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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2003

Commission file number 1-10962

Callaway Golf Company

(Exact name of registrant as specified in its charter)

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

2180 Rutherford Road

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share Preferred Share Purchase Rights	New York Stock Exchange

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

None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☑ No o

As of June 30, 2003, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was $863,623,826 based on the closing sales price of the Registrant's Common Stock as reported on the New York Stock Exchange. Such amount was calculated by excluding all shares held by directors and executive officers and the Company's grantor stock trust without conceding that any of the excluded parties are "affiliates" of the Registrant for purposes of the federal securities laws.

As of February 27, 2004, the number of shares of the Registrant's Common Stock outstanding was 75,571,427, and there were no shares of the Registrant's Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I and III incorporate certain information by reference from the Registrant's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Registrant's 2004 Annual Meeting of Shareholders, which is scheduled to be held on May 25, 2004. Such Definitive Proxy Statement will be filed with the Commission not later than 120 days after the conclusion of the Registrant's fiscal year ended December 31, 2003.

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Important Notice to Investors: *Statements made in this report that relate to future plans, events, liquidity, financial results or performance including statements relating to future cash flows, liquidity, and the status of the Company's credit facilities, as well as estimated sales and charges to earnings, and projected amortization expenses and contractual obligations, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties. For details concerning these and other risks and uncertainties, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Callaway Golf Company" contained in this report, as well as the Company's other reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission from time to time. Investors 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. Investors should also be aware that while the Company from time to time does 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. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by analysts and any reports issued by such analysts are not the responsibility of the Company. Investors should not assume that the Company agrees with any report issued by any analyst or with any statements, projections, forecasts or opinions contained in any such report.*

Callaway Golf Company Trademarks: *The following marks and phrases, among others, are trademarks of Callaway Golf Company: Apex — Apex Edge — Apex Tour — Ben Hogan — Big Bertha — C design — CB1 — CTU 30 — Callaway — Callaway Golf — Callaway Hickory Stick — Carnoustie — Chevron Device — Dawn Patrol — Daytripper — Demonstrably Superior and Pleasingly Different — Deuce — DFX — Divine Nine — Dual Force — Edge CFT — Ely Would — ERC — Ever Grip — Fusion — Game Enjoyment System — GES — Ginty — Great Big Bertha — Hawk Eye — Heavenwood — HX — Legacy — Legend — Little Bertha — Odyssey — Pure Distance — RCH — Riviera — Rossie — Rule 35 — S2H2 — Steelhead — Strata — Stronomic — Top-Flite — Top-Flite Infinity — Top-Flite Tour — Top-Flite XL — Tour Ace — Tour Blue — Tour Professional — Tour Straight — Tour Ultimate — TriForce — TriHot — Tru Bore — VFT — Warbird — White Hot — World's Friendliest — X-12 — X-14 — X-16 — XL 3000 — X-SPANN*

CALLAWAY GOLF COMPANY

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PART I

Item 1. *Business*

Callaway Golf Company (the "Company" or "Callaway Golf") was incorporated in California in 1982 and reincorporated in Delaware on July 1, 1999. In 1997, the Company acquired substantially all of the assets of Odyssey Sports, Inc., which manufactured and marketed the Odyssey brand of putters and wedges. In 1998, the Company began a reorganization of its international operations by acquiring the distribution rights in certain key international markets. As a result, during 1998 through 2001, the Company acquired distribution rights and substantially all of the assets from its distributors in Japan, France, Belgium, Norway, Denmark, Germany, Japan, Ireland, Spain, Canada, Korea and Australia. In 2000, the Company entered the golf ball business with the release of its first golf ball product, the Rule 35 golf ball. In 2003, the Company acquired through a court-approved sale substantially all of the golf-related assets of the TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.), which included golf ball manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all golf-related patents and trademarks (the "Top-Flite Acquisition"). The Company has the following wholly-owned operating subsidiaries: Callaway Golf Sales Company, Callaway Golf Europe Ltd., Callaway Golf K.K., Callaway Golf Korea Ltd., Callaway Golf Canada Ltd., Callaway Golf South Pacific PTY Ltd. and The Top-Flite Golf Company.

The Company, together with its subsidiaries, designs, manufactures and sells high quality golf clubs (drivers, fairway woods, irons, wedges and putters) and golf balls. The Company also sells golf accessories such as golf bags, golf gloves, golf headwear, travel covers and bags, golf towels and golf umbrellas. The Company generally sells its products to golf retailers, sporting goods retailers and mass merchants, directly and through its wholly-owned subsidiaries, and to third party distributors. The Company's products are sold in the United States and in over 100 countries around the world. The Company's products are designed for the enjoyment of both amateur and professional golfers. Golfers generally purchase the Company's products on the basis of performance, ease of use and appearance. In addition, the Company licenses its trademarks and service marks in exchange for a royalty fee to third parties for use on products such as golf apparel, golf shoes, watches, luggage and other golf related products such as headwear, travel bags, golf towels and umbrellas. The Company's business is seasonal and as a result approximately two-thirds of its sales occur during the first half of its fiscal year (see below "Certain Factors Affecting Callaway Golf Company — Seasonality and Adverse Weather Conditions" contained in Item 7).

Golf Ball Business

In 1996, the Company formed Callaway Golf Ball Company for the purpose of designing, manufacturing and selling golf balls. In February 2000, Callaway Golf Ball Company released its first golf ball product, the Rule 35 golf ball. In December 2000, Callaway Golf Ball Company was merged into Callaway Golf Company. The Company aggressively competed in the very competitive golf ball business through 2003 and periodically released additional golf ball products during that period. The Company's golf ball products were well received by both professional and amateur golfers alike. The Company's golf ball products achieved a significant degree of usage on the major professional golf tours ultimately achieving the #2 position on tour. The Company's golf ball products also achieved the #2 retail market share in the premium golf ball segment. Although the Company's golf ball products were well received in the marketplace, the Company's golf ball business was not profitable due to its high cost structure and it had a significant negative impact on the Company's cash flows, financial position and results of operations through 2003. The Company evaluated various alternatives for eliminating the losses from its golf ball business, and ultimately determined that the Top-Flite Acquisition was the best alternative. The Company believes that upon integration of the acquired Top-Flite assets, the profitability of the Company's golf ball business will improve significantly. For additional information concerning the Top-Flite Acquisition, see below "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Top-Flite Acquisition."

Financial Information about Segments and Geographic Areas

Information regarding the Company's segments and geographic areas in which the Company operates is contained in Note 14 to the Consolidated Financial Statements ("Consolidated Financial Statements") for the years ended December 31, 2003, 2002 and 2001, which note is incorporated herein by this reference and is included as part of "Item 8. Financial Statements and Supplementary Data" to this Form 10-K.

Products

The Company designs, manufactures and sells high quality golf clubs and golf balls and also sells related accessories. The Company designs its products to be technologically-advanced and in this regard invests a considerable amount in research and development each year. The Company's products are designed for golfers of all skill levels, both amateur and professional.

The following table sets forth the contribution to net sales attributable to the principal product groups for the periods indicated:

	Year Ended December 31,					
	2003		2002		2001	
	(In millions)					
Drivers and fairway woods	$252.4	31%	$310.0	39%	$392.9	48%
Irons	271.7	33%	243.5	31%	248.9	30%
Putters	142.8	18%	111.5	14%	67.5	8%
Golf balls	78.4	10%	66.0	8%	54.9	7%
Accessories and other*	68.7	8%	62.2	8%	53.9	7%
Net sales	$814.0	100%	$793.2	100%	$818.1	100%

* Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

The Company's current principal products by product group are described below:

Drivers and Fairway Woods. This product segment includes sales of the Company's drivers and fairway woods, which are sold under the Callaway Golf and the Top-Flite brands. The Company's drivers and fairway woods are generally made of metal (either titanium or steel) or a combination of metal and a composite material. The Company's products compete at all price segments in the woods category. In general, composite/ metal "Fusion" drivers and fairway woods sell at a higher price point than forged titanium drivers and fairway woods and forged titanium products sell at higher price points than cast titanium and steel products. The Company's drivers and fairway woods are available in a variety of lofts, shafts and other specifications to accommodate the preferences and skill levels of all golfers. All of the Company's current drivers and fairway woods conform in the markets in which they are intended to be sold to the current rules of the United States Golf Association (the "USGA") and the Royal and Ancient Golf Club of St. Andrews (the "R&A"), as applicable.

The Company's net sales of drivers and fairway woods have been decreasing since 1999 and as shown in the table set forth above have decreased significantly since 2001. This decrease has had a significant adverse effect upon the Company's total net sales. The Company's primary current objective is to increase its sales of drivers and fairway woods and regain market share.

Irons. This product segment includes sales of the Company's irons, which are sold under the Callaway Golf, Ben Hogan and Top-Flite brands. The Company's irons are generally made of either titanium or steel. The Company's products compete at all price segments in the irons category. In general, the Company's titanium irons sell at higher price points than its steel irons. The Company's irons are available in a variety of

lofts, shafts and other specifications to accommodate the preferences and skill levels of all golfers. All of the Company's current iron products conform to the current rules of the USGA and the R&A, as applicable.

As shown in the table above, the Company's net sales of irons increased significantly in 2003 as compared to 2002 and have surpassed the drivers and fairway woods category in net sales.

Putters. This product segment includes sales of the Company's putters, which are sold under the Odyssey, Callaway Golf, Ben Hogan and Top-Flite brands. The Company's products compete at all price segments in the putters category. The Company's putters are available in a variety of styles, shafts and other specifications to accommodate the preferences and skill levels of all golfers. All of the Company's current putter products conform to the current rules of the USGA and the R&A, as applicable.

As shown in the table above, sales of the Company's putters have increased significantly since 2001 primarily as a result of the introduction of the line of Odyssey White Hot 2-Ball putters. According to Golf Datatech, sales of Odyssey putters in 2003 accounted for almost 50% of all revenue generated from putters sold in the United States.

Golf Balls. This product segment includes sales of the Company's golf balls, which are sold under the Callaway Golf, Ben Hogan and Top-Flite brands. The Company's golf balls are generally either a 2-piece golf ball (consisting of a core and cover) or a multi-layer golf ball (consisting of two or more components in addition to the cover). The Company's golf ball products include covers that incorporate a traditional dimple pattern as well as covers that incorporate the Company's unique Tubular Lattice Network (i.e., a series of hexagons and pentagons separated by tubular ridges). The Company's products compete at all price segments in the golf ball category. In general, the Company's multi-layer golf balls sell at higher price points than its 2-piece golf balls. All of the Company's current golf ball products conform to the current rules of the USGA and the R&A, as applicable.

Net sales of the Company's golf balls have increased each year since the Company entered the golf ball business in 2000. The increase in net sales in 2003, as compared to 2002, is attributable to the addition of Top-Flite sales beginning September 15, 2003. Excluding Top-Flite sales, the Company's golf ball sales for 2003 would have been $44.3 million (as compared to $66.0 million in 2002). The Company expects its golf ball sales to significantly increase in 2004, which will be the first full year that will include Top-Flite sales.

Accessories and Other. This product segment includes sales of the Company's specialty wedges, and accessories, such as golf bags, golf gloves, golf headwear, travel covers and bags, golf towels and golf umbrellas. This segment also includes royalties from licensing of the Company's trademarks and service marks on products such as golf apparel, golf shoes, watches, luggage and other golf related products including headwear, travel bags, golf towels and umbrellas.

Product Design and Development

Product design at the Company is a result of the integrated efforts of its product management, research and development, manufacturing and sales departments, all of which work together to generate new ideas for golf equipment. The Company has not limited itself in its research efforts by trying to duplicate designs that are traditional or conventional and believes it has created an environment in which new ideas are valued and explored. In 2003, 2002 and 2001, the Company expended $29.5 million, $32.2 million and $32.7 million, respectively, on research and development. The Company intends to continue to invest substantial amounts in its research and development activities in 2004 and beyond in connection with its development of new golf club and golf ball products.

The Company has the ability to create and modify golf club designs by using computer aided design ("CAD") software, computer aided manufacturing ("CAM") software and computer numerical control milling equipment. CAD software enables designers to develop computer models of new clubhead and shaft designs. CAM software is then used by engineers to translate the digital output from CAD computer models so that physical prototypes can be produced. Through the use of this technology, Callaway Golf has been able to accelerate the design, development and testing of new golf clubs. In addition, the Company's sophisticated CAD/ CAM design, tooling, ball prototyping and indoor testing equipment, together with the Company's

predictive computer modeling capability, allows it to develop and test prototype golf balls in a relatively short cycle time. Additionally, the Company utilizes a variety of testing equipment and computer software, including an "Iron Byron" robot, launch monitors, a proprietary virtual test center, a proprietary performance analysis system, an indoor test range and other destructive and non-destructive methods.

For certain risks associated with product design and development, see below, "Certain Factors Affecting Callaway Golf Company — Market Acceptance of Products" and "— New Product Introduction and Product Cyclicality" contained in Item 7.

Manufacturing

Golf Clubs

The Company's drivers, fairway woods, irons, putters and wedges, including the Top-Flite golf clubs, are assembled primarily at the Company's facilities in Carlsbad, California. A portion of these products are assembled outside of the United States. The Company's products are assembled using components obtained from suppliers both within the United States and internationally. The golf club assembly process is very labor intensive.

Golf Balls

Prior to the Top-Flite Acquisition, Callaway Golf manufactured its golf balls in its Carlsbad, California facility and Top-Flite manufactured its golf balls primarily in its Chicopee, Massachusetts and Gloversville, New York facilities. The Company is currently in the process of consolidating the Callaway Golf and Top-Flite golf ball manufacturing operations and expects that upon completion of the consolidation all golf ball manufacturing will be located at Top-Flite's facilities. The golf ball manufacturing process is much more automated than the golf club assembly process, although a significant amount of labor is still used in the golf ball manufacturing process.

For certain risks associated with manufacturing, see below, "Certain Factors Affecting Callaway Golf Company — Manufacturing Capacity" and "— Dependence on Certain Suppliers and Materials" contained in Item 7.

Sales and Marketing

Sales in the United States

Approximately 55%, 55% and 54% of the Company's net sales were derived from sales for distribution within the United States in 2003, 2002 and 2001, respectively. The Company primarily sells to both on- and off-course golf retailers and sporting goods retailers who sell quality golf products and provide a level of customer service appropriate for the sale of such products. The Company also sells to mass merchants, primarily with regard to its Top-Flite branded products. On a consolidated basis, no one customer that distributes golf clubs or balls in the United States accounted for more than 4% of the Company's revenues in 2003, 2002 or 2001. On a segment basis, the golf ball customer base is much more concentrated than the golf club customer base. In 2004, it is expected that the top five golf ball customers will account for over 25% of the total golf ball sales. A loss of one or more of these customers could have a significant adverse effect upon the Company's golf ball sales.

The Callaway Golf and Odyssey branded golf club, golf ball and accessory sales in the United States are sold and supported by full-time regional field representatives and in-house sales and customer service representatives. Each geographic region is covered by both a field representative and an in-house representative who work together to initiate and maintain relationships with customers through frequent telephone calls and in-person visits. The Company believes that this tandem approach of utilizing field representatives and in-house representatives provides the Company a competitive advantage.

In addition, other dedicated sales representatives service corporate customers who want their corporate logo imprinted on the Company's golf balls, putters or golf bags. The Company imprints the logos on its golf

balls, putters and golf bags in its own facilities, thereby retaining control over the quality of the process and final product. The Company also pays an agency fee to certain on- and off-course professionals and retailers with whom it has a relationship for corporate sales that originate through such professionals and retailers.

The Company also has a separate team of manufacturing and customer service representatives that focus on the Company's custom club sales. Custom club sales are generated primarily from a club fitting experience designed by the Company for golfers of all abilities. Club fittings are performed by golf professionals that are specifically trained to utilize the Company's proprietary club fitting software. The Company believes that offering golfers the opportunity to gain knowledge of custom club specifications increases sales and promotes brand loyalty.

