

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, 1999

OR

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

Commission file number 1-10962

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

DELAWARE
(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 Registrant's Common Stock, \$.01 par
value, as of July 31, 1999 was 75,833,761.

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, 1999	December 31, 1998
(Unaudited)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,898	\$ 45,618
Accounts receivable, net of allowance of \$6,418 and \$9,939 at June 30, 1999 and December 31, 1998, respectively (Note 4)	125,346	73,466
Inventories, net	84,284	149,192
Deferred taxes	49,322	51,029
Other current assets	6,981	4,301
Total current assets	292,831	323,606
Property, plant and equipment, net	194,335	172,794
Intangible assets, net	123,673	127,779
Other assets	32,479	31,648
	\$643,318	\$655,827
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 37,696	\$ 35,928
Line of credit (Note 3)		70,919
Note payable (Note 3)	25,595	12,971
Accrued employee compensation and benefits	23,072	11,083
Accrued warranty expense	38,029	35,815
Accrued restructuring costs	3,212	7,389
Income taxes payable	10,858	9,903
Total current liabilities	138,462	184,008
Long-term liabilities:		
Deferred compensation	9,000	7,606
Accrued restructuring costs	10,229	11,117
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized, none issued and outstanding at June 30, 1999 and December 31, 1998		
Common Stock, \$.01 par value, 240,000,000 shares authorized, 75,833,761 and 75,095,087 issued and outstanding at June 30, 1999, and December 31, 1998, respectively	758	751
Paid-in capital	286,364	258,015
Unearned compensation	(4,611)	(5,653)
Retained earnings	280,270	252,528
Accumulated other comprehensive income	359	1,780
Less: Grantor Stock Trust (5,300,000 shares) at market	(77,513)	(54,325)
Total shareholders' equity	485,627	453,096
	\$643,318	\$655,827

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	1999		1998		1999		1998	
Net sales	\$229,708	100%	\$233,251	100%	\$415,452	100%	\$410,160	100%
Cost of goods sold	121,044	53%	124,461	53%	223,268	54%	217,664	53%
Gross profit	108,664	47%	108,790	47%	192,184	46%	192,496	47%
Operating expenses:								
Selling	34,942	15%	42,236	18%	66,242	16%	78,029	19%
General and administrative	22,852	10%	23,679	10%	44,455	11%	44,184	11%
Research and development	8,279	4%	8,413	4%	16,733	4%	17,078	4%
Restructuring	362				487			
Income from operations	42,229	18%	34,462	15%	64,267	15%	53,205	13%
Other (expense) income, net	(1,393)		296		(2,165)		(40)	
Income before income taxes	40,836	18%	34,758	15%	62,102	15%	53,165	13%
Provision for income taxes	16,065		13,621		24,509		20,868	
Net income	\$ 24,771	11%	\$ 21,137	9%	\$ 37,593	9%	\$ 32,297	8%
Earnings per common share:								
Basic	\$0.35		\$0.30		\$0.54		\$0.47	
Diluted	\$0.35		\$0.30		\$0.53		\$0.45	
Common equivalent shares:								
Basic	70,302		69,350		70,142		69,267	
Diluted	71,407		71,591		70,989		71,383	
Dividends paid per share	\$0.07		\$0.07		\$0.14		\$0.14	

See accompanying notes to consolidated condensed financial statements.

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

	Six months ended June 30,	
	1999	1998
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Cash flows from operating activities:		
Net income	\$37,593	\$32,297
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,529	13,560
Loss (gain) on disposal of assets	636	(3)
Non-cash compensation	997	5,009
Tax benefit from exercise of stock options	1,294	2,049
Deferred taxes	2,753	(4,200)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(52,677)	(2,172)
Inventories, net	64,089	(45,742)
Other assets	(5,731)	(8,848)
Accounts payable and accrued expenses	4,662	12,424
Accrued employee compensation and benefits	12,062	1,021
Accrued warranty expense	2,210	4,103
Income taxes payable	899	2,936
Accrued restructuring costs	(4,177)	
Other liabilities	1,394	(5,969)
Accrued restructuring costs - long term	(888)	
Net cash provided by operating activities	82,645	6,465
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Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(495)	(18,381)
Capital expenditures	(41,456)	(27,770)
Sale of assets	5,049	13
Net cash used in investing activities	(36,902)	(46,138)
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Cash flows from financing activities:		
Issuance of Common Stock	3,919	4,443
Dividends paid	(9,851)	(9,709)
Retirement of Common Stock		(1,303)
Proceeds from note payable	12,625	
Line of credit, net	(70,919)	55,000
Net cash (used in) provided by financing activities	(64,226)	48,431
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Effect of exchange rate changes on cash	(237)	148
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Net (decrease) increase in cash and cash equivalents	(18,720)	8,906
Cash and cash equivalents at beginning of period	45,618	26,204
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Cash and cash equivalents at end of period	\$26,898	\$35,110
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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	Accumulated Other Comprehensive Income	GST	Total	Comprehensive Income
Balance, December 31, 1998	75,095	\$751	\$258,015	(\$5,653)	\$252,528	\$1,780	(\$54,325)	\$453,096	
Exercise of stock options	562	5	2,201					2,206	
Cancellation of Restricted Common Stock	(4)		(108)	110				2	
Tax benefit from exercise of stock options			1,294					1,294	
Compensatory stock and stock options			63	932				995	
Employee stock purchase plan	181	2	1,711					1,713	
Cash dividends					(10,593)			(10,593)	
Dividends on shares held by GST					742			742	
Adjustment of GST shares to market value			23,188				(23,188)		
Equity adjustment from foreign currency translation						(1,421)		(1,421)	\$ (1,421)
Net income					37,593			37,593	37,593
Balance, June 30, 1999	75,834	\$758	\$286,364	(\$4,611)	\$280,270	\$ 359	(\$77,513)	\$485,627	\$ 36,172

See accompanying notes to consolidated condensed financial statements.

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

1. BASIS OF PRESENTATION

The accompanying financial information for the three and six months ended June 30, 1999 and 1998 has been prepared by Callaway Golf Company (the "Company") and has not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1998. Interim operating results are not necessarily indicative of operating results for the full year.

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

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

2. INVENTORIES

	June 30, 1999	December 31, 1998

(Unaudited)		
Inventories, net (in thousands):		
Raw materials	\$ 60,476	\$102,352
Work-in-process	3,499	1,820
Finished goods	52,561	81,868

	116,536	186,040
Less reserve for obsolescence	(32,252)	(36,848)

	\$84,284	\$149,192
=====		

3. BANK LINE OF CREDIT AND NOTE PAYABLE

On February 12, 1999, the Company consummated the amendment of its line of credit to increase the revolving credit facility to \$120.0 million (the "Amended Credit Agreement"). The Amended Credit Agreement has a five-year term and is secured by substantially all of the assets of the Company. The Amended Credit Agreement bears interest at the Company's election at the London Interbank Offering Rate ("LIBOR") plus a margin or the higher of the base rate on corporate loans at large U.S. money center commercial banks (prime rate) or the Federal Funds Rate plus 50 basis points. The line of credit requires the Company to maintain certain minimum financial ratios including a fixed charge coverage ratio, as well as other restrictive covenants. As of June 30, 1999, up to \$118.5 million of the credit facility remained available for borrowings (including a reduction of \$1.5 million for outstanding letters of credit), subject to meeting certain availability requirements under a borrowing base formula and other limitations.

Effective as of December 30, 1998, Callaway Golf Ball Company, a wholly-owned subsidiary of the Company, entered into a master lease agreement for the acquisition and lease of approximately \$56.0 million of machinery and equipment. This lease program is expected to commence during the third quarter of 1999 and includes an interim finance agreement (the "Finance Agreement"). The Finance Agreement provides pre-lease financing advances for the acquisition and installation costs of the aforementioned machinery and equipment. The Finance Agreement bears interest at LIBOR plus a margin and is secured by the underlying machinery and equipment and a corporate guarantee from the Company. As of June 30, 1999, \$25.6 million was outstanding under this facility.

4. ACCOUNTS RECEIVABLE SECURITIZATION

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

Under the Accounts Receivable Facility, the receivables are sold at face value with payment of a portion of the purchase price being deferred. As of June 30, 1999, no amount was outstanding under the Accounts Receivable Facility. Fees incurred in connection with the sale of accounts receivable for the three and six months ended June 30, 1999 were \$315,000 and \$673,000, respectively, and were recorded as other expense.

5. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the three and six months ended June 30, 1999, and 1998 is presented below.

(in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	(Unaudited)			
	1999	1998	1999	1998
Net income	\$24,771	\$21,137	\$37,593	\$32,297
Weighted-average shares outstanding:				
Weighted-average shares outstanding - Basic	70,302	69,350	70,142	69,267
Dilutive securities	1,105	2,241	847	2,116
Weighted average shares outstanding - Diluted	71,407	71,591	70,989	71,383
Earnings per common share				
Basic	\$0.35	\$0.30	\$0.54	\$0.47
Diluted	\$0.35	\$0.30	\$0.53	\$0.45

For the three months ended June 30, 1999 and 1998, 10,132,000 and 8,189,000, respectively, options outstanding were excluded from the calculations, as their effect would have been antidilutive.

