

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 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)

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 No

The number of shares outstanding of the issuer's of Common Stock, \$.01
par value, as of July 31, 1997 was 73,810,832.

CALLAWAY GOLF COMPANY

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 1997	December 31, 1996
	-----	-----
(Unaudited)		
ASSETS		

Current assets:		
Cash and cash equivalents	\$ 150,849	\$ 108,457
Accounts receivable, net	127,375	74,477
Inventories, net	69,353	98,333
Deferred taxes	25,328	25,948
Other current assets	13,751	4,298
	-----	-----
Total current assets	386,656	311,513
Property, plant and equipment, net	114,567	91,346
Other assets	21,559	25,569
	-----	-----
	\$ 522,782	\$ 428,428
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Accounts payable and accrued expenses	\$ 33,167	\$ 14,996
Accrued employee compensation and benefits	25,363	16,195
Accrued warranty expense	27,892	27,303
Income taxes payable	12,651	2,558
	-----	-----
Total current liabilities	99,073	61,052
Long-term liabilities	5,821	5,109
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 1997 and December 31, 1996, respectively		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 73,190,382 and 72,855,222 issued and outstanding at June 30, 1997 and December 31, 1996, respectively	732	729
Paid-in capital	342,910	278,669
Unearned compensation	(4,148)	(3,105)
Retained earnings	266,544	238,349
Less: Grantor Stock Trust (5,300,000 shares) at market	(188,150)	(152,375)
	-----	-----
Total shareholders' equity	417,888	362,267
	-----	-----
	\$ 522,782	\$ 428,428
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended				Six months ended			
	June 30, 1997		June 30, 1996		June 30, 1997		June 30, 1996	
Net sales	\$253,032	100%	\$210,002	100%	\$422,105	100%	\$345,140	100%
Cost of goods sold	118,290	47%	98,919	47%	200,360	47%	165,425	48%
Gross profit	134,742	53%	111,083	53%	221,745	53%	179,715	52%
Operating expenses:								
Selling expense	36,016	14%	21,853	10%	62,595	15%	39,998	12%
General and administrative	16,074	6%	24,925	12%	32,328	8%	42,116	12%
Research and development	8,089	3%	3,245	2%	14,042	3%	6,407	2%
Income from operations	74,563	29%	61,060	29%	112,780	27%	91,194	26%
Other income, net	1,031		1,470		2,414		2,333	
Income before income taxes	75,594	30%	62,530	30%	115,194	27%	93,527	27%
Provision for income taxes	28,773		23,593		43,906		35,135	
Net income	\$ 46,821	19%	\$ 38,937	19%	\$ 71,288	17%	\$ 58,392	17%
Earnings per common share:	\$.66		\$.55		\$ 1.00		\$.83	
Common equivalent shares:	70,728		70,504		71,244		70,049	
Dividends paid per share:	\$.07		\$.06		\$.14		\$.12	

See accompanying notes to consolidated condensed financial statements.

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

	Six months ended	
	June 30, 1997	June 30, 1996
Cash flows from operating activities:		
Net income	\$ 71,288	\$ 58,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,355	6,205
Non-cash compensation	4,773	2,202
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	(53,222)	(14,920)
Inventories, net	28,204	(25,554)
Deferred taxes	173	(2,974)
Other assets	(5,544)	(9,336)
Accounts payable and accrued expenses	17,573	5,889
Accrued employee compensation and benefits	10,732	10,617
Accrued warranty expense	589	3,225
Income taxes payable	10,149	15,690
Other liabilities	712	781
Net cash provided by operating activities	92,782	50,217
Cash flows used in investing activities:		
Capital expenditures	(30,655)	(12,361)
Proceeds from sale of fixed assets	60	0
Net cash used in investing activities	(30,595)	(12,361)
Cash flows (used in) provided by financing activities:		
Issuance of Common Stock	10,361	8,812
Tax benefit from exercise of stock options	12,303	7,963
Dividends paid, net	(9,484)	(7,960)
Retirement of Common Stock	(33,010)	0
Net cash (used in) provided by financing activities	(19,830)	8,815
Effect of exchange rate changes on cash	35	26
Net increase in cash and cash equivalents	42,392	46,697
Cash and cash equivalents at beginning of period	108,457	59,157
Cash and cash equivalents at end of period	\$150,849	\$105,854

See accompanying notes to consolidated condensed financial statements.

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

	Common Shares	Stock Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	GST	Total
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996	72,855	\$729	\$278,669	\$(3,105)	\$238,349	\$(152,375)	\$362,267
Exercise of stock options	1,233	12	10,349				10,361
Tax benefit from exercise of stock options			12,303				12,303
Compensatory stock options			2,125	(1,043)			1,082
Employee stock purchase plan	233	2	3,689				3,691
Stock retirement	(1,131)	(11)			(32,999)		(33,010)
Cash dividends					(10,226)		(10,226)
Dividends on shares held by GST					742		742
Equity adjustment from foreign currency translation					(610)		(610)
Adjustment of GST shares to market value			35,775			(35,775)	0
Net income					71,288		71,288
Balance, June 30, 1997	73,190	\$732	\$342,910	\$(4,148)	\$266,544	\$(188,150)	\$417,888
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated condensed financial statements.

