the day-to-day business of the Company, and also increase the Company's exposure to fluctuations in exchange rates for various foreign currencies. International reorganization also could result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of some or all of the Company's foreign distributors will be successful, and it is possible that an attempt to do so will adversely affect the Company's business.

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

## Advertising and Promotion

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

The Company also establishes relationships with professional golfers in order to promote the Callaway Golf brand among both professional and amateur golfers. The Company has entered into endorsement agreements with members of the Professional Golf Association's Tour ("PGA"), the Senior Professional Golf Association's Tour ("SPGA"), the Ladies Professional Golf Association's Tour ("LPGA"), the European Professional Golf Association's Tour, the Japanese Professional Golf Association's Tour ("JPGA") and the Nike Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If one or more of Callaway Golf's professional endorsers were to stop using Callaway Golf's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so. The Company has created cash "pools" that reward such usage. For the last several years, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. There is no assurance that the Company will be able to sustain this level of professional usage. Many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. While it is not clear whether professional endorsements materially contribute to retail sales, it is possible that a decline in the level of professional usage could have a material adverse effect on the Company's business.

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

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

The Company spent approximately \$62.4 million, \$45.0 million and \$37.7 million on advertising, promotional and endorsement related expenditures, including compensation to professional golfers, in 1997, 1996 and 1995, respectively.

#### Manufacturing

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

The Company works with a few select casting houses to produce its clubheads. The clubheads used in the production of Big Bertha(R) Metal Woods with the War Bird(R) soleplate are manufactured to Callaway Golf's specifications by Cast Alloys, Inc. and Coastcast Corporation ("Coastcast"). Sturm, Ruger and Company ("Sturm, Ruger"), Coastcast and Cast Alloys, Inc. cast Great Big Bertha(R) Titanium Metal Wood clubheads. Biggest Big Bertha(TM) Titanium Driver clubheads are provided by Cast Alloys Inc. and Sturm, Ruger. Big Bertha(R) Iron clubheads are provided by Hitchiner Manufacturing Co. and Coastcast. Great Big Bertha(R) Tungsten.Titanium(TM) Irons are provided by Coastcast and clubheads for the new Big Bertha(R) X-12 Irons are provided by Hitchiner Manufacturing Co. and Coastcast. The Company works closely with its casting houses, which enables the Company to monitor the quality and reliability of clubhead production. All of these casting houses are currently manufacturing, or are entitled to manufacture, clubheads for competitors of the Company. The Company also works closely with Aldila, True Temper, HST, Graphite Design, Inc., Fujikura, Suntech-Sunwoo Co, Ltd. and Unifiber, its principal suppliers of shafts, to develop specialized shafts suited to the S2H2(R) design and the other unique features of the Company's products.

The Company is dependent on a limited number of suppliers for its clubheads and shafts. In addition, some of the Company's products require specifically developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if a significant delay or disruption in the

supply of these component parts occurs, it may have a material adverse effect on the Company's business. In the event of a significant delay or disruption, the Company believes that suitable clubheads and shafts could be obtained from other manufacturers, although the transition to other suppliers could result in significant production delays and an adverse impact on results of operations during the transition.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic customers. The Company is considering alternative methods of ground shipping to reduce its reliance on UPS, but no change has been made. Any interruption in UPS services could have a material adverse effect on the Company's sales and results of operations.

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

In the ordinary course of its manufacturing process, the Company uses paints and chemical solvents which are stored on-site. The waste created by use of these materials is transported off-site on a regular basis by registered waste haulers. As a standard procedure, a comprehensive audit of the treatment, storage, and disposal facility with which the Company contracts for the disposal of hazardous waste is performed annually by the Company. To date, the Company has not experienced any material environmental compliance problems, although there can be no assurance that such problems will not arise in the future.

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

#### Competition

The market in which the Company does business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names. While usage of the Company's drivers was dominant during 1997 on the PGA, SPGA, LPGA, Nike, PGA European and Women's Professional Golf European Tour ("WPGET") Tours ("six pro tours"), its competitors included Taylor Made, Cobra, Mizuno, Titleist, Cleveland and Ping. In the six pro tours, the Company's competition for iron usage in 1997 included Ping, Mizuno, Titleist and Top Flite. New product introductions by competitors continue to generate increased market competition. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

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

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

#### Intellectual Property

The Company seeks to protect its intellectual property rights, such as product designs, manufacturing processes, new product research and concepts, and trademarks. These rights are protected through the acquisition of utility and design patents and trademark registrations, the maintenance of trade secrets, the development of trade dress,

and, when necessary and appropriate, litigation against those who are, in the Company's opinion, unfairly competing. In the United States, the Company has applied for or been granted patents for certain features of its golf clubs. Additionally, it has been granted trademark registrations for Callaway(R), Big Bertha(R), Great Big Bertha(R), War Bird(R), S2H2(R), Odyssey(R), Stronomic(R) and several other product names and descriptions. There is no assurance that, prior to a court of competent jurisdiction validating them, any of these patents or trademarks are enforceable, although the Company believes them to be enforceable.

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

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark or other protection of their proprietary rights and designs. From time to time others have or may contact the Company to claim that they have proprietary rights which have been infringed by the Company and/or its products. The Company evaluates any such claims and, where appropriate, has obtained or sought to obtain licenses or other business arrangements. (See also Item 3, "Legal Proceedings.") To date, there have been no interruptions in the Company's business as the result of any claims of infringement. No assurance can be given, however, that the Company will not be adversely affected in the future by the assertion of intellectual property rights belonging to others. This effect could include alteration of existing products, withdrawal of existing products and delayed introduction of new products.

Various patents have been issued to the Company's competitors in the golf ball industry. As Callaway Golf Ball Company develops a new golf ball product, it must avoid infringing on these patents or other intellectual property rights, or it must obtain licenses to use them lawfully. If any new golf ball product was found to infringe on protected technology, the Company could incur substantial costs to redesign its golf ball product or to defend legal actions. Despite its efforts to avoid such infringements, there can be no assurance that Callaway Golf Ball Company will not infringe on the patents or other intellectual property rights of third parties in its development efforts, or that it will be able to obtain licenses to use any such rights, if necessary.

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

#### Seasonality

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. The Company's business generally follows this seasonal trend and the Company expects this to continue. Unusual weather conditions such as the "El Nino" weather patterns being experienced in the winter of 1997-1998 will compound these seasonal affects and could have a negative effect on the Company's sales and results of operations.

#### Product Warranties

The Company supports all of its golf clubs with a two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned as a result of cracked clubheads, broken graphite shafts, loose medallions and other product problems to date has not been material in relation to the volume of Callaway Golf clubs which have been sold. The Company monitors closely the level and nature of any product breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. The Company's Biggest Big Bertha(TM) Drivers, because of their large clubhead size and extra

long, lightweight graphite shafts, have experienced shaft breakage at a rate higher than generally experienced with the Company's other metal woods. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. At December 31, 1997, 1996 and 1995, the Company's reserves for warranty claims were approximately \$28.1 million, \$27.3 million, and \$23.8 million, respectively. The increase in this reserve over the last several years has been primarily attributable to increased sales volume and change in product mix. The Company believes that it has sufficient reserves for warranty claims; however, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of shaft breakage or other product problems.

#### Employees

As of December 31, 1997, the Company and its subsidiaries had 2,662 full-time employees, including 393 employed in sales and marketing, 169 employed in research and development and product engineering and 1,573 employed in production. The remaining full-time employees are administrative and support staff.

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

#### Year 2000 Compliance

Historically, certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing a date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000" problem.

In October 1997, the Company implemented a new computer system which runs most of the Company's principal data processing and financial reporting software applications. The application software used on this new system is Year 2000 compliant. The information systems of certain of the Company's subsidiaries, however, have not been converted to the new system, but the Company is in the process of implementing such conversion. Pursuant to the Company's Year 2000 Plan, the Company is currently evaluating its computerized production equipment to assure that the transition to the Year 2000 will not disrupt the Company's manufacturing capabilities. The Company is currently assessing the extent of the Year 2000 impact on its suppliers, distributors, customers and other vendors. Presently, the Company does not believe that Year 2000 compliance will result in additional material investments by the Company, nor does the Company anticipate that the Year 2000 problem will have material adverse effects on the business operations or financial performance of the Company. There can be no assurance, however, that the Year 2000 problem will not adversely affect the Company and its business.

#### Management Information Systems

As noted above, in October 1997, the Company converted to a new integrated computer system which runs substantially all of the Company's principal data processing and financial reporting software applications. As the Company enters its traditional busy selling season in the second and third quarters, the demands on the Company's information systems will increase substantially. Any significant disruptions or delays in the Company's information systems during this period could negatively impact the Company's ability to process sales orders and compile other management information, which in turn could have material adverse effects on the Company's sales and results of operations.

#### Item 2. Properties.

The Company and its subsidiaries conduct operations in both owned and leased properties, located primarily near the Company's headquarters in Carlsbad, California. The 19 buildings utilized in the Company's Carlsbad operations include corporate offices, manufacturing, research and development, warehousing and distribution facilities, and comprise approximately 786,000 square feet of space. Eight of these properties, representing approximately 426,000 square feet of space are owned by the Company; an additional 11 properties, representing approximately

360,000 square feet of space, are leased. The Company also owns 11 acres of undeveloped land near its headquarters upon which it intends to construct a golf ball manufacturing plant for its wholly-owned subsidiary, Callaway Golf Ball Company. In addition, the Company and its subsidiaries conduct certain international operations outside of the United States, located in the United Kingdom, Germany, Japan and Korea, in leased facilities comprising approximately 65,000 square feet.

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

### Item 3. Legal Proceedings.

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

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

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

### Item 4. Submission of Matters to a Vote of Securities Holders.

None.

Executive Officers of the Registrant

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

Name	Age	Position(s) Held
Ely Callaway.....	78	Founder, Chairman, and Chief of Advertising, Press and Public Relations
Donald H. Dye.....	55	President and Chief Executive Officer
Bruce Parker.....	42	Senior Executive Vice President, Domestic Sales and Chief Merchant
John P. Duffy.....	57	Senior Executive Vice President, Chief of Manufacturing
Richard C. Helmstetter...	56	Senior Executive Vice President, Chief of New Golf Club Products
Steven C. McCracken.....	47	Executive Vice President, Licensing, Chief Legal Officer and Secretary
Frederick R. Port.....	56	Senior Executive Vice President, International Sales
David A. Rane.....	43	Executive Vice President, Administration and Planning, and Chief Financial Officer
Charles J. Yash.....	49	Executive Vice President; President and Chief Executive Officer, Callaway Golf Ball Company

Ely Callaway, Founder, has served as Chairman of the Board of the Company since the Company's formation in 1982 and also currently serves as the Company's Chief of Advertising, Press and Public Relations and Chairman of the Executive and Compensation Committee of the Company's Board of Directors. He served as Chief Executive Officer from 1982 to May 1996. From 1974 to 1981, Mr. Callaway founded and operated Callaway Vineyard and Winery in Temecula, California, until it was sold. From 1946 to 1973, Mr. Callaway worked in the textile industry, where he served as a Divisional President of several major divisions of Burlington Industries, Inc., and in 1968 was elected Corporate President and Director of Burlington, which at the time was the world's largest textile company. Prior to 1945, Mr. Callaway served a five-year tour of duty in the U.S. Army Quartermaster Corps. Mr. Callaway is a 1940 graduate of Emory University.

Donald H. Dye serves as President and Chief Executive Officer of the Company. He has served as Chief Executive Officer since May 1996, as President since 1993, and as a Director of the Company since its formation in 1982. He served as Chief Operating Officer from 1991 until May 1996, as Secretary from 1982 until 1994, as Vice Chairman of the Board from 1991 to 1993, and as General Counsel from 1991 until 1994. From 1973 to 1991, Mr. Dye was in the private practice of law in Riverside, California. During that period, he provided legal services to Callaway Vineyard & Winery, Mr. Callaway and the Company. Prior to 1973, Mr. Dye served five years in the U.S. Air Force as a member of the Judge Advocates General Corps. Mr. Dye is a 1967 graduate of UCLA School of Law.

Bruce Parker, has served as a Director of the Company since July 1996, Senior Executive Vice President since 1993 and Chief Merchant since 1991. In addition, since April 1996, Mr. Parker has served as President of Callaway Golf Sales Company, the Company's wholly-owned subsidiary responsible for domestic sales operations. Mr. Parker also has served the Company in various vice presidential positions since 1984 and became Executive Vice President, Chief Merchant in October 1991. Prior to 1984, Mr. Parker worked as a sales manager for various golf club manufacturers in California.

John P. Duffy has served the Company in various vice presidential positions since 1989 and became Executive Vice President, Chief of Manufacturing in March 1990 and Senior Executive Vice President in April 1993. From 1988 to 1989, Mr. Duffy served as Vice President--Product Line Management of Taylor Made Golf Company. From 1984 to 1988, Mr. Duffy served as Vice President- Manufacturing of Taylor Made. From 1982 to 1984, Mr.

Duffy served as General Manager--Western Division of Taylor Made. Prior to 1982, Mr. Duffy owned and operated golf retail outlets in Florida and California under the name "House of Golf."

Richard C. Helmstetter has served the Company as Senior Executive Vice President, Chief of New Golf Club Products since February 1998 and as Senior Executive Vice President, Chief of New Products from 1993 to February 1998. Mr. Helmstetter served as President from 1990 to 1993 and as Executive Vice President from 1986 to 1990. From 1967 to 1986, Mr. Helmstetter served as President of Adam Ltd., a pool cue manufacturing and merchandising company which he founded and operated in Japan. During 1982 and 1983, Mr. Helmstetter also consulted extensively for several Japanese, European and American companies, including Bridgestone Corporation's strategic planning group. Mr. Helmstetter is a 1966 graduate of the University of Wisconsin.

Steven C. McCracken has served the Company as Executive Vice President, Licensing and Chief Legal Officer since April 1997 and as Secretary since April 1994. He has served as an Executive Vice President since April 1996 and served as General Counsel from 1994 to April 1997. He served as Vice President from 1994 to April 1996. Prior to joining the Company, Mr. McCracken was a partner at Gibson, Dunn & Crutcher for 11 years, and had been in the private practice of law for over 18 years. During part of that period, he provided legal services to the Company. Mr. McCracken received a B.A., magna cum laude, from the University of California at Irvine in 1972 and a J.D. from the University of Virginia in 1975.

Frederick R. Port has served as Senior Executive Vice President, International Sales since April 1997 and as President of the Company's International division since April 1996. He served as Executive Vice President, International Sales, Licensing and Business Development of the Company from April 1996 to April 1997. He served as Executive Vice President, Business Development, of the Company from 1995 to April 1996. From 1993 to 1995, Mr. Port was the Managing Director of Korn/Ferry International for the Southern California region (an executive recruiting and strategic consulting firm). Mr. Port served as an infantry officer in the United States Army. He is a 1963 graduate of UCLA and received his MBA with honors from UCLA in 1966.

David A. Rane has served the Company as Executive Vice President, Finance and Administration since October 1997 and as Chief Financial Officer since 1994. He served as an Executive Vice President since April 1996, and as Vice President from 1994 to April 1996. Mr. Rane served as Director of Investor Relations from 1993 to 1994. Prior to 1993, Mr. Rane was a senior manager for the accounting firm of Price Waterhouse LLP, and served a total of 14 years in public accounting. Mr. Rane is a 1978 graduate of Brigham Young University.