The Company maintains various sales programs from time to time including a Preferred Retailer Program. The Preferred Retailer Program offers longer payment terms, as well as potential rebates and discounts, for participating retailers in exchange for providing certain benefits to the Company, including the maintenance of agreed upon inventory levels, prime product placement and retailer staff training. In addition, during 2003, the Company announced the creation of a stand alone website for its Trade In! Trade Up! program, which can be accessed at www.TradeInTradeUp.com. This program is the first such manufacturer-sponsored program in the golf industry. This program gives golfers the opportunity to trade in their used Callaway Golf clubs at authorized Callaway Golf retailers for credit toward the purchase of new Callaway Golf equipment.

The Company maintains a dedicated sales force for the sale of Top-Flite and Ben Hogan branded products. Like Callaway Golf, the Top-Flite and Ben Hogan golf club, golf ball and accessory sales in the United States are sold and supported by full-time regional field representatives and in-house sales and customer service representatives. Sales are made to both on- and off-course golf retailers, sporting goods retailers and mass merchants. Top-Flite also provides custom logo products to corporate customers. In addition, Top-Flite maintains various sales programs for its customers from time to time in support of its sales objectives.

Sales Outside of the United States

Approximately 45%, 45% and 46% of the Company's net sales were derived from sales for distribution outside of the United States in 2003, 2002 and 2001, respectively. The Company does business (either directly or through its subsidiaries and distributors) in more than 100 countries around the world. The Company's management believes that controlling the distribution of its products in certain major markets in the world has been and will continue to be an element in the future growth and success of the Company.

The majority of the Company's international sales were made through its wholly-owned subsidiaries located in Europe, Japan, Canada, Korea and Australia. In addition to sales through its subsidiaries, the Company also sells through distributors in over 65 foreign countries, including Singapore, Hong Kong, Taiwan, China, the Philippines, India, South Africa and various countries in South America. Prices of golf clubs and balls for sales by distributors outside of the United States generally reflect an export pricing discount to compensate international distributors for selling and distribution costs. A change in the Company's relationship with significant distributors could negatively impact the volume of the Company's international sales.

The Company's sales programs in foreign countries are specifically tailored based upon local laws and competitive conditions. Some of the sales programs utilized include the custom club fitting experiences and the Preferred Retailer Program or variations of those programs employed in the United States as described above.

Conducting business outside of the United States subjects the Company to increased risks inherent in international business. See below, "Certain Factors Affecting Callaway Golf Company — Foreign Currency Risk" and " — International Risks" contained in Item 7.

Advertising and Promotion

Within the United States, the Company has focused its advertising efforts mainly on a combination of television commercials primarily during golf telecasts and printed advertisements in national magazines, such as *Golf Digest*, *Golf Magazine*, *Golf World* and *Golfweek*. Advertising of the Company's products outside of the United States is generally handled by the Company's subsidiaries (in coordination with U.S. direction).

In addition, the Company establishes relationships with professional golfers and celebrities from other industries in order to promote the Company's products. The Company has entered into endorsement arrangements with members of the various professional tours to promote the Company's golf club and ball products. For certain risks associated with such endorsements, see below, "Certain Factors Affecting Callaway Golf Company — Golf Professional Endorsements" contained in Item 7.

Competition

The golf club markets in which the Company competes are highly competitive, and are served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. With respect to metal woods and irons, the Company's major domestic competitors are Taylor Made, Titleist, Cobra, Cleveland and Ping. For putters, the Company's major domestic competitors are Ping and Titleist. In addition, the Company also competes with Dunlop, Bridgestone, Mizuno, and PRGR among others in Japan and throughout Asia. The Company believes that it is the leader, or one of the leaders, in every golf club market in which it competes.

The golf ball business is also highly competitive. There are a number of well-established and well-financed competitors, including Titleist, Sumitomo Rubber Industries (Srixon), Bridgestone (Precept), Nike, Taylor Made (MaxFli) and others. These competitors have established market share in the golf ball business, with Titleist having an estimated market share of at least 50% of the golf ball business in the United States.

For both golf clubs and golf balls, the Company generally competes on the basis of technology, quality, performance, customer service and price. For risks relating to competition, see below, "Certain Factors Affecting Callaway Golf Company — Competition" contained in Item 7.

Environmental Matters

The Company's operations are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the handling, generation, emission, release, discharge, treatment, storage and disposal of certain materials, substances and wastes and the remediation of environmental contaminants ("Environmental Laws"). In the ordinary course of its manufacturing processes, the Company uses paints, chemical solvents and other materials, and generates waste by-products, that are subject to these Environmental Laws. In addition, in connection with the Top-Flite Acquisition, the Company assumed certain monitoring and remediation obligations in connection with the Top-Flite facilities.

The Company adheres to all applicable Environmental Laws and takes action as necessary to comply with these laws. These actions include obtaining environmental permits as required, capturing and appropriately disposing of any waste by-products and auditing and reporting on its compliance. Historically, the costs of environmental compliance have not had a material adverse effect upon the Company's business. Furthermore, the Company does not believe that the monitoring and remedial obligations it assumed in connection with the Top-Flite Acquisition will have a material adverse effect upon the Company's business. The Company believes that its operations are in substantial compliance with all applicable Environmental Laws.

Intellectual Property

The Company is the owner of over 2,700 U.S. and foreign trademark registrations and over 1,400 U.S. and foreign patents relating to the Company's products, product designs, manufacturing processes and research and development concepts. Other patent and trademark applications are pending and await

registration. In addition, the Company owns various other protectable rights under copyright, trade dress, and other statutory and common laws. The Company's intellectual property rights are very important to the Company and the Company seeks to protect such rights through the registration of trademarks and utility and design patents, the maintenance of trade secrets and the creation of trade dress. When necessary and appropriate, the Company enforces its rights through litigation.

In the United States, the Company's patents are generally in effect for up to 20 years from the date of the filing of the patent application. The Company's trademarks are generally valid as long as they are in use and their registrations are properly maintained and have not been found to become generic. See below, "Certain Factors Affecting Callaway Golf Company — Intellectual Property and Proprietary Rights" contained in Item 7.

Licensing

The Company from time to time licenses its trademarks and service marks to third parties for use on products such as golf apparel, golf shoes, watches, luggage and other golf related products, such as headwear, travel bags, golf towels and umbrellas. The Company has a current licensing arrangement with Ashworth, Inc. for the creation of a complete line of Callaway Golf men's and women's apparel for distribution in the United States, Canada, Europe, Australia, New Zealand and South Africa. The first full year in which the Company received royalty revenue under these licensing arrangements was 2003. The Company also has a current licensing arrangement with Sanei International Co., Ltd. ("Sanei") for the creation of a complete line of Callaway Golf men's and women's apparel for distribution in Asian Pacific countries including Japan, Korea, Hong Kong, Taiwan, Singapore, Indonesia, Malaysia, Thailand, Vietnam, Philippines, Brunei, Myanmar and Shenzhen in China.

In addition to apparel, the Company has also entered into licensing arrangements with (i) Tour Golf Group, Inc. for the creation of a Callaway Golf footwear collection, (ii) Fossil, Inc. for a line of Callaway Golf watches and clocks and (iii) TRG Accessories, LLC for the creation of a collection consisting of luggage, personal leather products and skin protection products. Also in 2003, as part of the Top-Flite acquisition, the Company assumed certain license agreements Top-Flite had previously entered into with third parties to license the use of its Top-Flite, Ben Hogan and Strata brands on apparel, souvenirs and gifts.

Employees

As of December 31, 2003, the Company and its subsidiaries had approximately 3,300 full-time employees. In addition, the Company employs temporary personnel to manage the seasonal fluctuations of its business.

Historically, Callaway Golf employees have not been represented by unions. The Top-Flite manufacturing employees in Chicopee, Massachusetts, however, are unionized. Shortly after the acquisition was consummated the Company negotiated a new five year collective bargaining agreement with the union in Chicopee. In addition, the Top-Flite production employees in Canada and Australia are also unionized. The Company considers its employee relations to be good.

Access to SEC Filings through Company Website

Interested readers can access the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Investor Relations section of the Company's website at www.callawaygolf.com. These reports can be accessed free of charge from the Company's website as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the Securities and Exchange Commission. In addition, the Company's Corporate Governance Guidelines, Code of Ethics and the written charters of the committees of the Board of Directors are available at the Corporate Governance section of the Investor Relations portion of the Company's website and are available in print to any shareholder who requests a copy. The information contained on the Company's website shall not be deemed to be incorporated into this report.

Additional Factors Affecting the Company's Business

The financial statements contained in this report and the related discussion describe and analyze the Company's financial performance and condition for the periods indicated. For the most part, this information is historical. The Company's prior results are not necessarily indicative of the Company's future performance or financial condition. The Company therefore has included in this report at Part II. Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Callaway Golf Company" a discussion of certain factors which could affect the Company's future performance or financial condition. These factors could cause the Company's future performance or financial condition to differ materially from its prior performance or financial condition or from management's expectations or estimates of the Company's future performance or financial condition. These factors, among others, should be considered in assessing the Company's future prospects and prior to making an investment decision with respect to the Company's stock.

Item 2. ***Properties***

The Company and its subsidiaries conduct operations in both owned and leased properties. The Company's principal executive offices and domestic operations are located in Carlsbad, California. The eight buildings utilized in the Company's Carlsbad operations include corporate offices, manufacturing, research and development, warehousing and distribution facilities, and comprise approximately 735,000 square feet of space. The Company owns seven of these properties, representing approximately 585,000 square feet of space. An additional property, representing approximately 150,000 square feet of space, is leased. The Company's recently acquired Top-Flite properties include the Chicopee manufacturing plant, warehouse and offices that encompass approximately 869,000 square feet. Additional acquired Top-Flite properties include a manufacturing plant in Gloversville, New York comprising approximately 70,000 square feet and offices and warehouses in Australia that comprise approximately 56,000 square feet. The Company also assumed leased properties as part of the acquisition including plants, warehouses and offices in Texas, Arkansas, Ontario, New Zealand, Sweden, Taiwan and the United Kingdom that total approximately 241,000 square feet. In addition, the Company and its other subsidiaries conduct certain international operations outside of the United States, including locations in the United Kingdom, Canada, Japan, Australia and Korea, in leased facilities comprising in the aggregate approximately 205,000 square feet. The Company's operations at each of these foreign properties are used to some extent for both the golf club and golf ball businesses. The Company believes that its facilities currently are adequate to meet its requirements.

Item 3. ***Legal Proceedings***

In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated or may initiate actions against alleged infringers under the intellectual property laws of various countries, including, for example, the U.S. Lanham Act, the U.S. Patent Act, and other pertinent laws. Defendants in these actions may, among other things, contest the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others may assert counterclaims against the Company. Historically, these matters individually and in the aggregate have not had 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 material 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. It is possible that one or more claims of potential infringement could lead to litigation, the need to obtain licenses, the need to alter a product to avoid infringement, a settlement or judgment, or some other action or material loss by the Company.

On April 6, 2001, a complaint was filed against Callaway Golf Company and Callaway Golf Sales Company in the Circuit Court of Sevier County, Tennessee, Case No. 2001-241-IV. The complaint seeks to assert a class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased select Callaway Golf products on or after March 20, 2000. Specifically, the complaint alleges that the Company adopted a New Product Introduction Policy governing the introduction of certain of the Company's new products in violation of Tennessee and Kansas antitrust and consumer protection laws. The plaintiff is seeking damages, restitution and punitive damages. The parties are engaged in discovery.

On November 4, 2002, Callaway Golf Sales Company was served with a complaint filed in the District Court of Sedgwick County, Kansas, Case No. 02C3607, seeking to assert an alleged class action on behalf of Kansas consumers who purchased select Callaway Golf products covered by the New Product Introduction Policy. Callaway Golf Company is also named in the Kansas case. The plaintiff in the Kansas case seeks damages and restitution for the alleged class under Kansas law.

On October 3, 2001, the Company filed suit in the United States District Court for the District of Delaware, Civil Action No. 01-669, against Dunlop Slazenger Group Americas, Inc., d/b/a MaxFli ("MaxFli") for infringement of a golf ball aerodynamics patent owned by the Company, U.S. Patent No. 6,213,898 (the "Aerodynamics Patent"). On October 15, 2001, MaxFli filed an answer to the complaint denying any infringement, and also filed a counterclaim against the Company asserting that former MaxFli employees hired by the Company had disclosed confidential MaxFli trade secrets to the Company, and that the Company had used that information to enter the golf ball business. Among other remedies, MaxFli is seeking compensatory damages; an additional award of punitive damages equal to two times the compensatory damages; prejudgment interest; attorneys' fees; a declaratory judgment; and injunctive relief. Both parties have amended their claims. The Company added a claim for false advertising and MaxFli added a claim for inequitable conduct before the Patent and Trademark Office. The parties are engaged in expert discovery. MaxFli's original report from its damages expert asserts that MaxFli is entitled to at least $18.5 million in compensatory damages from the Company. MaxFli recently submitted a supplemental damages report seeking an additional $11.3 million in compensatory damages, for a total compensatory damages claim of approximately $30.0 million. The Company has submitted its own expert report seeking damages for false advertising. The Company anticipates that each party will challenge the methodology and conclusions in the expert damages reports of the other. On November 12, 2003, pursuant to an agreement between the Company and MaxFli, the Court dismissed the Company's claim for infringement of the Aerodynamics Patent and all portions of MaxFli's counterclaim related to the Aerodynamics Patent, thereby resolving that part of the case. The trial on the Company's false advertising claim and MaxFli's remaining counterclaims is scheduled to commence in the summer of 2004. An unfavorable resolution of MaxFli's counterclaim could have a significant adverse effect upon the Company's results of operations, cash flows and financial position.

On December 2, 2002, Callaway Golf Company was served with a complaint filed in the Circuit Court of the 19th Judicial District in and for Martin County, Florida, Case No. 935CA, by the Perfect Putter Co. and certain principals of the Perfect Putter Co. Plaintiffs have sued Callaway Golf Company, Callaway Golf Sales Company and a Callaway Golf Sales Company sales representative. Plaintiffs allege that the Company misappropriated certain alleged trade secrets of the Perfect Putter Co. and incorporated those purported trade secrets in the Company's Odyssey White Hot 2-Ball Putter. Plaintiffs also allege that the Company made false statements and acted inappropriately during discussions with plaintiffs. Plaintiffs are seeking compensatory damages, exemplary damages, attorney's fees and costs, pre- and post-judgment interest and injunctive relief. On December 20, 2002, Callaway Golf removed the case to the United States District Court for the Southern District of Florida, Case No. 02-14342. On April 29, 2003, the District Court denied plaintiffs' motion to remand the case to state court. Thereafter, on August 14, 2003, the plaintiffs filed a second amended complaint adding a new claim for civil theft under Florida law based on the facts set forth in the original complaint. If successful on that claim, the plaintiffs will be entitled to treble damages. The Company has denied the allegations of the second amended complaint. The parties are currently engaged in discovery. The trial of the action has been set to commence in September 2004.

On July 3, 2003, Saso Golf, Inc. filed a lawsuit against the Company, Callaway Golf Sales Co., and an unrelated defendant in the United States District Court for the Northern District of Illinois, Case No. 03-CV-

4646. Saso Golf alleges that sales of Callaway Golf's metal woods, including but not limited to the original Callaway Golf Biggest Big Bertha, infringe U.S. Patent No. 5,645,495 and seeks compensatory damages, treble damages, attorney's fees, prejudgment interest, costs and injunctive relief. The Company has denied the allegations in the Complaint. The Court has not set a trial date, and the parties are conducting discovery.

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

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

None.

Executive Officers of the Registrant

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

Name	Age	Position(s) Held
Ronald A. Drapeau	57	Chairman and Chief Executive Officer
Richard C. Helmstetter	62	Senior Executive Vice President, Strategic Initiatives
Steven C. McCracken	53	Senior Executive Vice President, Chief Legal Officer and Secretary
Bradley J. Holiday	50	Senior Executive Vice President and Chief Financial Officer
Patrice Hutin	50	President and Chief Operating Officer
Robert A. Penicka	41	President and Chief Operating Officer of The Top-Flite Golf Company

Ronald A. Drapeau, is Chairman and Chief Executive Officer of the Company. He also served as President of the Company from May 2001 to September 2003. Prior to becoming Chief Executive Officer and President in May 2001, Mr. Drapeau served as Senior Executive Vice President, Manufacturing of the Company since February 1999. He was President and Chief Executive Officer of Odyssey Golf, Inc., a wholly-owned subsidiary of the Company, from August 1997 until its dissolution in December 1999. Mr. Drapeau served as Executive Vice President of the Company from August 1997 to February 1999, and served as a consultant to the Company from November 1996 to August 1997. From April 1993 to September 1996, Mr. Drapeau served as Chief Executive Officer of Lynx Golf, Inc., a subsidiary of Zurn Industries, Inc., and served as Senior Vice President and Chief Financial Officer of Zurn Industries, Inc. from 1992 to 1993. Mr. Drapeau also serves as on the Executive Committee of Golf 20/20: Vision of the Future and on the Board of Directors of the National Golf Foundation. He is a 1969 graduate of Bentley College.