1. Basis of presentation

The accompanying financial information for three and six months ended June 30, 1997 and 1996 have been prepared by Callaway Golf Company (the "Company") and have not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented.

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

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

2. Inventories

Inventories at June 30, 1997 and December 31, 1996 (in thousands):

	June 30, 1997	December 31, 1996
	-----	-----
	(Unaudited)	
Inventories, net:		
Raw materials	\$35,407	\$ 50,012
Work-in-process	1,889	1,651
Finished goods	37,109	51,954
	-----	-----
	74,405	103,617
Less reserve for obsolescence	(5,052)	(5,284)
	-----	-----
Net inventories	\$69,353	\$ 98,333
	=====	=====

3. Foreign currency exchange contracts

During the six months ended June 30, 1997, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from a wholly-owned foreign subsidiary. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At June 30, 1997, the Company had approximately \$7.8 million of foreign exchange contracts outstanding. The contracts mature between July and October of 1997. Gains and losses on these contracts are recorded in net income. The net realized and unrealized gains from foreign exchange contracts for the six months ended June 30, 1997 totaled approximately \$195,000.

4. Cash and cash equivalents

At June 30, 1997, the Company held investments in U.S. Treasury bills with maturities of three months or less in the aggregate amount of \$127.1 million. Management determines the appropriate classification of its U.S. Government and other debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company has included these securities, net of amortization, in cash and cash equivalents and has designated them as "held-to-maturity."

5. Earnings per share

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

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings Per Share." SFAS No. 128 will be adopted by the Company as required in the fourth quarter of 1997. Upon adoption of SFAS No. 128, the Company will present basic earnings per share and diluted earnings per share. Basic earnings per share will be computed based on the weighted average number of shares outstanding during the period. Diluted earnings per share will be computed based on the weighted average number of shares outstanding during the period increased by the effect of dilutive stock options using the treasury stock method. Pro forma basic and diluted earnings per share for the three and six months ended June 30, 1997 and 1996 are presented below:

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
Pro forma:	1997	1996	1997	1996
	-----	-----	-----	-----
Basic	\$.69	\$.58	\$1.05	\$.88
Diluted	\$.66	\$.55	\$1.00	\$.83

6. Commitments and contingencies

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

The Company has committed to purchase titanium golf club heads costing approximately \$88.1 million from one of its vendors. These heads are to be shipped to the Company in accord with a production schedule that extends into 1999.

Effective June 1995, the Company agreed to form a joint venture with Sturm, Ruger & Company, Inc. ("Sturm, Ruger"), its main supplier of Great Big Bertha(R) titanium heads, to construct a foundry to produce heads. Under terms of the joint venture agreement, the Company had a 50% equity interest in the new foundry. In June 1997, the Company sold its interest in the joint venture to Sturm, Ruger for \$7.0 million, which was equal to the Company's capital contributions. The Company's share of losses resulting from the joint venture's operations and gain on the sale of its interest to Sturm, Ruger were not material.

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, a nine-hole golf course, performance center, training facility and driving range located in Las Vegas, Nevada. As of June 30, 1997, the Company has made capital contributions of \$750,000. Additionally, the Company has agreed to loan All-

American up to \$5.3 million, 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. As of June 30, 1997 the Company has advanced All-American approximately \$1.3 million under the secured promissory note. The balance of the note will be advanced in three additional installments upon the completion of certain milestones.

On May 30, 1996, a lawsuit was filed against Callaway Golf Company and two of its officers by a former officer of the Company, captioned Glenn Schmidt

v. Callaway Golf Company, et al., Case No. N 71548, in the Superior Court

for the State of California, County of San Diego (the "Schmidt Litigation"). The original complaint asserted claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs. On January 23, 1997, plaintiff filed a first amended complaint adding claims for wrongful termination and termination in violation of public policy. On April 16, 1997, the plaintiff filed a second amended complaint. Plaintiff's second amended complaint seeks damages for unjust enrichment of \$290.0 million, or a royalty of \$27.5 million plus consequential damages exceeding \$13.0 million (based on lost compensation and stock options) for the breach of contract, negligent misrepresentation and fraud claims. Plaintiff seeks to recover the same \$13.0 million as the measure of damages for the wrongful termination claims. Plaintiff's second amended complaint also seeks unspecified punitive damages for fraud and wrongful termination in violation of public policy. Plaintiff's damages will be updated and amended at the time of trial. When this is done, the Company expects that plaintiff will eventually seek damages in excess of \$500.0 million for unjust enrichment, or a royalty claim of \$45.0 million plus consequential damages of \$14.0 million (for lost compensation and stock options) for breach of contract, negligent misrepresentation and fraud; as well as the same \$14.0 million as damages for the wrongful termination claims. Formal discovery has commenced in preparation for trial. The trial is currently scheduled to commence on October 20, 1997. Following the Company's tender of the Schmidt Litigation to its insurers, the carriers denied coverage. On April 11, 1997, the Company initiated litigation against these carriers seeking a judicial declaration that such coverage is afforded under the applicable insurance policies (the "Insurance Litigation"). The Company believes there are meritorious defenses to the Schmidt Litigation, and thus no provision for liability has been made in the Company's financial statements. The Company also believes it is entitled to coverage by its insurers for all or some of the costs and claims asserted in the Schmidt Litigation. The ultimate resolution of the Schmidt Litigation and the Insurance Litigation, however, could result in a material liability and income statement charge.