Charles J. Yash has served as an Executive Vice President of the Company since February 1998, as a Director of the Company since July 1996, and as President and Chief Executive Officer of Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, since June 1996. From 1992 to June 1996, Mr. Yash was President and Chief Executive Officer and a Director of Taylor Made Golf Company. From 1979 to 1992, Mr. Yash was employed in various marketing positions with the golf products division of Spalding Sports Worldwide, including Corporate Vice President and General Manager-Golf Products, from 1988 to 1992. From 1970 to 1975, Mr. Yash served in the United States Navy in various positions. Mr. Yash completed the Advanced Executive Program at the University of Massachusetts in 1982, received his M.B.A. in 1977 from Harvard Business School and graduated with a Bachelor of Science degree from the U.S. Naval Academy in 1970.

The Company has employment agreements with Messrs. Callaway, Parker, Duffy, McCracken, Port and Rane for terms commencing January 1, 1997 and ending December 31, 1999. The term of Mr. Dye's employment agreement also commenced January 1, 1997 and ends December 31, 2001. The Company also has an employment agreement with Mr. Yash which commenced May 15, 1996 and ends on May 14, 2001. The Company has a new three-year employment agreement with Mr. Helmstetter commencing January 1, 1998 which may be extended by either the Company or Mr. Helmstetter until as late as December 31, 2012.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Information in response to Item 5 is contained on page 48 of the Company's 1997 Annual Report to Shareholders, which information is incorporated herein by reference.

### Item 6. Selected Financial Data.

Information in response to Item 6 is contained on page 28 of the Company's 1997 Annual Report to Shareholders, which information is incorporated herein by reference.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Information in response to Item 7 is contained on pages 29 through 33 of the Company's 1997 Annual Report to Shareholders, which information is incorporated herein by reference.

### Item 8. Financial Statements and Supplementary Data.

Information in response to Item 8 is contained on pages 34 through 48 of the Company's 1997 Annual Report to Shareholders, which information is incorporated herein by reference.

### Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None

## PART III

### Item 10. Directors and Executive Officers of the Registrant.

Certain information concerning the Company's executive officers is included under the caption "Executive Officers of the Registrant" following Part I, Item 4. Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and greater than 10% shareholders to file initial reports of ownership (on Form 3) and periodic changes in ownership (on Forms 4 and 5) of Company securities with the Securities and Exchange Commission and the New York Stock Exchange. Based solely on its review of copies of such forms and such written representations regarding compliance with such filing requirements as were received from its executive officers, directors and greater than 10% shareholders, the Company believes that all such Section 16(a) filing requirements were complied with during 1997 with one exception: the January 1997 Form 4 of Mr. Michael Sherwin, a former Director of the Company, was filed three days late due to clerical error.

Other information required by Item 10 has been included in the Company's definitive proxy statement under the caption "Election of Directors," as filed with the Securities and Exchange Commission (the "Commission") on March 16, 1998 pursuant to Regulation 14A, which information is incorporated herein by reference.

### Item 11. Executive Compensation.

The Company maintains employee benefit plans and programs in which its executive officers are participants. Copies of certain of these plans and programs are set forth or incorporated by reference as Exhibits 10.1 to 10.19.3 to this Report. Information required by Item 11 has been included in the Company's definitive proxy statement under the captions "Compensation of Executive Officers," "Report of the Executive and Compensation Committee of the Board of Directors on Executive Compensation," "Performance Graph" and "Election of Directors," as filed with the Commission on March 16, 1998 pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 has been included in the Company's definitive proxy statement under the caption "Beneficial Ownership of the Company's Securities," as filed with the Commission on March 16, 1998 pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 has been included in the Company's definitive proxy statement under the caption "Certain Transactions," as filed with the Commission on March 16, 1998 pursuant to Regulation 14A, which information is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.

(a) Documents filed as part of this report:

1. Financial Statements. The following consolidated financial statements of Callaway Golf Company and its subsidiaries included in Part II, Item 8, are incorporated by reference from pages 34 through 47 of the 1997 Annual Report to Shareholders:

Consolidated Balance Sheet at December 31, 1997 and 1996

Consolidated Statement of Income for the three years ended December 31, 1997

Consolidated Statement of Cash Flows for the three years ended December 31, 1997

Consolidated Statement of Shareholders' Equity for the three years ended December 31, 1997

Notes to Consolidated Financial Statements

Report of Independent Accountants

2. Financial Statement Schedule.

Report of Independent Accountants on Financial Statement Schedule

Schedule II - Consolidated Valuation and Qualifying Accounts

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

3. Exhibits.

- 3.1.1 Restated Articles of Incorporation of the Company./(2)/
- 3.1.2 Certificate of Amendment of Articles of Incorporation, effective February 10, 1995./(3)/
- 3.2 Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock./(5)/
- 3.3 Bylaws of the Company (as amended through May 10, 1996).(9)/
- 4.1 Dividend Reinvestment and Stock Purchase Plan./(1)/
- 4.2 Rights Agreement by and between the Company and Chemical Mellon Shareholder Services as Rights Agent dated as of June 21, 1995./(5)/

Executive Compensation Contracts/Plans

- 10.1 Chairman and Founder Employment Agreement by and between the Company and Ely Callaway entered into as of January 1, 1997./(15)/
- 10.2 Chief Executive Officer Employment Agreement by and between the Company and Donald H. Dye entered into as of January 1, 1997./(17)/
- 10.3 Executive Officer Employment Agreement by and between the Company and Bruce Parker entered into as of as of January 1, 1997./(13)/
- 10.4 Executive Officer Employment Agreement by and between the Company and Richard Helmstetter entered into as of January 1, 1998.
- 10.5 Executive Officer Employment Agreement by and between the Company and John Duffy entered into as of January 1, 1997./(13)/
- 10.6 Executive Officer Employment Agreement by and between the Company and Steven C. McCracken entered into as of January 1, 1997./(13)/
- 10.7.1 Executive Officer Employment Agreement by and between the Company and Frederick R. Port entered into as of January 1, 1997./(13)/
- 10.7.2 Stock Option Agreement by and between the Company and Frederick R. Port dated as of September 1, 1995./(6)/
- 10.8 Executive Officer Employment Agreement by and between the Company and David Rane entered into as of January 1, 1997./(13)/
- 10.9.1 Officer Employment Agreement by and between the Company and Charles Yash entered into as of May 15, 1996./(11)/
- 10.9.2 Stock Option Agreement by and between the Company and Charles J. Yash dated as of May 10, 1996./(10)/
- 10.10 Employment Agreement by and between the Company and Elmer L. Ward, Jr. entered into as of July 1, 1996./(12)/
- 10.11.1 Form of Tax Indemnification Agreement./(5)/
- 10.11.2 Form of Amendment No. 1 to Form of Tax Indemnification Agreement./(12)/
- 10.12 Executive Deferred Compensation Plan (as amended and restated through February 6, 1997)./(14)/
- 10.13 Callaway Golf Company Executive Non-Discretionary Bonus Plan./(4)/
- 10.14 Callaway Golf Company 1998 Executive Non-Discretionary Bonus Plan./(14)/
- 10.15 1991 Stock Incentive Plan (as amended and restated April 1994)./(3)/
- 10.16 Amended and Restated Stock Option Plan effective April 2, 1991./(8)/
- 10.17 1996 Stock Option Plan (as amended and restated through April 17, 1997)./(14)/
- 10.18 Callaway Golf Company Non-Employee Directors Stock Option Plan (as Amended and Restated April 17, 1996)./(10)/
- 10.19.1 Form of Indemnification Agreement by and between the Company and the following directors: William Baker, Richard Rosenfield, William Schreyer and Michael Sherwin, all dated January 25, 1995./(3)/
- 10.19.2 Indemnification Agreement by and between the Company and Ms. Aulana L. Peters, Director, dated July 18, 1996./(13)/
- 10.19.3 Indemnification Agreement by and between the Company and Vernon E. Jordan, Jr. dated July 16, 1997./(18)/

Other Contracts

- 10.20.1 Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1994./(3)/
- 10.20.2 Amended and Restated Revolving Credit Note made by the Company in the principal amount of \$50,000,000 and payable to First Interstate Bank of California, dated December 1, 1995 and First Amendment to Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1995./(9)/
- 10.20.3 Extension of Amended and Restated Revolving Credit Note dated December 11, 1997.
- 10.21 Trust Agreement between Callaway Golf Company and Sanwa Bank California as Trustee, for the benefit of participating employees, dated July 14, 1995./(7)/
- 10.22 Asset Purchase Agreement dated July 20, 1997 by and among Callaway Golf Company, Odyssey Sports, Inc. and U.S. Industries, Inc./(16)/

- 13.1 Portions of the Company's 1997 Annual Report to Shareholders (with the exception of the information incorporated by reference specifically in this Report on Form 10-K, the 1997 Annual Report to Shareholders is not deemed to be filed as a part of this Report on Form 10-K).
- 21.1 List of Subsidiaries.
- 23.1 Consent of Independent Accountants.
- 27.1 Financial Data Schedule for the year ended December 31, 1997.
- 27.2 Restated Financial Data Schedule for the year ended December 31, 1996.
- 27.3 Restated Financial Data Schedule for the nine months ended September 30, 1997 and 1996.
- 27.4 Restated Financial Data Schedule for the six months ended June 30, 1997 and 1996.
- 27.5 Restated Financial Data Schedule for the three months ended March 31, 1997 and 1996.
- /(1)/ Included as the Prospectus in the Company's Registration Statement on Form S-3 (No. 33-77024), as filed with the Securities and Exchange Commission on March 29, 1994, and incorporated herein by reference.
- /(2)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 33-85692), as filed with the Securities and Exchange Commission on October 28, 1994, and incorporated herein by reference.
- /(3)/ Included as an exhibit to the Company's 1994 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 31, 1995, and incorporated herein by reference.
- /(4)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1995, as filed with the Securities and Exchange Commission on May 10, 1995, and incorporated herein by reference.
- /(5)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1995, as filed with the Securities and Exchange Commission on August 12, 1995, and incorporated herein by reference.
- /(6)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 33-98750), as filed with the Securities and Exchange Commission on October 30, 1995, and incorporated herein by reference.
- /(7)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1995, as filed with the Securities and Exchange Commission on November 14, 1995, and incorporated herein by reference.
- /(8)/ Included as an exhibit to the Company's 1995 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on April 1, 1996, and incorporated herein by reference.
- /(9)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-5719), as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.
- /(10)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-5721), as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.
- /(11)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1996, as filed with the Securities and Exchange Commission on August 14, 1996, and incorporated herein by reference.

- /(12)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996, as filed with the Securities and Exchange Commission on November 13, 1996, and incorporated herein by reference.
- /(13)/ Included as an exhibit to the Company's 1996 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.
- /(14)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1997, as filed with the Securities and Exchange Commission on May 15, 1997, and incorporated herein by reference.
- /(15)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997, as filed with the Securities and Exchange Commission on August 14, 1997, and incorporated herein by reference.
- /(16)/ Included as an exhibit to the Company's Current Report on Form 8-K dated August 8, 1997, as filed with the Securities and Exchange Commission on August 22, 1997, and incorporated herein by reference.
- /(17)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997, as filed with the Securities and Exchange Commission on November 14, 1997, and incorporated herein by reference.

(b) Reports on Form 8-K:

On October 22, 1997, the Company filed Amendment No. 1 to Current Report on Form 8-K/A dated August 8, 1997, regarding the consummation of the acquisition of substantially all of the assets of Odyssey Sports, Inc., reported under Items 2 and 7. The following financial statements were filed under Item 7 with that Report:

(a) Financial Statements of Business Acquired.

Audited financial statements as of September 30, 1996 and for the year then ended, as follows:

- Report of Independent Accountants;
- Balance Sheet as of September 30, 1996;
- Statement of Income for the year ended September 30, 1996;
- Statement of Changes in Invested Capital of Parent for the year ended September 30, 1996;
- Statement of Cash Flows for the year ended September 30, 1996;
- and
- Notes to financial statements.

Unaudited financial statements as of June 30, 1997 and for the nine months ended June 30, 1997 and 1996, as follows:

- Unaudited Balance Sheet as of June 30, 1997;
- Unaudited Statements of Income for the nine months ended June 30, 1997 and 1996; and
- Unaudited Statements of Cash Flows for the nine months ended June 30, 1997 and 1996.

(b) Pro Forma Financial Information.

- Unaudited Pro Forma Consolidated Condensed Balance Sheet as of June 30, 1997;
- Unaudited Pro Forma Consolidated Condensed Statements of Income for the six months ended June 30, 1997 and the year ended December 31, 1996; and
- Notes to Unaudited Pro Forma Consolidated Condensed financial statements.

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: March 30, 1998

/s/ ELY CALLAWAY  
-----  
Ely Callaway  
Founder, Chairman and Chief of  
Advertising, Press and Public Relations

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

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

Signature -----	Title -----	Date ----
Principal Executive Officers And Directors:		
/s/ ELY CALLAWAY ----- Ely Callaway	Founder, Chairman, and Chief of Advertising, Press and Public Relations	March 30, 1998
/s/ DONALD H. DYE ----- Donald H. Dye	President and Chief Executive Officer	March 30, 1998
Principal Financial And Accounting Officer:		
/s/ DAVID A. RANE ----- David A. Rane	Executive Vice President, Administration and Planning, and Chief Financial Officer	March 30, 1998
Other Directors:		
/s/ WILLIAM C. BAKER ----- William C. Baker	Director	March 30, 1998
/s/ VERNON E. JORDON, JR. ----- Vernon E. Jordon, Jr.	Director	March 30, 1998
/s/ BRUCE PARKER ----- Bruce Parker	Director	March 30, 1998
/s/ AULANA L. PETERS ----- Aulana L. Peters	Director	March 30, 1998
/s/ FREDERICK R. PORT ----- Frederick R. Port	Director	March 30, 1998
/s/ RICHARD ROSENFELD ----- Richard Rosenfield	Director	March 30, 1998
/s/ WILLIAM SCHREYER ----- William Schreyer	Director	March 30, 1998
/s/ ELMER WARD ----- Elmer Ward	Director	March 30, 1998
/s/ CHARLES J. YASH ----- Charles J. Yash	Director	March 30, 1998

Report of Independent Accountants on Financial Statement Schedule

To the Board of Directors and Shareholders  
of Callaway Golf Company

Our audits of the consolidated financial statements referred to in our report dated January 28, 1998, except as to Note 14, which is as of February 11, 1998, appearing on page 47 of the 1997 Annual Report to Shareholders of Callaway Golf Company (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICE WATERHOUSE LLP

San Diego, California  
January 28, 1998

## SCHEDULE II

## CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS  
 For The Three Year Period Ended December 31, 1997

Date	Allowance for Doubtful Accounts	Allowance for Obsolete Inventory	Allowance for Warranty Costs
----- (in thousands)			
Balance, December 31, 1994	\$6,412	\$4,959	\$ 18,182
Provision	101		12,002
Write-off	(103)	(163)	(6,415)
Recovery			
-----			
Balance, December 31, 1995	6,410	4,796	23,769
Provision	231	800	10,735
Write-off	(304)	(312)	(7,201)
Recovery			
-----			
Balance, December 31, 1996	6,337	5,284	27,303
Provision	1,354	743	13,726
Write-off	(645)	(353)	(12,970)
Recovery			
-----			
Balance, December 31, 1997	\$7,046	\$5,674	\$ 28,059
=====			