6. COMMITMENTS AND CONTINGENCIES

Subject to certain conditions, the Company has committed to purchase titanium golf clubheads costing approximately \$13.9 million from one of its vendors. Under the current schedule, the clubheads are to be shipped to the Company during the remainder of 1999.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance, or the financial impact with respect to these matters as of June 30, 1999. Management believes, however, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

7. RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of \$54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives are expected to be completed largely during 1999. The restructuring charges (shown below in tabular format) primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs.

During the second quarter of 1999, the Company incurred a charge of \$1.2 million on the disposition of building improvements eliminated during the consolidation of manufacturing operations, as well as other charges. These charges did not meet the criteria for accrual in 1998. This charge was partially offset by a gain of \$1.0 million on the disposition of one of the Company's buildings included in the restructuring plan, for which an impairment charge was taken in 1998. Activity during the first half of 1999 primarily related to cash payments for severance, disposition of assets, contract cancellation and other items. During the first quarter of 1999, substantially all of the approximately 750 non-temporary work force reductions occurred.

Details of the one-time charge are as follows (in thousands):

	Cash/ Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98	Activity	Reserve Balance at 6/30/99
ELIMINATION OF JOB RESPONSIBILITIES						
Severance packages	Cash	\$11,664	\$ 8,473	\$ 3,191	\$2,898	\$ 293
Other	Non-cash	11,603	8,412	3,191	2,898	293
		61	61			
EXITING CERTAIN NON-CORE BUSINESS ACTIVITIES						
Loss on disposition of subsidiaries	Non-cash	\$28,788	\$12,015	\$16,773	\$4,324	\$12,449
Excess lease costs	Cash	13,072	10,341	2,731	2,426	305
Contract cancellation fees	Cash	12,660	146	12,514	536	11,978
Other	Cash	2,700	1,504	1,196	1,092	104
	Cash	356	24	332	270	62
CONSOLIDATION OF OPERATIONS						
Loss on impairment/disposition of assets	Non-cash	\$13,783	\$ 2,846	\$10,937	\$6,841	\$ 4,096
Excess lease costs	Cash	12,364	2,730	9,634	6,456	3,178
Other	Cash	806	4	802	154	648
	Cash	613	112	501	231	270

Future cash outlays are anticipated to be completed by the end of 1999, excluding certain lease commitments that continue through February 2013.

8. SEGMENT INFORMATION

The Company's operating segments are organized on the basis of products and include golf clubs and golf balls. The Golf Clubs segment consists of Callaway(R) titanium and steel metal woods and irons, Callaway(R) and Odyssey(R) putters and wedges, and related accessories. The Golf Balls segment consists of golf balls that are to be designed, manufactured, marketed and distributed by the Company's wholly-owned subsidiary, Callaway Golf Ball Company. In accordance with its restructuring plan, the Company is no longer pursuing the initiatives previously included in its All Other segment, which included interactive golf sites, golf book publishing, new player development and a driving range venture (Note 7). There are no significant intersegment transactions. The tables below contain information utilized by management to evaluate its operating segments for the interim periods presented.

	Three Months Ended June 30,					
	1999			1998		
	Net Sales	Income (loss) before tax	Additions to long-lived assets	Net Sales	Income (loss) before tax	Additions to long-lived assets
Golf Clubs	\$229,708	\$49,051	\$ 421	\$233,251	\$42,133	\$ 5,029
Golf Balls		(8,215)	9,458		(5,504)	8,995
All Other					(1,871)	10,383
Consolidated	\$229,708	\$40,836	\$9,879	\$233,251	\$34,758	\$24,407

	Six Months Ended June 30,					
	1999			1998		
	Net Sales	Income (loss) before tax	Additions to long-lived assets	Net Sales	Income (loss) before tax	Additions to long-lived assets
Golf Clubs	\$415,452	\$ 77,751	\$ 4,434	\$410,160	\$65,853	\$18,827
Golf Balls		(15,649)	37,900		(9,522)	10,686
All Other					(3,166)	12,325
Consolidated	\$415,452	\$ 62,102	\$42,334	\$410,160	\$53,165	\$41,838

9. ADOPTION OF NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in income or other comprehensive income, depending on whether the derivatives are designated as hedges and, if so, the types of hedges. SFAS No. 133, as amended by SFAS No. 137, "Deferral of the Effective Date of FAS 133," is effective for all periods beginning after June 15, 2000; the Company elected to early adopt SFAS No. 133 on January 1, 1999.

In the first half of 1999, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions by certain of its wholly-owned foreign subsidiaries. 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 generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. Transaction losses recorded during the six months ended June 30, 1999 were \$1.9 million and were not material for the comparable period in 1998. At June 30, 1999 and 1998, the Company had approximately \$19.6 million and \$18.8 million, respectively, of foreign exchange contracts outstanding. The contracts outstanding at June 30, 1999 mature between July 1999 and May 2000. The Company's net unrealized gains and losses on foreign exchange contracts included in net income for the first half of 1999 and 1998 were not material.

Adoption of this statement did not significantly affect the way in which the Company accounts for derivatives to hedge payments due on intercompany transactions. Accordingly, no cumulative-effect-type adjustments were made. However, the Company expects that it also may hedge anticipated transactions denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. The forward contracts used to hedge anticipated transactions will be recorded as either assets or liabilities in the balance sheet at fair value. Gains and losses on such contracts will be recorded in other comprehensive income and will be recorded in income when the anticipated transactions occur. The ineffective portion of all hedges will be recognized in current period earnings.

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 also are 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 and 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

Readers also should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Further, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

CERTAIN FACTORS AFFECTING CALLAWAY GOLF COMPANY

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RESTRUCTURING

In the second quarter of 1999, the Company continued to implement its restructuring in accordance with the plan adopted in the fourth quarter of 1998. See "Restructuring" section below.

SALES; GROSS MARGIN; SEASONALITY

The Company believes that the premium golf equipment market has been declining in certain major markets, including Japan, the United States and Europe, and may continue to decline during the foreseeable future. During the first half of 1999, the Company's sales in the United States decreased 8% compared to the same period in 1998. The Company believes that this decrease was due in part to 1998 inventory build-up at the retail level of the Company's and its competitors' golf equipment and corresponding sales of such inventory at close-out prices. Despite the softness in the United States golf market, it is believed that the Company's overall market share for woods increased in the first half of 1999 compared to the same period in 1998. See "Certain Factors Affecting Callaway Golf Company--Competition."

While sales of the Company's Great Big Bertha(R) Hawk Eye(R) Titanium Metal Woods, Big Bertha(R) Steelhead(TM) Metal Woods, and Big Bertha(R) and X-12(R) Irons have been strong to date, no assurances can be given that the demand for these products or the Company's other existing products, or the introduction of new products, will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

Sales to Japan, which accounted for approximately 9% of the Company's total sales in 1998 and 10% of total sales in 1997, comprised 9% of the Company's total sales for the first half of 1999 may be lower overall for 1999 as compared to 1998 as the Company's distributor, Sumitomo Rubber Industries, Ltd. ("Sumitomo"), prepares for the transition of responsibility from it to ERC International Company ("ERC"), a wholly-owned Japanese subsidiary of the Company, by January 1, 2000. The Company believes that a decrease in the second half of 1999 may result as Sumitomo focuses on liquidating its existing inventory rather than placing new orders. See "Certain Factors Affecting Callaway Golf Company-International distribution."

The Company's gross margin as a percentage of net sales was 47% in the second quarter of 1999, which was the same as the second quarter of 1998. If sales of older model golf clubs sold at close-out prices were excluded, gross margin as a percentage of net sales would have been 50%, representing an increase of approximately 3% compared to the second quarter of 1998. The Company's higher gross margin for current products related primarily to improved product mix, reduced customer compensation expense due to the charge incurred in the second quarter of 1998 associated with the price reduction enacted during that quarter, and greater production efficiencies. For all of 1999, the Company anticipates its gross margin percentage will exceed its 1998 levels. Consumer acceptance of current and new product introductions, the sale and disposal of non-current products at reduced sales prices and continuing pricing pressure from competitive market conditions may have an adverse effect on the Company's future sales and gross margin.

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. For several years, the Company's business has generally followed this seasonal trend and the Company expects this to continue. Unusual or severe weather conditions such as the "El Nino" weather patterns experienced during the winter of 1997-1998 may compound these seasonal effects.

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, as well as new companies with popular products. New product introductions and/or price reductions by competitors continue to generate increased market competition. However, the Company believes that it has gained unit and dollar market share for woods in the United States during the first half of 1999 as compared to the same period in 1998. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities by competitors will not negatively impact the Company's future sales.

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

NEW PRODUCT INTRODUCTION

The Company believes that the introduction of new, innovative golf equipment is increasingly important to its future success. The Company faces certain risks associated with such a strategy. For example, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. Further, new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase. New designs generally should 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. While all of the Company's current products have been found to conform to USGA and R&A rules, there is no assurance that new designs will receive USGA and/or R&A approval, or that existing USGA and/or R&A standards will not be altered in ways that adversely affect the sales of the Company's products.

On November 2, 1998, the USGA announced the adoption of a test protocol to measure the so-called "spring-like effect" in certain golf clubheads. The USGA has advised the Company that none of the Company's current products are barred by this test. The R&A is considering the adoption of a similar or related test. Future actions by the USGA or the R&A may impede the Company's ability to introduce new products and therefore could have a material adverse effect on the Company's results of operations and cash flows.