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

7. Subsequent events

On August 8, 1997, the Company purchased substantially all the assets and certain obligations and liabilities of Odyssey Sports, Inc. ("Odyssey") for \$130.0 million from Odyssey and its parent company, U.S. Industries, Inc., subject to certain adjustments as of the closing date. The Company has accounted for the transaction using the purchase method.

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

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

Certain Factors Affecting Callaway Golf Company

Growth in sales; seasonality

The Company believes that the growth rate in the golf equipment industry in the United States has been modest for the past several years, and this trend is likely to continue through 1997. Sales of all golf clubs in Japan, the world's second largest consumer of golf clubs next to the United States, appeared to be declining during 1996, but recent trends indicate the market may be stabilizing. Although demand for the Company's products has been generally strong during the quarter ended June 30, 1997, no assurances can be given that the demand for the Company's existing products or the introduction of new products will continue to permit the Company to experience its historical growth or maintain its historical profit margin. Additionally, given the Company's current size and market position, it is possible that further market penetration will prove more difficult.

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

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. For example, in 1997 Taylor Made introduced two new products, the "Ti Bubble 2" Metal Wood Driver and the "Ti Bubble 2" Irons, and other competitors have increased their marketing activities with respect to existing products. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

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

New product introduction

The Company believes that the introduction of new, innovative golf equipment will be important to its future success. As a result, the Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. New designs must satisfy the standards established by the United States Golf Association ("USGA") and the Royal and Ancient Golf Club of St. Andrews ("R&A") because these standards are generally followed by golfers within their respective jurisdictions. There is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products. Moreover, the Company's new products have tended to incorporate significant innovations in design and manufacture, which have resulted in increasingly higher prices for the Company's products relative to products already in the marketplace. There can be no assurance that a significant percentage of the public will always be willing to pay such prices for golf equipment. In addition, the materials and unique clubhead designs incorporated in the Company's Great Big Bertha(R) Tungsten.Titanium(TM) Irons require more sophisticated and lengthy manufacturing processes than the Company's existing products. To date, the Company has been unable to supply the Great Big Bertha(R) Tungsten.Titanium(TM) Irons in sufficient quantities to meet fully the demand for this new product. 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.

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 has not to date been material in relation to the volume of Callaway Golf clubs which have been sold. The Company monitors closely the level and nature of any product breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. A significant increase in the incidence of 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 club heads and shafts. In addition, some of the Company's products require specifically developed techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if any significant delay or disruption in the supply of these component parts occurs, it may have a material adverse effect on the Company's business. In the event of a significant delay or disruption, the Company believes that suitable heads and shafts could be obtained from other manufacturers, although the transition to another supplier, particularly with respect to the Great Big Bertha(R) Tungsten.Titanium(TM) Irons, could result in significant production delays and would likely have an adverse impact on results of operations during the transition.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its domestic customers. The current strike by the Teamsters Union may have a material adverse impact on the Company's sales. While the Company is seeking to arrange alternative methods of ground shipping to reduce its reliance on UPS, there can be no assurance that the Company will be successful in doing so.

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 patent or other intellectual property

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

"Gray market" distribution

While the Company seeks to control the distribution of its products to the extent permitted by law, it is still the case that quantities of the Company's products find their way to unapproved outlets or distribution channels. This "gray market" in the Company's products can undermine approved retailers and distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the other hand, stopping such commerce could result in an increase in sales returns over historical levels, and/or a potential decrease in sales to those customers who are selling Callaway Golf products to unauthorized distributors. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both domestic and international markets, it has not been successful in stopping such commerce to date.

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 pro endorsers were to stop using Callaway Golf's products contrary to their endorsement agreements, the Company's business could be adversely affected in a material way by the negative publicity.

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. 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. Executing a business strategy to achieve this has and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. It could also result in disruptions in the distribution of the Company's products in some areas. There can be no assurance that the acquisition of 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 distribution agreement requires Sumitomo to purchase specified minimum quantities. The current distribution agreement began in February 1993 and has an initial term of seven years. The Company has been engaged in discussions regarding a possible restructuring of the Company's distribution arrangements with Sumitomo, which is intended to streamline the distribution of the Company's products in Japan. There can be no assurance, however, that such a restructuring will occur, or if consummated, that the proposed restructuring will achieve its intended goals. It is possible that the attempt to restructure the Company's

distribution arrangements in Japan, or the failure to succeed in that attempt, will adversely affect the Company's business in Japan.