## EXHIBIT INDEX

EXHIBITS	SEQ. PAGE NUMBER
-----	-----
3.1.1	Restated Articles of Incorporation of the Company./(2)/
3.1.2	Certificate of Amendment of Articles of Incorporation, effective February 10, 1995./(3)/
3.2	Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock./(5)/
3.3	Bylaws of the Company (as amended through May 10, 1996).(9)/
4.1	Dividend Reinvestment and Stock Purchase Plan./(1)/
4.2	Rights Agreement by and between the Company and Chemical Mellon Shareholder Services as Rights Agent dated as of June 21, 1995./(5)/
Executive Compensation Contracts/Plans	
10.1	Chairman and Founder Employment Agreement by and between the Company and Ely Callaway entered into as of January 1, 1997./(15)/
10.2	Chief Executive Officer Employment Agreement by and between the Company and Donald H. Dye entered into as of January 1, 1997./(17)/
10.3	Executive Officer Employment Agreement by and between the Company and Bruce Parker entered into as of as of January 1, 1997./(13)/
10.4	Executive Officer Employment Agreement by and between the Company and Richard Helmstetter entered into as of January 1, 1998.
10.5	Executive Officer Employment Agreement by and between the Company and John Duffy entered into as of January 1, 1997./(13)/
10.6	Executive Officer Employment Agreement by and between the Company and Steven C. McCracken entered into as of January 1, 1997./(13)/
10.7.1	Executive Officer Employment Agreement by and between the Company and Frederick R. Port entered into as of January 1, 1997./(13)/
10.7.2	Stock Option Agreement by and between the Company and Frederick R. Port dated as of September 1, 1995./(6)/
10.8	Executive Officer Employment Agreement by and between the Company and David Rane entered into as of January 1, 1997./(13)/
10.9.1	Officer Employment Agreement by and between the Company and Charles Yash entered into as of May 15, 1996./(11)/
10.9.2	Stock Option Agreement by and between the Company and Charles J. Yash dated as of May 10, 1996./(10)/
10.10	Employment Agreement by and between the Company and Elmer L. Ward, Jr. entered into as of July 1, 1996./(12)/
10.11.1	Form of Tax Indemnification Agreement./(5)/
10.11.2	Form of Amendment No. 1 to Form of Tax Indemnification Agreement./(12)/
10.12	Executive Deferred Compensation Plan (as amended and restated through February 6, 1997).(14)/
10.13	Callaway Golf Company Executive Non-Discretionary Bonus Plan./(4)/
10.14	Callaway Golf Company 1998 Executive Non-Discretionary Bonus Plan./(14)/
10.15	1991 Stock Incentive Plan (as amended and restated April 1994).(3)/
10.16	Amended and Restated Stock Option Plan effective April 2, 1991./(8)/
10.17	1996 Stock Option Plan (as amended and restated through April 17, 1997).(14)/
10.18	Callaway Golf Company Non-Employee Directors Stock Option Plan (as Amended and Restated April 17, 1996).(10)/
10.19.1	Form of Indemnification Agreement by and between the Company and the following directors: William Baker, Richard Rosenfield, William Schreyer and Michael Sherwin, all dated January 25, 1995./(3)/
10.19.2	Indemnification Agreement by and between the Company and Ms. Aulana L. Peters, Director, dated July 18, 1996./(13)/
10.19.3	Indemnification Agreement by and between the Company and Vernon E. Jordan, Jr. dated July 16, 1997./(18)/
Other Contracts	
10.20.1	Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1994./(3)/
10.20.2	Amended and Restated Revolving Credit Note made by the Company in the principal amount of \$50,000,000 and payable to First Interstate Bank of California, dated December 1, 1995 and First Amendment to Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1995./(9)/
10.20.3	Extension of Amended and Restated Revolving Credit Note dated December 11, 1997.
10.21	Trust Agreement between Callaway Golf Company and Sanwa Bank California as Trustee, for the benefit of participating employees, dated July 14, 1995./(7)/
10.22	Asset Purchase Agreement dated July 20, 1997 by and among Callaway Golf Company, Odyssey Sports, Inc. and



- 13.1 Portions of the Company's 1997 Annual Report to Shareholders (with the exception of the information incorporated by reference specifically in this Report on Form 10-K, the 1997 Annual Report to Shareholders is not deemed to be filed as a part of this Report on Form 10-K).
- 21.1 List of Subsidiaries.
- 23.1 Consent of Independent Accountants.
- 27.1 Financial Data Schedule for the year ended December 31, 1997.
- 27.2 Restated Financial Data Schedule for the year ended December 31, 1996.
- 27.3 Restated Financial Data Schedule for the nine months ended September 30, 1997 and 1996.
- 27.4 Restated Financial Data Schedule for the six months ended June 30, 1997 and 1996.
- 27.5 Restated Financial Data Schedule for the three months ended March 31, 1997 and 1996.
- /(1)/ Included as the Prospectus in the Company's Registration Statement on Form S-3 (No. 33-77024), as filed with the Securities and Exchange Commission on March 29, 1994, and incorporated herein by reference.
- /(2)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 33-85692), as filed with the Securities and Exchange Commission on October 28, 1994, and incorporated herein by reference.
- /(3)/ Included as an exhibit to the Company's 1994 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 31, 1995, and incorporated herein by reference.
- /(4)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1995, as filed with the Securities and Exchange Commission on May 10, 1995, and incorporated herein by reference.
- /(5)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1995, as filed with the Securities and Exchange Commission on August 12, 1995, and incorporated herein by reference.
- /(6)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 33-98750), as filed with the Securities and Exchange Commission on October 30, 1995, and incorporated herein by reference.
- /(7)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1995, as filed with the Securities and Exchange Commission on November 14, 1995, and incorporated herein by reference.
- /(8)/ Included as an exhibit to the Company's 1995 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on April 1, 1996, and incorporated herein by reference.
- /(9)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-5719), as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.
- /(10)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-5721), as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.
- /(11)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1996, as filed with the Securities and Exchange Commission on August 14, 1996, and incorporated herein by reference.
- /(12)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996, as filed with the Securities and Exchange Commission on November 13, 1996, and incorporated herein by reference.
- /(13)/ Included as an exhibit to the Company's 1996 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.
- /(14)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1997, as filed with the Securities and Exchange Commission on May 15, 1997, and incorporated herein by reference.
- /(15)/ Included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997, as filed with the Securities and Exchange Commission on August 14, 1997, and incorporated herein by reference.
- /(16)/ Included as an exhibit to the Company's Current Report on Form 8-K dated August 8, 1997, as filed with the

Securities and Exchange Commission on August 22, 1997,  
and incorporated herein by reference.

/(17)/ Included as an exhibit to the Company's Quarterly Report  
on Form 10-Q for the period ended September 30, 1997, as  
filed with the Securities and Exchange Commission on  
November 14, 1997, and incorporated herein by reference.

## EXECUTIVE OFFICER EMPLOYMENT AGREEMENT

This Executive Officer Employment Agreement ("Agreement") is entered into as of January 1, 1998, by and between Callaway Golf Company, a California corporation (the "Company"), and Richard C. Helmstetter ("Employee").

## 1. TERM.

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(a) The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing January 1, 1998 (the "Effective Date") and terminating December 31, 2000 (the "Expiration Date") unless this Agreement is earlier terminated as hereinafter provided.

(b) Notwithstanding the foregoing, upon each anniversary date of the Effective Date of this Agreement, the Expiration Date of this Agreement shall be automatically extended one year so long as (a) this Agreement is otherwise still in full force and effect, (b) Employee is still employed by the Company pursuant to this Agreement, (c) Employee is not otherwise in breach of this Agreement, (d) any such extension does not cause this Agreement to continue beyond the year in which Employee reaches the age of 70; and (e) neither Employee nor the Company has given notice as provided in Section 1(c). For example, if this Agreement is still in full force and effect as of January 1, 1999, Employee is still employed by the Company pursuant to this Agreement and is not otherwise in breach of this Agreement, and neither party has given notice as provided in Section 1(c), then on that date the Expiration Date of this Agreement shall be extended from December 31, 2000 to December 31, 2001. It is expressly understood that the termination of this Agreement no later than at the end of the calendar year in which Employee reaches the age of 70 is at Employee's request, and does not result from any policy or practice of the Company with respect to the continued employment of individuals based upon age.

(c) At any time prior to the end of a calendar year, either Employee or the Company may give written notice to the other that the automatic extension of the Expiration Date of this Agreement pursuant to Section 1(b) shall end with the next extension, which shall be the final such automatic extension of the Expiration Date of this Agreement. Thus, if either Employee or the Company gives written notice on or before December 31, 1998, and all other conditions for automatic extension of the Expiration Date of this Agreement pursuant to Section 1(b) exist, then on January 1, 1999 the Expiration Date of this Agreement shall be extended pursuant to Section 1(b) from December 31, 2000 to December 31, 2001, with this Agreement expiring on that date (if not previously terminated pursuant to its terms) without any further automatic extensions.

(d) Unless such employment is earlier terminated or extended as provided in this Agreement, upon the expiration of this Agreement pursuant to Section 1 or the termination of this Agreement pursuant to either Sections 8(a), 8(b) or 8(h), Employee's status shall be one of a consultant to the Company, as provided in paragraph 21.

2. SERVICES.

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(a) Employee shall serve as Senior Executive Vice President, Chief of New Golf Club Products, of the Company. Employee shall report to the Chief Executive Officer of the Company. It is expected that Employee shall, as his primary function, lead the golf club design function for the Company and shall be a technical spokesperson for the Company with respect to golf clubs, and shall be provided a budget, subject to the sole discretion of the Chief Executive Officer, to perform research and development on golf clubs. It is further expected that Employee shall serve as a member of the Office of the Chief Executive Officer ("OCEO") and of the Strategic Planning Group, as those bodies shall be constituted 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 of this Agreement and any

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

4. COMPENSATION. The Company agrees to pay Employee a base salary at the

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rate of \$600,000.00 per year. Employee shall also have an opportunity to earn an annual bonus based upon participation in the Company's Executive Bonus Plan as it may exist from time to time. Employee's base salary shall be subject to review by the Company annually, and may be increased, but not decreased, at the sole discretion of the Company.

5. EXPENSES AND BENEFITS.

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(a) Reasonable and Necessary Expenses. In addition to the compensation

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provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall

always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive eight (8) weeks paid vacation for

each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in excess of eight (8) weeks in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to

this Agreement, the Company shall provide for Employee to:

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

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

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

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

(v) participate in the Company's Executive Health Program at Scripps Hospital; and

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

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

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

(e) Estate Planning and Other Perquisites. To the extent the Company

provides estate planning and related services, or any other perquisites and personal benefits to other senior executive and/or executive vice presidents generally from time to time, such services and perquisites shall be made available to Employee on similar terms and conditions.

(f) Stock Options. Pursuant to a separate stock option agreement, the

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Company shall provide to Employee options to purchase up to 250,000 shares of the Common Stock of the Company, which options shall vest provided Employee is then currently employed by the Company or is a consultant to the Company as provided in Section 21 and not in breach of this Agreement or any other agreement between Employee and the Company, in accord with the following pricing and vesting schedule:

Shares	Vesting Date	Price
-----	-----	-----
25,000	January 1, 1999	Base Price (the closing price on the NYSE on February 19, 1998, as reported in the Wall Street Journal)
50,000	January 1, 2000	Base Price
75,000	January 1, 2001	Base Price
100,000	January 1, 2002	Base Price

It is contemplated that such stock options shall be granted in the form of Incentive Stock Options to the maximum extent permitted by law and by the Company's pertinent stock plans, and that such options shall be transferable by Employee to the maximum extent permitted by law and by the Company's pertinent stock plans. Exercise of such options and/or the sale of the underlying Common Stock may be subject to reasonable restrictions as imposed by the Company.

(g) Other Benefits. At the sole discretion of the Chief Executive Officer,

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Employee may be provided none, some or all of the following additional benefits and perquisites:

(i) the opportunity to attend and/or participate in certain golf tournaments, including The Masters Tournament and the AT&T Pebble Beach Invitational; and/or

(ii) the opportunity to author a technical book on golf.

6. DISABILITY. If on account of any physical or mental disability

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

7. NONCOMPETITION.

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(a) Other Business. To the fullest extent permitted by law, Employee agrees that while employed by the Company, and during the term of the consulting relationship set forth in paragraph 21 hereof, Employee will not, directly or indirectly

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

(b) Other Employees. To the fullest extent permitted by law, Employee

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agrees that during the term of this Agreement, any extensions thereof, and during the term of the consulting relationship set forth in paragraph 21 hereof, and except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company or any of its affiliates for a period of one (1) year from the date Employee ceases to be an employee or consultant of the Company.

(c) Suppliers. To the fullest extent permitted by law, Employee agrees

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that, while employed by the Company, and during the term of the consulting relationship set forth in paragraph 21 hereof, 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 or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. To the fullest extent permitted by law, Employee

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agrees that while employed by the Company, and during the term of the consulting relationship set forth in paragraph 21 hereof, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

## 8. TERMINATION.

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(a) Termination at the Company's Convenience. Employee's employment under

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this Agreement may be terminated by the Company at its convenience at any time upon giving 90 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time running from the date of termination to December 31, 2000; (iii) the payment of nondiscretionary bonuses, if any, pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time running from the date of termination to December 31, 2000; (iv) the immediate vesting of all unvested stock options held by Employee as of such termination date; (v) the activation of the consulting agreement provided for in Section 21 hereof; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section

in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under  
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this Agreement may be terminated immediately by Employee at his or her convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus, if any, Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iii) the activation of the consulting agreement provided for in Section 21; and (iv) no other severance.

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

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

the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company or any material diminishment in the title, position, duties, responsibilities or status of Employee as set forth in Section 2(a).

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

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

(f) Termination Due to Death. Employee's employment under this Agreement

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

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

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

(h) Termination By Mutual Agreement of the Parties. Employee's employment  
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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. If this Agreement is terminated by mutual agreement of the parties, and the parties do not otherwise agree in writing, the consulting agreement provided for in Section 21 shall be activated upon termination.

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

9. RIGHTS UPON A CHANGE IN CONTROL.  
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(a) If a Change in Control (as defined in Exhibit A hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be continued in the same form and substance as in effect immediately prior to the Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or

at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company pursuant to Section 8(a) and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a) of this Agreement.

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

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

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

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

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

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

10. SURRENDER OF BOOKS AND RECORDS. Employee agrees that upon termination

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of his or her employment in any manner, or upon the termination of the consulting relationship set forth in paragraph 21 hereof, Employee will immediately surrender to the Company all lists, books and records of or connected with the business of the Company or any of its affiliates, and all other properties belonging to the Company or any of its affiliates, it being distinctly understood that all such lists, books, records and other documents are the property of the Company.

11. GENERAL RELATIONSHIP. Unless and until Employee becomes a consultant

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to the Company pursuant to paragraph 21 hereof, Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

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

(c) As used in this Agreement, "trade secret and proprietary information" means information, whether written or oral, not generally available to the public; it includes the concepts and ideas involved in the products of the Company or any of its affiliates, whether patentable or not; and includes, but is not limited to, the processes, formulae, and techniques disclosed by the Company or any of its affiliates 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 or any of its affiliates, 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 or any of its affiliates with respect to such information) and does not require Employee to refrain from disclosing such information to others.

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

13. INVENTIONS AND INNOVATIONS.  
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(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 or any of its affiliates. This includes, but is not limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

(b) Employee agrees to disclose to the Chief Executive Officer and the Board of Directors of the Company any invention or innovation which he or she develops, either alone or with anyone else, during the term of Employee's employment with the Company or the term of Employee's consulting relationship with the Company pursuant to paragraph 21 hereof, as well as any invention or innovation based on proprietary information of the Company or any of its affiliates which Employee develops, whether alone or with anyone else, within twelve (12) months after the termination of Employee's employment with the Company or twelve (12) months after the termination of Employee's consulting relationship with the Company pursuant to paragraph 21, whichever occurs later.