Richard C. Helmstetter, is Senior Executive Vice President, Strategic Initiatives of the Company and has served in such capacity since September 2003. He served as Senior Executive Vice President, Chief of New Products from August 2000 to September 2003 and as Senior Executive Vice President, Chief of New Golf Club Products from January 1998 through August 2000. Previously he served as Senior Executive Vice President, Chief of New Products from April 1993 to January 1998. Mr. Helmstetter served as President from 1990 to 1993 and as Executive Vice President from 1986 to 1990. From 1967 to 1986, Mr. Helmstetter served as President of Adam Ltd., a pool cue manufacturing and merchandising company which he founded and operated in Japan. During 1982 and 1983, Mr. Helmstetter also consulted extensively for several Japanese, European and American companies, including Bridgestone Corporation's strategic planning group. Mr. Helmstetter is a 1966 graduate of the University of Wisconsin.

Steven C. McCracken, is Senior Executive Vice President, Chief Legal Officer and Secretary of the Company and has served in such capacity since August 2000. He served as Executive Vice President, Licensing and Chief Legal Officer from April 1997 to August 2000. He has served as an Executive Vice President since April 1996 and served as General Counsel from April 1994 to April 1997. He served as Vice President from April 1994 to April 1996. He has served as Secretary since April 1994. Prior to joining the Company, Mr. McCracken was a partner at Gibson, Dunn & Crutcher for 11 years, and had been in the private practice of law for over 18 years. During part of that period, he provided legal services to the Company. Mr. McCracken received a B.A., magna cum laude, from the University of California at Irvine in 1972 and a J.D. from the University of Virginia in 1975.

Bradley J. Holiday, is Senior Executive Vice President and Chief Financial Officer of the Company and has served in such capacity since September 2003. Mr. Holiday previously served as Executive Vice President and Chief Financial Officer since August 2000. Prior to the Company, Mr. Holiday served as Vice President — Financial Planning & Analysis for Gateway, Inc. Prior to Gateway, Inc., Mr. Holiday was with Nike, Inc. in various capacities beginning in April 1993, including Chief Financial Officer — Golf Company, where he directed all global financial initiatives and strategic planning for Nike, Inc.'s golf business. Prior to Nike, Inc., Mr. Holiday served in various financial positions with Pizza Hut, Inc. and General Mills, Inc. Mr. Holiday has an MBA in Finance from the University of St. Thomas and a BS in Accounting from Iowa State University.

Patrice Hutin, is President and Chief Operating Officer of the Company and has served in such capacity since September 2003. Prior to his appointment, he had served as the Company's Executive Vice President, Global Sales and Advertising since the fourth quarter of 2002 and previously served as the Managing Director of Callaway Golf Europe, Ltd. He initially joined the Company in February 2000 and prior to that time he had served as a consultant to the Company for almost two years. Prior to working with the Company, Mr. Hutin served as President of Cleveland Golf for six years from 1990 until 1996. Mr. Hutin also served as President of Taylor Made for two years from 1985 until 1987. Mr. Hutin graduated from the University of Rennes with Maitrise de sciences de Gestion (MBA equivalent) after earning his bachelors degree in Mathematics and Science.

Robert A. Penicka, is President and Chief Operating Officer of The Top-Flite Golf Company, a wholly-owned subsidiary of Callaway Golf, and has served in such capacity since September 2003. Previously, from June 2001 to September 2003, he served as the Company's Executive Vice President of Manufacturing. Prior to becoming Executive Vice President, Manufacturing, Mr. Penicka served as the Company's Senior Vice President of Golf Ball Manufacturing from May 2000 until June 2001. He also previously held the positions of Senior Vice President of Golf Club Manufacturing and Vice President of Manufacturing Technology. Mr. Penicka joined Callaway Golf in 1997 when the Company acquired Odyssey Golf. At Odyssey Golf, Mr. Penicka served as Vice President of Manufacturing, based in Chicago. Prior to entering the golf business, he spent eight years with General Electric Company and six years at Harman International Industries in Indianapolis as Vice President of Manufacturing for its automotive OEM business. Mr. Penicka graduated with a degree in Chemical Engineering from The Ohio State University in 1984.

Information with respect to the Company's employment agreements with its Chief Executive Officer and other four most highly compensated executive officers, is contained in the Company's definitive Proxy Statement under the caption "Compensation of Executive Officers — Employment Agreements and Termination of Employment Arrangements," to be filed with the Commission within 120 days after the end of fiscal 2003 (April 29, 2004) pursuant to Regulation 14A, which information is incorporated herein by this reference. In addition, the Company currently has employment agreements with its other executive officers which are included as exhibits to this report.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company's Common Stock is listed, and principally traded, on the New York Stock Exchange ("NYSE"). The Company's symbol for its Common Stock is "ELY." As of February 27, 2004, the approximate number of holders of record of the Company's Common Stock was 9,000. The following table sets forth the range of high and low per share sales prices of the Company's Common Stock and per share dividends for the periods indicated.

	Year Ended December 31,					
	2003			2002		
Period:	High	Low	Dividend	High	Low	Dividend
First Quarter	$13.88	$10.50	$0.07	$20.40	$16.51	$0.07
Second Quarter	$14.66	$11.83	$0.07	$20.37	$15.55	$0.07
Third Quarter	$15.89	$13.55	$0.07	$16.10	$10.09	$0.07
Fourth Quarter	$17.07	$14.85	$0.07	$13.60	$ 9.55	$0.07

Securities Authorized for Issuance Under Equity Compensation Plans

Information about the Company's equity compensation plans at December 31, 2003 is as follows:

Equity Compensation Plan Information

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance
		(In thousands, except dollar amounts)	
Equity Compensation Plans Approved by Shareholders[1]	5,759	$20.02	2,672[2]
Equity Compensation Plans Not Approved by Shareholders[3]	7,479	$18.29	1,556
Total	13,238	$19.04	4,228

(1) Consists of the following plans: 1991 Stock Incentive Plan, 1996 Stock Option Plan, 1998 Stock Incentive Plan, Non-Employee Directors Stock Option Plan, 2001 Non-Employee Directors Stock Option Plan and 1999 Employee Stock Purchase Plan. No shares are available for grant under the 1991 Stock Incentive Plan or Non- Employee Directors Stock Option Plan at December 31, 2003. The 1996 Stock Option Plan and the 2001 Non-Employee Directors Stock Option Plan provide for stock option awards only. The 1998 Stock Incentive Plan permits the award of stock options, restricted stock and various other stock-based awards.

(2) Includes 450,000 shares reserved for issuance under the 1999 Employee Stock Purchase Plan.

(3) Consists of the following plans: 1995 Employee Stock Incentive Plan, Key Officer Plans and Promotion, Marketing and Endorsement Stock Incentive Plan. No shares are available for grant under the Promotion, Marketing and Endorsement Stock Incentive Plan or Key Officers Plans at December 31, 2003.

1995 Employee Stock Incentive Plan. The Company's 1995 Employee Stock Incentive Plan has not been approved by the Company's shareholders. The Company's directors and officers who are subject to Section 16 of the Securities Exchange Act of 1934, are not eligible to receive awards under this plan. The purpose of this plan is to provide for grants of stock options and other stock-based incentive awards to a broad class of employees of the Company and its subsidiaries, thereby helping to recruit, retain and motivate such employees and to align their interests with those of the Company's shareholders. The plan permits the award of stock options, restricted stock, stock bonuses, performance shares, performance units, stock appreciation

rights, phantom stock and other stock-based awards. The terms of the awards, including vesting, pricing and termination, are set by the Board of Directors or a committee appointed by the Board from time to time. Although awards under this plan may be made at less than the fair market value of the Company's Common Stock on the date of grant, the Company's practice has been to grant stock options at exercise prices equal to the fair market value of the Company's Common Stock on the date of grant. Any awards that are granted but which are subsequently cancelled, forfeited or that expire may be reissued under the plan. The plan is scheduled to expire in December 2005. For additional information, see "Notes to Consolidated Financial Statements, Note 10 — Stock, Stock Options and Rights."

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The table below sets forth information regarding repurchases of Callaway Golf Common Stock by Callaway Golf during the fourth quarter ended December 31, 2003:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
			(In thousands, except per share data)	
Month #1 (October 1, 2003 through October 31, 2003)	23	$16.23	23	$15,437
Month #2 (November 1, 2003 through November 30, 2003)	73	$15.94	73	$14,269
Month #3 (December 1, 2003 through December 31, 2003)	—	—	—	$14,269
Total	96	$16.01	96	$14,269

(1) All repurchases set forth in this table were made pursuant to the $50.0 million stock repurchase program authorized and announced by the Board of Directors in May 2002. See below "Share Repurchases" contained in Item 7.

Item 6. ***Selected Financial Data***

The following statements of operations data and balance sheet data for the five years ended December 31, 2003 were derived from the Company's audited consolidated financial statements. Consolidated balance sheets at December 31, 2003 and 2002 and the related consolidated statements of operations and of cash flows for each of the three years in the period ended December 31, 2003 and notes thereto appear elsewhere in this

report. The data should be read in conjunction with the annual consolidated financial statements, related notes and other financial information appearing elsewhere in this report.

	Year Ended December 31,				
	2003[2]	2002[3]	2001[4]	2000[5]	1999
	(In thousands, except per share data)				
Statement of Operations Data:					
Net sales[1]	$814,032	$793,219	$818,072	$840,612	$720,498
Cost of sales	445,417	393,068	411,585	440,119	384,265
Gross profit[1]	368,615	400,151	406,487	400,493	336,233
Selling, general and administrative expenses[1]	273,231	256,909	259,473	241,187	221,420
Research and development expenses	29,529	32,182	32,697	34,579	34,002
Restructuring credits	—	—	—	—	(5,894)
Sumitomo transition expenses	—	—	—	—	5,713
Income from operations[1]	65,855	111,060	114,317	124,727	80,992
Interest and other income, net[1]	3,550	2,271	5,349	6,119	8,099
Interest expense	(1,522)	(1,660)	(1,552)	(1,524)	(3,594)
Unrealized energy derivative losses	—	—	(19,922)	—	—
Income before income taxes and cumulative effect of accounting change	67,883	111,671	98,192	129,322	85,497
Income tax provision	22,360	42,225	39,817	47,366	30,175
Income before cumulative effect of accounting change	45,523	69,446	58,375	81,956	55,322
Cumulative effect of accounting change	—	—	—	(957)	—
Net income	$ 45,523	$ 69,446	$ 58,375	$ 80,999	$ 55,322
Earnings per common share:					
Basic					
Income before cumulative effect of accounting change	$ 0.69	$ 1.04	$ 0.84	$ 1.17	$ 0.79
Cumulative effect of accounting change	—	—	—	(0.01)	—
Net income	$ 0.69	$ 1.04	$ 0.84	$ 1.16	$ 0.79
Diluted					
Income before cumulative effect of accounting change	$ 0.68	$ 1.03	$ 0.82	$ 1.14	$ 0.78
Cumulative effect of accounting change	—	—	—	(0.01)	—
Net income	$ 0.68	$ 1.03	$ 0.82	$ 1.13	$ 0.78
Dividends paid per share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28

	December 31,				
	2003	2002	2001	2000	1999
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 47,340	$108,452	$ 84,263	$102,596	$112,602
Marketable securities	$ —	$ —	$ 6,422	$ —	$ —
Working capital	$253,302	$259,866	$252,817	$233,163	$205,198
Total assets	$748,566	$679,845	$647,602	$630,934	$616,783
Long-term liabilities	$ 29,023	$ 27,297	$ 31,379	$ 9,884	$ 11,575
Total shareholders' equity	$589,383	$543,387	$514,349	$511,744	$499,934

(1) Beginning with the first quarter of 2003, the Company records royalty revenue in net sales and related expenses as selling expenses. Previously, royalty revenue and the related expenses were recorded as components of other income. Prior periods have been reclassified to conform with the current period presentation.

(2) On September 15, 2003 the Company completed the domestic portion of the Top-Flite Acquisition. The settlement of the international assets was effective October 1, 2003. Thus, the Company's financial data include The Top-Flite Golf Company results of operations in the United States from September 15, 2003 through December 31, 2003 and the international operations from October 1, 2003 through December 31, 2003. Additionally, the Company's 2003 gross profit, net income and earnings per common share include

the recognition of integration charges related to the consolidation of its Callaway Golf and Top-Flite golf ball and golf club manufacturing and research and development operations. These charges reduced the Company's gross profit by approximately $24.1 million, pre-tax (see Notes 2 and 3 to the Consolidated Financial Statements).

(3) For 2002, the Company's gross profit, net income and earnings per common share include the effect of the change in accounting estimate for the Company's warranty accrual. During the third quarter of 2002, the Company reduced its warranty reserve by approximately $17.0 million, pre-tax (see Note 4 to the Consolidated Financial Statements).

(4) For 2001, the Company's net income and earnings per common share include the recognition of unrealized energy contract losses due to changes in the estimated fair value of the energy contract based on market rates. During the second and third quarters of 2001, the Company recorded $6.4 million and $7.8 million, respectively, of after-tax unrealized losses. During the fourth quarter of 2001, the Company terminated the energy contract. As a result, the Company will continue to reflect the derivative valuation account on its balance sheet with no future valuation adjustments for changes in market rates, subject to periodic review (see Notes 8 and 13 to the Consolidated Financial Statements).

(5) The Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") in the fourth quarter of 2000 with an effective date of January 1, 2000. As a result of the adoption of SAB No. 101, the Company recognized a cumulative effect adjustment of $1.0 million in the Consolidated Statement of Operations for the year ended December 31, 2000 to reflect the change in the Company's revenue recognition policy to recognize revenue at the time both legal and practical risk of loss transfers to the customer (see Note 2 to the Consolidated Financial Statements).

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion should be read in conjunction with the Consolidated Financial Statements, the related notes and the "Important Notice to Investors" that appear elsewhere in this report.

Regulation G Disclosure

The Company's discussion and analysis of its results of operations, financial condition and liquidity set forth in this Item 7 have been derived from financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In addition to the GAAP results of operations, the Company has also provided additional information concerning the Company's results that includes certain financial measures not prepared in accordance with GAAP. The non-GAAP financial measures included in this discussion are adjusted net income, gross profit and earnings per share amounts that exclude (i) the 2003 pre-tax charges of $24.1 million associated with the integration of the Top-Flite Golf business, (ii) the 2002 pre-tax adjustment of $17.0 million to reduce the Company's warranty reserve and (iii) the 2001 pre-tax non-cash energy derivative charge of $19.9 million. This discussion also includes results of the Callaway Golf brand operations on a stand-alone basis, although such operations are not a reportable business segment. These non-GAAP financial measures should not be considered a substitute for any measure derived in accordance with GAAP. These non-GAAP financial measures may also be inconsistent with the manner in which similar measures are derived or used by other companies. Management believes that the presentation of such non-GAAP financial measures, when considered in conjunction with the most directly comparable GAAP financial measures, provides useful information to investors by permitting additional relevant period-to-period comparisons of the historical operations of the Callaway Golf business excluding the operations of the recently acquired Top-Flite Golf business, as well as information concerning operations excluding the effect of significant unusual non-cash charges such as the 2003 Top-Flite integration charges, the 2002 warranty reserve adjustment and the 2001 energy derivative charge. The Company has included in this discussion supplemental information which reconciles those non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its results of operations, financial condition and liquidity are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments 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. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may materially differ from these estimates under different assumptions or conditions. On an on-going basis, the Company reviews its estimates to ensure that the estimates appropriately reflect changes in its business or as new information becomes available.