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 flow and income from operations for several years. The Company believes that many of the same factors which affect the golf equipment industry, including growth rate in the golf equipment industry, intellectual property rights of others, seasonality and new product introduction, also apply to the golf ball business. In addition, the golf ball business is highly competitive with a number of well-established and well-financed competitors, including Titleist, Spalding, Sumitomo Rubber Industries, Bridgestone and others. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

Acquisition of Odyssey

On August 8, 1997, the Company consummated its acquisition of substantially all of the assets and certain obligations and liabilities of Odyssey Sports, Inc., a leading manufacturer of premium putters. The integration of Odyssey's operations will require the dedication of management resources which may temporarily detract from attention to the day-to-day business of the Company. There can be no assurance that the Company's integration of Odyssey's operations will not result in a loss of key Odyssey personnel, a decrease in Odyssey's revenues and profitability, or other material adverse effects on the financial performance and business operations of Odyssey and/or the Company.

Odyssey's products are currently manufactured and shipped on behalf of Odyssey by Tommy Armour Golf Company ("Tommy Armour"). The Company and Tommy Armour have entered into a transition agreement, pursuant to which Tommy Armour will continue to provide these manufacturing and shipping services through at least February 8, 1998. At the conclusion of the transition agreement, the Company will have to make satisfactory arrangements for the manufacturing and shipping of Odyssey's products. The Company has not yet determined how or where this product manufacturing and shipping will be accomplished. There can be no assurance that the Company's ability to deliver Odyssey's products to the market place in sufficient quantities and quality will not be adversely affected by these transitions.

Results of Operations

Three-month periods ended June 30, 1997 and 1996:

Net sales increased 20% to \$253.0 million for the three months ended June 30, 1997 compared to \$210.0 million for the comparable period in the prior year. The increase was primarily attributable to sales generated by the introduction of Biggest Big Bertha(TM) Titanium Drivers and Great Big Bertha(R) Tungsten.Titanium(TM) Irons, as well as increased sales of Big Bertha Gold(TM) Irons, and Big Bertha(R) Tour Series Wedges. The increase was partially offset by a decrease in sales of Great Big Bertha(R) Titanium Drivers, Big Bertha(R) War Bird(R) Metal Woods and Big Bertha(R) Irons.

For the three months ended June 30, 1997, gross profit increased 21% to \$134.7 million from \$111.1 million for the comparable period in the prior year, while gross margin remained constant at 53%.

Selling expenses increased to \$36.0 million in the second quarter of 1997 compared to \$21.9 million in the second quarter of 1996. As a percentage of net sales, selling expenses increased to 14% from 10% during the second quarter of 1997 over the second quarter of 1996. The \$14.1 million increase was primarily the result of increased employee compensation expense, pro tour expenses and promotional expenses.

General and administrative expenses decreased to \$16.1 million for the three months ended June 30, 1997 from \$24.9 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the second quarter of 1997 decreased to 6% from 12% in the second quarter of 1996. The \$8.8 million decrease was primarily attributable to decreased profit sharing and bonus accruals, lower computer support expenses and decreased consulting fees.

Research and development expenses increased to \$8.1 million in the second quarter of 1997 compared to \$3.2 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the second quarter of 1997 increased to 3% from 2% in the second quarter of 1996. The \$4.9 million increase was primarily the result of increased employee compensation expense, increased product engineering and product design costs, the Company's interactive golf efforts and costs associated with golf ball development.

Six-month periods ended June 30, 1997 and 1996:

For the six months ended June 30, 1997, net sales increased 22% to \$422.1 million compared to \$345.1 million for the comparable period of the prior year. The increase was primarily attributable to sales generated by the introduction of Biggest Big Bertha(TM) Titanium Drivers, Great Big Bertha(R) Tungsten.Titanium(TM) Irons, Big Bertha Gold(TM) Irons and Big Bertha(R) Tour Series Wedges, as well as increased sales of Great Big Bertha(R) Titanium Metal Woods. This increase was partially offset by a decrease in sales of Big Bertha(R) War Bird(R) Metal Woods and Big Bertha(R) Irons.

For the six months ended June 30, 1997, gross profit increased 23% to \$221.7 million from \$179.7 million for the comparable period in the prior year and gross margin increased to 53% from 52%. The increase in gross margin was primarily the result of decreased component costs.

Selling expenses increased to \$62.6 million for the six months ended June 30, 1997 from \$40.0 million for the comparable period in the prior year. As a percentage of net sales, selling expenses in the first half of 1997 increased to 15% from 12% for the comparable period in 1996. The \$22.6 million increase was primarily the result of increased employee compensation expense, pro tour expenses and promotional expenses.