The Company's new products have tended to incorporate significant innovations in design and manufacture, which have resulted in higher prices for the Company's products relative to other products 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 premium priced 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 such market acceptance in the future.

The rapid introduction of new products by the Company can result in closeouts of existing inventories at both the wholesale and retail levels. Such closeouts can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices.

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

PRODUCT BREAKAGE

The Company supports all of its golf clubs with a limited two year written warranty. Since the Company does not rely upon traditional designs in the development of its golf clubs, its products may be more likely to develop unanticipated problems than those of many of its competitors which use traditional designs. For example, clubs have been returned with cracked clubheads, broken graphite shafts and loose medallions. In addition, the Company's Biggest Big Bertha(R) 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, even though these shafts are among the most expensive to manufacture in the industry. 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 that have been sold. The Company monitors 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. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. While the Company believes that it has sufficient reserves for warranty claims, there can be no assurance that these reserves will be sufficient if the Company were to experience an unusually high incidence of breakage or other product problems.

CREDIT RISK

The Company primarily sells its products to golf equipment retailers and foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, the recent downturn in the retail golf equipment market has resulted in delinquent or uncollectible accounts for some of the Company's significant customers. As a result, during the second quarter of 1999, the Company wrote off approximately \$4.0 million of past due trade accounts receivable incurred in previous years against the Company's reserve for uncollectible accounts receivable. The Company considers its remaining reserve for uncollectible accounts receivable to be adequate. Management does not foresee any significant improvement in the golf equipment market during 1999, and thus there can be no assurance that failure of the Company's customers to meet their obligations to the Company will not adversely impact the Company's results of operations or cash flows.

DEPENDENCE ON CERTAIN VENDORS AND MATERIALS

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

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

The Company's size has made it a large consumer of certain materials, including titanium 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.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

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

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark, copyright or other protection of their proprietary rights and designs. From time to time others have or may contact the Company to claim that they have proprietary rights that have been infringed by the Company and/or its products. The Company evaluates any such claims and, where appropriate, has obtained or sought to obtain licenses or other business arrangements. To date, there have been no interruptions in the Company's business as a result of any claims of infringement. No assurance can be given, however, that the Company will not be adversely affected in the future by the assertion of intellectual property rights belonging to others. This effect could include alteration 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 attempts to avoid infringing valid patents or other intellectual property rights. If any new golf ball product is found to infringe on protected technology, the Company could incur substantial costs to redesign its golf ball product, obtain a license and/or defend legal actions. Despite its efforts to avoid such infringements, there can be no assurance that Callaway Golf Ball Company will not be found to infringe on the valid 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.

"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 foreign wholesale distributors who promote and support the Company's products, and can injure the Company's image in the minds of its customers and consumers. On the other hand, stopping such commerce could result in a potential decrease in sales to those customers who are selling Callaway Golf products to unauthorized distributors and/or an increase in sales returns over historical levels. For example, the Company experienced a decline in sales in the United States in 1998, and believes the decline was due, in part, to a decline in "gray market" shipments to Asia and Europe. While the Company has taken some lawful steps to limit commerce in its products in the "gray market" in both U.S. and international markets, it has not stopped such commerce.

GOLF PROFESSIONAL ENDORSEMENTS

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf and Odyssey branded golf clubs. The Company has entered into endorsement arrangements with members of the various professional tours, including the Senior PGA Tour, the PGA Tour, the LPGA Tour and the PGA European Tour. While most professional golfers fulfill their contractual obligations, some have been known to stop using a sponsor's products despite contractual commitments. If certain of 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 and do not grant any endorsement to the Company. In addition, the Company has created cash pools ("Pools") that reward such usage. During 1998, the Company continued its Pools for the PGA, Senior PGA, LPGA and Nike Tours. The Company believes that its professional endorsements and its Pools contributed to its usage on the professional tours in 1998. However, in 1999, the Company has significantly reduced these Pools for both Callaway Golf(R) and Odyssey(R) brand products for the PGA and the Senior PGA Tours, and has significantly reduced the Pools for Odyssey(R) brand products and eliminated the Pools for Callaway Golf(R) brand products for the LPGA and Nike Tours. In addition, many other companies are aggressively seeking the patronage of these professionals, and are offering many inducements, including specially designed products and significant cash rewards. As a result, the Company anticipates that the level of professional usage of the Company's products will be lower in 1999 than 1998. In the first half of 1999, driver usage on the PGA, Senior PGA, LPGA and Nike Tours was substantially reduced compared to the first half of 1998. 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. While it is not clear whether professional usage materially contributes to retail sales, it is possible that the recent decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's business.

NEW BUSINESS VENTURES

The Company has invested significant capital in new business ventures. However, in connection with the Company's 1998 restructuring, the Company discontinued, transferred or suspended certain business ventures not directly associated with the Company's core business. See "Restructuring" section below. However, the Company continues development of its golf ball business. See "Certain Factors Affecting Callaway Golf Company - Golf Ball Development."

INTERNATIONAL DISTRIBUTION

The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will be an element in the future growth and success of the Company. The Company has been actively pursuing a reorganization of its international operations, including the acquisition of distribution rights in certain key countries in Europe, Asia and North America. These efforts have resulted and will continue to result in

additional investments in inventory, accounts receivable, corporate infrastructure and facilities. The integration of foreign distribution into the Company's international sales operations will require the dedication of management and other Company resources.

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

In 1993, the Company, through a distributor agreement, appointed Sumitomo Rubber Industries, Ltd. as the sole distributor, and Sumitomo Corporation as the sole importer, of Callaway Golf(R) golf clubs in Japan. This distributor agreement runs through December 31, 1999. The Company has notified Sumitomo that it will be concluding the distribution agreement on December 31, 1999. During the second half of 1999, there could be a decrease in shipments of Callaway Golf(R) products to Sumitomo compared to the second half of 1998 as Sumitomo focuses on liquidating its existing inventory rather than placing new orders.

The Company established ERC, a wholly-owned Japanese corporation, for the purpose of distributing Odyssey(R) products in Japan. ERC also will distribute 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 costs. However, these costs have not been material to date. Furthermore, there are significant risks associated with the Company's intention to effectuate distribution of Callaway Golf clubs in Japan through ERC beginning January 2000, 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 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 in Japan and Korea. The Company also distributed a golf ball under the trademark "Bobby Jones." These golf ball ventures were introduced primarily as promotional efforts and were not commercially successful.

The Company has determined that Callaway Golf Ball Company will enter the golf ball business by creating, developing and manufacturing golf balls in a new plant 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. The Company currently anticipates launching its golf ball in early 2000. However, there can be no assurance as to whether the golf ball developed will be ready by that time, that it will be commercially successful or that a return on the Company's investments will ultimately be realized.

The development of the Company's golf ball business, by plan, has had a significant negative impact on the Company's cash flows and results of operations and will continue to do so during the second half of 1999. The Company believes that many of the same factors that 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 the Company will need to penetrate for its golf ball business to be successful.

Historically, many computer programs have been written using two digits rather than four to define the applicable year, which could result in the program failing to properly recognize a year that begins with "20" instead of "19." This, in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000" or "Y2K" issue.

While the Company's own products do not contain date-based functionality and are not susceptible to the Y2K issue, much of the Company's operations incorporate or are affected by systems which may contain date-based functionality. Therefore, the Company has formulated a Year 2000 Plan to address the Company's Y2K issue. The Company's Year 2000 Plan contemplates four phases -- assessment, remediation, testing and release/installation -- which will overlap to a significant degree. The Company's own internal critical systems and key suppliers are the primary areas of focus. The Company believes critical systems and key suppliers are those systems or suppliers, which, if they are not Y2K compliant, may disrupt the Company's manufacturing, sales or distribution capabilities in a material manner.

The assessment phase, which has been completed, involved an inventory, prioritization and preliminary evaluation of the Y2K compliance of the Company's key systems (e.g., hardware, software and embedded systems) and critical suppliers and customers (e.g., component suppliers, vendors, customers, utilities and other service providers) on which the Company relies to operate its business. During this phase it was determined that over 450 of the Company's key systems were considered critical to the ongoing operations of the Company.

The remediation phase primarily included or will include altering the product or software code, upgrading or replacing the product, recommending changes in how the product is used or retiring the product. The remediation phase was substantially completed for critical systems by June 30, 1999. For non-critical systems, remediation should be substantially completed by September 30, 1999.

In addition, the Company received information concerning the Y2K compliance status of critical suppliers and customers in response to extensive inquiries aimed at determining the extent to which the Company is vulnerable to those third parties' failure to remediate their own Y2K issues. The Company relies on suppliers for timely delivery of a broad range of goods and services worldwide, including components for its golf clubs. Moreover, the Company's suppliers rely on countless other suppliers, over which the Company has little or no influence regarding Y2K compliance. The level of preparedness of critical suppliers and customers can vary greatly from country to country. The Company believes that critical suppliers and customers present an area of significant risk to the Company in part because of the Company's limited ability to influence actions of third parties, and in part because of the Company's inability to estimate the level and impact of noncompliance of third parties throughout the extended supply chain. The process of evaluating these suppliers and selected customers is continuing and is expected to be completed by the fourth quarter of 1999.