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements:

Revenue Recognition

Sales are recognized when both title and risk of loss transfer to the customer. Sales are recorded net of an allowance for sales returns and sales programs. Sales returns are estimated based upon historical returns, current economic trends, changes in customer demands and sell-through of products. The Company also records estimated reductions to revenue for sales programs such as incentive offerings. Sales program accruals are estimated based upon the attributes of the sales program, management's forecast of future product demand, and historical customer participation in similar programs. If the actual costs of sales returns and sales programs significantly exceed the recorded estimated allowance, the Company's sales would be significantly adversely affected.

Allowance for Doubtful Accounts

The Company maintains an allowance for estimated losses resulting from the failure of its customers to make required payments. An estimate of uncollectable amounts is made by management based upon historical bad debts, current customer receivable balances, age of customer receivable balances, the customer's financial condition and current economic trends. If the actual uncollected amounts significantly exceed the estimated allowance, then the Company's operating results would be significantly adversely affected.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The inventory balance, which includes material, labor and manufacturing overhead costs, is recorded net of an estimated allowance for obsolete or unmarketable inventory. The estimated allowance for obsolete or unmarketable inventory is based upon management's understanding of market conditions and forecasts of future product demand. If the actual amount of obsolete or unmarketable inventory significantly exceeds the estimated allowance, the Company's cost of sales, gross profit and net income would be significantly adversely affected.

Long-Lived Assets

In the normal course of business, the Company acquires tangible and intangible assets. The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets (including property, plant and equipment, goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment is assessed when the undiscounted future cash flows estimated to be derived from an asset are less than its carrying amount. Impairments are recognized in operating earnings. The Company uses its best judgment based on the most current facts and circumstances surrounding its business when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments, and the fair value

of a potentially impaired asset. Changes in assumptions used could have a significant impact on the Company's assessment of recoverability.

Numerous factors, including changes in the Company's business, industry segment, and global economy, could significantly impact management's decision to retain, dispose of, or idle certain of its long-lived assets. For example, during the fourth quarter of 2003, following the Top-Flite acquisition, the Company began consolidating the Callaway Golf and Top-Flite golf ball and golf club manufacturing and research and development operations. In connection with this consolidation, the Company disposed of certain of its long-lived assets. As a result, the Company reduced the carrying value of its golf ball assets and therefore incurred pre-tax charges to earnings in the amount of $24.1 million, which were primarily non-cash. See below "Top-Flite Acquisition."

During the third quarter of 2003, the Company evaluated and determined that the undiscounted future cash flows estimated to be derived from its golf ball assets, including the acquired Top-Flite golf ball assets, exceeded the carrying value of such assets and therefore no impairment existed. As noted above, during the fourth quarter of 2003, the Company disposed of certain of its long-lived assets which reduced the carrying value of its golf ball assets. At that time the Company determined that no impairment existed. If the Company were to change the manner in which it conducts its golf ball business or otherwise lower its estimates of the undiscounted cash flows it expects to derive from its golf ball assets, the Company could be required to assess impairment again.

Warranty

The Company has a stated two-year warranty policy for its Callaway Golf clubs, although the Company's historical practice has been to honor warranty claims well after the two-year stated warranty period. The Company's policy is to accrue the estimated cost of satisfying future warranty claims at the time the sale is recorded. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company's stated warranty policies and practices, the historical frequency of claims, and the cost to replace or repair its products under warranty. If the number of actual warranty claims or the cost of satisfying warranty claims significantly exceeds the estimated warranty reserve, the Company's cost of sales, gross profit and net income would be significantly adversely affected.

Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future consequences resulting from temporary differences in the financial reporting and tax bases of assets and liabilities. The Company provides a valuation allowance for its deferred tax assets when, in the opinion of management, it is more likely than not that such assets will not be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Change in Accounting Estimate

As discussed above, the Company has a stated two-year warranty policy for its Callaway Golf clubs, although the Company's historical practice has been to honor warranty claims well after the two-year stated warranty period. Prior to the third quarter of 2002, the Company's method of estimating both its implicit and explicit warranty obligation was to utilize data and information based on the cumulative failure rate by product after taking into consideration specific risks the Company believes existed at the time the financial statements were prepared. These additional risks included product-specific risks, such as the introduction of products with new technology or materials that would be more susceptible to failure or breakage, and other business risks,

such as increased warranty liability as a result of acquisitions. In many cases, additions to the warranty reserve for new product introductions have been based on management's judgment of possible future claims derived from the limited product failure data that was available at the time.

Beginning in the second quarter of 2001, the Company began to compile data that illustrated the timing of warranty claims in relation to product life cycles. In the third quarter of 2002, the Company determined it had gathered sufficient data and concluded it should enhance its warranty accrual estimation methodology to utilize the additional data. The analysis of the data, in management's judgment, provided management with more insight into timing of claims and demonstrated that some product failures are more likely to occur early in a product's life cycle while other product failures occur in a more linear fashion over the product's life cycle. As a result of its analysis of the recently collected additional information, the Company believes it has gained better insight and improved judgment to more accurately project the ultimate failure rates of its products. As a result of this refinement in its methodology, the Company concluded that it should change its methodology of estimating warranty accruals and reduce its warranty reserve by approximately $17.0 million. The $17.0 million reduction is recorded in cost of sales and favorably impacted gross profit as a percentage of net sales by 2 percentage points for the year ended December 31, 2002. The change in methodology has been accounted for as a change in accounting principle inseparable from a change in estimate.

The following summarizes what net income and earnings per share would have been had the warranty reserve adjustment, adjusted for taxes, been excluded from reported results:

	Year Ended December 31, 2002
	(In millions, except per share amounts)
Reported net income	$ 69.4
Non-cash warranty reserve adjustment, net of tax	(10.5)
Pro forma net income	$ 58.9
Basic earnings per share:	
Reported net income	$ 1.04
Non-cash warranty reserve adjustment, net of tax	(0.16)
Pro forma basic earnings per share	$ 0.88
Diluted earnings per share:	
Reported net income	$ 1.03
Non-cash warranty reserve adjustment, net of tax	(0.16)
Pro forma diluted earnings per share	$ 0.87

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2003, which note is incorporated herein by this reference.

Top-Flite Acquisition

During the latter part of 2003, the Company completed the acquisition through a court-approved sale of substantially all of the golf-related assets of TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.), which included golf ball manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all golf-related patents and trademarks. The Company acquired the Top-Flite assets because they provided a unique opportunity to increase significantly the size and profitability of the Company's golf ball business and the Company was able to purchase the acquired assets at less than their estimated fair

value. The Company intends to continue the U.S. and foreign operations of the acquired golf assets, including the use of acquired assets in the manufacture of golf balls and golf clubs and the commercialization of existing Top-Flite, Strata and Ben Hogan brands, patents and trademarks.

The acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." Under SFAS No. 141, the estimated aggregate cost of the acquired assets is $183.1 million, which includes cash paid ($154.1 million), transaction costs (approximately $6.2 million), and assumed liabilities (approximately $22.8 million). The estimated fair value of the assets exceeded the estimated aggregate acquisition costs. As a result, the Company was required to reduce the carrying value of the acquired long-term assets on a pro rata basis. In accordance with applicable accounting rules, a final determination of the allocation of the aggregate acquisition costs will be made upon a final assessment of the estimated fair value of the acquired net assets. It is anticipated that the final assessment will be completed during the second quarter of 2004 and that the final allocation will not differ materially from the preliminary allocation. The preliminary allocation is as follows (in millions):

Assets Acquired:	
Accounts receivable	$ 44.0
Inventory	32.8
Other assets	1.1
Property and equipment	56.7
Intangible assets	48.5
Liabilities Assumed:	
Current liabilities	(18.0)
Long term liabilities	(4.8)
Total net assets acquired	$160.3

During the fourth quarter of 2003, the Company began consolidating the Callaway Golf and Top-Flite golf ball and golf club manufacturing and research and development operations. In connection with this consolidation, the Company disposed of certain of its golf ball manufacturing assets and therefore incurred non-cash charges to earnings in the amount of $24.1 million. On January 22, 2004, the Company announced that in 2004 it expects to incur additional charges of approximately $35.0 million as it continues to consolidate its operations. These additional charges are expected to include non-cash charges for the disposal of additional assets and cash charges for severance and facility consolidations.

The Company's 2003 results of operations include The Top-Flite Golf Company results beginning September 15, 2003.

Results of Operations

Years Ended December 31, 2003 and 2002

Net sales increased 3% to $814.0 million for the year ended December 31, 2003 as compared to $793.2 million for the year ended December 31, 2002. The overall increase in net sales is primarily due to a $31.3 million (28%) increase in the sales of putters, a $28.2 million (12%) increase in the sales of irons, a $12.4 million (19%) increase in the sales of golf balls and a $6.5 million (10%) increase in the sales of accessories and other products as compared to 2002. The increase in golf ball sales is attributable to the addition of Top-Flite golf ball sales. The aggregate increases in net sales were partially offset by a $57.6 million (19%) decrease in sales of woods in 2003 as compared to 2002. In addition, as compared to 2002, the Company's 2003 reported net sales were significantly affected by the translation of foreign currency sales into U.S. dollars based upon 2003 exchange rates. If 2002 exchange rates were applied to 2003 reported net sales and all other factors were held constant, net sales would have been $28.4 million less than reported.

The Company believes that adverse economic conditions and continued economic uncertainty, particularly in the United States, Japan and other parts of Asia, as well as the military actions in Iraq and increased

competition, had a significant negative effect upon the Company's overall net sales in 2003. The Company also believes that its net sales for 2003, particularly during the first half, were negatively affected by adverse weather conditions and a continued decrease in the number of golf rounds played. Golf Datatech has reported that the number of golf rounds played in the United States declined 2.6% during 2003, as compared to 2002.

Net sales information by product category is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2003	2002	Dollars	Percent
	(In millions)			
Net Sales:				
Driver and fairway woods	$252.4	$310.0	$(57.6)	(19)%
Irons	271.7	243.5	28.2	12%
Putters	142.8	111.5	31.3	28%
Golf balls	78.4	66.0	12.4	19%
Accessories and other*	68.7	62.2	6.5	10%
	$814.0	$793.2	$ 20.8	3%

* Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

The $57.6 million (19%) decrease in net sales of woods to $252.4 million represents a decrease in both unit and dollar sales. This decrease was primarily attributable to a decline in sales of Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods, Big Bertha Steelhead III Drivers and Fairway Woods, ERC II Forged Titanium Drivers and Fairway Woods and Big Bertha C4 Drivers. The declines in sales of these products were expected as the Company's products generally sell better in their first year after introduction. Both Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods and ERC II Forged Titanium Drivers were introduced in 2001 and Big Bertha C4 Drivers were introduced in 2002. All of these products were being closed out in 2003. In addition, 2003 is the second year in the life cycle for ERC II Forged Titanium Fairway Woods and Big Bertha Steelhead III Drivers and Fairway Woods. These decreases were partially offset by sales of Great Big Bertha II Drivers and Fairway Woods, which were launched during the fourth quarter of 2002. Sales of Great Big Bertha II Drivers and Fairway Woods in 2003 exceeded the combined prior year sales of all other lines of the Company's titanium woods products which included Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods and ERC II Forged Titanium Drivers and Fairway Woods.

The $28.2 million (12%) increase in net sales of irons to $271.7 million represents an increase in both dollar and unit sales. The sales growth was due primarily to the January 2003 launch of the Steelhead X-16 Stainless Steel Irons, including the Steelhead X-16 Pro Series line. This sales growth was partially offset by a decline in sales of Big Bertha Irons which were launched in January 2002, Hawkeye VFT irons which were launched in August 2001, and Steelhead X-14 Irons which were launched in October 2000 and were being closed out in 2003.

The $31.3 million (28%) increase in sales of putters is primarily attributable to increased sales of the Company's Odyssey putters primarily resulting from the continued success of the Odyssey White Hot 2-Ball putter, which was introduced in January 2002.

The $12.4 million (19%) increase in net sales of golf balls to $78.4 million represents an increase in both unit and dollar sales. The increase is primarily attributable to the addition of Top-Flite, Strata and Ben Hogan golf ball sales beginning late in the third quarter of 2003. This increase was partially offset by a decline in sales of Callaway Golf golf balls, which were adversely affected by the decline in rounds played this year, the absence of any new product introductions in 2003, and the uncertainty surrounding the Company's golf ball business earlier in the year.

The $6.5 million (10%) increase in sales of accessories and other products is primarily attributable to increased sales of golf bags, combined with an increase in royalty revenue from licensed merchandise in 2003 as compared to 2002.

Net sales information by region is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2003	2002	Dollars	Percent
	(In millions)			
Net Sales:				
United States*	$449.4	$439.8	$ 9.6	2%
Europe	145.1	136.9	8.2	6%
Japan	101.3	102.6	(1.3)	(1)%
Rest of Asia	58.3	58.0	0.3	1%
Other foreign countries	59.9	55.9	4.0	7%
	$814.0	$793.2	$20.8	3%

* Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

Net sales in the United States increased $9.6 million (2%) to $449.4 million during 2003 versus 2002. Overall, the Company's sales in regions outside of the United States increased $11.2 million (3%) to $364.6 million during 2003 versus 2002. This increase in international sales is primarily attributable to a $8.2 million (6%) increase in sales in Europe, a $0.3 million (1%) increase in sales in the Rest of Asia, which includes Korea, and a $4.0 million (7%) increase in sales in other regions outside of the United States. These increases were partially offset by a $1.3 million (1%) decrease in sales in Japan. In addition, as compared to 2002, the Company's 2003 reported net sales in regions outside of the United States were significantly affected by the translation of foreign currency sales into U.S. dollars based upon 2003 exchange rates. If 2002 exchange rates were applied to 2003 reported net sales in regions outside the U.S. and all other factors were held constant, net sales in such regions would have been $28.4 million less than reported.

For the year ended December 31, 2003, gross profit decreased to $368.6 million from $400.2 million in the comparable period of 2002. Gross profit as a percentage of net sales decreased 5 percentage points to 45% in 2003 as compared to 2002. The Company's gross profit percentage in 2003 was unfavorably impacted by the $24.1 million non-cash charge associated with the integration of Top-Flite (see above "Top-Flite Acquisition"). The Company's gross profit percentage for 2002 was favorably impacted by the $17.0 million reduction in the Company's warranty accrual during the third quarter of 2002 (see above "Change in Accounting Estimate"). Excluding the effects of the integration charges and the warranty reserve adjustment, gross profit in 2003 increased 2% to $392.7 million from $383.2 million in 2002 and gross profit as a percentage of net sales remained flat at 48% in 2003 as compared to 2002.

	For the Years Ended December 31,		Growth/(Decline)	
	2003	2002	Dollars	Percent
	(In millions, except per share data)			
Reported gross profit	$368.6	$400.2	$(31.6)	(8)%
Non-cash integration charges	24.1	—		
Non-cash warranty reserve adjustment	—	(17.0)		
Pro forma gross profit	$392.7	$383.2	$ 9.5	2%

The Company's gross profit percentage (excluding the 2003 integration charges and the 2002 warranty accrual reduction) was positively impacted by a more favorable sales mix in 2003 combined with the additional inventory obsolescence reserves established in 2002 on ERC II Drivers and Big Bertha C4 Drivers. These favorable impacts were offset by a decline in golf ball margins and overall lower average selling prices on golf club and ball products.

Selling expenses increased $7.5 million (4%) in 2003 to $207.8 million from $200.3 million in 2002, and were 26% and 25% of net sales, respectively. This increase was primarily due to the Top-Flite selling expenses incurred in 2003 of $13.9 million. Excluding these Top-Flite selling expenses, selling expenses in 2003 decreased $6.4 million as compared to 2002. This decrease was primarily due to a decrease in employee costs of $5.7 million, advertising expenses of $3.4 million, promotional club expenses of $2.2 million, mailing and freight expenses of $0.9 million and travel and entertainment expenses of $0.6 million. These decreases were partially offset by increases in depreciation expense of $3.4 million, other promotional expenses of $1.5 million and tour expenses of $1.4 million.