(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 or is a consultant to the Company pursuant to paragraph 21 hereof;

(ii) for which Employee used any of the equipment, supplies, facilities or proprietary information of the Company or any of its affiliates, 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 business of the Company or any of its affiliates, or the current or anticipated research and development of the Company or any of its affiliates.

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

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

(f) Employee agrees that any invention or innovation which is required

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

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

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to

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

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is

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

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire

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

17. NOTICES. Any notice, request, demand, or other communication required

or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Richard C. Helmstetter  
P.O. Box 3644  
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.

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or

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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 located in San Diego, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

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

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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

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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

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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

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Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

20. SUPERSEDES OLD OFFICER EMPLOYMENT CONTRACT. Employee and the Company

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recognize that prior to the effective date of this Agreement they

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

21. CONSULTING SERVICES. Upon the expiration of this Agreement pursuant  
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to Section 1 or the termination of this Agreement pursuant to either Sections 8(a), 8(b) or 8(h), if this Agreement has not been previously terminated as otherwise provided herein, Employee shall become a consultant to the Company pursuant to a written consulting agreement in substantially the same form and substance as set forth in Exhibit B hereto (the "Consulting Agreement"). Pursuant to the Consulting Agreement, Employee shall consult with and advise the Company regarding the business of the Company, and shall undertake to render an opinion or advise the Company on any matter requested by the Company. Such consulting services shall be rendered on an independent contractor basis, and shall be provided at such time and place as reasonably requested by the Company. As full compensation for such consulting services, Employee shall be paid at the rate of one-half of Employee's base salary as in effect in the final year of this Agreement per year.

22. ASSIGNMENT OF RIGHTS.  
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(a) Employee hereby assigns and transfers to the Company, in perpetuity, all rights and title to the use of his or her name, likeness, image, character, identity, and signature for commercial use by the Company in any business or trade, everywhere, in perpetuity. Employee shall not license, transfer or otherwise approve the use of his or her name, likeness, image, character, identity or signature for commercial use by any other person or entity, and any attempt by Employee to do so shall be null and void.

(b) Employee agrees to fully and reasonably cooperate with the Company to effectuate the transfer and enforcement of such rights, including reasonable cooperation in the preparation and execution of any necessary papers, agreements or filings, and reasonable cooperation in the enforcement of such rights by the Company in legal proceedings against third parties. In the event a third party infringes upon the rights transferred to the Company hereunder, the Company shall have the right, at its sole discretion, to pursue enforcement of its rights in its own name and/or in the name of and on behalf of Employee. The Company shall have full control over any legal proceedings instituted by it against such third parties, although it shall give Employee reasonable notice of any such proceeding.

(c) If this Agreement terminates or expires prior to December 31 in the year in which Employee reaches the age of 70 because (i) the Company has given notice of no further extensions as provided in Section 1(c), (ii) the Company has terminated the Agreement pursuant to Section 8(a), or (iii) Employee has terminated this Agreement pursuant to Section



EXHIBIT A

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

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

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

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

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

reorganization or merger or consolidation), or

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

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

EXHIBIT B

CONSULTING AGREEMENT

This Consulting Agreement ("Agreement") is entered into as of \_\_\_\_\_, \_\_\_\_\_, between Callaway Golf Company ("Callaway Golf"), a California corporation, and Richard C. Helmstetter ("Consultant").

Recitals  
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A. Callaway Golf is in the business of designing, manufacturing and selling golf clubs and related products using trade secrets, patented procedures and other proprietary information. Callaway Golf is currently marketing its products in the United States of America and internationally.

B. Consultant has been a long-time employee of Callaway Golf with expertise in various areas including the design, testing and development of new products.

C. Callaway Golf desires to retain access to the services and expertise of Consultant and believes that the experience and expertise of Consultant will be of benefit to Callaway Golf; therefore, Callaway Golf desires to enter into this Agreement with Consultant.

D. Consultant wishes to assist Callaway Golf in its ongoing golf club research, development and manufacturing efforts; therefore, Consultant desires to enter into this Agreement with Callaway Golf.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Engagement. Callaway Golf hereby engages the services of Consultant as -----  
a consultant, and Consultant hereby accepts such engagement, subject to the terms and conditions of this Agreement.

2. Term/Termination. The term ("Term") of this Agreement shall commence -----  
on \_\_\_\_\_, \_\_\_\_\_ and shall continue for (10) years until \_\_\_\_\_, \_\_\_\_\_, unless terminated in accordance with Section 17 herein. Consultant understands and agrees that the provisions of Sections 4, 9, 10, 11, 14 and 21 shall survive termination of the other provisions of this Agreement.

3. Services to be Performed by Consultant. During the Term of this -----  
Agreement, Consultant shall provide consulting services on matters related to the business of Callaway Golf as may be requested by Callaway Golf from time to time. Consultant shall maintain contact with Callaway Golf through the Chief Executive Officer, or such person or persons as may be designated by the Chief Executive Officer from time to time.

Consultant represents that Consultant has the qualifications and ability to perform the services in a professional manner without the advice, control, or supervision of Callaway Golf. While the specific methods and manner of providing the services shall be solely determined by Consultant, Callaway Golf shall have the right to oversee, direct and give advice to Consultant regarding the general extent, nature and scope of services to be performed by Consultant under this Agreement. The services shall be provided by Consultant at such times and in such locations as Callaway Golf and Consultant mutually agree upon from time to time.

4. Assignment of Rights.  
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(a) Callaway Golf shall own all deliverables delivered by Consultant hereunder.

(b) As used in this Agreement, "Inventions," whether or not they have been patented, trademarked, or copyrighted, means designs, inventions, technologies, methods, innovations, ideas, improvements, processes, materials, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of Callaway Golf's and/or its affiliates' products.

(c) All works of authorship produced under this Agreement shall be "works for hire" produced exclusively for Callaway Golf, and all rights thereto shall belong to Callaway Golf. As a material part of the terms and understandings of this Agreement, Consultant hereby assigns to Callaway Golf all works of authorship and all Inventions relating to the business of Callaway Golf and/or its affiliates, and all intellectual property rights therein (including without limitation all patent rights, copyrights, and trade secret rights), which Consultant creates, develops, conceives and/or reduces to practice, either alone or with anyone else, during the course of providing the Services under this Agreement, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(d) Consultant agrees to disclose to the President and Chief Executive Officer of Callaway Golf any work of authorship and/or Invention relating to the business of Callaway Golf and/or its affiliates, which Consultant develops, conceives and/or reduces to practice, either alone or with anyone else, during the Term of this Agreement. Consultant shall disclose such works of authorship and/or Inventions to Callaway Golf, even if Consultant does not believe that Consultant is required under this Agreement to assign Consultant's interest in such work of authorship and/or Invention to Callaway Golf. If Callaway Golf and Consultant disagree as to whether or not a work of authorship and/or an Invention is included within the terms of this Agreement, it will be the responsibility of Consultant to prove that it is not included and/or that assignment to Callaway Golf is not required.

(e) The obligation to assign as provided in this Agreement does not apply to any work of authorship or any Invention to the extent such obligation would conflict with any applicable state or federal law. All provisions of this Agreement relating to the assignment by

Consultant of works of authorship and Inventions are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Upon Callaway Golf's request, at no expense to Consultant, Consultant shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to Callaway Golf, and all other applicable documents, and will give testimony when and where requested to perfect the title, copyrights, trademarks and/or patents (both within and without the United States) in all works of authorship and Inventions assigned to Callaway Golf hereunder.

(g) Consultant agrees that if in the course of performing the Services, Consultant incorporates any other Invention owned by Consultant or for which Consultant has the right to grant the rights granted in this Section 4(g) ("Consultant Inventions"), into any report, presentation, recommendation, -----  
process, method, tooling, design, machine, equipment, product or other item recommended, presented, developed, implemented or specified by Consultant for or to Callaway Golf under this Agreement, Consultant hereby grants to Callaway Golf a nonexclusive, transferable, royalty-free, perpetual, irrevocable, worldwide license under said Consultant Invention to make, have made, import, modify, and use any product or other item embodying or using said Consultant Invention. Consultant will provide to Callaway Golf copies of all patents and patent applications related to all such Consultant Inventions.

(h) Consultant agrees that if in the course of performing the Services, Consultant recommends the use of any third party Inventions which, to the knowledge of Consultant, are or may be covered by patents held by third parties, that Consultant will disclose such information to Callaway Golf.

5. Compensation. Callaway Golf agrees to pay Consultant during the Term, -----  
and Consultant agrees to accept as payment in full for the services rendered by Consultant to Callaway Golf, pursuant to the terms of this Agreement and the assignment of rights provided for above, as follows:

(a) Callaway Golf shall pay Consultant for authorized consulting services at the rate of one-half of Employee's base salary as in effect in the final year of the Employment Agreement between the Callaway Golf and Consultant effective January 1, 1998 per year, to be paid in equal installments on a monthly basis. In the sole discretion of Callaway Golf, Consultant may be paid a discretionary bonus in none, some or all of the years during the term of this Agreement.

(b) Callaway Golf shall provide at its expense, to the extent Consultant's services to the Company pursuant to this Agreement require, office, secretarial and other support for Consultant.

(c) Callaway Golf shall reimburse Consultant for all reasonable, customary and necessary expenses for travel and lodging incurred in the performance of the services to be provided hereunder. Consultant shall account for such expenses by submitting a signed

statement itemizing such expenses prepared in accordance with the policies set by Callaway Golf for reimbursement of such expenses. The amount, nature and extent of such expenses shall always be subject to the control, supervision and direction of Callaway Golf.

(d) Consultant shall be permitted, if Consultant is insurable under usual underwriting standards, to the extent reasonably practical, to participate in medical, dental and disability insurance to be provided by Callaway Golf. Callaway Golf shall also provide, at its expense, for Consultant to participate annually in the Executive Health Program at Scripps Hospital. It is recognized that all or part of such expense may be treated as taxable compensation to Consultant, and that Callaway Golf shall not be responsible for any taxes that may be due as a result.

(e) Callaway Golf shall provide, at Callaway Golf's expense, if Consultant is insurable under usual underwriting standards, term life insurance coverage on Consultant's life, payable to whomever Consultant directs, in the face amount of \$1,000,000.00, provided that Consultant's physical condition does not prevent Consultant from reasonably qualifying for such insurance coverage. It is recognized that all or part of such expense may be treated as taxable compensation to Consultant, and that Callaway Golf shall not be responsible for any taxes that may be due as a result.

6. Relationship of the Parties. Consultant enters into this Agreement as,

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and shall continue to be, an independent contractor. Under no circumstances shall Consultant look to Callaway Golf as Consultant's employer, or as a partner, agent, or principal. Except as otherwise specifically provided herein, while Consultant is engaged as a Consultant pursuant to this Agreement, Callaway Golf will not provide Consultant with benefits accorded to Callaway Golf employees, regardless of whether Consultant is later re-classified as an employee of Callaway Golf, including but not limited to:

- . Workers' compensation insurance;
- . Participation in Employee health and/or disability insurance plans
- . Access to any type of employee benefit plan, including but not limited to Callaway Golf's 401(k) and employee stock purchase plans;
- . Vacation leave and/or sick pay.

7. Reserved.

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8. Extent of Authority. Consultant shall have no authority or right to

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commit or bind Callaway Golf and/or its affiliates to any agreement or arrangement or to obligate Callaway Golf and/or its affiliates in any manner.

9. Exclusive Dealings. During the term of this Agreement, Consultant

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agrees to deal exclusively with Callaway Golf and/or its affiliates regarding consultation, research and development, and/or experimental work relating to Callaway Golf's and/or its affiliates products or anticipated products. Consultant also agrees that during the term of this Agreement, Consultant will not consult with any other person or entity regarding any business

which engages directly or indirectly in competition with the business of Callaway Golf and/or its affiliates.

10. Non-Solicitation. For one year following the termination of  
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Consultant's engagement as a Consultant with Callaway Golf, Consultant agrees not to ask or encourage directly or indirectly any employees or consultants of Callaway Golf, or any of its affiliates, to leave their employment with or refrain from providing services to Callaway Golf, or any of its affiliates. Consultant shall make any subsequent employer aware of this non-solicitation obligation. Consultant agrees that should any consultant or employee of Callaway Golf or any of its affiliates, join Consultant or Consultant's subsequent employer during the year following the termination of Consultant's services for Callaway Golf and/or its affiliates, this will conclusively be deemed a breach of the nonsolicitation agreement without the necessity of further proof.

11. Suppliers. During the term of this Agreement, and for one year  
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thereafter, Consultant shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to Callaway Golf and/or its affiliates to diminish or cease furnishing such goods, services or credit.

12. Restrictions Do Not Impair Livelihood. Consultant further acknowledges  
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that: (a) in the event this Agreement terminates for any reason, Consultant will be able to earn a livelihood without violating the foregoing restrictions; and (b) Consultant's continuing ability to earn a livelihood without violating these restrictions is a material condition to this Agreement.

13. Conflict of Interest. During the term of this Agreement, Consultant  
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shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Consultant's duties and obligations to Callaway Golf and/or its affiliates.

14. Confidential Information and/or Trade Secrets.  
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(a) Definition. As used in this Agreement, the terms "Confidential  
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Information and/or Trade Secrets" mean all information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is owned by or in the possession of Callaway Golf and/or its affiliates, including but not limited to (1) concepts, ideas, plans and strategies involved in Callaway Golf's and/or its affiliates' products and businesses, (2) the processes, formulae and techniques disclosed by Callaway Golf and/or its affiliates or contractors to Consultant or observed by Consultant, (3) the designs, inventions and innovations and related plans, strategies and applications which Consultant develops during the Term of this Agreement in connection with the projects assigned to Consultant by Callaway Golf, and (4) third party information which Callaway Golf and/or its affiliates has/have promised to keep confidential. The terms "Confidential Information and/or Trade Secrets" do not include the following:

(i) Information which, at the time of disclosure or observation, had been previously published or otherwise publicly disclosed;

(ii) Information which is published (or otherwise publicly disclosed) after disclosure or observation, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to Callaway Golf and/or its affiliates; or

(iii) Information which, subsequent to disclosure or observation, is obtained by Consultant 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 Callaway Golf and/or its affiliates with respect to such information) and who is not required to refrain from disclosing such information to others.

(b) No Disclosure of Confidential Information and/or Trade Secrets. During

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the Term of this Agreement, Consultant will have access to and become familiar with various Confidential Information and/or Trade Secrets which Consultant acknowledges are owned and shall continue to be owned solely by Callaway Golf and/or its affiliates or third party contractors. Consultant agrees that Consultant will not, at any time, whether during or subsequent to the term of this Agreement, use any Confidential Information and/or Trade Secrets for any purpose except in order to: (1) perform Consultant's duties under this Agreement; (2) disclose Confidential Information and/or Trade Secrets to third parties for which Callaway Golf has given its written consent; or (3) disclose Confidential Information and/or Trade Secrets pursuant to a governmental process in which Consultant is compelled to do so. In the event Consultant believes that Consultant is legally required to disclose any Confidential Information and/or Trade Secrets, Consultant shall give reasonable notice to Callaway Golf prior to disclosing such information and shall assist Callaway Golf in taking such legally permissible steps as are reasonable and necessary to protect the Confidential Information and/or Trade Secrets. If Consultant believes that it is necessary for Consultant to disclose Confidential Information and/or Trade Secrets, Consultant shall first obtain written consent to do so from Callaway Golf, and the party to whom the disclosure is to be made shall execute a non-disclosure agreement in a form acceptable to Callaway Golf before Consultant shall make such disclosure.