General and administrative expenses decreased to \$32.3 million for the six months ended June 30, 1997 from \$42.1 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the first half of 1997 decreased to 8% from 12% in the first half of 1996. The \$9.8 million decrease resulted primarily from a decrease in profit sharing and bonus accruals, consulting fees, and charitable contributions as well as lower computer support expenses. These decreases were partially offset by increases in salary expense and costs associated with the Company's business development initiatives.

Research and development expenses increased to \$14.0 million for the six months ended June 30, 1997 from \$6.4 million for the comparable period in the prior year. As a percentage of net sales, research and development expenses for the first half of 1997 increased to 3% from 2% in the first half of 1996. The \$7.6 million increase was primarily attributable to increased employee compensation expense, increased product engineering and product design costs, the Company's interactive golf efforts and costs associated with golf ball development.

Liquidity and Capital Resources

At June 30, 1997, cash and cash equivalents increased to \$150.8 million from \$108.5 million at December 31, 1996 primarily due to \$92.8 million provided by cash flows from operations. The increase in cash flows provided by operations was primarily attributable to a decrease in net inventory to \$69.3 million at June 30, 1997 from \$98.3 million at December 31, 1996, as a result of an increase in net sales, current high demand for the Company's new

product lines and seasonal sales demand. Also contributing to the increase in cash flows from operations was an increase in current liabilities to \$99.1 million at June 30, 1997 from \$61.1 million at December 31, 1996, due to purchases of inventory to meet production requirements, accrued bonus and profit sharing and income taxes payable. These factors were partially offset by an increase in net accounts receivable to \$127.4 million at June 30, 1997 from \$74.5 million at December 31, 1996 as a result of an increase in net sales.

The increase in cash flows from operations was partially offset by \$19.8 million used by financing activities, associated primarily with retirement of the Company's Common Stock and dividends paid, as well as \$30.6 million used by investing activities, primarily related to capital expenditures associated with the purchase of computer equipment and software, research and development equipment, machinery and equipment, building improvements and a building.

The Company has available a \$50.0 million line of credit as of June 30, 1997. The Company paid \$130.0 million for the assets and certain obligations and liabilities of Odyssey (Note 7) on August 8, 1997. At this time, management believes the Company has sufficient liquidity with the inclusion of its line of credit and cash generated from future operations to maintain its current level of operations, including capital expenditures and planned operations for the foreseeable future.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings:

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

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

On May 30, 1996, a lawsuit was filed against Callaway Golf Company and two of its officers by a former officer of the Company, captioned Glenn Schmidt

v. Callaway Golf Company, et al., Case No. N 71548, in the Superior Court

for the State of California, County of San Diego (the "Schmidt Litigation"). The original complaint asserted claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs. On January 23, 1997, plaintiff filed a first amended complaint adding claims for wrongful termination and termination in violation of public policy. On April 16, 1997, the plaintiff filed a second amended complaint. Plaintiff's second amended complaint seeks damages for unjust enrichment of \$290.0 million, or a royalty of \$27.5 million plus consequential damages exceeding \$13.0 million (based on lost compensation and stock options) for the breach of contract, negligent misrepresentation and fraud claims. Plaintiff seeks to recover the same \$13.0 million as the measure of damages for the wrongful termination claims. Plaintiff's second amended complaint also seeks unspecified punitive damages for fraud and wrongful termination in violation of public policy. Plaintiff's damages will be updated and amended at the time of trial. When this is done, the Company expects that plaintiff will eventually seek damages in excess of \$500.0 million for unjust enrichment, or a royalty claim of \$45.0 million plus consequential damages of \$14.0 million (for lost compensation and stock options) for breach of contract, negligent misrepresentation and fraud; as well as the same \$14.0 million as damages for the wrongful termination claims. Formal discovery has commenced in preparation for trial. The trial is currently scheduled to commence on October 20, 1997. Following the Company's tender of the Schmidt Litigation to its insurers, the carriers denied coverage. On April 11, 1997, the Company initiated litigation against these carriers seeking a judicial declaration that such coverage is afforded under the applicable insurance policies (the "Insurance Litigation"). The Company believes

there are meritorious defenses to the Schmidt Litigation, and thus no provision for liability has been made in the Company's financial statements. The Company also believes it is entitled to coverage by its insurers for all or some of the costs and claims asserted in the Schmidt Litigation. The ultimate resolution of the Schmidt Litigation and the Insurance Litigation, however, could result in a material liability and income statement charge.

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

Item 2. Changes in Securities:

None

Item 3. Defaults Upon Senior Securities:

None

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

On April 17, 1997, the Company held its Annual Meeting of Shareholders near the Company's headquarters in Carlsbad, California. Ely Callaway, Donald H. Dye, William C. Baker, Bruce Parker, Aulana L. Peters, Frederick R. Port, Richard Rosenfield, William A. Schreyer, Michael Sherwin, Elmer Ward and Charles J. Yash were elected to the Board of Directors. Additionally, the Company's shareholders approved: (i) an amendment to the Callaway Golf Company 1995 Employee Stock Purchase Plan, in order to increase the number of shares of Common Stock issuable thereunder by 1,000,000 shares to an aggregate of 1,500,000 shares; (ii) an amendment to the Callaway Golf Company 1996 Stock Option Plan, in order to increase the number of shares of the Company's Common Stock reserved for issuance thereunder by 1,000,000 shares to an aggregate of 3,000,000 shares; and (iii) the adoption of the Callaway Golf Company 1998 Executive Non-Discretionary Bonus Plan, which would enable eligible officers' annual non-discretionary incentive awards earned thereunder to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code.