In October 1997, the Company implemented a new business computer system, which runs most of the Company's data processing and financial reporting software applications (including material subsidiaries) and has in part addressed remediation issues Company-wide. The manufacturer of the application software used on the new computer system has represented that the software addresses the Y2K issue, and the Company's own testing of that representation has been completed.

The Company presently plans to have completed the four phases with respect to those systems which are critical to its operations no later than the end of the third quarter of 1999. Some non-critical systems may not be addressed until after January 2000.

The total cost associated with assessment and required modifications to implement the Company's Year 2000 Plan is not expected to be material to the Company's financial position or results of operations. The Company currently estimates that the total cost of implementing its Year 2000 Plan will not exceed \$6.0 million. This estimate will be updated as the Company continues its remediation and contingency planning. The total amount expended on the Year 2000 Plan through June 1999 was \$1,975,000, of which approximately \$1,065,000 related to repair or replacing of software and related hardware problems and approximately \$910,000 related to internal and external labor costs.

If the Company's new business computer system fails due to the Y2K issue, or if any computer hardware or software applications or embedded systems critical to the Company's manufacturing, shipping or other processes are overlooked, there could be a material adverse impact on the business operations and financial performance of the Company. Additionally, there can be no assurance that the Company's critical suppliers and customers will not experience a Y2K-related failure that could have a material adverse effect on the business operations or financial performance of the Company. In particular, if third party suppliers, due to the Y2K issue, fail to provide the Company with components or materials which are necessary to manufacture its products, with sufficient electric power and other utilities to sustain its manufacturing process, or with adequate, reliable means of transporting its products to its customers worldwide, then any such failure could have a material adverse effect on the business operations and financial performance of the Company.

The Company has established contingency plans to address unavaoided or unavaoidable risks. In particular, with respect to third party component suppliers, the Company has formulated contingency plans to guard against disruptions in the supply of critical components. These plans include booking orders and producing products before anticipated business disruptions. Even so, judgments regarding contingency plans -- such as how to develop them and to what extent -- are themselves subject to many variables and uncertainties. There can be no assurance that the Company will correctly anticipate the level, impact or duration of noncompliance by suppliers. As a result, there is no certainty that the Company's contingency plans will be sufficient to mitigate the impact of noncompliance by suppliers, and some material adverse effect to the Company may result from one or more third parties regardless of defensive contingency plans.

Estimates of time, cost, and risk are based on currently available information. Developments that could affect estimates include, but are not limited to, the availability and cost of trained personnel; the ability to locate and correct all relevant computer software code and systems; cooperation and remediation success of the Company's suppliers and customers (and their suppliers and customers); and the ability to correctly anticipate risks and implement suitable contingency plans in the event of system failures at the Company or its suppliers and customers (and their suppliers and customers).

EURO CURRENCY

Many of the countries in which the Company sells its products are Member States of the Economic and Monetary Union ("EMU"). Beginning January 1, 1999 Member States of the EMU have the option of trading in either their local currencies or the euro, the official currency of EMU participating Member States. Parties are free to choose the unit they prefer in contractual relationships during the transitional period, beginning January 1999 and ending June 2002. The Company has installed a new computer system that supports sales throughout Europe. This new system runs substantially all of the principal data processing and financial reporting software for such sales. The Company anticipates that, after the implementation of an upgrade, the new system will contain the functionality to process transactions in either a country's local currency or euro. The implementation of this upgrade, which is part of a larger plan to update the Company's enterprise-wide software to the manufacturer's current version, is planned to take place during 2000. Until such time as the upgrade has occurred, transactions denominated in euro will be processed manually. To date, the Company has not experienced and does not anticipate in the near future a large demand from its customers to transact in euros.

Additionally, the Company does not believe that it will incur material costs specifically associated with manually processing data or preparing its business systems to operate in either the transitional period or beyond. However, there can be no assurance that the conversion of EMU Member States to euro will not have a material adverse effect on the Company and its operations.

RESULTS OF OPERATIONS

Three-month periods ended June 30, 1999 and 1998:

Net sales decreased 2% to \$229.7 million for the three months ended June 30, 1999 compared to \$233.3 million for the comparable period in the prior year. Although unit sales of both titanium and steel metal woods increased largely due to the continued success of Big Bertha(R) Steelhead(TM) Metal Woods and the January 1999 introduction of

Great Big Bertha(R) Hawk Eye(R) Metal Woods, certain sales, in particular sales of the Company's closeout products, were made at significantly reduced prices, thus generating lower revenue per unit. Also contributing to the decrease in sales was an overall decrease in sales of irons, both in units and dollars.

During the second quarter of 1999, sales in the United States and in Japan decreased \$13.5 million (9%) and \$3.9 million (22%), respectively. Sales to the rest of Asia increased \$13.7 million (173%) over the same quarter of the prior year while sales to Europe decreased during this period by \$2.7 million (6%). Sales in Canada and other regions increased by \$1.7 million (17%) and \$1.2 million (18%), respectively during the three months ended June 30, 1999 as compared to the same period in the prior year.

For the three months ended June 30, 1999, gross profit remained essentially constant at \$108.7 million as compared with \$108.8 million for the same period in the prior year. As a percentage of net sales, gross profit also remained constant at 47% for the quarter ended June 30, 1999 as compared to the same quarter of the prior year. During the second quarter of 1999, the Company implemented a closeout strategy for certain of its older products. These products were sold at significantly lower prices, thereby generating lower margins. If the lower margin closeout sales are excluded, gross profit as a percentage of net sales would have increased to 50%. The increase in gross margin for current products was primarily due to improved product mix, reduced customer compensation expense due to the charge incurred in the second quarter of 1998 associated with the price reduction enacted during that quarter, and greater production efficiencies.

Selling expenses decreased to \$34.9 million in the second quarter of 1999 compared to \$42.2 million in the second quarter of 1998. As a percentage of net sales, selling expenses decreased to 15% from 18% during the second quarter of 1999 over the second quarter of 1998. The \$7.3 million decrease was primarily related to planned reductions in advertising, pro tour and other promotional expenses as a result of the implementation of the Company's restructuring plan (see "Restructuring" below).

General and administrative expenses decreased to \$22.9 million for the three months ended June 30, 1999 from \$23.7 million for the comparable period in the prior year. As a percentage of net sales, general and administrative expenses in the second quarter of 1999 remained constant at 10% as compared to the same period in 1998. The \$0.8 million decrease was primarily related to decreased consulting, legal and other general and administrative expenses, partially offset by costs associated with the ramp-up of golf ball operations.

Research and development expenses decreased to \$8.3 million in the second quarter of 1999 compared to \$8.4 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the second quarter of 1999 remained constant at 4% for the three months ended June 30, 1999 and 1998. The \$0.1 million decrease was primarily the result of the shutdown of the Company's prototype foundry, partially offset by costs associated with the ramp-up of golf ball operations and an increase in employee compensation.

Other expense increased \$1.7 million for the quarter ended June 30, 1999 as compared to the same period in the prior year. This increase was attributable to increased losses on foreign currency transactions and a decrease of interest income resulting from lower cash balances during three months ended June 30, 1999 versus 1998.

Six-month periods ended June 30, 1999 and 1998:

Net sales increased 1% to \$415.5 million for the six months ended June 30, 1999 compared to \$410.2 million for the comparable period in the prior year. Although unit sales of both titanium and steel metal woods increased largely due to the continued success of Big Bertha(R) Steelhead(TM) Metal Woods and the January 1999 introduction of Great Big Bertha(R) Hawk Eye(R) Metal Woods, certain sales, in particular sales of the Company's closeout products, were made at significantly reduced prices, thus generating lower revenue per unit. The increase in sales was partially offset by an overall decrease in sales of irons, both in units and dollars.

During the first half of 1999, sales in the United States and Europe decreased \$21.1 million (8%) and \$2.0 million (3%), respectively. During this same period, sales in Japan and the rest of Asia increased \$0.3 million (1%) and \$22.8 million (170%), respectively. Sales to Canada and the rest of the world in the first six months of 1999 increased \$1.5 million (9%) and \$3.8 million (32%), respectively, over the same period of the prior year.

For the six months ended June 30, 1999, gross profit decreased to \$192.2 million from \$192.5 million for the comparable period in the prior year. As a percentage of net sales, gross profit decreased to 46% from 47% for the six months ended June 30, 1999 as compared to the same period of the prior year. During the second quarter of 1999, the Company implemented a closeout strategy for certain of its products. These products were sold at significantly lower prices, thereby generating lower margins. If the lower margin closeout sales are excluded, gross profit as a percentage of net sales would have increased to 48%. The increase in gross margin for current products was primarily due to improved product mix, reduced customer compensation expense due to the charge incurred in the second quarter of 1998 associated with the price reduction enacted during that quarter.

Selling expenses decreased to \$66.2 million in the first half of 1999 compared to \$78.0 million in the first half of 1998. As a percentage of net sales, selling expenses decreased to 16% from 19% during the first half of 1999 over the first half of 1998. The \$11.8 million decrease was primarily related to planned reductions in advertising, pro tour and other promotional expenses as a result of the implementation of the Company's restructuring plan (see "Restructuring" below).

General and administrative expenses increased to \$44.5 million for the six months ended June 30, 1999 from \$44.2 million for the comparable period of the prior year. As a percentage of net sales, general and administrative expenses in the first half of 1999 remained constant at 11% for the six months ended June 30, 1999 and 1998. The \$0.3 million increase was largely attributable to costs associated with the ramp-up of the Company's golf ball operations, increased employee compensation costs, and increased amortization expense as a result of the Company's 1998 acquisitions of certain of its foreign distributors. This increase was partially offset by decreased consulting, legal and other general and administrative expenses.