General and administrative expenses increased $8.8 million (16%) in 2003 to $65.4 million from $56.6 million in 2002, and were 8% and 7% of net sales, respectively. This increase was primarily due to the Top-Flite expenses incurred in 2003 of $7.7 million. Excluding these Top-Flite expenses, general and administrative expenses in 2003 increased $1.2 million as compared to 2002. This increase was mainly attributable to an increase of $1.6 million in deferred compensation plan expenses.

Research and development expenses decreased $2.7 million (8%) in 2003 to $29.5 million from $32.2 million in 2002. As a percentage of net sales, the expenses remained constant at 4%. Excluding Top-Flite expenses of $1.0 million, research and development expenses in 2003 decreased $3.7 million as compared to 2002. The decrease is primarily due to a decrease in consulting services of $1.3 million, depreciation expense of $1.2 million, and employee costs of $1.1 million.

Interest and other income increased $1.3 million (56%) in 2003 to $3.6 million from $2.3 million in 2002. The increase is primarily attributable to a $1.9 million increase in gains on investments to fund the deferred compensation plan and $0.6 million generated from litigation settlements. These increases were partially offset by a $0.5 million decline in interest income and a $0.5 million decline in foreign currency transaction gains.

Interest expense decreased in 2003 to $1.5 million compared to $1.7 million in 2002.

During 2003, the Company recorded a provision for income taxes of $22.4 million. The provision for income tax as a percentage of income before taxes was 33% in 2003 as compared to 38% in 2002. The effective tax rate was lower in 2003 as compared to 2002 primarily as a result of the recognition of atypical tax benefits in the current year income tax provision related to the statutory U.S export sales incentive.

Net income for the year ended December 31, 2003 decreased 34% to $45.5 million from $69.4 million in 2002. Earnings per diluted share decreased 34% to $0.68 in 2003 as compared to $1.03 in 2002. Net income in 2003 was negatively impacted by the $24.1 million non-cash integration charges (see above "Top-Flite Acquisition"). Net income in 2002 was positively impacted by the $17.0 million reduction in the warranty reserve (see above "Change in Accounting Estimate"). Excluding the $24.1 million non-cash integration charges recorded in 2003 and the $17.0 million non-cash warranty reserve adjustment recorded in 2002, the Company's net income would have increased 5% to $61.7 million in 2003 from $58.9 million in 2002 and diluted earnings per share would have increased 7% to $0.93 in 2003 from $0.87 in 2002.

The following summarizes what net income and earnings per share would have been had the integration charges and the warranty reserve adjustment, adjusted for taxes, been excluded from reported results:

	For the Years Ended December 31,		Growth/(Decline)	
	2003	2002	Dollars	Percent
	(In millions, except per share data)			
Reported net income	$45.5	$ 69.4	$(23.9)	(34)%
Non-cash integration charges	16.2			
Non-cash warranty reserve adjustment	—	(10.5)		
Pro forma net income	$61.7	$ 58.9	$ 2.8	5%
Reported basic earnings per share	$0.69	$ 1.04	$(0.35)	(34)%
Non-cash integration charges	0.24	—		
Non-cash warranty reserve adjustment	—	(0.16)		
Pro forma basic earnings per share	$0.93	$ 0.88	$ 0.05	6%
Reported diluted earnings per share	$0.68	$ 1.03	$(0.35)	(34)%
Non-cash integration charges	0.25	—		
Non-cash warranty reserve adjustment	—	(0.16)		
Pro forma diluted earnings per share	$0.93	$ 0.87	$ 0.06	7%

Years Ended December 31, 2002 and 2001

Net sales decreased 3% to $793.2 million for the year ended December 31, 2002 as compared to $818.1 million for the year ended December 31, 2001. The overall decrease in net sales is primarily due to a decrease in sales of woods, which decreased $82.9 million (21%), combined with a slight decrease in iron sales, which decreased $5.4 million (2%), in 2002 as compared to 2001. The decrease in wood and iron sales was partially offset by a $44.0 million (65%) increase in sales of putters, a $11.1 million (20%) increase in sales of golf balls, and a $8.3 million (15%) increase in sales of accessories and other products as compared to 2001. The decrease in net sales of woods was expected due to the Company's natural product life cycles with higher priced titanium metal woods being in their second year after introduction. The Company's net sales in regions outside of the United States were not significantly affected by fluctuations in foreign currency exchange rates.

The Company believes that its overall net sales during 2002 were negatively affected by adverse economic conditions and continued economic uncertainty, particularly in the United States, Japan and other parts of Asia. Many people in the United States lost a substantial amount of wealth in the stock market, including some who lost all or substantially all of their retirement savings in connection with companies that failed. There also have been announcements by companies of significant reductions in workforce and more are possible. This economic uncertainty resulted in a substantial decline in consumer confidence. These adverse economic conditions and decline in consumer confidence resulted in a significant reduction in consumer spending on discretionary goods, including the Company's products. The Company also believes that the USGA's reversal of its position regarding the allowance of high COR drivers resulted in confusion among consumers in the United States, causing them to postpone or even forgo the purchase of new equipment. The Company's net sales, primarily in the first half of 2002, were also adversely affected by competitive pressures in many of the Company's principal markets and particularly in the United States and Japan. These competitive pressures included the substantial discounting of competitors' products and close-outs of products that were previously commercially successful, as well as significant retailer support programs. In addition, the Company believes that its net sales for 2002 were negatively affected by a decrease in rounds played. Golf Datatech reported that rounds played in the United States declined 2.9% in 2002, as compared to 2001.

Finally, the Company's premium new wood product for 2002, the Big Bertha C4 Driver, was not well accepted by golfers, resulting in sales that were insufficient to compensate for sales declines in older products.

Net sales information by product category is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2002	2001	Dollars	Percent
	(In millions)			
Net Sales:				
Driver and fairway woods	$310.0	$392.9	$(82.9)	(21)%
Irons	243.5	248.9	(5.4)	(2)%
Putters	111.5	67.5	44.0	65%
Golf balls	66.0	54.9	11.1	20%
Accessories and other*	62.2	53.9	8.3	15%
	$793.2	$818.1	$(24.9)	(3)%

* Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

The $82.9 million (21%) decrease in net sales of woods to $310.0 million represents a decrease in both unit and dollar sales. This decrease was primarily attributable to a decline in sales of Big Bertha Hawk Eye VFT Titanium Drivers and Fairway Woods and ERC II Forged Titanium Drivers. A decline was expected as the Company's products generally sell better in their first year after introduction and 2002 was the second year in the life cycle for these products. This decrease was also attributable to a decline in sales of Big Bertha Steelhead Plus Drivers and Fairway Woods which were introduced in December 1999. These declines were partially offset by the sales generated from the January 2002 introduction of Big Bertha Steelhead III Woods, the February 2002 introduction of Big Bertha C4 Drivers, and the September 2002 introduction of the Great Big Bertha II Titanium Drivers and Fairway Woods.

The $5.4 million (2%) decrease in net sales of irons to $243.5 million represents a decrease in dollar sales and a slight increase in unit sales. The dollar sales decline was due primarily to the decline in sales of Steelhead X-14 Irons, which were in their third year of sales, and Hawkeye Irons, which were the predecessors to the Hawk Eye VFT Irons. These decreases were substantially offset by the sales growth generated from the January 2002 launch of Big Bertha Irons. Sales of the Hawk Eye VFT Irons, which were launched in August 2001, generated modest sales growth in 2002 compared to 2001.

The $44.0 million (65%) increase in sales of putters was primarily attributable to increased sales of the Company's Odyssey putters resulting from the January 2002 introduction of the Odyssey White Hot 2-Ball Putter.

The $11.1 million (20%) increase in net sales of golf balls to $66.0 million represents an increase in both unit and dollar sales. The golf ball growth was largely attributable to the expansion of the Company's golf ball product line offering to five models from only two during the majority of the prior year. This expanded product line resulted in a higher average selling price as compared to 2001, even after taking into account the August 2002 price reduction. The Company initially launched the CTU 30 golf ball in November 2001, the HX golf ball in March 2002, the HX 2-Piece golf ball in May 2002, and the Warbird golf ball in August 2002. Net sales for 2001 included sales generated primarily from the CB1 golf ball and Rule 35 golf ball. The CTU 30 golf ball contributed modestly to 2001 net sales due to its introduction in the latter part of 2001 and is the successor ball to the Rule 35 golf ball.

The $8.3 million (15%) increase in sales of accessories and other products was primarily attributable to increased sales resulting from the February 2002 launch of Callaway Golf gloves and the August 2002 launch of the Callaway Golf Forged Wedges.

Net sales information by region is summarized as follows:

	For the Years Ended December 31,		Growth/(Decline)	
	2002	2001	Dollars	Percent
	(In millions)			
Net Sales:				
United States*	$439.8	$446.0	$ (6.2)	(1)%
Europe	136.9	118.4	18.5	16%
Japan	102.6	130.7	(28.1)	(21)%
Rest of Asia	58.0	63.9	(5.9)	(9)%
Other foreign countries	55.9	59.1	(3.2)	(5)%
	$793.2	$818.1	$(24.9)	(3)%

* Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

Net sales in the United States decreased $6.2 million (1%) to $439.8 million during 2002 versus 2001. Overall, the Company's sales in regions outside of the United States decreased $18.7 million (5%) to $353.4 million during 2002 versus 2001. This decrease in international sales is primarily attributable to a $28.1 million (21%) decrease in sales in Japan, a $5.9 million (9%) decrease in sales in the Rest of Asia, which includes Korea, and a $3.2 million (5%) decrease in sales in other regions outside of the United States. These decreases were partially offset by an $18.5 million (16%) increase in sales in Europe. The Company's net sales in regions outside of the United States were not significantly affected by fluctuations in foreign currency exchange rates.

For the year ended December 31, 2002, gross profit decreased to $400.2 million from $406.5 million in the comparable period of 2001. Gross profit as a percentage of net sales remained constant at 50% in 2002 as compared to 2001. The Company's gross profit percentage was favorably impacted by the $17.0 million reduction in the Company's warranty accrual during the third quarter of 2002 (see above "Change in Accounting Estimate"). Excluding the effects of such reduction, gross profit as a percentage of net sales decreased 2 percentage points to 48% in 2002 as compared to 2001. The gross profit percentage was also favorably impacted by a reduction in the Company's manufacturing labor and overhead expenses as a percent of net sales and a favorable shift in product mix. These increases were partially offset by a lower average selling price for golf club products combined with close-out pricing for discontinued Rule 35 golf ball products and a price reduction on all golf ball products implemented in August 2002, additional inventory reserves established on ERC II Drivers and Big Bertha C4 Drivers, a customs and duty assessment in Korea, and the $2.3 million charge related to the purchase of the Company's golf ball manufacturing equipment.

Selling expenses increased $11.9 million (6%) in 2002 to $200.3 million from $188.4 million in 2001, and were 25% and 23% of net sales, respectively. This increase was primarily due to increases in professional golf tour expenses of $6.4 million, depreciation expense of $3.9 million, commission expenses of $2.0 million and other promotional expenses of $1.9 million. These increases were partially offset by decreases in travel costs of $1.4 million.

General and administrative expenses decreased $14.5 million (20%) in 2002 to $56.6 million from $71.1 million in 2001, and were 7% and 9% of net sales, respectively. This decrease is mainly attributable to a

decrease of $8.7 million in employee costs, a $6.0 million decrease in depreciation and amortization expenses (primarily due to the implementation of SFAS No. 142 — see Note 6 to the Consolidated Financial Statements) and reduced facility costs of $2.6 million. The decrease in employee costs is due to a reduction in personnel combined with higher severance expense of $2.9 million recorded in 2001.

Research and development expenses decreased $0.5 million (2%) in 2002 to $32.2 million from $32.7 million in 2001. As a percentage of net sales, the expenses remained constant at 4%. The decrease is primarily due to a decrease in depreciation expense of $0.6 million.

Interest and other income, net decreased $3.0 million (58%) in 2002 to $2.3 million from $5.3 million in 2001. The decrease is primarily attributable a $1.5 million decrease in gains on sales of securities, a $1.4 million decline in licensing income, a $0.8 million decline in interest income, a $0.5 million decline in gains on investments to fund the deferred compensation plan, a $0.5 million decline in foreign currency transaction gains and a $0.4 million decline in other income. These decreases were partially offset by $2.1 million of losses recorded in 2001 generated from the sale of the Company's excess energy supply related to an energy contract that was terminated in November of 2001.

Interest expense remained relatively constant in 2002 at $1.7 million compared to $1.6 million in 2001.

Unrealized energy derivative losses totaled $19.9 million in 2001 as a result of the Company's long-term energy supply contract which was entered into during 2001. The unrealized losses were generated by the decline in electricity rates through November 2001. The Company did not have a similar contract in 2002. See "Supply of Electricity and Energy Contracts" below.

During 2002, the Company recorded a provision for income taxes of $42.2 million and realized $5.5 million in tax benefits related to the exercise of stock options. The provision for income tax as a percentage of income before taxes was 38% in 2002 as compared to 41% in 2001. The effective tax rate was lower in 2002 as compared to 2001 primarily as a result of the unrealized energy derivative losses recognized during 2001 and the elimination of non-deductible goodwill beginning in 2002 due to the implementation of SFAS No. 142.

Net income for the year ended December 31, 2002 increased 19% to $69.4 million from $58.4 million in 2001. Earnings per diluted share increased 26% to $1.03 in 2002 as compared to $0.82 in 2001. Net income in 2002 was positively impacted by the $17.0 million reduction in the warranty reserve (see above "Change in Accounting Estimate"). Net income in 2001 was negatively impacted by the $19.9 million energy derivative charge (see below "Supply of Electricity and Energy Contracts"). Excluding the $17.0 million non-cash warranty reserve adjustment recorded in 2002 and the $19.9 million non-cash energy derivative charge recorded in 2001, the Company's net income for 2002 as compared to 2001 would have decreased 19% to $58.9 million in 2002 from $72.6 million in 2001 and diluted earnings per share would have decreased 15% to $0.87 from $1.02.

The following summarizes what net income and earnings per share would have been had the warranty reserve adjustment and the energy derivative charge, adjusted for taxes, been excluded from reported results:

	For the Years Ended December 31,		Growth/(Decline)	
	2002	2001	Dollars	Percent
	(In millions, except per share data)			
Reported net income	$ 69.4	$58.4	$ 11.0	19%
Non-cash warranty reserve adjustment	(10.5)	—		
Non-cash energy derivative charge	—	14.2		
Pro forma net income	$ 58.9	$72.6	$(13.7)	(19)%
Reported basic earnings per share	$ 1.04	$0.84	$ 0.20	24%
Non-cash warranty reserve adjustment	(0.16)	—		
Non-cash energy derivative charge	—	0.20		
Pro forma basic earnings per share	$ 0.88	$1.04	$(0.16)	(15)%
Reported diluted earnings per share	$ 1.03	$0.82	$ 0.21	26%
Non-cash warranty reserve adjustment	(0.16)	—		
Non-cash energy derivative charge	—	0.20		
Pro forma diluted earnings per share	$ 0.87	$1.02	$(0.15)	(15)%

Financial Condition

Cash and cash equivalents decreased $61.2 million (56%) to $47.3 million at December 31, 2003, from $108.5 million at December 31, 2002. This decrease resulted primarily from cash used in investing activities of $167.9 million and cash used in financing activities of $13.4 million, substantially offset by cash provided by operating activities of $118.7 million. Cash flows used in investing activities are primarily attributable to cash used to purchase the Top-Flite assets ($160.3 million) and capital expenditures ($7.8 million). Cash flows used in financing activities are primarily attributable to the payment of dividends ($18.5 million), the acquisition of treasury stock ($4.8 million) and payments related to financing arrangements ($8.1 million), partially offset by proceeds from the exercise of employee stock options ($13.8 million) and purchases under the employee stock purchase plan ($4.2 million). Cash flows provided by operating activities reflect net income adjusted for depreciation and amortization ($44.5 million) and losses on the disposal of long-lived assets ($24.2 million — see above “Top-Flite Acquisition”) combined with decreases in accounts receivables ($12.7 million) and inventories ($4.9 million), partially offset by increases in other assets ($4.7 million), accrued employee compensation and benefits ($3.9 million) and accounts payable and accrued expenses ($2.6 million).