(c) No Removal of Callaway Golf and/or its Affiliates' Documents or

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Information. Consultant understands and agrees that all books, records, customer

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lists and documents connected with the business of Callaway Golf and/or its affiliates are the property of and belong to Callaway Golf and/or its affiliates or third-party contractors. Under no circumstances shall Consultant remove from Callaway Golf's and/or its affiliates' facilities any of Callaway Golf's and/or its affiliates' books, records, documents, lists or any copies of the same without Callaway Golf's and/or its affiliates' written permission, nor shall Consultant make any copies of Callaway Golf's and/or its affiliates' books, records, documents or lists for use outside Callaway Golf's and/or its affiliates' office(s) except as specifically authorized by Callaway Golf. Consultant shall return to Callaway Golf and/or its affiliates all books, records, documents and customer lists belonging to Callaway Golf and/or its affiliates upon

termination of this Agreement.

(d) The provisions of Section 14 shall survive the termination or expiration of this Agreement, and shall be binding upon Consultant in perpetuity.

15. Surrender of Company Property. Consultant agrees that upon

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termination of this Agreement in any manner, Consultant will immediately surrender to Callaway Golf and/or its affiliates all property owned by Callaway Golf and/or its affiliates.

16. Notices. Any notice, request, demand or other communication required

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or permitted hereunder shall be deemed properly given when actually received or within five days of mailing by certified or registered mail, postage prepaid, to the following addresses, or to such addresses as may be furnished from time to time, in writing, to the other party:

Callaway Golf: Callaway Golf Company  
2285 Rutherford Road  
Carlsbad, CA 92008-8815  
Attn: Donald H. Dye, President & Chief Executive Officer

Consultant: Richard C. Helmstetter  
P.O. Box 3644  
Rancho Santa Fe, California 92067

17. Termination. This Agreement may be terminated by Callaway Golf for

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substantial cause upon the occurrence of any of the following events:

a. Death. This Agreement may be terminated upon the death of

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consultant. Termination under this sub-section shall be effective on the date of Consultant's death.

b. Permanent Disability. This Agreement may be terminated upon the

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permanent disability of Consultant. For purposes of this Agreement, and subject to all applicable laws with respect to disabilities and the rights of those who are disabled, "permanent disability" shall mean the inability of Consultant, by reason of any ailment or illness, or physical or mental condition, to perform his duties hereunder for a consecutive period of six (6) months.

c. Failure to Substantially Perform Duties or Misconduct. This

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Agreement may be terminated for the failure of Consultant to substantially perform his duties, breach of this Agreement, or misconduct associated with the performance of his duties as a consultant, including, but not limited to, dishonesty, theft, disloyalty and/or felony criminal conduct. Termination under this subsection shall be effective immediately, upon the receipt by Consultant of written notice stating the cause of such termination.

The provisions of Sections 4, 9, 10, 11, 14 and 21 shall survive termination of the other provisions of this Agreement.

18. Advertising Waiver. Consultant agrees to permit Callaway Golf and/or

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

19. Publicity; Use of Marks. Consultant shall not at any time use

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Callaway Golf's or its affiliates' names, trademarks or trade names in any advertising or publicity without the prior written consent of Callaway Golf.

20. Assignment. Consultant shall not assign this Agreement or any of

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Consultant's rights hereunder without the prior written consent of Callaway Golf. Any attempted assignment by Consultant in violation of this paragraph shall be void.

21. Irrevocable Arbitration of Disputes.

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(a) Consultant and Callaway Golf agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Consultant's provision of services to Callaway Golf, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of covenant of good faith and fair dealing, violation of public policy, and violation of any statutory, contractual or common law rights. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. A proceeding to compel arbitration under this provision shall be governed by Section 3 of Chapter 1 of the Federal Arbitration Act such that any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of any arbitrable dispute. The parties further agree that Section 1281.2 of the California Code of Civil Procedure, which permits a court to deny arbitration to the parties, shall have no force and effect on this agreement to arbitrate.

(b) Any demand for arbitration shall be in writing and must be made to the Chief Legal Officer within one (1) year, or within the time period stated in the applicable statute of limitations, whichever is shorter, after the discovery of the alleged claim or cause of action by the aggrieved party.

(c) The arbitration shall be conducted pursuant to the procedural rules stated in the commercial rules of the American Arbitration Association ("AAA") in San

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

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

(e) The arbitrator has no authority to award punitive damages.

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

I have read Section 21 and irrevocably agree to arbitrate any dispute identified above.

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(Consultant's initials)

22. Disclosure of Others' Confidential Information. It is the

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understanding of both Callaway Golf and Consultant that Consultant shall not divulge to Callaway Golf, its affiliates or its third party contractors any confidential information or trade secrets belonging to others, nor shall Callaway Golf seek to elicit from Consultant any such information. Consistent with the foregoing, Consultant shall not provide to Callaway Golf, and Callaway Golf shall not request, any documents or copies of documents containing such information. Failure to comply with this obligation by Consultant shall be grounds for immediate termination of this Agreement.

23. Applicable Law. This Agreement shall constitute a contract under the

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internal laws of the State of California and shall be governed in accordance with the laws of said state as to both interpretation and performance.

24. Entire Agreement/Amendments. This Agreement reflects the only, sole

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and

entire agreement between the parties relating in any way to the subject matter hereof. No statement or promise or different representations have been made which in any way form a part of or modify this Agreement. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

25. Separate Terms. Each term, condition, covenant or provision of this

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Agreement shall be viewed as separate and distinct, and in the event that any such term, covenant or provision shall be held by a court of competent jurisdiction to be invalid, the remaining provisions shall continue in full force and effect.

26. Waiver. A waiver by either party of a breach of any provision or

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provisions of this Agreement shall not constitute a general waiver or prejudice the other party's right otherwise to demand strict compliance with that provision or any other provisions in this Agreement.

27. Consequential Damages Waiver. In no event will either party, its

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directors, officers, employees, agents or affiliates be liable to the other party for any direct, incidental, special or consequential damages, including any lost profits, whether based upon a claim or action of contract, warranty, negligence, strict liability or other tort, or otherwise, arising out of this Agreement, regardless of whether such party has been advised of the possibility of such damages.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date(s) set forth below to be effective as of the day and year first set forth above.

Callaway Golf  
Callaway Golf Company,  
a California corporation

Consultant

By: \_\_\_\_\_  
Donald H. Dye  
President & Chief Executive Officer

Richard C. Helmstetter

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

WELLS FARGO BANK

December 2, 1997

Callaway Golf Company,  
a California corporation  
2285 Rutherford Road  
Carlsbad, CA 92008

Gentlemen:

This letter is to confirm that Wells Fargo Bank, National Association, successor-by-merger to First Interstate Bank of California ("Bank") has agreed to extend the maturity date of that certain credit accommodation granted by Bank to Callaway Golf Company, a California corporation ("Borrower") in the maximum principal amount of Fifty Million Dollars (\$50,000,000.00), as evidenced by that certain promissory note dated as of December 1, 1995, executed by Borrower and payable to the order of Bank (the "Note"), a copy of which is attached hereto as Exhibit A.

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The maturity date of said credit accommodation is hereby extended until February 15, 1998. The Note shall be deemed modified as of the date this letter is acknowledged by Borrower to reflect said new maturity date. All other terms and conditions of the Note remain in full force and effect, without waiver or modification.

Borrower acknowledges that Bank has not committed to make any renewal or further extension of the maturity date of the above-described credit accommodation beyond the new maturity date specified herein, and that any such renewal or further extension remains in the sole discretion of Bank. This letter constitutes the entire agreement between Bank and Borrower with respect to the maturity date extension for the above-described credit accommodation, and supersedes all prior negotiations, discussions and correspondence concerning said extension.

Please acknowledge your acceptance of the terms and conditions contained herein by dating and signing one copy below and returning it to my attention at the above address on or before December 19, 1997.

Very truly yours,

WELLS FARGO BANK,  
NATIONAL ASSOCIATION,  
SUCCESSOR-BY-MERGER TO  
FIRST INTERSTATE BANK OF  
CALIFORNIA

By: /s/ DAVID BRUEN

-----  
David Bruen  
Vice President

Acknowledged and accepted as of December 11, 1997.

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CALLAWAY GOLF COMPANY,  
a California corporation

By: /s/ DAVID RANE

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David Rane  
Chief Financial Officer

By: /s/ STEVEN C. MCCRACKEN

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Steven C. McCracken  
Secretary

EXHIBIT A  
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NOTE: Exhibit A is identical to Exhibit 10.20.2, "Amended and Restated  
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Revolving Credit Note made by the Company in the principal amount of \$50,000,000 and payable to First Interstate Bank of California, dated December 1, 1995 and First Amendment to Loan Agreement by and between the Company and First Interstate Bank of California dated December 1, 1995," listed in the Company's 1997 Annual Report on Form 10-K, and is incorporated herein by reference.

Portions of the Callaway Golf Company 1997 Annual Report to Shareholders

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 SELECTED FINANCIAL DATA  
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(in thousands, except per share data)

	Year ended December 31,				
	1997	1996	1995	1994	1993
<hr/>					
Statement of Income Data:					
Net sales	\$ 842,927	\$ 678,512	\$ 553,287	\$ 448,729	\$ 254,645
Cost of goods sold	400,127	317,353	270,125	208,906	115,458
<hr/>					
Gross profit	442,800	361,159	283,162	239,823	139,187
Selling, general and administrative expenses	191,313	155,177	120,201	106,913	67,118
Research and development costs	30,298	16,154	8,577	6,380	3,653
Litigation settlement	12,000				
<hr/>					
Income from operations	209,189	189,828	154,384	126,530	68,416
Other income, net	4,576	5,767	4,017	2,875	1,184
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Income before income taxes and cumulative effect of accounting change	213,765	195,595	158,401	129,405	69,600
Provision for income taxes	81,061	73,258	60,665	51,383	28,396
<hr/>					
Income before cumulative effect of accounting change	132,704	122,337	97,736	78,022	41,204
Cumulative effect of accounting change					1,658
<hr/>					
Net income	\$ 132,704	\$ 122,337	\$ 97,736	\$ 78,022	\$ 42,862
<hr/> <hr/>					
Earnings per Common Share (Note 1):					
Income before cumulative effect of accounting change					
Basic	\$1.94	\$1.83	\$1.47	\$1.14	\$0.65
Diluted	\$1.85	\$1.73	\$1.40	\$1.07	\$0.60
Cumulative effect of accounting change					
Basic					\$0.03
Diluted					\$0.02
<hr/>					
Net income					
Basic	\$1.94	\$1.83	\$1.47	\$1.14	\$0.68
Diluted	\$1.85	\$1.73	\$1.40	\$1.07	\$0.62
<hr/> <hr/>					
Dividends paid per share	\$0.28	\$0.24	\$0.20	\$0.10	\$0.03
<hr/>					
(in thousands)			December 31,		
	1997	1996	1995	1994	1993
<hr/>					
Balance Sheet Data:					
Cash and cash equivalents	\$26,204	\$108,457	\$59,157	\$54,356	\$48,996
Working capital	\$209,402	\$250,461	\$146,871	\$130,792	\$83,683
Total assets	\$561,714	\$428,428	\$289,975	\$243,622	\$144,360
Long-term liabilities	\$7,905	\$5,109	\$2,207	\$610	
Total shareholders' equity	\$481,425	\$362,267	\$224,934	\$186,414	\$116,577
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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Results of Operations

Years Ended December 31, 1997 and 1996

For the year ended December 31, 1997, net sales increased 24% to \$842.9 million compared to \$678.5 million for the prior year. The growth in sales included increases in the sales of metal woods, irons, and putters. Metal wood sales increased \$65.1 million primarily due to sales of Biggest Big Bertha(TM) Titanium Drivers. Iron sales increased \$65.4 million primarily due to sales of Great Big Bertha(R) Tungsten.Titanium(TM) Irons, which generated revenues of \$59.3 million for the year ended December 31, 1997. Also contributing to the increase in net sales was the acquisition of certain assets and liabilities of Odyssey Sports, Inc. by the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), which contributed \$20.5 million in net sales.

For the year ended December 31, 1997, gross profit increased to \$442.8 million from \$361.2 million in 1996 and cost of goods sold was relatively unchanged as a percentage of sales from the prior year.

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

Selling expenses increased to \$120.6 million in 1997 from \$80.7 million in 1996. As a percentage of net sales, selling expenses increased to 14% from 12%. The \$39.9 million increase was primarily due to increased promotional and tour expenses, higher costs related to the Company's performance centers and additional selling expenses associated with the addition of Odyssey.

General and administrative expenses decreased to \$70.7 million in 1997 from \$74.5 million in 1996. The \$3.8 million decrease was primarily due to reduced employee bonus and profit sharing expenses, partially offset by increased start-up costs associated with the Company's golf ball operations and the addition of Odyssey.

Research and development expenses increased to \$30.3 million in 1997 as compared to \$16.2 million in 1996. This \$14.1 million increase resulted from increased expenditures related to casting technologies, golf ball development and product engineering efforts.

Litigation settlement expense of \$12.0 million represents the Company's third quarter settlement of certain litigation brought against it and certain officers of the Company by a former officer of the Company.

During the fourth quarter of 1997, the Company reversed an accrual for bonus compensation of approximately \$8.0 million due to the fact that certain operating targets were not met.

Years Ended December 31, 1996 and 1995

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

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

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

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

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

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

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



## Liquidity and Capital Resources

At December 31, 1997, cash and cash equivalents decreased to \$26.2 million from \$108.5 million at December 31, 1996 primarily due to investing activities, which included the acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. for \$129.3 million and increases in capital expenditures, which totaled \$67.9 million and included building and land improvements, computer equipment and software, and research and development machinery and equipment. During 1997, the Company also spent \$53.0 million to repurchase and retire Common Stock and paid \$19.1 million in dividends. Offsetting these investing and financing activities were cash flows generated by operations of \$165.5 million and proceeds from Common Stock transactions totaling \$21.6 million.

The Company had available a \$50.0 million line of credit at December 31, 1997. This credit facility was replaced with a new five year, \$150.0 million credit facility during February 1998. At this time, the Company anticipates that it will be able to maintain its current level of operations, including capital expenditures and planned operations for the foreseeable future, through cash flow generated from future operations and the new line of credit.

## Certain Factors Affecting Callaway Golf Company

### Growth in Sales; Profit Margins; Seasonality

The Company believes that the growth rate, if any, in the world-wide golf equipment market has been modest for the past several years, and this trend is likely to continue. In addition, recent economic turmoil in Southeast Asia and Korea has caused a significant contraction in the retail golf markets in these countries and had an adverse effect on the Company's sales and results of operations for the fourth quarter of 1997. The Company expects this situation to continue until economic stability returns to these areas. Potential economic disruption from this turmoil in other areas, such as Japan and elsewhere in Asia, also could adversely impact the Company's future sales and results of operations. Additionally, although demand for the Company's products has been generally strong during 1997, no assurances can be given that the demand for the Company's existing products or the introduction of new products will continue to permit the Company to experience its historical growth rates in sales. Given the Company's current size and market position, it is likely that further market penetration will prove more difficult.

The Company experienced an increase in its cost of goods sold during the third and fourth quarters of 1997 compared to historical levels, primarily due to a general increase in sales of irons, which have lower margins than metal woods, and an increase in sales to Japan, an area which has the lowest margins of all the areas in which the Company sells. In addition, the current operations of Odyssey have lower margins than the Company has experienced historically. If sales of irons in general, or Great Big Bertha(R) Tungsten.Titanium(TM) Irons in particular, as a percentage of the Company's total sales remain at these levels or continue to rise, the recent increases in cost of goods sold over historical levels will continue. Similarly, if Odyssey's business continues to increase, and its margins do not improve, the Company's margins could continue to decrease.