Research and development expenses decreased to \$16.7 million in the first half of 1999 compared to \$17.1 million in the comparable period of the prior year. As a percentage of net sales, research and development expenses in the first half of 1999 remained constant at 4% for the six months ended June 30, 1999 and 1998. The \$0.4 million decrease was primarily the result of the shut-down of the Company's prototype foundry and a decrease in consulting fees, partially offset by an increase in depreciation expense, primarily related to golf ball operations, and an increase in employee compensation.

Other expense increased \$2.1 million for the six months ended June 30, 1999 over the comparable period of the prior year. This decrease was attributable to interest expense incurred during the first half of 1999 related to the Company's Amended Credit Agreement, Finance Agreement and Accounts Receivable Facility (see Notes 3 and 4 of the Company's unaudited Consolidated Condensed Financial Statements) due primarily to higher interest and yield rates and related fees. Increased foreign currency transaction losses also contributed to the increase.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1999, cash and cash equivalents decreased to \$26.9 million from \$45.6 million at December 31, 1998 primarily as a result of cash used in investing activities of \$36.9 million and cash used in financing activities of \$64.2 million, partially offset by cash provided by operations of \$82.6 million, inclusive of a \$41.0 million reduction in advances under the Accounts Receivable facility, which was reflected as a reduction of Accounts Receivable (see Note 4 to the Company's unaudited Consolidated Condensed Financial Statements). Cash flows used in investing activities resulted from capital expenditures, primarily associated with the ramp-up of golf ball operations, partially offset by proceeds from the sale of fixed assets, largely those related to the Company's restructuring. Cash flows used in financing activities is primarily attributed to the repayment of the Amended Credit Agreement and dividends paid, partially offset by proceeds from the Finance Agreement.

The Company's principal source of liquidity, both on a short-term and long-term basis, has been cash flow provided by operations and the Company's credit facilities. The Company expects this trend to continue even though sales declined in 1998 and the Company does not foresee any significant improvement in sales during 1999. On February 12, 1999, the Company consummated the amendment of its line of credit to increase the revolving credit facility to up to \$120.0 million and entered into an \$80.0 million accounts receivable securitization facility (the "Accounts Receivable Facility") (see Notes 3 and 4 to the unaudited Consolidated Condensed Financial Statements). During the first quarter of 1999, the Company utilized its Accounts Receivable Facility and borrowed against its line of

credit under the Amended Credit Agreement to fund operations and finance capital expenditures. At June 30, 1999, the Company had repaid the outstanding balance of the Amended Credit Agreement with cash flow from operations and had \$118.5 million available, net of outstanding letters of credit, under its credit facilities, subject to meeting certain availability requirements under a borrowing base formula and other limitations. Also at June 30, 1999, advances under the Accounts Receivable Facility had been reduced, leaving up to \$80.0 million available under this facility. Further, the Company anticipates the \$25.6 million note payable under its Finance Agreement to be converted to a lease before the end of 1999 (see Note 3 to the unaudited Consolidated Condensed Financial Statements).

As a result of the implementation of its plan to improve operating efficiencies (see "Restructuring"), the Company incurred charges of \$54.2 million in the fourth quarter of 1998. Of these charges, \$25.5 million were non-cash. Since the adoption of this restructuring plan in the fourth quarter of 1998, cash outlays for employee termination costs, contract cancellation fees, excess lease costs and other expenses have been \$15.4 million. Future cash outlays for such costs are estimated at \$13.3 million. Of this amount, approximately \$1.6 million is anticipated to occur primarily during the second half of 1999, while the remainder, which principally relates to excess lease costs, will be paid through February 2013. These cash outlays will be funded by cash flows from operations and, if necessary, the Company's credit facilities. If the actual actions taken by the Company differ from the plans on which these estimates are based, actual losses recorded and resulting cash outlays made by the Company could differ significantly.

The Company believes that, based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, it will be able to maintain its current level of operations, including purchase commitments and planned capital expenditures for the foreseeable future, through operating cash flows and its credit facilities. There can be no assurance, however, that future industry specific or other developments, or general economic trends will not adversely affect the Company's operations or its ability to meet its future cash requirements.

RESTRUCTURING

During the fourth quarter of 1998, the Company recorded a restructuring charge of \$54.2 million resulting from a number of cost reduction actions and operational improvements. These actions included the consolidation of the operations of the Company's wholly-owned subsidiary, Odyssey Golf, Inc. ("Odyssey"), into the operations of the Company while maintaining the distinct and separate Odyssey(R) brand image; the discontinuation, transfer or suspension of certain initiatives not directly associated with the Company's core business, such as the Company's involvement with interactive golf sites, golf book publishing, new player development and a golf venue in Las Vegas; and the re-sizing of the Company's core business to reflect current and expected business conditions. These initiatives are expected to be completed largely during 1999. The restructuring charges (shown below in tabular format) primarily related to: 1) the elimination of job responsibilities, resulting in costs incurred for employee severance; 2) the decision to exit certain non-core business activities, resulting in losses on disposition of assets, as well as excess lease costs; and 3) consolidation of the Company's continuing operations resulting in impairment of assets, losses on disposition of assets and excess lease costs.

During the second quarter of 1999, the Company incurred a charge of \$1.2 million on the disposition of building improvements eliminated during the consolidation of manufacturing operations, as well as other charges. These charges could not be accrued in 1998. This charge was partially offset by a gain of \$1.0 million on the disposition of one of the Company's buildings included in the restructuring plan, for which an impairment charge was taken in 1998. Activity during the first half of 1999 primarily related to cash payments for severance, disposition of assets, contract cancellation and other items. During the first quarter of 1999, substantially all of the approximately 750 non-temporary work force reductions occurred.

Details of the one-time charge are as follows (in thousands):

	Cash/ Non-Cash	One-Time Charge	Activity	Reserve Balance at 12/31/98	Activity	Reserve Balance at 6/30/99
ELIMINATION OF JOB RESPONSIBILITIES						
Severance packages	Cash	\$11,664	\$ 8,473	\$ 3,191	\$2,898	\$ 293
Other	Non-cash	11,603	8,412	3,191	2,898	293
		61	61			
EXITING CERTAIN NON-CORE BUSINESS ACTIVITIES						
Loss on disposition of subsidiaries	Non-cash	\$28,788	\$12,015	\$16,773	\$4,324	\$12,449
Excess lease costs	Cash	13,072	10,341	2,731	2,426	305
Contract cancellation fees	Cash	12,660	146	12,514	536	11,978
Other	Cash	2,700	1,504	1,196	1,092	104
		356	24	332	270	62
CONSOLIDATION OF OPERATIONS						
Loss on impairment/disposition of assets	Non-cash	\$13,783	\$ 2,846	\$10,937	\$6,841	\$ 4,096
Excess lease costs	Cash	12,364	2,730	9,634	6,456	3,178
Other	Cash	806	4	802	154	648
		613	112	501	231	270

Future cash outlays are anticipated to be completed by the end of 1999, excluding certain lease commitments that continue through February 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of foreign currency fluctuations due to its international operations and certain export sales. The Company is exposed to both transactional currency/functional currency and functional currency/reporting currency exchange rate risks. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in the value of foreign currencies. Pursuant to its new foreign exchange hedging policy, beginning in January 1999, the Company may use forward foreign currency exchange rate contracts to hedge certain firm commitments and the related receivables and payables with its foreign subsidiaries. During the first half of 1999, the Company entered into such contracts on behalf of two of its wholly-owned subsidiaries, Callaway Golf Europe Ltd. and Callaway Golf Canada Ltd. The Company also hedged certain yen-denominated transactions with its Japanese distributor. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. These foreign exchange contracts generally do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the transactions being hedged, and the Company does not engage in hedging contracts which exceed the amounts of these transactions.

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

Additionally, the Company is exposed to interest rate risk from its Accounts Receivable Facility and Amended Credit Agreement (see Notes 3 and 4 to the Company's unaudited Consolidated Condensed Financial Statements) which are indexed to the LIBOR and Redwood Receivables Corporation Commercial Paper Rate.

Sensitivity analysis is the measurement of potential loss in future earnings of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates or foreign currency values. The Company used a sensitivity analysis model to quantify the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at June 30, 1999 through its derivative financial instruments.

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

The estimated maximum one-day loss in earnings from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is \$1.7 million at June 30, 1999. The Company believes that such a hypothetical loss from its derivatives would be offset by increases in the value of the underlying transactions being hedged.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company, incident to its business activities, is 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 intellectual property laws of various countries, including, for example, the United States Lanham Act, the U.S. Patent Act, 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 one or more of those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company, or some other loss to the Company. One or more of these results could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the marketplace.