The voting results for the election of Directors were as follows:

Name	Votes For	Votes Withheld
-----	-----	-----
Ely Callaway	67,653,007	1,145,603
Donald H. Dye	67,670,489	1,128,121
William C. Baker	67,846,515	952,095
Bruce Parker	67,667,764	1,130,846
Aulana L. Peters	66,830,899	1,967,711
Frederick R. Port	67,673,454	1,125,156
Richard Rosenfield	67,847,395	951,215
William A. Schreyer	67,834,682	963,928
Michael Sherwin	67,852,927	945,683
Elmer Ward	67,658,435	1,140,175
Charles J. Yash	67,843,414	955,196

The voting results for the proposal to amend the Callaway Golf Company 1995 Employee Stock Purchase Plan were as follows:

Votes For -----	Votes Against -----	Abstain -----	Broker Non-Vote -----
56,829,868	11,014,205	820,649	133,888

The voting results for the proposal to amend the Callaway Golf Company 1996 Stock Option Plan were as follows:

Votes For -----	Votes Against -----	Abstain -----	Broker Non-Vote -----
48,998,629	18,075,423	781,935	942,623

The voting results for the proposal to adopt the Callaway Golf Company 1998 Executive Non-Discretionary Bonus Plan were as follows:

Votes For -----	Votes Against -----	Abstain -----	Broker Non-Vote -----
65,090,107	1,996,197	909,762	802,544

Item 5. Other Information

None

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

a. Exhibits:

- 10.1 Chairman and Founder Employment Agreement by and between Callaway Golf Company and Ely Callaway entered into as of January 1, 1997
- 11.1 Statement re: Computation of Earnings Per Share
- 27.1 Financial Data Schedule

b. Reports on Form 8-K:

None

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: August 13, 1997 /s/ DONALD H. DYE

Donald H. Dye
President and
Chief Executive Officer

/s/ DAVID A. RANE

David A. Rane
Executive Vice President, Golf Venues
and Chief Financial Officer

CHAIRMAN AND FOUNDER EMPLOYMENT AGREEMENT

This Chairman and Founder Employment Agreement ("Agreement") is entered into as of January 1, 1997, by and between Callaway Golf Company, a California corporation (the "Company"), and Ely Callaway ("Mr. Callaway").

1. TERM. The Company hereby employs Mr. Callaway and Mr. Callaway

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

2. SERVICES.

(a) Mr. Callaway, who is the Chairman of the Board and Founder of the Company and Chairman of the Board of Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, shall serve in addition as Chief of Advertising, Press and Public Relations of the Company. Mr. Callaway's duties shall be the usual and customary duties of the offices in which he serves. As Chief of Advertising, Press and Public Relations, Mr. Callaway shall report to the Chief Executive Officer of the Company.

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

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Mr. Callaway

agrees to devote his full productive time and best efforts to the performance of Mr. Callaway's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors. Mr. Callaway further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Mr. Callaway is employed by the Company, Mr. Callaway will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. It is expressly understood that, to the extent necessary, the Company has consented to Mr. Callaway's devotion of time and effort to the preparation, writing, publication, sale and promotion of his autobiography (working title "Big Bertha and Me"), and that the Company expects and hopes that Mr. Callaway will be actively involved with the sale and promotion of this book, and that Mr. Callaway will make personal appearances in book promotional tours and events in the U.S. and internationally. Mr. Callaway further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably

require. Nothing herein contained shall be deemed to preclude Mr. Callaway from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Mr. Callaway's work for the Company.

4. COMPENSATION.

The Company agrees to pay Mr. Callaway during the term of this Agreement a base salary at the rate of \$750,000.00 per year. In addition, Mr. Callaway shall be considered annually for payment of a discretionary bonus, to be set in such amount as shall be fixed by the Board of Directors or such other entity or person as shall be specified by the Board of Directors.

5. EXPENSES AND BENEFITS.

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

compensation provided for in Section 4 hereof, the Company shall reimburse Mr. Callaway for all reasonable, customary, and necessary expenses incurred in the performance of Mr. Callaway's duties hereunder. Mr. Callaway shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company. Notwithstanding the foregoing, and in addition to any other compensation and reimbursement of expenses pursuant to the Company's regular policies and practices, the Company shall pay to Mr. Callaway a special expense allowance of \$35,000.00 per year for Company-related business expenses for which Mr. Callaway shall have no obligations with respect to accounting and submitting signed, itemized statements to the Company. Moreover, because of Mr. Callaway's status as Founder of the Company, and the substantial travel demands placed upon Mr. Callaway as Chairman and Chief of Advertising, Press and Public Relations, as well as those demands associated with writing, preparing, publishing, selling and promoting his autobiography, it is expected that the Company shall make available for Mr. Callaway's business use a chartered Challenger aircraft, or its equivalent, when and where practicable.