At December 31, 2003, the Company’s net accounts receivable increased $36.8 million to $100.7 million from $63.9 million at December 31, 2002. The increase is partially due to the addition of Top-Flite’s accounts receivable which were $28.6 million at December 31, 2003. Excluding the Top-Flite balances, accounts receivable would have increased $8.2 million.

At December 31, 2003, the Company’s net inventory increased $33.6 million to $185.4 million from $151.8 million at December 31, 2002. This increase was due to the addition of Top-Flite’s inventory which was $39.9 million at December 31, 2003. Excluding the Top-Flite balances, inventory would have decreased $6.3 million in 2003 as compared to 2002.

At December 31, 2003, the Company’s net property, plant and equipment decreased $2.5 million to $164.8 million from $167.3 million at December 31, 2002. This decrease is primarily due to current year depreciation and amortization expense of $42.5 million and the disposal of $24.1 million of assets during the fourth quarter of 2003 resulting from efforts to consolidate the Callaway Golf and Top-Flite golf ball and golf

club manufacturing and research and development operations (see above "Top-Flite Acquisition"). These decreases were partially offset by the addition of Top-Flite property, plant and equipment of $56.7 million and current year capital expenditures of $7.8 million.

At December 31, 2003, the Company's net intangible assets increased $46.5 million to $149.6 million from $103.1 million at December 31, 2002. This increase is due to the addition of Top-Flite intangibles assets of $47.6 million in 2003.

Liquidity

Sources of Liquidity

The Company's principal sources of liquidity, both on a short-term and long-term basis, for the periods presented generally have been cash flows provided by operations. The Company currently expects this to continue over the long-term. In the short term, however, given the significant amount of cash used in the Top-Flite acquisition, the Company intends to supplement its cash provided by operations with its credit facilities. At December 31, 2003, the Company had a revolving line of credit with Bank of America and certain other lenders to borrow up to $100.0 million (the "Credit Facility"). At December 31, 2003, there were no borrowings outstanding under the Credit Facility and the Company was in compliance with the covenants prescribed by that facility. As expected, during the first quarter of 2004 the Company began using its line of credit. Also during the first quarter of 2004, as a result of the recent Top Flite acquisition and normal seasonality of the Company's business, the Company obtained a commitment (subject to customary loan documentation and closing conditions) for an additional $25.0 million unsecured line of credit with Bank of America. The purpose of this commitment is to ensure an additional source of liquidity during the first part of the new golf season during which the Company typically uses more cash than it generates. During the second quarter, the Company typically begins generating cash in excess of its cash needs. The Company expects that all amounts borrowed under its credit facilities will be paid off by the end of the second quarter and that the Company will thereafter continue to generate cash for the balance of the year.

The Credit Facility is scheduled to be available until November 2004, subject to earlier termination in accordance with its terms and subject to extension upon agreement of all parties. Upon the expiration of the Credit Facility, provided the Company is not in default of the terms of the Credit Facility and subject to certain conditions, the Company has the option to convert the amounts outstanding under the Credit Facility into a one-year term loan.

Subject to the terms of the Credit Facility, the Company can borrow up to a maximum of $100.0 million. The Company is required to pay certain fees, including an unused commitment fee equal to 12.5 to 20.0 basis points per annum of the unused commitment amount, with the exact amount determined based upon the Company's Consolidated Leverage Ratio. For purposes of the Credit Facility, "Consolidated Leverage Ratio" means, as of any date of determination, the ratio of "Consolidated Funded Indebtedness" as of such date to "Consolidated EBITDA" for the four most recent fiscal quarters (as such terms are defined in the Credit Facility agreement). Outstanding borrowings under the Credit Facility accrue interest at the Company's election at (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) Bank of America's prime rate, and in either case less a margin of 50.0 to 100.0 basis points depending upon the Company's Consolidated Leverage Ratio or (ii) the Eurodollar Rate (as such term is defined in the Credit Facility agreement), plus a margin of 75.0 to 125.0 basis points depending upon the Company's Consolidated Leverage Ratio. The Company has agreed that repayment of amounts under the Credit Facility will be guaranteed by certain of the Company's domestic subsidiaries and will be secured by the Company's pledge of 65% of the stock it holds in certain of its foreign subsidiaries and by certain intercompany debt securities and proceeds thereof.

The Credit Facility agreement requires the Company to maintain certain minimum financial covenants. Specifically, (i) the Company's Consolidated Leverage Ratio may not exceed 1.25 to 1.00 and (ii) Consolidated EBITDA (which would exclude certain non-cash charges related to the restructuring of the Company's golf ball operations) for any four consecutive quarters may not be less than $50.0 million. The Credit Facility agreement also includes certain other restrictions, including restrictions limiting additional

indebtedness, dividends, stock repurchases, transactions with affiliates, capital expenditures, asset sales, acquisitions, mergers, liens and encumbrances and other matters customarily restricted in loan documents. The Credit Facility also contains other customary provisions, including affirmative covenants, representations and warranties and events of default.

Golf Ball Operations

Through December 31, 2003, the Company's golf ball operations related to the Callaway Golf brand have not generated cash flows sufficient to fund these operations. In September 2003, the Company completed the Top-Flite Acquisition. The Company believes that the future combined Callaway Golf and Top-Flite golf ball operations will generate sufficient cash flows to fund these operations.

Share Repurchases

In May 2000, August 2001 and May 2002, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $100.0 million, $100.0 million and $50.0 million, respectively. The following schedule summarizes the status of the Company's repurchase programs:

	Year Ended December 31,					
	2003		2002		2001	
	Shares Repurchased	Average Cost Per Share	Shares Repurchased	Average Cost Per Share	Shares Repurchased	Average Cost Per Share
	(In thousands, except per share data)					
Authority Announced in May 2000	—	—	—	—	1,022	$19.09
Authority Announced in August 2001	—	—	866	$17.86	4,979	$16.98
Authority Announced in May 2002	373	$12.77	1,967	$15.75	n/a	n/a
Total	373	$12.77	2,833	$16.40	6,001	$17.34

The Company has completed its May 2000 and August 2001 repurchase programs. As of December 31, 2003, the Company is authorized to repurchase up to $14.3 million of its Common Stock under the repurchase program announced in May 2002. The Company's repurchases of shares of Common Stock are recorded at average cost in Common Stock held in treasury and result in a reduction of shareholders' equity.

Other Significant Cash Obligations

The following table provides as of December 31, 2003 certain significant cash obligations that will affect the Company's future liquidity (in millions):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	—	—	—	—	—
Operating leases[1]	$15.4	$4.6	$6.3	$2.9	$1.6
Capital leases[2]	0.4	0.2	0.2	—	—
Unconditional purchase obligations	(3)	(3)	—	—	—
Deferred compensation[4]	8.9	1.1	1.5	0.4	5.9
Total[5]	$24.7	$5.9	$8.0	$3.3	$7.5

(1) The Company leases certain warehouse, distribution and office facilities, vehicles as well as office equipment under operating leases. The amounts presented in this line item represent commitments for minimum lease payments under non-cancelable operating leases and include operating leases assumed as part of the Top-Flite Acquisition.

(2) The Company acquired certain capital lease obligations as a result of the Top-Flite Acquisition primarily related to computer and telecommunications systems. The amounts presented in this line item represent commitments for minimum lease payments under non-cancelable capital leases.

(3) Occasionally the Company enters into long-term purchase commitments for production materials and other items; however, at December 31, 2003, the Company had no such outstanding commitments. The Company also enters into unconditional purchase obligations with various vendors and suppliers of goods and services in the normal course of operations through purchase orders or other documentation or are undocumented except for an invoice. Such obligations are generally outstanding for periods less than a year and are settled by cash payments upon delivery of goods and services and are not reflected in this line item.

(4) The amounts presented in this line item represent the liability for the Company's unfunded, non-qualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries after retirement, death or separation from the Company. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The cash surrender value of the Company-owned insurance related to deferred compensation is included in other assets and was $9.9 million at December 31, 2003.

(5) During the third quarter of 2001, the Company entered into a derivative commodity instrument to manage electricity costs in the volatile California energy market. The contract was originally effective through May 2006. During the fourth quarter of 2001, the Company notified the energy supplier that, among other things, the energy supplier was in default of the energy supply contract and that based upon such default, and for other reasons, the Company was terminating the energy supply contract. The Company continues to reflect the $19.9 million derivative valuation account on its balance sheet, subject to periodic review, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The $19.9 million represents unrealized losses resulting from changes in the estimated fair value of the contract and does not represent contractual cash obligations. The Company believes the energy supply contract has been terminated and, therefore, the Company does not have any further cash obligations under the contract. Accordingly, the energy derivative valuation account is not included in the table. There can be no assurance, however, that a party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company's termination of the contract. No provision has been made for contingencies or obligations, if any, under the contract beyond November 2001. See below "Supply of Electricity and Energy Contracts."

In addition to the obligations listed above, the Company has entered into contracts with professional golfers to evaluate and promote Callaway Golf, Odyssey, Top-Flite, Ben Hogan and Strata branded products. Many of these contracts provide incentives for successful performances using the Company's products. For example, under these contracts, the Company could be obligated to pay a cash bonus to a professional who wins a particular tournament while playing the Company's golf clubs or golf balls. It is not possible to predict with any certainty the amount of such performance awards the Company will be required to pay in any given year. Such expenses, however, are an ordinary part of the Company's business and the Company does not believe that the payment of these performance awards will have a material adverse effect upon the Company. See below "Certain Factors Affecting Callaway Golf Company — Golf Professional Endorsements."

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company products or trademarks, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, the Company has made contractual commitments to several employees providing for severance payments upon the occurrence of certain prescribed events. The Company also has several consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent

liabilities under certain workers' compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments will be required under the commitments and guarantees described above. The fair value of indemnities, commitments and guarantees that the Company issued during the fiscal year ended December 31, 2003 was not material to the Company's financial position, results of operations or cash flows.

In addition to the contractual obligations listed above, the Company's liquidity could also be adversely affected by an unfavorable outcome with respect to claims and litigation that the Company is subject to from time to time. See Note 13 to the Company's Consolidated Financial Statements.

Sufficiency of Liquidity

Based upon its current operating plan, analysis of its consolidated financial position and projected future results of operations, the Company believes that its operating cash flows, together with its credit facilities, will be sufficient to finance current operating requirements, planned capital expenditures, contractual obligations and commercial commitments, for the next twelve months. There can be no assurance, however, that future industry specific or other developments, general economic trends or other matters will not adversely affect the Company's operations or its ability to meet its future cash requirements (see below "Certain Factors Affecting Callaway Golf Company").

Supply of Electricity and Energy Contracts

Beginning in the summer of 2000, the Company identified a future risk to ongoing operations as a result of the deregulation of the electricity market in California. In July 2000, the Company entered into a one-year supply agreement with Idaho Power Company ("Idaho Power"), a subsidiary of Idacorp, Inc., for the supply of electricity at $64 per megawatt hour. During the second quarter of 2001, Idaho Power advised the Company that it was unwilling to renew the contract upon expiration in July 2001 due to concerns surrounding the volatility of the California electricity market at that time.

As a result, in the second quarter of 2001, the Company entered into an agreement with Pilot Power Group, Inc. ("Pilot Power") as the Company's energy service provider and in connection therewith entered into a long-term, fixed-priced, fixed-capacity, energy supply contract ("Enron Contract") with Enron Energy Services, Inc. ("EESI"), a subsidiary of Enron Corporation, as part of a comprehensive strategy to ensure the uninterrupted supply of electricity while capping costs in the volatile California electricity market. The Enron Contract provided, subject to the other terms and conditions of the contract, for the Company to purchase nine megawatts of energy per hour from June 1, 2001 through May 31, 2006 (394,416 megawatts over the term of the contract). The total purchase price for such energy over the full contract term would have been approximately $43.5 million.

At the time the Company entered into the Enron Contract, nine megawatts per hour was in excess of the amount the Company expected to be able to use in its operations. The Company agreed to purchase this amount, however, in order to obtain a more favorable price than the Company could have obtained if the Company had purchased a lesser quantity. The Company expected to be able to sell any excess supply through Pilot Power.

Because the Enron Contract provided for the Company to purchase an amount of energy in excess of what it expected to be able to use in its operations, the Company accounted for the Enron Contract as a derivative instrument in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Enron Contract did not qualify for hedge accounting under SFAS No. 133. Therefore, the Company recognized changes in the estimated fair value of the Enron Contract currently in earnings. The estimated fair value of the Enron Contract was based upon a present value determination of the net differential between the contract price for electricity and the estimated future market prices for electricity

as applied to the remaining amount of unpurchased electricity under the Enron Contract. Through September 30, 2001, the Company had recorded unrealized pre-tax losses of $19.9 million.

On November 29, 2001, the Company notified EESI that, among other things, EESI was in default of the Enron Contract and that based upon such default, and for other reasons, the Company was terminating the Enron Contract effective immediately. At the time of termination, the contract price for the remaining energy to be purchased under the Enron Contract through May 2006 was approximately $39.1 million.

On November 30, 2001, EESI notified the Company that it disagreed that it was in default of the Enron Contract and that it was prepared to deliver energy pursuant to the Enron Contract. However, on December 2, 2001, EESI, along with Enron Corporation and numerous other related entities, filed for bankruptcy. Since November 30, 2001, the parties have not been operating under the Enron Contract and Pilot Power has been providing energy to the Company from alternate suppliers.

As a result of the Company's notice of termination to EESI, and certain other automatic termination provisions under the Enron Contract, the Company believes that the Enron Contract has been terminated. As a result, the Company adjusted the estimated value of the Enron Contract through the date of termination, at which time the terminated Enron Contract ceased to represent a derivative instrument in accordance with SFAS No. 133. Because the Enron Contract is terminated and neither party to the contract is performing pursuant to the terms of the contract, the Company no longer records future valuation adjustments for changes in electricity rates. The Company continues to reflect on its balance sheet the derivative valuation account of $19.9 million, subject to periodic review, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

The Company believes the Enron Contract has been terminated, and as of March 1, 2004, EESI has not asserted any claim against the Company. There can be no assurance, however, that EESI or another party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company's termination of the Enron Contract. No provision has been made for contingencies or obligations, if any, under the Enron Contract beyond November 30, 2001.

Certain Factors Affecting Callaway Golf Company

The financial statements contained in this report and the related discussion describe and analyze the Company's financial performance and condition for the periods indicated. For the most part, this information is historical. The Company's prior results, however, are not necessarily indicative of the Company's future performance or financial condition. The Company has also included certain forward-looking statements concerning the Company's future performance or financial condition. These forward-looking statements are based upon current information and expectations and actual results could differ materially. The Company therefore has included the following discussion of certain factors that could cause the Company's future performance or financial condition to differ materially from its prior performance or financial condition or from management's expectations or estimates of the Company's future performance or financial condition. These factors, among others, should be considered in assessing the Company's future prospects and prior to making an investment decision with respect to the Company's stock.

Top-Flite Golf Company Asset Acquisition

In September 2003, the Company acquired through a court-approved sale substantially all of the golf-related assets of the TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.), which included golf ball manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all golf-related patents and trademarks. The Company faces certain challenges associated with this acquisition, including (i) reinvigorating the Top-Flite brand in the marketplace, (ii) the assimilation of the Top-Flite and Callaway Golf brands in the marketplace without negatively affecting the sales of either brand, (iii) the integration and consolidation of the Callaway Golf and Top-Flite golf ball manufacturing operations and the integration of the international Top-Flite sales and distribution operations with the Company's existing foreign subsidiaries, (iv) operating all or almost all of the golf ball manufacturing operations in a mature facility that is located in a harsh climate across the country from the Company's

principal executive offices and that has a unionized workforce, and (v) the employee and other issues inherent in any consolidation. Furthermore, the integration and consolidation of the acquired assets will require a considerable amount of time and attention of senior management and others, which could have an adverse effect upon the Company's club business.

In addition, in connection with the integration and consolidation of the golf ball manufacturing operations, the Company has incurred and expects to incur additional, significant charges to earnings. During the fourth quarter of 2003, the Company recorded a charge for $24.1 million related to the disposal of certain golf ball manufacturing equipment. On January 22, 2004, the Company announced that in 2004 it expects to incur additional charges of approximately $35.0 million as it continues to consolidate its operations.