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. To date, the Company has not experienced any material expense or disruption associated with any such potential infringement matters. It is possible, however, that 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, are parties to a number of legal proceedings, lawsuits and other claims, including those discussed above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts that may be covered by insurance, or the financial impact with respect to these matters. Management believes, however, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

On May 5, 1999, the Company held its Annual Meeting of Shareholders near the Company's headquarters in Carlsbad, California. Ely Callaway, William C. Baker, Vernon E. Jordan, Jr., Yotaro Kobayashi, Bruce A. Parker, Aulana L. Peters, Frederick R. Port, Richard L. Rosenfield, William A. Schreyer and Charles J. Yash were elected to the Board of Directors. Additionally the Company's shareholders approved: (i) the reincorporation of the Company as a Delaware corporation by means of a merger of the Company with and into a wholly owned Delaware subsidiary of the Company; and (ii) the adoption of the Callaway Golf Company 1999 Employee Stock Purchase Plan under which employees may purchase shares of the Company's Common Stock pursuant to the provisions of and the regulations relating to Section 423 of the Internal Revenue Code. The voting results for the election of Directors were as follows:

NAME	VOTES FOR	VOTES	
		WITHHELD	
Ely Callaway	67,691,301	734,301	
William C. Baker	67,663,026	762,576	
Vernon E. Jordan, Jr.	65,670,350	2,755,252	
Yotaro Kobayashi	67,681,167	744,435	
Bruce A. Parker	67,673,079	752,523	
Aulana L. Peters	67,667,830	757,772	
Frederick R. Port	67,646,758	778,844	
Richard L. Rosenfield	67,681,863	743,739	
William A. Schreyer	67,703,635	721,967	
Charles J. Yash	67,711,174	714,428	

The voting results for the proposal to reincorporate Callaway Golf Company as a Delaware corporation were as follows:

VOTES FOR	VOTES AGAINST	ABSTAIN	BROKER NON-VOTE
39,620,389	2,403,294	216,756	26,185,163

The voting results for the proposal to adopt the Callaway Golf Company 1999 Employee Stock Purchase Plan were as follows:

VOTES FOR	VOTES AGAINST	ABSTAIN	BROKER NON-VOTE
65,057,585	2,722,854	645,163	0

ITEM 5. OTHER INFORMATION

None

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

a. Exhibits:

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- 3.1 Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission (the "Commission") on July 1, 1999, and incorporated herein by this reference.)
 - 3.2 Bylaws (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the Commission on July 1, 1999, and incorporated herein by this reference.)
 - 10.1 Indemnification Agreement by and between Callaway Golf Company and William C. Baker dated as of July 1, 1999(+)
 - 10.2 Indemnification Agreement by and between Callaway Golf Company and Vernon E. Jordan, Jr., dated as of July 1, 1999(+)
 - 10.3 Indemnification Agreement by and between Callaway Golf Company and Yotaro Kobayashi dated as of July 1, 1999(+)
 - 10.4 Indemnification Agreement by and between Callaway Golf Company and Aulana L. Peters dated as of July 1, 1999(+)
 - 10.5 Indemnification Agreement by and between Callaway Golf Company and Richard L. Rosenfield dated as of July 1, 1999(+)
 - 10.6 Indemnification Agreement by and between Callaway Golf Company and William A. Schreyer dated as of July 1, 1999(+)
 - 27 Financial Data Schedule(+)

b. Reports on Form 8-K:

-
- (1) On July 1, 1999, the Company filed a Current Report on Form 8-K reporting that the Company had completed its reincorporation from a California corporation to a Delaware corporation.

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(+)Included with this Report.

EXHIBIT INDEX

Exhibit	Description
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10.6	Indemnification Agreement by and between Callaway Golf Company and William A. Schreyer dated as of July 1, 1999(+)
27	Financial Data Schedule(+)

(+)Included with this Report.

SIGNATURES

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

CALLAWAY GOLF COMPANY

Date: August 16, 1999

/s/ ELY CALLAWAY

Ely Callaway
Chairman, President and
Chief Executive Officer

/s/ DAVID A. RANE

David A. Rane
Executive Vice President,
Administration and Planning
and Chief Financial Officer

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 1st day of July, 1999, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and William C. Baker ("Indemnitee"), a director of the Company.

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

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

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

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

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

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

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

meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any

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

1.2 Agreement. "Agreement" shall mean this Indemnification

Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

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

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

2. INDEMNIFICATION

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

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

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other

enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has

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

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim

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

2.5 Subrogation. In the event of payment under this Agreement, the

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses

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

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

3.2 Determination of Conduct. Any indemnification (unless ordered by

a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a

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

3.4 Notice to Insurers. If, at the time of the receipt of a notice

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

3.5 Selection of Counsel. In the event the Company shall be

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

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

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed

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

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the

fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and

the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement

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

5. PARTIAL INDEMNIFICATION

5.1 Partial Indemnity. If Indemnitee is entitled under any provision

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

6. MUTUAL ACKNOWLEDGMENT

6.1 Acknowledgment. Both the Company and Indemnitee acknowledge that

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

7. LIABILITY INSURANCE

7.1 Obtaining Insurance. The Company shall, from time to time, make

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require

or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the

contrary notwithstanding, the Company shall not be obligated pursuant to the
terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses

to Indemnitee with respect to proceedings or claims initiated or brought
voluntarily by Indemnitee and not by way of defense, unless said proceedings or
claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against

liability for any transactions from which Indemnitee, or any Affiliate of
Indemnitee, derived an improper personal benefit, including, but not limited to,
self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final

adjudication adverse to Indemnitee established that Indemnitee committed acts of
active and deliberate dishonesty, with actual dishonest purpose and intent,
which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses

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

(e) Claims Under Section 16(b). To indemnify Indemnitee for an

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

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

(b) For purposes of this Agreement, references to "other enterprises"
shall include employee benefit plans; references to "fines" shall include any
excise taxes assessed on Indemnitee with respect to an employee benefit plan;
and references to "serving at the request of the Company" shall include any
service as a director, officer, employee or agent of the Company which impose
duties on, or involves services

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

10.2 Successors and Assigns. This Agreement shall be binding upon

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

10.3 Notice. All notices, requests, demands and other communications

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

If to Indemnitee: To the address set forth below the signature line of Indemnitee on the signature page hereof.

If to Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008
Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby

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

10.5 Choice of Law. This Agreement shall be governed by and its

provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 Irrevocable Arbitration of Disputes.

(a) Indemnitee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, 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.

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

(c) The arbitration shall be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA") in San Diego, California before an arbitrator who is licensed to practice law in the state of 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 AAA will be selected pursuant to the Commercial Arbitration Rules of the AAA.

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

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

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

(g) The provisions of this section shall survive the expiration or termination of this agreement, and shall be binding on the parties in perpetuity.

The parties have read Section 10.6 and irrevocably agree to arbitrate any dispute identified above.

_____ (Indemnitee's initials) _____ (Company's initials)

10.7 Entire Agreement. The provisions of this Agreement contain

the entire agreement between the parties and supersede all prior agreements, oral or written, between the parties, including the Indemnification Agreement by and between Callaway Golf Company, a California corporation, and William C. Baker dated as of January 25, 1995. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts,

each of which shall constitute an original and all of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

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

"Company" Callaway Golf Company,
a Delaware corporation

By: _____
David A. Rane
Executive Vice President,
Administration and Planning, and
Chief Financial Officer

"Indemnitee" William C. Baker

Address: 3 Lochmoor Lane
Newport Beach, CA. 92660

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 1st day of July, 1999, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Vernon E. Jordan, Jr. ("Indemnitee"), a director of the Company.

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

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

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

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

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

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

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

meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any

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

1.2 Agreement. "Agreement" shall mean this Indemnification

Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

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

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

2. INDEMNIFICATION

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

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

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other

enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has

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

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim

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

2.5 Subrogation. In the event of payment under this Agreement, the

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses

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

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

3.2 Determination of Conduct. Any indemnification (unless ordered by

a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a

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

3.4 Notice to Insurers. If, at the time of the receipt of a notice

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

3.5 Selection of Counsel. In the event the Company shall be

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

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

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed

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

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the

fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and

the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement

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

5. PARTIAL INDEMNIFICATION

5.1 Partial Indemnity. If Indemnitee is entitled under any provision

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

6. MUTUAL ACKNOWLEDGMENT

6.1 Acknowledgment. Both the Company and Indemnitee acknowledge that

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

7. LIABILITY INSURANCE

7.1 Obtaining Insurance. The Company shall, from time to time, make

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require

or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the

contrary notwithstanding, the Company shall not be obligated pursuant to the
terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses

to Indemnitee with respect to proceedings or claims initiated or brought
voluntarily by Indemnitee and not by way of defense, unless said proceedings or
claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against

liability for any transactions from which Indemnitee, or any Affiliate of
Indemnitee, derived an improper personal benefit, including, but not limited to,
self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final

adjudication adverse to Indemnitee established that Indemnitee committed acts of
active and deliberate dishonesty, with actual dishonest purpose and intent,
which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses

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

(e) Claims Under Section 16(b). To indemnify Indemnitee for an

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

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

(b) For purposes of this Agreement, references to "other enterprises"
shall include employee benefit plans; references to "fines" shall include any
excise taxes assessed on Indemnitee with respect to an employee benefit plan;
and references to "serving at the request of the Company" shall include any
service as a director, officer, employee or agent of the Company which impose
duties on, or involves services

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

10.2 Successors and Assigns. This Agreement shall be binding upon

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

10.3 Notice. All notices, requests, demands and other communications

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

If to Indemnitee: To the address set forth below the signature line of Indemnitee on the signature page hereof.