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. The Company's business generally follows this seasonal trend and the Company expects this to continue. Unusual or severe weather conditions such as the "El Nino" weather patterns being experienced in the winter of 1997-1998 will compound these seasonal affects and could have a negative effect on the Company's sales and results of operations.

### Competition

The market in which the Company does business is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names. New product introductions by competitors continue to generate increased market competition. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

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

### New Product Introduction

The Company believes that the introduction of new, innovative golf equipment is important to its future success. As a result, the Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. New designs must satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely



affect the sales of the Company's products. Moreover, the Company's new products have tended to incorporate significant innovations in design and manufacture, which have resulted in increasingly higher prices for the Company's products relative to products already in the marketplace. There can be no assurance that a significant percentage of the public will always be willing to pay such prices for golf equipment. Thus, although the Company has achieved certain successes in the introduction of its golf clubs in the past, no assurances can be given that the Company will be able to continue to design and manufacture golf clubs that achieve market acceptance in the future.

The rapid introduction of new products by the Company can result in close-outs of existing inventories, both at the Company and at retailers. So far, the Company has managed such close-outs so as to avoid any material negative impact on the Company's operations. There can be no assurance that the Company will always be able to do so.

As the Company introduces new products, it plans its manufacturing capacity based upon the forecasted demand for such new products. Actual demand for such new products may exceed forecasted demand. The Company's unique product designs often require sophisticated manufacturing techniques, which can limit the Company's ability to quickly expand its manufacturing capacity to meet the full demand for new products. If the Company is unable to produce sufficient quantities of new products in time to fulfill actual demand, especially during the Company's traditionally busy second and third quarters, it could limit the Company's sales and adversely affect its financial performance.

#### Product Breakage

Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. While any breakage or warranty problems are deemed significant to the Company, the incidence of clubs returned as a result of cracked clubheads, broken graphite shafts, loose medallions and other product problems to date has not been material in relation to the volume of Callaway Golf clubs which have been sold. The Company monitors closely the level and nature of any product breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. The Company's Biggest Big Bertha(TM) Drivers, because of their large clubhead size and extra long graphite shafts, have experienced shaft breakage at a rate higher than generally experienced with the Company's other metal woods. Significant increases in the incidence of shaft breakage or other product problems may adversely affect the Company's sales and image with golfers.

#### Dependence on Certain Vendors

The Company is dependent on a limited number of suppliers for its clubheads and shafts. In addition, some of the Company's products require specifically developed manufacturing techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if a significant delay or disruption in the supply of these component parts occurs, it may have a material adverse effect on the Company's business. In the event of a significant delay or disruption, the Company believes that suitable clubheads and shafts could be obtained from other manufacturers, although the transition to other suppliers could result in significant production delays and an adverse impact on results of operations during the transition.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic customers. The Company is considering alternative methods of ground shipping to reduce its reliance on UPS, but no change has been made. Any interruption in UPS services could have a material adverse effect on the company's sales and results of operations.

#### Intellectual Property and Proprietary Rights

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

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

Various patents have been issued to the Company's competitors in the golf ball industry. As Callaway Golf Ball Company develops a new golf ball product, it must avoid infringing on these patents or other intellectual property

rights, or it must obtain licenses to use them lawfully. If any new golf ball product was found to infringe on protected technology, the Company could incur substantial costs to redesign its golf ball product or to defend legal actions. Despite its efforts to avoid such infringements, there can be no assurance that Callaway Golf Ball Company will not infringe on the patents or other intellectual property rights of third parties in its development efforts, or that it will be able to obtain licenses to use any such rights, if necessary.

#### "Gray Market" Distribution

Some quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" in the Company's products can undermine authorized retailers and distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the other hand, stopping such commerce could result in a potential decrease in sales to those customers who are selling Callaway Golf products to unauthorized distributors and/or an increase in sales returns over historical levels. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both domestic and international markets, it has not stopped such commerce. The Company's efforts to address gray market issues could have an adverse impact on the Company's sales and financial performance.

#### Professional Endorsements

The Company also establishes relationships with professional golfers in order to promote the Callaway Golf brand among both professional and amateur golfers. The Company has entered into endorsement arrangements with members of the Senior Professional Golf Association's Tour, the Professional Golf Association's Tour, the Ladies Professional Golf Association's Tour, the European Professional Golf Association's Tour and the Nike Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If one or more of Callaway Golf's professional endorsers were to stop using the Company's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so. The Company has created cash "pools" that reward such usage. For the last several years, the Company has experienced an exceptional level of driver penetration on the world's five major professional tours, and the Company has heavily advertised that fact. There is no assurance that the Company will be able to sustain this level of professional usage. Many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. While it is not clear whether professional endorsements materially contribute to retail sales, it is possible that a decline in the level of professional usage could have a material adverse effect on the Company's business.

#### New Business Ventures

Beginning in 1995, the Company began to evaluate and pursue new business ventures which it believes constitute potential growth opportunities in and outside of the golf equipment industry. The Company has invested, and expects to continue to invest, significant capital resources in these new ventures in the form of research and development, capital expenditures and the hiring of additional personnel. Investments in these ventures could have a negative impact on the Company's future cash flows and results of operations. There can be no assurance that new ventures will lead to new product offerings or otherwise increase the revenues and profits of the Company. Like all new businesses, these ventures require significant management time, involve a high degree of risk and will present many new challenges for the Company. There can be no assurance that these activities will be successful, or that the Company will realize appropriate returns on its investments in these new ventures.

#### International Distribution

The Company's management believes that controlling the distribution of its products throughout the world will be an element in the future growth and success of the Company. The Company is actively pursuing a reorganization of its international operations, including the acquisition of distribution rights in certain key countries in Europe and Asia. These efforts have and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. The integration of foreign distributors into the Company's international sales operations will require the dedication of management resources which may temporarily detract from attention to the day-to-day business of the Company, and also increase the Company's exposure to fluctuations in exchange rates for various foreign currencies. International reorganization also could result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of some or all of the Company's foreign distributors will be successful, and it is possible that an attempt to do so will adversely affect the Company's business.

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

The Company has established ERC International Company ("ERC"), a wholly-owned Japanese corporation, for the purpose of distributing Odyssey(R) products immediately, Callaway Golf balls when ready and Callaway Golf clubs beginning January 1, 2000. There will be significant costs and capital expenditures invested in ERC before there will be sales sufficient to support such product costs. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution in Japan through ERC, and it is possible that doing so will have a material adverse effect on the Company's operations and financial performance.

#### Golf Ball Development

In June 1996, the Company formed Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, for the purpose of designing, manufacturing and selling golf balls. The Company has previously licensed the manufacture and distribution of a golf ball product in Japan and Korea. The Company also distributed a golf ball under the trademark "Bobby Jones." These golf ball ventures were not commercially successful.

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by developing a new product in a new plant to be constructed just for this purpose. The successful implementation of the Company's strategy could be adversely affected by various risks, including, among others, delays in product development, construction delays and unanticipated costs. There can be no assurance if and when a successful golf ball product will be developed or that the Company's investments will ultimately be realized.

The Company's golf ball business is in the early stages of development. It is expected, however, that it will have a negative impact on the Company's future cash flows and results of operations for several years. The Company believes that many of the same factors which affect the golf equipment industry, including growth rate in the golf equipment industry, intellectual property rights of others, seasonality and new product introductions, also apply to the golf ball business. In addition, the golf ball business is highly competitive with a number of well-established and well-financed competitors. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

#### Year 2000 Compliance

Historically, certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing a date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000" problem.

In October 1997, the Company implemented a new computer system which runs most of the Company's principal data processing and financial reporting software applications. The application software used on this new system is Year 2000 compliant. The information systems of certain of the Company's subsidiaries, however, have not been converted to the new system, but the Company is in the process of implementing such conversion. Pursuant to the Company's Year 2000 Plan, the Company is currently evaluating its computerized production equipment to assure that the transition to the Year 2000 will not disrupt the Company's manufacturing capabilities. The Company is currently assessing the extent of the Year 2000 impact on its suppliers, distributors, customers and other vendors. Presently, the Company does not believe that Year 2000 compliance will result in additional material investments by the Company, nor does the Company anticipate that the Year 2000 problem will have material adverse effects on the business operations or financial performance of the Company. There can be no assurance, however, that the Year 2000 problem will not adversely affect the Company and its business.

#### Management Information Systems

As noted above, in October 1997, the Company converted to a new integrated computer system which runs substantially all of the Company's principal data processing and financial reporting software applications. As the Company enters its traditional busy selling season in the second and third quarters, the demands on the Company's information systems will increase substantially. Any significant disruptions or delays in the Company's information systems during this period could negatively impact the Company's ability to process sales orders and compile other management information, which in turn could have material adverse effects on the Company's sales and results of operations.

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CONSOLIDATED BALANCE SHEET  
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(in thousands, except share and per share data)	December 31,	
	1997	1996
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,204	\$ 108,457
Accounts receivable, net	124,470	74,477
Inventories, net	97,094	98,333
Deferred taxes	23,810	25,948
Other current assets	10,208	4,298
Total current assets	281,786	311,513
Property, plant and equipment, net	142,503	91,346
Intangible assets, net	112,141	4,277
Other assets	25,284	21,292
	\$ 561,714	\$ 428,428
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 30,063	\$ 14,996
Accrued employee compensation and benefits	14,262	16,195
Accrued warranty expense	28,059	27,303
Income taxes payable		2,558
Total current liabilities	72,384	61,052
Long-term liabilities (Note 7)	7,905	5,109
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 1997 and 1996		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 74,251,664 and 72,855,222 issued and outstanding at December 31, 1997 and 1996 (Note 4)	743	729
Paid-in capital	337,403	278,669
Unearned compensation	(3,575)	(3,105)
Retained earnings	298,169	238,349
Less: Grantor Stock Trust (5,300,000 shares at December 31, 1997 and 1996) at market (Note 4)	(151,315)	(152,375)
Total shareholders' equity	481,425	362,267
	\$ 561,714	\$ 428,428

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF INCOME  
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(in thousands, except per share data)

	1997		Year ended December 31, 1996		1995	
Net sales	\$842,927	100%	\$678,512	100%	\$553,287	100%
Cost of goods sold	400,127	47%	317,353	47%	270,125	49%
<b>Gross profit</b>	<b>442,800</b>	<b>53%</b>	<b>361,159</b>	<b>53%</b>	<b>283,162</b>	<b>51%</b>
Selling expenses	120,589	14%	80,701	12%	64,310	12%
General and administrative expenses	70,724	8%	74,476	11%	55,891	10%
Research and development costs	30,298	4%	16,154	2%	8,577	2%
Litigation settlement	12,000	1%				
<b>Income from operations</b>	<b>209,189</b>	<b>25%</b>	<b>189,828</b>	<b>28%</b>	<b>154,384</b>	<b>28%</b>
Interest and other income, net	4,576		5,767		4,017	
<b>Income before income taxes</b>	<b>213,765</b>	<b>25%</b>	<b>195,595</b>	<b>29%</b>	<b>158,401</b>	<b>29%</b>
Provision for income taxes	81,061		73,258		60,665	
<b>Net income</b>	<b>\$132,704</b>	<b>16%</b>	<b>\$122,337</b>	<b>18%</b>	<b>\$ 97,736</b>	<b>18%</b>

Earnings per common share

Basic	\$1.94	\$1.83	\$1.47
Diluted	\$1.85	\$1.73	\$1.40

Common equivalent shares

Basic	68,407	66,832	66,641
Diluted	71,698	70,661	69,855

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS  
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(in thousands)

	1997	Year ended December 31, 1996	1995
Cash flows from operating activities:			
Net income	\$ 132,704	\$ 122,337	\$ 97,736
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,408	12,691	10,778
Non-cash compensation	8,013	4,194	2,027
Tax benefit from exercise of stock options	29,786	14,244	11,236
Deferred taxes	1,030	(4,420)	4,978
Increase (decrease) in cash resulting from changes in:			
Accounts receivable, net	(36,936)	3,510	(43,923)
Inventories, net	6,271	(44,383)	22,516
Other assets	(6,744)	(12,817)	(6,518)
Accounts payable and accrued expenses	13,529	(15,395)	9,227
Accrued employee compensation and benefits	(2,437)	2,031	1,322
Accrued warranty expense	756	3,534	5,587
Income taxes payable	(2,636)	626	(9,845)
Other liabilities	2,796	2,902	1,597
Net cash provided by operating activities	165,540	89,054	106,718
Cash flows from investing activities:			
Capital expenditures	(67,938)	(35,352)	(29,510)
Acquisition of a business, net of cash acquired	(129,256)	(610)	
Net cash used in investing activities	(197,194)	(35,962)	(29,510)
Cash flows from financing activities:			
Issuance of Common Stock	21,558	12,258	7,991
Retirement of Common Stock	(52,985)		(67,022)
Dividends paid, net	(19,123)	(16,025)	(13,350)
Net cash used in financing activities	(50,550)	(3,767)	(72,381)
Effect of exchange rate changes on cash	(49)	(25)	(26)
Net (decrease) increase in cash and cash equivalents	(82,253)	49,300	4,801
Cash and cash equivalents at beginning of year	108,457	59,157	54,356
Cash and cash equivalents at end of year	\$ 26,204	\$ 108,457	\$ 59,157
Supplemental disclosure:			
Cash paid for income taxes	\$ 54,358	\$ 62,938	\$ 58,543

See accompanying notes to consolidated financial statements.

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 CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
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(in thousands)

	Common Stock						Total
	Shares	Amount	Paid-In Capital	Unearned Compensation	Retained Earnings	GST	
Balance, December 31, 1994	68,095	\$680	\$ 75,002	\$(3,670)	\$114,402		\$186,414
Exercise of stock options	2,329	24	7,971		(4)		7,991
Tax benefit from exercise of stock options			11,236				11,236
Compensatory stock options			759	1,250			2,009
Compensatory stock	1		18				18
Stock retirement	(4,813)	(48)			(66,974)		(67,022)
Cash dividends					(13,550)		(13,550)
Dividends on shares held by GST					200		200
Equity adjustment from foreign currency					(98)		(98)
Establishment of GST	5,300	53	86,785			\$ (86,838)	
Adjustment of GST shares to market value			33,075			(33,075)	
Net income					97,736		97,736
Balance, December 31, 1995	70,912	709	214,846	(2,420)	131,712	(119,913)	224,934
Exercise of stock options	1,775	18	12,240				12,258
Tax benefit from exercise of stock options			14,244				14,244
Compensatory stock options			2,604	(685)			1,919
Employee stock purchase plan	168	2	2,273				2,275
Cash dividends					(17,297)		(17,297)
Dividends on shares held by GST					1,272		1,272
Equity adjustment from foreign currency					325		325
Adjustment of GST shares to market value			32,462			(32,462)	
Net income					122,337		122,337
Balance, December 31, 1996	72,855	729	278,669	(3,105)	238,349	(152,375)	362,267
Exercise of stock options	2,877	29	21,529				21,558
Tax benefit from exercise of stock options			29,786				29,786
Compensatory stock options			2,511	(470)			2,041
Employee stock purchase plan	372	4	5,968				5,972
Stock retirement	(1,852)	(19)			(52,966)		(52,985)
Cash dividends					(20,607)		(20,607)
Dividends on shares held by GST					1,484		1,484
Equity adjustment from foreign currency					(795)		(795)
Adjustment of GST shares to market value			(1,060)			1,060	
Net income					132,704		132,704
Balance, December 31, 1997	74,252	\$743	\$337,403	\$(3,575)	\$298,169	\$(151,315)	\$481,425

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Note 1

THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Callaway Golf Company ("Callaway Golf" or the "Company") is a California corporation formed in 1982. The Company designs, develops, manufactures and markets high-quality, innovative golf clubs. Callaway Golf's primary products include Big Bertha(R) Metal Woods with the War Bird(R) soleplate, Great Big Bertha(R) Titanium Metal Woods, Biggest Big Bertha(TM) Titanium Drivers, Big Bertha(R) Irons, Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Odyssey(R) putters and wedges and various other putters. The consolidated financial statements include the accounts of the Company and its subsidiaries, Callaway Golf Sales Company, Callaway Golf Ball Company, Odyssey Golf, Inc., CGV, Inc., Callaway Golf (UK) Limited, ERC International Company and Callaway Golf (Germany) GmbH. All significant intercompany transactions and balances have been eliminated.