(b) Vacation. Mr. Callaway shall receive six (6) 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 Mr. Callaway may accrue shall be three times Mr. Callaway's annual vacation benefit. The Company reserves the right to pay Mr. Callaway for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Mr. Callaway's employment with the Company

pursuant to this Agreement, the Company shall provide for Mr. Callaway to:

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

(ii) receive, if Mr. Callaway is insurable under usual underwriting standards and Mr. Callaway's physical condition does not prevent him from reasonably qualifying for such insurance coverage, term life insurance coverage on Mr. Callaway's life, payable to whomever he directs, in the face amount of \$2,000,000.00, such policies to be transferable to Mr. Callaway upon the termination of employment without evidence of insurability;

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

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

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

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

(e) Stock Options.

Pursuant to a separate stock option agreement, the Company shall provide to Mr. Callaway options to purchase up to 150,000 shares of the Common Stock of the Company at the closing price on the NYSE on April 17, 1997. Such options shall vest as follows:

Shares	Vesting Date
-----	-----
50,000	December 31, 1997
50,000	December 31, 1998
50,000	December 31, 1999

All shares of stock that are issuable upon the exercise of such options granted to Mr. Callaway pursuant to this subsection shall be registered as promptly as possible with the Securities and Exchange Commission, and shall be approved for listing on the New York Stock Exchange upon notice of issuance. Except as otherwise provided herein, in the separate stock option agreement, or in any other written agreement between the Company and Mr. Callaway, vesting of these stock options shall be conditioned upon Employee's continued employment with the Company as of the vesting date. Such options shall expire ten (10) years following vesting if not exercised prior thereto, and shall be

transferable to the full extent permitted by the law and the Company's stock option plan from which they are issued.

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

Mr. Callaway shall fail or be unable to perform all or substantially all of Mr. Callaway'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, Mr. Callaway shall be entitled to his full compensation and benefits as set forth in this Agreement. If Mr. Callaway's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Mr.

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

(b) Other Employees. Except as may be required in the performance of

his duties hereunder, Mr. Callaway shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Mr. Callaway directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date Mr. Callaway ceases to be employed by the Company.

(c) Suppliers. While employed by the Company, and for one (1) year

thereafter, Mr. Callaway shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. While employed by the Company, Mr. Callaway

shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Mr. Callaway's duties and obligations to the Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Mr. Callaway's

employment under this Agreement may be terminated by the Company at its convenience at any time upon the majority vote of the entire Board of Directors. In the event of a termination at the Company's convenience, Mr. Callaway 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 immediate vesting of all unvested stock options held by Mr. Callaway as of such termination date; (iv) 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 (v) no other severance. At Mr. Callaway's option, Mr. Callaway may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (iii) 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 Mr. Callaway's Convenience. Mr. Callaway's

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

(c) Termination by the Company for Substantial Cause. Mr. Callaway's

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

(d) Termination by Mr. Callaway for Substantial Cause. Mr. Callaway's

employment under this Agreement may be terminated immediately by Mr. Callaway for substantial cause at any time. In the event of a termination by Mr. Callaway for substantial cause, Mr. Callaway shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (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 immediate vesting of all unvested stock options held by Mr. Callaway as of such termination date; (iv) 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 (v) no other severance. At Mr. Callaway's option, Mr. Callaway may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by

subsection (iii) 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 diminution in Mr. Callaway's title or duties or any material breach of this Agreement by the Company.

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

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

Agreement may be terminated immediately by the Company in the event of Mr. Callaway's death. In the event of a termination by the Company due to Mr. Callaway's death, Mr. Callaway's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the immediate vesting of outstanding but unvested stock options held by Mr. Callaway as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Mr. Callaway's termination; and (iii) no other severance. At Mr. Callaway's option, Mr. Callaway 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, Mr. Callaway 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 Mr. Callaway pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Mr. Callaway is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Mr. Callaway hereunder any amounts earned by Mr. Callaway in other employment after termination of his employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Mr. Callaway in other employment had Mr. Callaway sought such other employment. The provisions of this Section 8 shall not limit Mr. Callaway's rights under or pursuant to any other agreement or understanding with the Company or with Mr. Callaway'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 Mr. Callaway is entitled pursuant to the terms of such plan.