If to Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008
Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby

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

10.5 Choice of Law. This Agreement shall be governed by and its

provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 Irrevocable Arbitration of Disputes.

(a) Indemnitee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, 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.

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

(c) The arbitration shall be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA") in San Diego, California before an arbitrator who is licensed to practice law in the state of 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 AAA will be selected pursuant to the Commercial Arbitration Rules of the AAA.

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

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

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

(g) The provisions of this section shall survive the expiration or termination of this agreement, and shall be binding on the parties in perpetuity.

The parties have read Section 10.6 and irrevocably agree to arbitrate any dispute identified above.

_____ (Indemnitee's initials) _____ (Company's initials)

10.7 Entire Agreement. The provisions of this Agreement contain

the entire agreement between the parties and supersede all prior agreements, oral or written, between the parties, including the Indemnification Agreement by and between Callaway Golf Company, a California corporation, and Vernon E. Jordan, Jr. dated as of July 16, 1997. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts,

each of which shall constitute an original and all of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

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

"Company" Callaway Golf Company,
a Delaware corporation

By: _____
David A. Rane
Executive Vice President,
Administration and Planning, and
Chief Financial Officer

"Indemnitee" Vernon E. Jordan, Jr.

Address: Akin, Gump, Strauss, Hauer & Feld LLP
1333 New Hampshire Avenue NW
Suite 400
Washington, D.C. 20036

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 1st day of July, 1999, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Yotaro Kobayashi ("Indemnitee"), a director of the Company.

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

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

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

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

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

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

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

meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any

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

1.2 Agreement. "Agreement" shall mean this Indemnification

Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

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

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

2. INDEMNIFICATION

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

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

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other

enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has

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

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim

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

2.5 Subrogation. In the event of payment under this Agreement, the

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses

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

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

3.2 Determination of Conduct. Any indemnification (unless ordered by

a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a

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

3.4 Notice to Insurers. If, at the time of the receipt of a notice

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

3.5 Selection of Counsel. In the event the Company shall be

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

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

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed

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

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the

fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and

the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement

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

5. PARTIAL INDEMNIFICATION

5.1 Partial Indemnity. If Indemnitee is entitled under any provision

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

6. MUTUAL ACKNOWLEDGMENT

6.1 Acknowledgment. Both the Company and Indemnitee acknowledge that

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

7. LIABILITY INSURANCE

7.1 Obtaining Insurance. The Company shall, from time to time, make

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require

or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the

contrary notwithstanding, the Company shall not be obligated pursuant to the
terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses

to Indemnitee with respect to proceedings or claims initiated or brought
voluntarily by Indemnitee and not by way of defense, unless said proceedings or
claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against

liability for any transactions from which Indemnitee, or any Affiliate of
Indemnitee, derived an improper personal benefit, including, but not limited to,
self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final

adjudication adverse to Indemnitee established that Indemnitee committed acts of
active and deliberate dishonesty, with actual dishonest purpose and intent,
which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses

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

(e) Claims Under Section 16(b). To indemnify Indemnitee for an

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

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

(b) For purposes of this Agreement, references to "other enterprises"
shall include employee benefit plans; references to "fines" shall include any
excise taxes assessed on Indemnitee with respect to an employee benefit plan;
and references to "serving at the request of the Company" shall include any
service as a director, officer, employee or agent of the Company which impose
duties on, or involves services

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

10.2 Successors and Assigns. This Agreement shall be binding upon

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

10.3 Notice. All notices, requests, demands and other communications

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

If to Indemnitee: To the address set forth below the signature line of Indemnitee on the signature page hereof.

If to Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008
Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby

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

10.5 Choice of Law. This Agreement shall be governed by and its

provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 Irrevocable Arbitration of Disputes.

(a) Indemnitee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, 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.

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

(c) The arbitration shall be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA") in San Diego, California before an arbitrator who is licensed to practice law in the state of 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 AAA will be selected pursuant to the Commercial Arbitration Rules of the AAA.

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

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

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

(g) The provisions of this section shall survive the expiration or termination of this agreement, and shall be binding on the parties in perpetuity.

The parties have read Section 10.6 and irrevocably agree to arbitrate any dispute identified above.

_____ (Indemnitee's initials) _____ (Company's initials)

10.7 Entire Agreement. The provisions of this Agreement contain

the entire agreement between the parties and supersede all prior agreements, oral or written, between the parties, including the Indemnification Agreement by and between Callaway Golf Company, a California corporation, and Yotaro Kobayashi dated as of June 4, 1998. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts,

each of which shall constitute an original and all of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

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

"Company" Callaway Golf Company,
a Delaware corporation

By: -----
David A. Rane
Executive Vice President,
Administration and Planning, and
Chief Financial Officer

"Indemnitee" Yotaro Kobayashi

Address: Fuji Xerox Co., Ltd.
2-17-22 Akasaka, Minato-ku
Tokyo 107-0052, Japan

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 1st day of July, 1999, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Aulana L. Peters ("Indemnitee"), a director of the Company.

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

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

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

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

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

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

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

meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any

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

1.2 Agreement. "Agreement" shall mean this Indemnification

Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

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

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

2. INDEMNIFICATION

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

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

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other

enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has

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

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim

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

2.5 Subrogation. In the event of payment under this Agreement, the

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses

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

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

3.2 Determination of Conduct. Any indemnification (unless ordered by

a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a

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

3.4 Notice to Insurers. If, at the time of the receipt of a notice

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

3.5 Selection of Counsel. In the event the Company shall be

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

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

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed

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

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the

fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and

the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement

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

5. PARTIAL INDEMNIFICATION

5.1 Partial Indemnity. If Indemnitee is entitled under any provision

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

6. MUTUAL ACKNOWLEDGMENT

6.1 Acknowledgment. Both the Company and Indemnitee acknowledge that

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

7. LIABILITY INSURANCE

7.1 Obtaining Insurance. The Company shall, from time to time, make

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require

or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the

contrary notwithstanding, the Company shall not be obligated pursuant to the
terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses

to Indemnitee with respect to proceedings or claims initiated or brought
voluntarily by Indemnitee and not by way of defense, unless said proceedings or
claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against

liability for any transactions from which Indemnitee, or any Affiliate of
Indemnitee, derived an improper personal benefit, including, but not limited to,
self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final

adjudication adverse to Indemnitee established that Indemnitee committed acts of
active and deliberate dishonesty, with actual dishonest purpose and intent,
which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses

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

(e) Claims Under Section 16(b). To indemnify Indemnitee for an

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

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

(b) For purposes of this Agreement, references to "other enterprises"
shall include employee benefit plans; references to "fines" shall include any
excise taxes assessed on Indemnitee with respect to an employee benefit plan;
and references to "serving at the request of the Company" shall include any
service as a director, officer, employee or agent of the Company which impose
duties on, or involves services

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

10.2 Successors and Assigns. This Agreement shall be binding upon

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

10.3 Notice. All notices, requests, demands and other communications

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

If to Indemnitee: To the address set forth below the signature line of Indemnitee on the signature page hereof.

If to Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008
Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby

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

10.5 Choice of Law. This Agreement shall be governed by and its

provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 Irrevocable Arbitration of Disputes.

(a) Indemnitee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, 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.

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

(c) The arbitration shall be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA") in San Diego, California before an arbitrator who is licensed to practice law in the state of 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 AAA will be selected pursuant to the Commercial Arbitration Rules of the AAA.

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

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

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

(g) The provisions of this section shall survive the expiration or termination of this agreement, and shall be binding on the parties in perpetuity.

The parties have read Section 10.6 and irrevocably agree to arbitrate any dispute identified above.

_____ (Indemnitee's initials) _____ (Company's initials)

10.7 Entire Agreement. The provisions of this Agreement contain

the entire agreement between the parties and supersede all prior agreements, oral or written, between the parties, including the Indemnification Agreement by and between Callaway Golf Company, a California corporation, and Aulana L. Peters dated as of July 18, 1996. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts,

each of which shall constitute an original and all of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

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

"Company" Callaway Golf Company,
a Delaware corporation

By: -----
David A. Rane
Executive Vice President,
Administration and Planning, and
Chief Financial Officer

"Indemnitee" Aulana L. Peters

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

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 1st day of July, 1999, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and Richard L. Rosenfield ("Indemnitee"), a director of the Company.

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

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

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

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

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

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

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

meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any

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

1.2 Agreement. "Agreement" shall mean this Indemnification

Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

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

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

2. INDEMNIFICATION

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

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

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other

enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has

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

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim

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

2.5 Subrogation. In the event of payment under this Agreement, the

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses

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

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

3.2 Determination of Conduct. Any indemnification (unless ordered by

a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a

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

3.4 Notice to Insurers. If, at the time of the receipt of a notice

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

3.5 Selection of Counsel. In the event the Company shall be

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

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

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4.1 Application. The provisions of this Agreement shall be deemed

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

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the

fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and

the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

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

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5.1 Partial Indemnity. If Indemnitee is entitled under any provision

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6.1 Acknowledgment. Both the Company and Indemnitee acknowledge that

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

7. LIABILITY INSURANCE

7.1 Obtaining Insurance. The Company shall, from time to time, make

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require

or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

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contrary notwithstanding, the Company shall not be obligated pursuant to the
terms of this Agreement for the following:

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to Indemnitee with respect to proceedings or claims initiated or brought
voluntarily by Indemnitee and not by way of defense, unless said proceedings or
claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against

liability for any transactions from which Indemnitee, or any Affiliate of
Indemnitee, derived an improper personal benefit, including, but not limited to,
self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final

adjudication adverse to Indemnitee established that Indemnitee committed acts of
active and deliberate dishonesty, with actual dishonest purpose and intent,
which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses

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

(e) Claims Under Section 16(b). To indemnify Indemnitee for an

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

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

(b) For purposes of this Agreement, references to "other enterprises"
shall include employee benefit plans; references to "fines" shall include any
excise taxes assessed on Indemnitee with respect to an employee benefit plan;
and references to "serving at the request of the Company" shall include any
service as a director, officer, employee or agent of the Company which impose
duties on, or involves services

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

10.2 Successors and Assigns. This Agreement shall be binding upon

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

10.3 Notice. All notices, requests, demands and other communications

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

If to Indemnitee: To the address set forth below the signature line of Indemnitee on the signature page hereof.