Revenue Recognition

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

Advertising Costs

The Company advertises primarily through television and print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 1997, 1996 and 1995 were \$20,320,000, \$18,321,000 and \$12,148,000, respectively.

Foreign Currency Translation and Transactions

The accounts of the Company's foreign subsidiaries have been translated into United States dollars at appropriate rates of exchange. Cumulative translation gains or losses are recorded as a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in the consolidated statement of income. The Company recorded transaction losses of \$940,000 in 1997. The amounts recorded as a result of foreign currency transactions in 1996 and 1995 were not material.

During 1997, 1996 and 1995, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions by one of its wholly-owned foreign subsidiaries, Callaway Golf (UK) Limited. Realized and unrealized gains and losses on these contracts are recorded in income. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At December 31, 1997, 1996 and 1995, the Company had approximately \$2,575,000, \$5,774,000 and \$446,000, respectively, of foreign exchange contracts outstanding. The contracts outstanding at December 31, 1997 mature between January and May of 1998. The Company had net realized and unrealized gains on foreign exchange contracts of \$261,000 in 1997, net realized and unrealized losses of \$521,000 in 1996 and net realized and unrealized gains of \$106,000 in 1995.

Earnings per Common Share

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings Per Share." This statement requires presentation of basic and diluted earnings per common share. Basic earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period, increased by dilutive potential common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include shares owned by the Callaway Golf Company Grantor Stock Trust (Note 4), options issued pursuant to the Company's stock option plans (Note 6), shares related to the Employee Stock Purchase Plan (Note 6) and rights to purchase preferred shares under the Callaway Golf Company Shareholder Rights Plan (Note 6). Dilutive securities related to the Callaway Golf Company Grantor Stock Trust and the Company's stock option plans are included in the calculation of diluted earnings per common

share using the treasury stock method. Dilutive securities related to the Employee Stock Purchase Plan are calculated by dividing the average withholdings during the period by 85% of the lower of the offering period price or the market value at the end of the period. The dilutive effect of rights to purchase preferred shares under the Callaway Golf Shareholder Rights Plan have not been included as dilutive securities because the conditions necessary to cause these rights to be redeemed were not met. All earnings per common share data reported in prior periods have been restated in accordance with SFAS No. 128. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the years ended December 31, 1997, 1996, and 1995 is presented in Note 5.

#### Financial Statement Preparation

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

#### Cash Equivalents

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

At December 31, 1996, the Company held investments in U.S. Treasury bills with maturities of three months or less in the aggregate amount of \$96,407,000. Management determines the appropriate classification of its U.S. Government and debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company recorded these securities at amortized costs and designated them as "held-to-maturity." No investments in U.S. Treasury bills were held at December 31, 1997.

The acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. (Note 11) and the repurchase and retirement of certain of the Company's outstanding Common Stock necessitated the sale of certain held-to-maturity debt securities with amortized costs of \$115,428,000 and \$31,805,000, respectively, during 1997. These securities were purchased at a discount and were sold within two weeks to two months of their respective stated maturity dates. As such, the securities are considered to be sold at maturity under the provisions of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." No realized or unrealized gain or loss resulted from the sale of these securities.

#### Inventories

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

#### Property, Plant and Equipment

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

#### Long-Lived Assets

The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. 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. No impairment losses have been identified by the Company.

#### Intangible Assets

Intangible assets consist primarily of trade name, trademark, trade dress, patents and goodwill resulting from the purchase of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. (Note 11). Intangible assets are amortized using the straight-line method over periods ranging from three to forty years. During 1997, amortization of intangible assets was \$1,778,000. Amortization expense for the years ended December 31, 1996 and 1995 was not material.

#### Stock-Based Compensation

Effective January 1, 1996, the Company adopted 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." Pro forma disclosures of net income and earnings per share, as if the fair value-based method prescribed by SFAS No. 123 had been applied in measuring compensation expense, are presented in Note 6.

#### Income Taxes

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

## Diversification of Credit Risk

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

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

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

## Reclassifications

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

## NOTE 2 SELECTED FINANCIAL STATEMENT INFORMATION

(in thousands)

	December 31,	
	1997	1996
Cash and cash equivalents:		
U.S. Treasury bills		\$ 96,407
Cash, interest bearing	\$ 24,438	11,415
Cash, non-interest bearing	1,766	635
	\$ 26,204	\$ 108,457
Accounts receivable, net:		
Trade accounts receivable	\$ 131,516	\$ 80,814
Allowance for doubtful accounts	(7,046)	(6,337)
	\$ 124,470	\$ 74,477
Inventories, net:		
Raw materials	\$ 47,780	\$ 50,012
Work-in-process	3,083	1,651
Finished goods	51,905	51,954
	102,768	103,617
Reserve for obsolescence	(5,674)	(5,284)
	\$ 97,094	\$ 98,333
Property, plant and equipment, net:		
Land	\$ 16,398	\$ 9,589
Buildings and improvements	51,797	35,076
Machinery and equipment	45,332	29,778
Furniture, computers and equipment	48,071	20,329
Production molds	13,690	9,399
Construction-in-process	19,361	21,003
	194,649	125,174
Accumulated depreciation	(52,146)	(33,828)
	\$ 142,503	\$ 91,346
Intangible assets:		
Trade name	\$ 69,629	
Trademark and trade dress	29,841	
Patents, goodwill and other	14,641	\$ 4,502
	114,111	4,502
Accumulated amortization	(1,970)	(225)
	\$ 112,141	\$ 4,277
Accounts payable and accrued expenses:		
Accounts payable	\$ 18,379	\$ 2,442
Accrued expenses	11,684	12,554
	\$ 30,063	\$ 14,996
Accrued employee compensation and benefits:		
Accrued payroll and taxes	\$ 9,729	\$ 12,914
Accrued vacation and sick pay	4,092	3,017
Accrued commissions	441	264
	\$ 14,262	\$ 16,195

Total rent expense was \$1,760,000, \$1,363,000, and \$1,181,000 in 1997, 1996 and 1995, respectively.

## NOTE 3

#### BANK LINE OF CREDIT

The Company had a \$50,000,000 unsecured line of credit with an interest rate equal to the bank's prime rate (8.5% at December 31, 1997). The line of credit was renewed in February 1998 (Note 14). The line of credit has been primarily utilized to support the issuance of letters of credit, of which there were \$4,046,000 outstanding at December 31, 1997, reducing the amount available under the Company's line of credit to \$45,954,000.

The line requires the Company to maintain certain financial ratios, including current and debt-to-equity ratios. The Company is also subject to other restrictive covenants under the terms of the credit agreement.

## NOTE 4

## COMMON AND PREFERRED STOCK

As of December 31, 1997, the Company had 240,000,000 authorized shares of Common Stock, \$.01 par value, of which 74,251,664 were issued and outstanding.

As of December 31, 1997, the Company was authorized to issue up to 3,000,000 shares of \$.01 par value Preferred Stock. No Preferred Stock has been issued.

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

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

## NOTE 5

## EARNINGS PER COMMON SHARE

The schedule below summarizes the elements included in the calculation of basic and diluted earnings per common share for the years ended December 31, 1997, 1996 and 1995.

	1997		Year ended December 31,			1995	
	Net Income	Shares	Net Income	Shares	Per-Share Amount	Net Income	Per-Share Amount
Net income	\$132,704		\$122,337			\$97,736	
Basic EPS		68,407		66,832	\$1.83		\$1.47
Dilutive Securities		3,291		3,829			3,214
Diluted EPS		71,698		70,661	\$1.73		\$1.40

For the years ended December 31, 1997, 1996 and 1995, 917,000, 269,000 and 1,329,000 options outstanding were excluded from the calculations, as their effect would have been antidilutive.

## NOTE 6

## STOCK OPTIONS AND RIGHTS

## Options

The Company had the following fixed stock option plans, under which shares were available for grant at December 31, 1997: the 1991 Stock Incentive Plan (the "Incentive Plan"), the Promotion, Marketing and Endorsement Stock Incentive Plan (the "Promotion Plan"), the Non-Employee Directors Stock Option Plan, the 1995 Employee Stock Incentive Plan ("1995 Plan"), the 1996 Stock Option Plan ("1996 Plan") and two plans for certain key officers. The Incentive Plan and the 1996 Plan permit the granting of options to purchase Common Stock to the Company's officers, consultants, employees, or Directors who are also employees, at option prices which may be less than the market value of such stock at the date of grant, while the 1995 Plan permits the granting of options to only employees and consultants of the Company at option prices that may be less than market value at the date of grant. The Company is authorized to grant options to acquire up to 10,000,000 shares of Common Stock under the Incentive Plan and 146,000 shares were available for grant at December 31, 1997. During 1997, the 1995 Plan and the 1996 Plan were amended to increase the maximum number of options to acquire shares of Common Stock to 3,600,000 and 3,000,000, respectively, while the number of shares available for grant at December 31, 1997 was 209,000 and 1,280,000, respectively. Under the Promotion Plan, up to 3,560,000 shares of Common Stock may be granted in the form of options or other stock awards to golf professionals and other parties at prices which may be less than the market value of the stock at the grant date.

Under the Promotion Plan, 774,000 shares were available for grant at December 31, 1997. The Non-Employee Directors Stock Option Plan permits the granting of options to acquire up to 840,000 shares of Common Stock, of which 204,000 were available for grant at December 31, 1997, to Directors of the Company who are not employees, at prices based on a non-discretionary formula, which may be less than the market value of the stock at the date of grant. During 1996 and 1995, the Company granted options to purchase 600,000 and 500,000 shares, respectively, to two key officers, under separate plans, in conjunction with terms of their initial employment. At December 31, 1997, no shares were available for grant under these plans. Additionally, under the 1990 Amended and Restated Stock Option Plan ("1990 Plan"), 4,920,000 shares were authorized for issuance at December 31, 1997, while no shares were available for future grant at December 31, 1997.

Under the Company's stock option plans, outstanding options vest over periods ranging from zero to five years from the grant date and expire up to ten years after the grant date.

The following summarizes stock option transactions for the years ended December 31, 1997, 1996, and 1995:

(in thousands, except per share data)

	1997		Year ended December 31, 1996		1995	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	10,800	\$15.03	9,842	\$ 9.87	10,652	\$ 6.59
Granted	3,406	33.79	2,760	28.47	3,145	16.54
Exercised	(2,877)	7.81	(1,775)	7.07	(2,329)	3.57
Canceled	(72)	28.81	(27)	16.98	(1,626)	9.98
Outstanding at end of year	11,257	\$22.41	10,800	\$15.03	9,842	\$ 9.87
Options exercisable at end of year	3,453	\$12.17	3,939	\$ 8.83	3,354	\$ 6.05
Price range of outstanding options	\$0.44 -- \$40.00		\$0.44 -- \$34.38		\$ .019 -- \$18.06	

The following table summarizes additional information about outstanding stock options at December 31, 1997:

Range of Exercise Prices	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
\$ 0 -- \$15	3,734	3.7	\$ 9.69	2,594	\$ 8.20
\$15 -- \$30	3,994	5.9	\$23.63	693	\$23.58
\$30 -- \$40	3,529	7.3	\$34.98	166	\$32.37
\$ 0 -- \$40	11,257	5.6	\$22.41	3,453	\$12.17

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

#### Rights

The Company has granted officers, consultants, and employees rights to receive an aggregate of 826,800 shares of Common Stock for services or other consideration. At December 31, 1997, rights to receive 80,000 shares of Common Stock remained outstanding. No rights were granted or exercised during 1997, 1996, or 1995.

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 one one-thousandth of a share of the Company's 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.

#### Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("ESPP") whereby eligible employees may purchase shares of Common Stock at 85% of the lower of the fair market value on the first day of a two year offering period or last day of each six month exercise period. Employees may authorize the Company to withhold compensation during any offering period, subject to certain limitations. During 1997, the ESPP was amended to increase the maximum number of shares of the Company's Common Stock that employees may acquire under this plan to 1,500,000 shares. During 1997 and 1996, the ESPP purchased approximately 372,000 and 168,000 shares, respectively, of the Company's Common Stock. No shares were purchased during 1995. As of December 31, 1997, 960,000 shares were reserved for future issuance.

#### Compensation Expense

During 1997, 1996, and 1995, the Company recorded \$2,041,000, \$1,919,000, and \$2,009,000, respectively, in compensation expense as the value of certain options and rights to purchase shares of Common Stock granted to employees and consultants of the Company. The valuation of the options and rights granted to employees is based on the difference between the exercise price and the market value of the stock on the measurement date. The valuation of the options and rights granted to non-employees is estimated using the Black-Scholes option pricing model.

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

#### Pro Forma Disclosures

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS No. 123, the Company's net income and earning per share would be reduced to the pro forma amounts indicated below:

	Year ended December 31,		
	1997	1996	1995
(in thousands, except per share data)			
Net income:			
As reported	\$132,704	\$122,337	\$97,736
Pro forma	\$124,978	\$113,587	\$95,510
Earnings per common share:			
As reported			
Basic	\$1.94	\$1.83	\$1.47
Diluted	\$1.85	\$1.73	\$1.40
Pro forma			
Basic	\$1.83	\$1.70	\$1.43
Diluted	\$1.77	\$1.59	\$1.36

The pro forma amounts reflected above may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years. The fair value of employee stock options was estimated at the date of grant using the Black-Scholes option

pricing model with the following assumptions for the years ended December 31, 1997, 1996, and 1995, respectively:

	Year ended December 31,		
	1997	1996	1995
Dividend yield	0.9%	0.9%	0.9%
Expected volatility	31.5%	31.5%	31.5%
Risk free interest rates	5.64-5.89%	5.32-7.66%	5.32-7.66%
Expected lives	3-6 years	2-6 years	2-6 years

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

#### NOTE 7

##### EMPLOYEE BENEFIT PLANS

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to 10% of annual compensation, up to the maximum permitted under federal law, and the Company is obligated to contribute annually an amount equal to 100% of the participant's contribution up to 6% of that participant's annual compensation. Additionally, the Company can make discretionary contributions based on the profitability of the Company. For the years ended December 31, 1996 and 1995, the Company recorded compensation expense for discretionary contributions of \$6,390,000 and \$6,481,000, respectively. Discretionary contributions related to 1997 will not be made and accordingly, no compensation expense was recorded. Employees contributed to the 401(k) Plan \$5,384,000, \$3,315,000 and \$3,336,000 in 1997, 1996 and 1995, respectively. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of \$4,495,000, \$1,988,000 and \$1,458,000 during 1997, 1996 and 1995, respectively.

The Company also has an unfunded, nonqualified deferred compensation plan. The plan allows officers and certain other employees of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. For the years ended December 31, 1997, 1996 and 1995, the total participant deferrals, which are reflected in long-term liabilities, were \$1,166,000, \$2,564,000 and \$1,460,000, respectively.