(h) Termination By Mutual Agreement of the Parties. Mr. Callaway's

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

(i) Pre-Termination Rights. The Company shall have the right, at its

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

9. RIGHTS UPON A CHANGE IN CONTROL.

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

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Mr. Callaway shall be treated as if he had been terminated for the convenience of the Company and Mr. Callaway shall be entitled to receive the compensation and other benefits and entitlements set forth in Section 8(a). Furthermore, except as specifically provided herein, the termination events and consequences described in Section 8 shall continue to apply

during the term of the Extended Employment Agreement except that, in the event of a conflict between Section 8 and the rights of Mr. Callaway described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Mr. Callaway's permanent disability (defined in Sections 6 and 8(e)), Mr. Callaway's death, and any of the factors enumerated in Section 8(c) as providing to the Company "substantial cause" for terminating Mr. Callaway'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 change in the title, position, duties, responsibilities or status that Mr. Callaway had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

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

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

10. SURRENDER OF BOOKS AND RECORDS. Mr. Callaway agrees that upon

termination of employment in any manner, Mr. Callaway will immediately surrender to the Company all lists, books and records of or connected with the business of the Company, and all other properties belonging to the Company, it being distinctly understood that all such lists, books, records and other documents are the property of the Company. However, notwithstanding the foregoing, Mr. Callaway may keep, subject to the provisions of Section 12 of this Agreement and any and all other confidentiality agreements between Mr. Callaway and the Company, copies of those records maintained by Mr. Callaway as Founder of the Company or otherwise relating to Mr. Callaway's association with the Company ("Retained Copies"). The Company shall have the right to inspect and review all Retained Copies during normal business hours upon reasonable request.

11. GENERAL RELATIONSHIP. Mr. Callaway shall be considered an

employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

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

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

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

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

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

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

13. INVENTIONS AND INNOVATIONS.

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

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

(c) Mr. Callaway agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Mr. Callaway is employed by the Company;

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

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

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

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

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

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. Except as otherwise specifically provided in writing, Mr. Callaway shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Mr. Callaway.

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 and costs incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled.

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire

understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Mr. Callaway or the Company 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 Mr. Callaway and the Company regarding employment.

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

required or permitted hereunder, shall be deemed properly given when actually received

or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Mr. Callaway: Ely Callaway
c/o Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815

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

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

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

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

19. MISCELLANEOUS.

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

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

(b) Waiver. Failure of either party at any time to require

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

(c) Applicable Law. This Agreement shall constitute a contract under

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

(d) Severability. In the event any provision or provisions of this

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

20. SUPERSEDES OLD OFFICER EMPLOYMENT CONTRACT. Mr. Callaway and the

Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Employment Agreement effective January 1, 1995 (the "Old Officer Employment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, this Agreement shall replace and supersede the Old Officer Employment Agreement entirely, that the Old Officer Employment Agreement shall no longer be of any force or effect except as to Sections 7, 12, 13, 15, 18, 20 and 22 thereof, and that to the extent there is any conflict between the Old Officer Employment Agreement and this Agreement, this Agreement shall control and both agreements shall be construed so as to give the maximum force and effect to the provisions of this Agreement.

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

MR. CALLAWAY:

COMPANY:
CALLAWAY GOLF COMPANY
a California corporation

/s/ ELY CALLAWAY

Ely Callaway

By: /s/ DONALD H. DYE

Donald H. Dye, President and C.E.O.

EXHIBIT A

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

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

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

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

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

entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

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

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

EXHIBIT 11.1

CALLAWAY GOLF COMPANY
 COMPUTATION OF EARNINGS PER SHARE
 (in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	1997	1996	1997	1996
Primary earnings per share computation:				
Net income	\$46,821 =====	\$38,937 =====	\$71,288 =====	\$58,392 =====
Weighted average shares outstanding	67,528	66,657	67,771	66,369
Dilutive options	3,200 -----	3,847 -----	3,473 -----	3,680 -----
Common equivalent shares	70,728 =====	70,504 =====	71,244 =====	70,049 =====
Primary earnings per share:				
Net income	\$.66 =====	\$.55 =====	\$ 1.00 =====	\$.83 =====
Fully diluted earnings per share computation:				
Net income	\$46,821 =====	\$38,937 =====	\$71,288 =====	\$58,392 =====
Weighted average shares outstanding	67,528	66,657	67,771	66,369
Dilutive options	3,458 -----	4,146 -----	3,601 -----	4,050 -----
Common equivalent shares	70,986 =====	70,803 =====	71,372 =====	70,419 =====
Fully diluted earnings per share:				
Net income	\$.66 =====	\$.55 =====	\$ 1.00 =====	\$.83 =====

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 June 30, 1997 and for the six months then ended and is qualified in its entirety by reference to such financial statements.

6-MOS		
	DEC-31-1997	
	JAN-01-1997	
	JUN-30-1997	
		150,849
		0
		133,757
		6,382
		74,405
	386,656	
		155,567
		41,000
		522,782
	99,073	
		0
	0	
		0
		732
		417,156
522,782		
		422,105
	422,105	
		200,360
		200,360
		0
		104
		6
		115,194
		43,906
	71,288	
		0
		0
		0
		71,288
		1.00
		1.00