If to Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008
Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby

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

10.5 Choice of Law. This Agreement shall be governed by and its

provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 Irrevocable Arbitration of Disputes.

(a) Indemnitee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, 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.

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

(c) The arbitration shall be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA") in San Diego, California before an arbitrator who is licensed to practice law in the state of 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 AAA will be selected pursuant to the Commercial Arbitration Rules of the AAA.

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

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

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

(g) The provisions of this section shall survive the expiration or termination of this agreement, and shall be binding on the parties in perpetuity.

The parties have read Section 10.6 and irrevocably agree to arbitrate any dispute identified above.

_____ (Indemnitee's initials) _____ (Company's initials)

10.7 Entire Agreement. The provisions of this Agreement contain

the entire agreement between the parties and supersede all prior agreements, oral or written, between the parties, including the Indemnification Agreement by and between Callaway Golf Company, a California corporation, and Richard L. Rosenfield dated as of January 25, 1995. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts,

each of which shall constitute an original and all of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

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

"Company" Callaway Golf Company,
a Delaware corporation

By: -----
David A. Rane
Executive Vice President,
Administration and Planning, and
Chief Financial Officer

"Indemnitee" Richard L. Rosenfield

Address: California Pizza Kitchen
6053 West Century Blvd.
Suite 1100
Los Angeles, CA. 90045

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of the 1st day of July, 1999, by and between Callaway Golf Company, a Delaware corporation (the "Company"), and William A. Schreyer ("Indemnatee"), a director of the Company.

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

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

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

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

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

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

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

meaning:

1.1 Affiliate. "Affiliate" means, (i) with respect to any

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

1.2 Agreement. "Agreement" shall mean this Indemnification

Agreement, as the same may be amended from time to time hereafter.

1.3 DGCL. "DGCL" shall mean the Delaware General Corporation Law, as amended.

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

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

2. INDEMNIFICATION

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

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

2.2 Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party or a witness or other participant in or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any Subsidiary to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director of the Company or any Subsidiary, by reason of any action or inaction on the part of Indemnitee while a director of the Company or a Subsidiary or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other

enterprise, against all expense, liability and loss (including attorneys' fees) and amounts paid in settlement (if such settlement is court-approved) actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its shareholders and provided, further, that the Company has determined that such indemnification is otherwise permitted by applicable law. No indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of Indemnitee's duties to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2.3 Mandatory Payment of Expenses. To the extent that Indemnitee has

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

2.4 Enforcing the Agreement. If Indemnitee properly makes a claim

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

2.5 Subrogation. In the event of payment under this Agreement, the

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

3. EXPENSES; INDEMNIFICATION PROCEDURE

3.1 Advancement of Expenses. The Company shall advance all expenses

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

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

3.2 Determination of Conduct. Any indemnification (unless ordered by

a court) shall be made by the Company only as authorized in the specified case upon a determination that indemnification of Indemnitee is proper under the circumstances because Indemnitee has met the applicable standard of conduct set forth in Sections 2.1 or 2.2 of this Agreement. Such determination shall be made by any of the following: (1) the Board of Directors (or by an executive committee thereof) by a majority vote of directors (or committee members) who are not parties to such action, suit or proceeding, even though less than a quorum, (2) if there are no such disinterested directors, or if such disinterested directors so direct, by independent legal counsel in a written opinion, (3) by the shareholders, with the shares owned by Indemnitee not being entitled to vote thereon, or (4) the court in which such proceeding is or was pending upon application made by the Company or Indemnitee or the attorney or other person rendering services in connection with the defense, whether or not such application by Indemnitee, the attorney or the other person is opposed by the Company.

3.3 Notice/Cooperation by Indemnitee. Indemnitee shall, as a

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

3.4 Notice to Insurers. If, at the time of the receipt of a notice

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

3.5 Selection of Counsel. In the event the Company shall be

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

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

4. ADDITIONAL INDEMNIFICATION RIGHTS; NON-EXCLUSIVITY

4.1 Application. The provisions of this Agreement shall be deemed

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

4.2 Scope. The Company hereby agrees to indemnify Indemnitee to the

fullest extent permitted by law (except as set forth in Section 8 hereof), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any changes, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, such changes shall be, ipso facto, within the purview of Indemnitee's rights and

the Company's obligations under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors, such changes, except to the extent otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

4.3 Non-Exclusivity. The indemnification provided by this Agreement

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

5. PARTIAL INDEMNIFICATION

5.1 Partial Indemnity. If Indemnitee is entitled under any provision

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

6. MUTUAL ACKNOWLEDGMENT

6.1 Acknowledgment. Both the Company and Indemnitee acknowledge that

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

7. LIABILITY INSURANCE

7.1 Obtaining Insurance. The Company shall, from time to time, make

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

8. SEVERABILITY

8.1 Severability. Nothing in this Agreement is intended to require

or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable as provided in this Section 8.1. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9. EXCEPTIONS

9.1 Exceptions to Company's Obligations. Any other provision to the

contrary notwithstanding, the Company shall not be obligated pursuant to the
terms of this Agreement for the following:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses

to Indemnitee with respect to proceedings or claims initiated or brought
voluntarily by Indemnitee and not by way of defense, unless said proceedings or
claims were authorized by the board of directors of the Company.

(b) Improper Personal Benefit. To indemnify Indemnitee against

liability for any transactions from which Indemnitee, or any Affiliate of
Indemnitee, derived an improper personal benefit, including, but not limited to,
self-dealing or usurpation of a corporate opportunity.

(c) Dishonesty. To indemnify Indemnitee if a judgment or other final

adjudication adverse to Indemnitee established that Indemnitee committed acts of
active and deliberate dishonesty, with actual dishonest purpose and intent,
which acts were material to the cause of action so adjudicated.

(d) Insured Claims; Paid Claims. To indemnify Indemnitee for expenses

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

(e) Claims Under Section 16(b). To indemnify Indemnitee for an

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

10. MISCELLANEOUS

10.1 Construction of Certain Phrases.

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

(b) For purposes of this Agreement, references to "other enterprises"
shall include employee benefit plans; references to "fines" shall include any
excise taxes assessed on Indemnitee with respect to an employee benefit plan;
and references to "serving at the request of the Company" shall include any
service as a director, officer, employee or agent of the Company which impose
duties on, or involves services

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

10.2 Successors and Assigns. This Agreement shall be binding upon

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

10.3 Notice. All notices, requests, demands and other communications

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

If to Indemnitee: To the address set forth below the signature line of Indemnitee on the signature page hereof.

If to Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, CA 92008
Attention: General Counsel

10.4 Consent to Jurisdiction. The Company and Indemnitee each hereby

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

10.5 Choice of Law. This Agreement shall be governed by and its

provisions construed in accordance with the internal laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware, and without regard to choice of law principles.

10.6 Irrevocable Arbitration of Disputes.

(a) Indemnitee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, 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.

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

(c) The arbitration shall be conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA") in San Diego, California before an arbitrator who is licensed to practice law in the state of 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 AAA will be selected pursuant to the Commercial Arbitration Rules of the AAA.

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

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

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

(g) The provisions of this section shall survive the expiration or termination of this agreement, and shall be binding on the parties in perpetuity.

The parties have read Section 10.6 and irrevocably agree to arbitrate any dispute identified above.

_____ (Indemnitee's initials) _____ (Company's initials)

10.7 Entire Agreement. The provisions of this Agreement contain

the entire agreement between the parties and supersede all prior agreements, oral or written, between the parties, including the Indemnification Agreement by and between Callaway Golf Company, a California corporation, and William A. Schreyer dated as of January 25, 1995. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties.

10.8 Counterparts. This Agreement may be executed in counterparts,

each of which shall constitute an original and all of which together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

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

"Company" Callaway Golf Company,
a Delaware corporation

By: -----
David A. Rane
Executive Vice President,
Administration and Planning, and
Chief Financial Officer

"Indemnitee" William A. Schreyer

Address: Merrill Lynch & Co., Inc.
800 Scudders Mill Road
Plainsboro, New Jersey 08536

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CALLAWAY GOLF COMPANY UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEET AND UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF INCOME AT JUNE 30, 1999 AND FOR THE SIX MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	0	
		0
		758
		484,869
643,318		
		415,452
	415,452	
		223,268
		223,268
		0
		388
	2,277	
		62,102
		24,509
37,593		
		0
		0
		0
		37,593
		0.54
		0.53