#### NOTE 8

##### INCOME TAXES

Income before income taxes was taxed under the following jurisdictions for the following periods:

(in thousands)	Year ended December 31,		
	1997	1996	1995
Domestic	\$212,453	\$193,170	\$154,054
Foreign	1,312	2,425	4,347
	\$213,765	\$195,595	\$158,401

The provision for income taxes is as follows:

(in thousands)	Year ended December 31,		
	1997	1996	1995
Current tax provision:			
Federal	\$66,462	\$65,287	\$48,563
State	12,419	11,154	9,840
Foreign	1,150	1,244	1,626
Deferred tax expense (benefit):			
Federal	1,042	(3,911)	(317)
State	50	(437)	1,053
Foreign	(62)	(79)	(100)
Provision for income taxes	\$81,061	\$73,258	\$60,665

During 1997, 1996 and 1995, the Company recognized certain tax benefits related to stock option plans in the amount of \$29,786,000, \$14,244,000, and \$11,236,000, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in additional paid-in capital.

Deferred tax assets are comprised of the following:

(in thousands)	December 31,	
	1997	1996
Reserves and allowances	\$15,914	\$15,056
Depreciation and amortization	6,107	5,585

Deferred compensation	4,559	3,088
Effect of inventory overhead adjustment	1,555	2,057
Compensatory stock options and rights	1,589	1,541
State taxes, net	5	697
Other	702	3,437
	-----	-----
Net deferred tax asset	\$30,431	\$31,461
	=====	=====

The Company did not require a deferred tax asset valuation allowance at December 31, 1997 or 1996.

A reconciliation of income taxes computed by applying the statutory federal income tax rate to income before income taxes to the provision for income taxes is as follows:

(in thousands)	Year ended December 31,		
	1997	1996	1995
Amounts computed at statutory federal tax rate	\$74,816	\$68,458	\$55,440
State income taxes, net of federal benefit	8,105	6,966	7,081
Other	(1,860)	(2,166)	(1,856)
Provision for income taxes	<u>\$81,061</u>	<u>\$73,258</u>	<u>\$60,665</u>

#### NOTE 9

##### COMMITMENTS AND CONTINGENCIES

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

The Company has committed to purchase titanium golf clubheads costing approximately \$73,714,000 from one of its vendors. These clubheads are to be shipped to the Company in accord with a production schedule that extends into 1999.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings in various stages of development. The Company believes that the majority of these proceedings involve matters as to which liability, if any, will be adequately covered by insurance. Management believes that the probable result of these matters individually and in the aggregate will not have a material adverse effect upon the Company's financial position, results of operations or cash flows.

#### NOTE 10

##### LITIGATION SETTLEMENT

On September 23, 1997, the Company settled a lawsuit brought against it and certain officers of the Company by a former officer of the Company with the payment of \$12,000,000. The Company is seeking coverage for the costs of defending and settling this lawsuit with certain of its insurance carriers and an insurance agent; however, no assurance can be given that any of the costs will be recovered. The Company entered into a six year employment agreement with the former officer which included the issuance of 600,000 stock options at the market price on the date of the grant.

#### NOTE 11

##### ACQUISITION

On August 8, 1997, the Company consummated its acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc., by its wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), subject to certain adjustments as of the time of closing. Odyssey's results of operations have been included in the Company's consolidated results of operations since August 8, 1997. Odyssey manufactures and markets the Odyssey(R) line of putters and wedges with Stronomic(R) and Lyconite(TM) face inserts.

The cost to acquire substantially all of the assets and certain liabilities of Odyssey Sports, Inc., including professional fees directly related to the acquisition, was approximately \$129,256,000 and has been accounted for using the purchase method of accounting. The allocation of the acquisition cost to assets acquired and liabilities assumed is summarized in the table that follows. Amounts allocated to trade name, trademark, trade dress and goodwill are being amortized on the straight-line basis over forty years. The amounts allocated to the process patent and covenant not to compete are being amortized on the straight-line basis over sixteen and three years, respectively.

(in thousands)	August 8, 1997
Assets acquired/liabilities assumed:	
Total assets acquired	\$132,591
Total liabilities assumed	(3,335)
Net assets acquired	<u>\$129,256</u>

The following unaudited pro forma net sales, net income and earnings per share data for the years ended December 31, 1997 and 1996 are based on the respective historical financial statements of the Company and Odyssey Sports, Inc. The pro forma data presented for the year ended December 31, 1997 combines the results of operations of the Company for the year ended December 31, 1997 with the results of operations of Odyssey Sports, Inc. for the ten months ended August 7, 1997 and the results of Odyssey for the two months ended September 30, 1997, and assumes that the acquisition of substantially all of the assets and certain liabilities of Odyssey Sports, Inc. occurred on January 1, 1997. The pro forma data presented for the year ended December 31, 1996 combines the results of operations of the Company for the year ended December 31, 1996 with the

results of operations of Odyssey Sports, Inc. for the year ended September 30, 1996 and assumes that the acquisition of substantially all the assets and certain liabilities of Odyssey Sports, Inc. occurred on January 1, 1996.

The pro forma financial data presented are not necessarily indicative of the Company's results of operations that might have occurred had the transaction been completed at the beginning of the periods specified, and do not purport to represent what the Company's consolidated results of operations might be for any future period.

(in thousands, except per share data)	Year ended December 31, (unaudited)	
	1997	1996
Net sales	\$884,840	\$711,715
Net income	\$134,512	\$119,385
Earnings per common share		
Basic	\$1.97	\$1.79
Diluted	\$1.88	\$1.69

#### NOTE 12

##### SALES INFORMATION

The Company is engaged in domestic and international sales through retail customers and distributors located within the following geographic areas:

(in thousands)	Year ended December 31,		
	1997	1996	1995
United States	\$547,256	\$460,611	\$367,359
Japan	84,634	58,156	60,971
All others -- individually less than 10% of net sales	211,037	159,745	124,957
	\$842,927	\$678,512	\$553,287

The Company, through a distribution agreement, appointed Sumitomo Rubber Industries, Ltd. ("Sumitomo") as the sole distributor of Callaway(R) golf clubs in Japan. The distribution agreement requires Sumitomo to purchase specified minimum quantities. The current distribution agreement began in February 1993 and ends on December 31, 1999. In 1997, 1996 and 1995, sales to Sumitomo accounted for 10%, 9% and 11%, respectively, of the Company's net sales.

#### NOTE 13

##### RELATED PARTY TRANSACTIONS

During June 1997, the Company entered into an agreement with Saint Andrews Golf Corporation to form All-American Golf LLC ("All-American") whereby the Company is a 20% equity owner in All-American, which operates a nine-hole golf course, performance center, training facility and driving range (the "Center") located in Las Vegas, Nevada. As of December 31, 1997, the Company had made capital contributions to All-American of \$750,000. Additionally, the Company loaned All-American \$5,250,000, pursuant to a secured promissory note, for purposes of construction and various other start-up costs. The note, which is secured by certain assets of All-American, bears interest of 10% per annum and is payable in monthly installments. Commencing on the fifth anniversary of the Center's opening, the principal shall be repaid in sixty equal monthly installments.

#### NOTE 14

##### SUBSEQUENT EVENTS

###### Dividend

On January 28, 1998, the Company declared a quarterly cash dividend of \$.07 per share payable on March 3, 1998, to shareholders of record on February 10, 1998.

###### Bank Line of Credit

On February 4, 1998, the Company renewed its line of credit, increasing it to \$150,000,000. The line of credit is unsecured and requires the Company to maintain certain financial ratios, including current and debt-to-equity ratios. The Company is also subject to other restrictive covenants under the terms of the credit agreement.

###### Acquisition

On February 11, 1998, the Company purchased distribution rights and substantially all of the assets of its Korean distributor, subject to certain liabilities. The purchase price consisted of \$3,696,000 in conversion of accounts receivable and cash of approximately \$3,137,000.

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REPORT OF INDEPENDENT ACCOUNTANTS  
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[LOGO OF PRICE WATERHOUSE APPEARS HERE]

To the Board of Directors and Shareholders of Callaway Golf Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Callaway Golf Company and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

San Diego, California  
January 28, 1998, except as to  
Note 14, which is as of February 11, 1998

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SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)  
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(in thousands, except per share data)

Fiscal Year 1997 Quarters

	1st	2nd	3rd	4th	Total
Net Sales	\$169,073	\$253,032	\$257,435	\$163,387	\$842,927
Gross Profit	\$87,002	\$134,742	\$138,769	\$82,287	\$442,800
Net Income	\$24,466	\$46,821	\$37,049	\$24,368	\$132,704
Earnings per common share*					
Basic	\$0.36	\$0.69	\$0.54	\$0.35	\$1.94
Diluted	\$0.34	\$0.66	\$0.52	\$0.34	\$1.85

Fiscal Year 1996 Quarters

	1st	2nd	3rd	4th	Total
Net Sales	\$135,138	\$210,002	\$194,545	\$138,827	\$678,512
Gross Profit	\$68,632	\$111,083	\$106,071	\$75,373	\$361,159
Net Income	\$19,455	\$38,937	\$38,418	\$25,527	\$122,337
Earnings per common share*					
Basic	\$0.29	\$0.58	\$0.57	\$0.38	\$1.83
Diluted	\$0.28	\$0.55	\$0.54	\$0.36	\$1.73

\*Earnings per share is computed individually for each of the quarters presented; therefore, the sum of the quarterly earnings per share will not necessarily equal the total for the year.

MARKET FOR COMMON SHARES AND RELATED SHAREHOLDER MATTERS

The Company's Common Shares are traded on the New York Stock Exchange (NYSE). The Company's symbol for its Common Shares is "ELY."

As of February 24, 1998, the approximate number of holders of record of the Company's Common Stock was 8,797.

STOCK PRICE INFORMATION

Period:	Year ended December 31,					
	1997			1996		
	High	Low	Dividend	High	Low	Dividend
First Quarter	\$33.63	\$28.63	\$.07	\$28.13	\$18.50	\$.06
Second Quarter	\$38.13	\$27.25	\$.07	\$33.88	\$24.50	\$.06
Third Quarter	\$38.38	\$32.94	\$.07	\$36.63	\$27.88	\$.06
Fourth Quarter	\$36.38	\$26.13	\$.07	\$36.63	\$26.63	\$.06

## SUBSIDIARIES OF CALLAWAY GOLF COMPANY

NAME	JURISDICTION OF FORMATION
------	---------------------------

Callaway Golf Sales Company	California
Callaway Golf Ball Company	California
CGV, Inc.	California
Odyssey Golf, Inc.	California
Callaway Golf (Germany) GmbH	Germany
Callaway Golf Trading GmbH (owned 80% by Callaway Golf Germany GmbH)	Germany
Callaway Golf Europe Ltd. (formerly Callaway Golf (UK) Limited)	United Kingdom
ERC International Company	Japan
Callaway Golf Korea, Ltd.	Korea

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement of Form S-3 (No. 33-77024) and in the Registration Statements on Form S-8 (No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 33-92302, No. 333-242, No. 333-5719, No. 333-5721, No. 333-24207, No. 333-27089, No. 333-27091, No. 333-39093, and No. 333-39095) of Callaway Golf Company of our report dated January 28, 1998, except as to Note 14, which is as of February 11, 1998, appearing on page 47 of the Annual Report to Shareholders which is incorporated in the Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on Financial Statement Schedule, which appears on page 21 of this Form 10-K.

/s/ PRICE WATERHOUSE LLP

San Diego, California  
March 26, 1998



THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF INCOME AT DECEMBER 31, 1997 AND FOR THE YEAR THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

YEAR		
	DEC-31-1997	
	DEC-31-1997	
	JAN-01-1997	26,204
		0
		131,516
		7,046
		102,768
	281,786	194,649
		52,146
		561,714
	72,384	0
	0	0
		743
		480,682
561,714		842,927
	842,927	400,127
		400,127
		0
		1,354
		10
		213,765
		81,061
	132,704	0
		0
		0
		132,704
		1.94
		1.85



THE FINANCIAL DATA SCHEDULE HAS BEEN RESTATED TO REFLECT THE COMPANY'S ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, "EARNINGS PER SHARE." THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF INCOME AT DECEMBER 31, 1996 AND FOR THE YEAR THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

YEAR	DEC-31-1996	
	DEC-31-1996	
		108,457
		0
		80,814
		6,337
		98,333
	311,513	
		125,174
	33,828	
	428,428	
61,052		0
		0
		0
		729
428,428	361,538	
		678,512
	678,512	
		317,353
	317,353	
	0	
	0	
	21	
	195,595	
	73,258	
122,337		
	0	
	0	
		0
	122,337	
	\$1.83	
	\$1.73	



THE FINANCIAL DATA SCHEDULE HAS BEEN RESTATED TO REFLECT THE COMPANY'S ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, "EARNINGS PER SHARE." THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED) AND CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED) AT SEPTEMBER 30, 1997 AND 1996 AND FOR THE NINE MONTH PERIODS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS	9-MOS	9-MOS
DEC-31-1997	SEP-30-1997	DEC-31-1996
	41,493	140,331
	0	0
	169,208	91,301
	7,336	6,437
	73,016	86,629
	308,301	340,483
	173,029	111,635
	46,484	30,652
	571,122	444,655
89,337		105,572
0	0	0
	746	0
	474,277	335,213
571,122	444,655	
	679,540	539,685
679,540		539,685
	319,026	253,899
	0	0
	1,098	0
	10	14
	175,110	154,918
	66,773	58,108
108,337		96,810
	0	0
	0	0
	0	0
	108,337	96,810
	\$1.59	\$1.45
	\$1.52	\$1.38



THE FINANCIAL DATA SCHEDULE HAS BEEN RESTATED TO REFLECT THE COMPANY'S ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, "EARNINGS PER SHARE." THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED) AND THE CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED) AT JUNE 30, 1997 AND 1996 AND FOR THE SIX MONTH PERIODS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS	6-MOS	6-MOS	6-MOS
DEC-31-1997	JUN-30-1997	DEC-31-1996	JUN-30-1996
	150,849		105,854
	0		0
	133,757		95,259
	6,382		6,390
	74,405		81,833
	386,656		300,222
	155,567		102,615
	41,000		27,437
	522,782		395,696
99,073		98,366	
	0		0
0	0	0	0
	732		722
	417,156		293,620
522,782	395,696		
	422,105		345,140
422,105		345,140	
	200,360		165,425
	0		0
	104		0
	6		0
	115,194		93,527
	43,906		35,135
71,288		58,392	
	0		0
	0		0
	0		0
	71,288		58,392
	\$1.05		\$0.88
	\$1.00		\$0.83



THE FINANCIAL DATA SCHEDULE HAS BEEN RESTATED TO REFLECT THE COMPANY'S ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, "EARNINGS PER SHARE." THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY CONSOLIDATED CONDENSED BALANCE SHEET (UNAUDITED) AND CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED) AT MARCH 31, 1997 AND 1996 AND FOR THE THREE MONTH PERIODS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS	3-MOS	3-MOS	3-MOS
DEC-31-1997	DEC-31-1997	DEC-31-1996	DEC-31-1996
MAR-31-1997	MAR-31-1997	MAR-31-1996	MAR-31-1996
	113,623		63,396
	0		0
103,669		91,240	
6,360		6,387	
101,395		72,021	
342,368		241,854	
	136,637		96,359
37,277		24,174	
466,230		326,606	
89,208		71,945	
	0		0
728		0	
	0		0
	0		718
	370,545		251,515
466,230			326,606
	169,073		135,138
169,073		135,138	
	82,071		66,506
82,071		66,506	
0		0	
0		0	
3		0	
39,599		30,997	
15,133		11,542	
24,466		19,455	
	0		0
0		0	
	0		0
	0		0
24,466		19,455	
\$0.36		\$0.29	
\$0.34		\$0.28	