Finally, the Company has spent a considerable amount of cash to acquire The Top-Flite Golf Company assets and there is no assurance that the Company will realize a satisfactory return on its investment.

Terrorist Activity and Armed Conflict

Terrorist activities and armed conflicts in recent years (such as the attacks on the World Trade Center and the Pentagon, the incidents of Anthrax poisoning and the military actions in the Middle East, including the War in Iraq), as well as the threat of future conflict, have had a significant adverse effect upon the Company's business. Any such additional events would likely have an adverse effect upon the world economy and would likely adversely affect the level of demand for the Company's products as consumers' attention and interest are diverted from golf and become focused on these events and the economic, political, and public safety issues and concerns associated with such events. Also, such events could adversely affect the Company's ability to manage its supply and delivery logistics. If such events caused a significant disruption in domestic or international air, ground or sea shipments, the Company's ability to obtain the materials necessary to produce and sell its products and to deliver customer orders also would be materially adversely affected. Furthermore, such events have negatively impacted tourism. If this negative impact upon tourism continues, the Company's sales to retailers at resorts and other vacation destinations would be materially adversely affected.

Pandemic Diseases

The outbreak of a pandemic disease, such as Severe Acute Respiratory Syndrome ("SARS") or the Avian Flu, could significantly adversely affect the Company's business. A pandemic disease could significantly adversely affect both the demand for the Company's products as well as the supply of the components used to make the Company's products. Demand for golf products could be negatively affected as consumers in the affected regions restrict their recreational activities and as tourism to those areas declines. Moreover, the Company relies on many companies in Asia for its components. If the Company's suppliers experienced a significant disruption in their business as a result of a pandemic disease, the Company's ability to obtain the necessary components to make its products could be significantly adversely affected. In addition, the outbreak of any such disease generally restricts the travel to and from such countries making it more difficult in general to manage the Company's international operations.

Adverse Global Economic Conditions

The Company sells golf clubs, golf balls and golf accessories. These products are recreational in nature and are therefore discretionary purchases for consumers. Consumers are generally more willing to make discretionary purchases of golf products during favorable economic conditions and when consumers are feeling confident and prosperous. Adverse economic conditions in the United States or in the Company's international markets (which represent almost half of the Company's total sales), or a decrease in prosperity among consumers, or even a decrease in consumer confidence as a result of anticipated adverse economic conditions, could cause consumers to forgo or to postpone purchasing new golf products. Such forgone or postponed purchases could have a material adverse effect upon the Company.

The Company believes that the current economic conditions in many of the countries where the Company conducts business, although beginning to show signs of improvement, generally remain unfavorable to the golf industry. Many people in the United States have lost a substantial amount of wealth in the stock

market, including some who have lost all or substantially all of their retirement savings. Furthermore, in the United States, there have been announcements by companies of significant reductions in force, and others are possible, and consumers are less likely to purchase new golf equipment when they are unemployed. The Company believes that these adverse conditions have adversely affected the Company's sales and will continue to do so until such conditions improve.

Foreign Currency Risk

Almost half of the Company's sales are international sales. As a result, the Company conducts transactions in approximately 12 currencies worldwide. Conducting business in such various currencies increases the Company's exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. Changes in exchange rates may positively or negatively affect the Company's financial results. Overall, the Company is generally negatively affected by a stronger U.S. dollar in relation to the foreign currencies in which the Company conducts business. Conversely, overall, the Company is generally positively affected by a weaker U.S. dollar relative to such foreign currencies. For the effect of foreign currencies on the Company's financial results for the current reporting periods, see above "Results of Operations."

The effects of foreign currency fluctuations can be significant. The Company therefore engages in certain hedging activities to mitigate the impact of foreign currency fluctuations over time on the Company's financial results. The Company's hedging activities reduce, but do not eliminate, the effects of such foreign currency fluctuations. Factors that could affect the effectiveness of the Company's hedging activities include accuracy of sales forecasts, volatility of currency markets and the availability of hedging instruments. Since the hedging activities are designed to reduce volatility, they not only reduce the negative impact of a stronger U.S. dollar but they also reduce the positive impact of a weaker U.S. dollar. For the effect of the Company's hedging activities during the current reporting periods, see below "Quantitative and Qualitative Disclosures about Market Risk."

The Company's future financial results could be significantly negatively affected if the value of the U.S. dollar increases relative to the foreign currencies in which the Company conducts business. The degree to which the Company's financial results are affected will depend in part upon the effectiveness or ineffectiveness of the Company's hedging activities.

Growth Opportunities

Golf Clubs. In order for the Company to significantly grow its sales of golf clubs, the Company must either increase its share of the market for golf clubs or the market for golf clubs must grow. The Company already has a significant share of the worldwide premium golf club market and therefore opportunities for additional market share may be limited. The Company does not believe there has been any material increase in the number of golfers in the United States in over four years. Golf Datatech has reported that during 2003 the number of golf rounds played in the United States declined 2.6%, as compared to the same period in 2002, and that rounds played have decreased each year since at least 1999. Furthermore, the Company believes that since 1997 the overall worldwide premium golf club market has generally not experienced substantial growth in dollar volume from year to year. There is no assurance that the overall dollar volume of the worldwide premium golf club market will grow, or that it will not decline, in the future.

Golf Balls. In connection with the acquisition of the Top-Flite assets, the Company anticipates that it will significantly increase its golf ball market share. Prior to the acquisition, however, both Callaway Golf's and Top-Flite's market shares had been declining. The Company's ability to reverse such decline and obtain the market share previously enjoyed by The Top-Flite Golf Company will depend in part upon the Company's ability to integrate the Top-Flite brands and operations with the Callaway Golf brands and operations. There is no assurance that the Company will be able to successfully or profitably integrate these brands or operations or maintain the combined market share previously enjoyed by The Top-Flite Golf Company and Callaway Golf Company.

Golf Ball Costs

The cost of entering the golf ball business has been significant. The cost of competing in the golf ball business has also been significant and has required significant investment in advertising, tour and promotion. The development of the Callaway Golf Company golf ball business has had a significant negative impact on the Company's cash flows, financial position and results of operations. In addition, the Company spent approximately $154 million in cash to acquire substantially all of the golf-related assets of TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.). As presently structured, the Company will need to produce and sell golf balls in large volumes to cover its costs and be profitable. There is no assurance that the Company will be able to achieve the sales volume necessary to make its golf ball business profitable. Until the golf ball business becomes profitable, the Company's results of operations, cash flows and financial position will continue to be negatively affected.

Manufacturing Capacity

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 require significant start-up expenses and/or 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 season, it could limit the Company's sales and adversely affect its financial performance. On the other hand, the Company invests in manufacturing capacity and 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 forecasted demand. This could result in less than optimum capacity usage and/or in excess inventories and related obsolescence charges that could adversely affect the Company's financial performance. In addition, if the Company were to experience delays, difficulties or increased costs in its production of golf clubs or golf balls, including production of new products needed to replace current products, the Company's future golf club or golf ball sales could be adversely affected.

Dependence on Energy Resources

The Company's golf club and golf ball manufacturing facilities use, among other resources, significant quantities of electricity to operate. In 2001, some companies in California, including the Company, experienced periods of blackouts during which electricity was not available. The Company has taken certain steps to provide access to alternative power supplies for certain of its operations, and believes that these measures could mitigate any impact resulting from possible future blackouts. The Company is currently purchasing wholesale energy through the Company's energy service provider under short-term contracts. From time to time, legislation has been introduced that would restrict the Company's ability to purchase wholesale energy through its energy service provider. If any such legislation were passed, the Company may be required to purchase energy from the local public utility, which could cause the Company's cost of energy to increase. If the Company's costs of energy were to increase as a result of such legislation or otherwise, the Company's results of operations would be adversely affected.

Dependence on Certain Suppliers and Materials

The Company is dependent on a limited number of suppliers for its clubheads and shafts, some of which are single-sourced. 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 (because of financial difficulties or otherwise) are unable or fail to provide suitable components. However, there could be a significant production delay or disruption caused by the inability of current suppliers to deliver or the transition to other suppliers, which in turn could have a material adverse impact on the Company's results of operations. The Company is also single-sourced or dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials are customized for

the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

The Company uses United Parcel Service ("UPS") for substantially all ground shipments of products to its U.S. customers. The Company uses air carriers and ships for most of its international shipments of products. Any significant interruption in UPS, air carrier or ship services could have a material adverse effect upon the Company's ability to deliver its products to its customers. If there were any significant interruption in such services, there is no assurance that the Company could engage alternative suppliers to deliver its products in a timely and cost-efficient manner. In addition, many of the components the Company uses to build its golf clubs, including clubheads and shafts, are shipped to the Company via air carrier and ship services. Any significant interruption in UPS services, air carrier services or shipping services into or out of the United States could have a material adverse effect upon the Company (see also below "International Risks").

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

Competition

Golf Clubs. The worldwide market for premium golf clubs is highly competitive, and is served by a number of well-established and well-financed companies with recognized brand names, as well as new companies with popular products. New product introductions, price reductions, consignment sales, extended payment terms and "close-outs" (including close-outs of products that were recently commercially successful) by competitors continue to generate increased market competition. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that successful marketing activities, discounted pricing, consignment sales, extended payment terms or new product introductions by competitors will not negatively impact the Company's future sales.

Golf Balls. The premium golf ball business is also highly competitive and may be becoming even more competitive. There are a number of well-established and well-financed competitors, including one competitor with an estimated market share in excess of 50%. Furthermore, worldwide sales of golf balls have been declining due to declines in the number of golf rounds played and other factors, resulting in a surplus of worldwide golf ball manufacturing capacity. As competition in this business increases, many of these competitors are substantially discounting the prices of their products and/or increasing advertising, tour or other promotional support. This increased competition has resulted in significant expenses in both tour and advertising support and product development. In order for its golf ball business to be successful, the Company will need to integrate the acquired Top-Flite assets with its golf ball manufacturing operations and must produce golf balls at prices and costs that are reasonable and must sell a sufficient amount of golf balls of both brands in excess of such costs to be profitable.

On a consolidated basis, no one customer that distributes golf clubs or balls in the United States accounted for more than 4% of the Company's revenues in 2003, 2002 or 2001. On a segment basis, the golf ball customer base is much more concentrated than the golf club customer base. In 2004, it is expected that the top five golf ball customers will account for over 25% of the total golf ball sales. A loss of one or more of these customers could have a significant adverse effect upon the Company's golf ball sales.

Market Acceptance of Products

A golf manufacturer's ability to compete is in part dependent upon its ability to satisfy the various subjective requirements of golfers, including a golf club's and golf ball's look and "feel," and the level of acceptance that a golf club and ball has among professional and recreational golfers. The subjective preferences of golf club and ball purchasers are difficult to predict and may be subject to rapid and unanticipated changes. In addition, the Company's products have tended to incorporate significant innovations in design and manufacture, which have often resulted in higher prices for the Company's products relative to other products in the marketplace. There can be no assurance that a significant percentage of the public will always be willing to pay such premium prices for golf equipment or that the Company will be able to continue to design and manufacture premium products that achieve market acceptance in the future. For example, in 2002, the Company introduced the Big Bertha C4 Driver made of compression-cured carbon composite. Despite the product's excellent performance, this product did not meet the Company's sales expectations and is indicative of the risks associated with the subjective preferences of golfers. In general, there can be no assurance as to how long the Company's golf clubs and golf balls will maintain market acceptance and therefore no assurance that the demand for the Company's products will permit the Company to experience growth in sales, or maintain historical levels of sales, in the future.

New Product Introduction and Product Cyclicality

The Company believes that the introduction of new, innovative golf clubs and golf balls is important to its future success. A major portion of the Company's revenues is generated by products that are less than two years old. The Company faces certain risks associated with such a strategy. For example, in the golf industry, new models and basic design changes in golf equipment are frequently met with consumer rejection. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the marketplace. Further, any new products that retail at a lower price than prior products may negatively impact the Company's revenues unless unit sales increase. The rapid introduction of new golf club or golf ball products by the Company could result in close-outs of existing inventories at both the wholesale and retail levels. Such close-outs can result in reduced margins on the sale of older products, as well as reduced sales of new products, given the availability of older products at lower prices.

The Company's newly introduced golf club products generally have a product life cycle of approximately two years. These products generally sell significantly better in the first year after introduction as compared to the second year. In certain markets, such as Japan, the decline in sales during the second year is even more significant. The Company's titanium metal wood products generally sell at higher price points than its comparable steel metal wood products. Historically, the Company's wood products generally have achieved better gross margins than its comparable iron products. The Company's sales and gross margins for a particular period may be negatively or positively affected by the mix of new products sold in such period.

Seasonality and Adverse Weather Conditions

In addition to the effects of product cycles described above, the Company's business is also subject to the effects of seasonal fluctuations. The Company's first quarter sales generally represent the Company's sell-in to the golf retail channel of its products for the new golf season. Orders for many of these sales are received during the fourth quarter of the prior year. The Company's second and third quarter sales generally represent re-order business. Sales during the second and third quarters therefore are significantly affected not only by the sell-through of the Company's products that were sold into the channel during the first quarter but also by the sell-through of the products of the Company's competitors. Retailers are sometimes reluctant to re-order the Company's products in significant quantity when they already have excess inventory of the Company's competitors' products. The Company's sales during the fourth quarter are generally significantly less than the other quarters because in general in the Company's principal markets less people are playing golf during that time of year due to cold weather. Furthermore, it previously was the Company's practice to announce its new product line at the beginning of each calendar year. The Company has departed from that practice and now generally announces its new product line in the fourth quarter to allow retailers to plan better. Such early announcements of new products could cause golfers, and therefore the Company's customers, to defer

purchasing additional golf equipment until the Company's new products are available. Such deferments could have a material adverse effect upon sales of the Company's current products and/or result in close-out sales at reduced prices.

Because of these seasonal trends, the Company's business can be significantly adversely affected by unusual or severe weather conditions. Unfavorable weather conditions generally result in less golf rounds played, which generally results in less demand for golf clubs and golf balls. Consequently, sustained adverse weather conditions, especially during the warm weather months, could materially affect the Company's sales.

Conformance with the Rules of Golf

New golf club and golf ball products generally seek to satisfy the standards established by the USGA and R&A because these standards are generally followed by golfers within their respective jurisdictions. The USGA rules are generally followed in the United States, Canada and Mexico, and the R&A rules are generally followed in most other countries throughout the world. The Rules of Golf as published by the R&A and the USGA are virtually the same except with respect to the regulation of "driving clubs."

All of the Company's current products (including the new ERC Fusion and Great Big Bertha II Drivers), with the exception of the ERC Fusion+ and Great Big Bertha II+ Drivers, are believed to be "conforming" under the Rules of Golf as published by the USGA. All of the Company's current products are believed to be conforming to the existing Rules of Golf as published by the R&A. However, effective January 1, 2003 the Company's ERC Fusion+ and Great Big Bertha II+ Titanium Drivers are not conforming in certain competitions involving highly skilled golfers and effective January 1, 2008 such drivers will not be conforming under the generally applicable Rules of Golf as published by the R&A. These new R&A restrictions could affect current and future sales of such drivers in R&A jurisdictions, including jurisdictions in which the Company previously sold such products and in which there previously were no R&A restrictions. The Company also believes that the general confusion created by the USGA as to what is a conforming or non-conforming driver has hurt sales of its drivers generally.

In addition, there is no assurance that the Company's future products will satisfy USGA and/or R&A standards, 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 or the Company's brand. For example, both the USGA and the R&A are considering rules which would limit clubhead volume. If any such volume limitation rules were adopted and caused one or more of the Company's current products to be non-conforming, the Company's sales of such products could be adversely affected. Furthermore, such clubhead volume limitations would restrict the Company's ability to develop new golf club products.

Golf Professional Endorsements

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

Golf Clubs. In the past, the Company has experienced an exceptional level of club usage on the world's major professional tours, and the Company has heavily advertised that fact. Many professional golfers throughout the world use the Company's golf clubs even though they are not contractually bound to do so and do not grant any endorsement to the Company. The Company from time to time implements programs that create cash incentives that financially reward such usage. Many other companies, however, also aggressively seek the patronage of these professionals and offer many inducements, including significant cash rewards and specially designed products. The inducements offered by other companies could result in a decrease in usage of the Company's clubs by professional golfers or increase the amount the Company must spend to maintain

its tour presence. The Company believes that professional usage contributes to retail sales, and it is therefore possible that a decline in the level of professional usage of the Company's products could have a material adverse effect on the Company's sales and business.

Golf Balls. Many golf ball manufacturers, including the leading U.S. manufacturer of premium golf balls, have focused a great deal of their marketing efforts on promoting the fact that tour professionals use their balls. Some of these golf ball competitors spend large amounts of money to secure professional endorsements and/or usage, and the market leader has obtained a very high degree of tour penetration. While all of the Company's staff professionals, as well as other professionals who are not on the Company's staff, have decided to use the Company's golf balls in play, there is no assurance they will continue to do so. Furthermore, there are many other professionals who are already under contract with other golf ball manufacturers or who, for other reasons, may not choose to play the Company's golf ball products. The Company does not currently plan to match the endorsement spending levels of the leading manufacturer, and will instead rely more heavily upon the performance of the Company's golf ball products and other factors to attract professionals to the product. There is some evidence to suggest that there is a correlation between use by professional golfers and retail sales. The Company therefore believes that the results of the Company's golf ball business could be significantly affected by its success or lack of success in securing acceptance on the professional tours.

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 asserts its rights against infringers of its copyrights, patents, trademarks, and trade dress. However, there is no assurance that these efforts will reduce the level of acceptance obtained by these infringers. Additionally, there can be no assurance that other golf club manufacturers will not be able to produce successful golf clubs which imitate the Company's designs without infringing any of the Company's copyrights, patents, trademarks, or trade dress.

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

Various patents have been issued to the Company's competitors in the golf ball industry. As the Company develops its golf ball products, it attempts to avoid infringing valid patents or other intellectual property rights. Despite these attempts, it cannot be guaranteed that competitors will not assert and/or a court will not find that the Company's golf balls infringe certain patent or other rights of competitors. If the Company's golf balls are found to infringe on protected technology, there is no assurance that the Company would be able to obtain a license to use such technology, and it could incur substantial costs to redesign them and/or defend legal actions.

The Company has procedures to maintain the secrecy of its confidential business information. These procedures include criteria for dissemination of information and written confidentiality agreements with employees and suppliers. Suppliers, when engaged in joint research projects, are required to enter into

additional confidentiality agreements. While these efforts are taken seriously, there can be no assurance that these measures will prove adequate in all instances to protect the Company's confidential information.

The Company's Code of Conduct prohibits misappropriation of trade secrets and confidential information of third parties. The Code of Conduct is contained in the Company's Employee Handbook and available to all employees on the Company's website. Employees also sign an Employee Invention and Confidentiality Agreement prohibiting disclosure of trade secrets and confidential information from third parties. Periodic training is provided to employees on this topic as well. Despite taking these steps, as well as others, the Company cannot guarantee that these measures will be adequate in all instances to prevent misappropriation of trade secrets from third parties or the accusation by a third party that such misappropriation has taken place.

Brand Licensing

The Company licenses its trademarks to third party licensees who produce, market and sell their products bearing the Company's trademarks. The Company chooses its licensees carefully and imposes upon such licensees various restrictions on the products, and on the manner, on which such trademarks may be used. Despite these restrictions, or if a licensee fails to adhere to these restrictions, the Company's brand could be damaged by the use or misuse of the Company's trademarks in connection with its licensees' products.

Product Returns

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

The Company monitors the level and nature of any golf club breakage and, where appropriate, seeks to incorporate design and production changes to assure its customers of the highest quality available in the market. Significant increases in the incidence of breakage or other product problems may adversely affect the Company's sales and image with golfers. The Company believes that it has adequate reserves for warranty claims. If the Company were to experience an unusually high incidence of breakage or other warranty problems in excess of these reserves, the Company's financial results would be adversely affected. See above, "Critical Accounting Policies and Estimates — Warranty."

Golf Balls. The Company has not experienced significant returns of defective golf balls, and in light of the quality control procedures implemented in the production of its golf balls, the Company does not expect a significant amount of defective ball returns. However, if future returns of defective golf balls were significant, it could have a material adverse effect upon the Company's golf ball business.

"Gray Market" Distribution

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

International Risks

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 sells and distributes its products directly (as opposed to through third party distributors) in many key international markets in Europe, Asia, North America and elsewhere around the world. These activities have resulted and will continue to result in investments in inventory, accounts receivable, employees, corporate infrastructure and facilities. In addition, there are a limited number of suppliers of golf club components in the United States and the Company has increasingly become more reliant on suppliers and vendors located outside of the United States. The operation of foreign distribution in the Company's international markets, as well as the management of relationships with international suppliers and vendors, will continue to require the dedication of management and other Company resources.

As a result of this international business, the Company is exposed to increased risks inherent in conducting business outside of the United States. In addition to foreign currency risks, these risks include (i) increased difficulty in protecting the Company's intellectual property rights and trade secrets, (ii) unexpected government action or changes in legal or regulatory requirements, (iii) social, economic or political instability, (iv) the effects of any anti-American sentiments on the Company's brands or sales of the Company's products, (v) increased difficulty in controlling and monitoring foreign operations from the United States and (vi) increased exposure to interruptions in air carrier or shipping services which interruptions could significantly adversely affect the Company's ability to obtain timely delivery of components from international suppliers or to timely deliver its products to international customers. Although the Company believes the benefits of conducting business internationally outweigh these risks, any significant adverse change in circumstances or conditions could have a significant adverse effect upon the Company's operations and therefore financial performance and condition.

Credit Risk

The Company primarily sells its products to golf equipment retailers directly and through wholly-owned domestic and foreign subsidiaries, and to foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. Historically, the Company's bad debt expense has been low. However, a downturn in the retail golf equipment market could result in increased delinquent or uncollectable accounts for some of the Company's significant customers. In addition, as the Company integrates its foreign distribution its exposure to credit risks increases as it no longer sells to a few wholesalers but rather directly to many retailers. A failure by the Company's customers to pay a significant portion of outstanding account receivable balances would adversely impact the Company's performance and financial condition.

Information Systems

All of the Company's major operations, including manufacturing, distribution, sales and accounting, are dependent upon the Company's information computer systems. The Callaway Golf business information systems and the acquired Top-Flite information systems are different and the Company is therefore currently operating multiple platforms. The Company is in the process of evaluating whether to integrate the two systems and the best manner of doing so. Any significant disruption in the operation of such systems, as a result of an internal system malfunction, infection from an external computer virus, or complications in connection with any attempted integration of the two systems, or otherwise, would have a significant adverse effect upon the Company's ability to operate its business. Although the Company has taken steps to mitigate the effect of any such disruptions, there is no assurance that such steps would be adequate in a particular situation. Consequently, a significant or extended disruption in the operation of the Company's information systems could have a material adverse effect upon the Company's operations and therefore financial performance and condition.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

The Company uses derivative financial instruments for hedging purposes to limit its exposure to changes in foreign exchange rates. Transactions involving these financial instruments are with credit-worthy firms. The use of these instruments exposes the Company to market and credit risk which may at times be concentrated with certain counterparties, although counterparty nonperformance is not anticipated. The Company also utilized a derivative commodity instrument, the Enron Contract, to manage electricity costs in the volatile California energy market during the period of June 2001 through November 2001. Pursuant to its terms, the Enron Contract was terminated. The Company is also exposed to interest rate risk from its credit facility.

Foreign Currency Fluctuations

In the normal course of business, the Company is exposed to foreign currency exchange rate risks that could impact the Company's results of operations. The Company's risk management strategy includes the use of derivative financial instruments, including forwards and purchased options, to hedge certain of these exposures. The Company's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge them, thereby reducing volatility of earnings. The Company does not enter into any trading or speculative positions with regard to foreign currency related derivative instruments.

The Company is exposed to foreign currency exchange rate risk inherent primarily in its sales commitments, anticipated sales and assets and liabilities denominated in currencies other than the U.S. dollar. The Company transacts business in 12 currencies worldwide, of which the most significant to its operations are the European currencies, Japanese Yen, Korean Won, Canadian Dollar, and Australian Dollar. For most currencies, the Company is a net receiver of foreign currencies and, therefore, benefits from a weaker U.S. dollar and is adversely affected by a stronger U.S. dollar relative to those foreign currencies in which the Company transacts significant amounts of business.

The Company enters into foreign exchange contracts to hedge against exposure to changes in foreign currency exchange rates. Such contracts are designated at inception to the related foreign currency exposures being hedged, which include anticipated intercompany sales of inventory denominated in foreign currencies, payments due on intercompany transactions from certain wholly-owned foreign subsidiaries, and anticipated sales by the Company's wholly-owned European subsidiary for certain Euro-denominated transactions. Hedged transactions are denominated primarily in British Pounds, Euros, Japanese Yen, Korean Won, Canadian Dollars and Australian Dollars. To achieve hedge accounting, contracts must reduce the foreign currency exchange rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies. Pursuant to its foreign exchange hedging policy, the Company may hedge anticipated transactions and the related receivables and payables denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives are used only to meet the Company's objectives of minimizing variability in the Company's operating results arising from foreign exchange rate movements. The Company does not enter into foreign exchange contracts for speculative purposes. Hedging contracts mature within twelve months from their inception.

At December 31, 2003, 2002 and 2001, the notional amounts of the Company's foreign exchange contracts were approximately $91.2 million, $134.8 million and $157.0 million, respectively. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates, and records all derivatives on the balance sheet at fair value. At December 31, 2003, the fair values of foreign currency-related derivatives were recorded as current assets of $0.1 million and current liabilities of $0.8 million. At December 31, 2002, the fair values of foreign currency-related derivatives were recorded as current assets of $0.1 million and current liabilities of $2.6 million.

At December 31, 2003, 2002 and 2001, the notional amounts of the Company's foreign exchange contracts designated as cash flow hedges were approximately $44.4 million, $84.8 million and $122.6 million, respectively. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehen-

sive income ("OCI") as a separate component of shareholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. During the years ended December 31, 2003, 2002 and 2001, the Company recorded the following hedging activity in OCI:

	Year Ended December 31,		
	2003	2002	2001
		(In millions)	
Beginning OCI balance related to cash flow hedges	$(1.4)	$ 6.4	$ (1.6)
Add: Net gain (loss) initially recorded in OCI	(3.8)	(3.9)	10.9
Deduct: Net gain (loss) reclassified from OCI into earnings	(2.7)	3.9	2.9
Ending OCI balance related to cash flow hedges	$(2.5)	$(1.4)	$ 6.4

During the years ended December 31, 2003 and 2001, no gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the year ended December 30, 2002, gains of $0.1 million were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of December 31, 2003, $2.5 million of deferred net losses related to derivative instruments designated as cash flow hedges were included in OCI. These derivative instruments hedge transactions that are expected to occur within the next twelve months. As the hedged transactions are completed, the related deferred net gain or loss is reclassified from OCI into earnings. The Company does not expect that such reclassifications will have a material effect on the Company's earnings, as any gain or loss on the derivative instruments generally would be offset by the opposite effect on the related underlying transactions.

The ineffective portion of the gain or loss for derivative instruments that are designated and qualify as cash flow hedges is immediately reported as a component of interest and other income. For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of interest and other income. During the years ended December 31, 2003, 2002 and 2001, the Company recorded net gains of $0.1 million, $0.4 million and $2.0 million, respectively, as a result of changes in the spot-forward differential. Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the hedged item and the hedging instrument are evaluated using the same spot rate, the Company anticipates the hedges to be highly effective. The effectiveness of each derivative is assessed quarterly.

At December 31, 2003, 2002 and 2001, the notional amounts of the Company's foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $46.8 million, $49.9 million and $34.4 million, respectively. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized as a component of interest and other income in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus offset these gains and losses. During the years ended December 31, 2003, 2002 and 2001, the Company recorded net losses of $6.8 million and $8.1 million and net gains of $4.5 million, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures.

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 December 31, 2003 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 from the Company's foreign-currency derivative financial instruments, calculated using the sensitivity analysis model described above, is $9.9 million at December 31, 2003. The portion of the estimated loss associated with the foreign exchange contracts that offset the remeasurement gain and loss of the related foreign currency denominated assets and liabilities is $5.0 million at December 31, 2003 and would impact earnings. The remaining $4.9 million of the estimated loss at December 31, 2003 is derived from outstanding foreign exchange contracts designated as cash flow hedges and would initially impact OCI. 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.

Electricity Price Fluctuations

During the second quarter of 2001, the Company entered into the Enron Contract to manage electricity costs in the volatile California energy market. This derivative did not qualify for hedge accounting treatment under SFAS No. 133. Therefore, the Company recognized the changes in the estimated fair value of the contract based on current market rates as unrealized energy derivative losses. During the fourth quarter of 2001, the Company notified the energy supplier that, among other things, the energy supplier was in default of the energy supply contract and that based upon such default, and for other reasons, the Company was terminating the energy supply contract. As a result, the Company adjusted the estimated value of this contract through the date of termination. Because the contract is terminated and neither party to the contract is performing pursuant to the terms of the contract, the terminated contract ceased to represent a derivative instrument in accordance with SFAS No. 133. The Company, therefore, no longer records future valuation adjustments for changes in electricity rates. The Company continues to reflect the derivative valuation account on its balance sheet, subject to periodic review, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." See above "Supply of Electricity and Energy Contracts."

Interest Rate Fluctuations

Additionally, the Company is exposed to interest rate risk from its $100.0 million credit facility (see Note 7 to the Company's Consolidated Condensed Financial Statements). The Credit Facility is indexed to, at the Company's election, (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) Bank of America's prime rate, and in either case less a margin of 50.0 to 100.0 basis points depending upon the Company's Consolidated Leverage Ratio or (ii) the Eurodollar Rate (as such term is defined in the Credit Facility agreement), plus a margin of 75.0 to 125.0 basis points depending upon the Company's Consolidated Leverage Ratio.

In connection with the Top-Flite acquisition, the Company assumed long-term debt, which was indexed to the U.S. Treasury Note, plus 300 basis points. The rate on the outstanding balance was 4.31% in 2003. In November 2003, the Company paid the loan balance in full.

Note 7 to the Company's Consolidated Condensed Financial Statements outlines the principal amounts, if any, and other terms required to evaluate the expected cash flows and sensitivity to interest rate changes.

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

The Company's consolidated financial statements at December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003, together with the reports of independent auditors, are included in this Annual Report on Form 10-K on pages F-1 through F-42.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Dismissal of Arthur Andersen LLP

Arthur Andersen served as the Company's independent auditors with regard to the audit of the Company's financial statements for the year ended December 31, 2001. Subsequent to the completion of the 2001 audit, the Board of Directors, upon recommendation of the Audit Committee, approved the dismissal of

Arthur Andersen as the Company's independent auditors effective March 22, 2002. The dismissal was not based upon any dissatisfaction with the services provided by Arthur Andersen, but upon concern over the future of Arthur Andersen in light of the many publicized problems encountered by the firm at that time. Arthur Andersen served as the Company's independent auditor for fiscal year 2001 and not for any prior period. Arthur Andersen's report on the Company's financial statements for the year ended December 31, 2001 does not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. During the term of Arthur Andersen's engagement, there were no disagreements with Arthur Andersen within the meaning of Instruction 4 of Item 304 of Regulation S-K on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

The Board of Directors appointed the firm of KPMG LLP ("KPMG") to serve as the Company's independent auditor for fiscal year 2002. KPMG's engagement commenced effective March 25, 2002.

Dismissal of and Disagreement with KPMG LLP

The Company's Board of Directors, upon recommendation of the Audit Committee, approved the dismissal of KPMG as the Company's independent auditors effective December 12, 2002. KPMG had been appointed as the Company's independent auditors effective March 25, 2002 and they have never issued an audit report on the Company's financial statements.

During the third quarter of 2002, the Company and KPMG had a disagreement (as such term is defined in Instruction 4 to Item 304 of Regulation S-K) with regard to the applicable periods in which to record a reduction in the Company's warranty reserve. Set forth below is a brief description of this disagreement.

In the third quarter of 2002 the Company completed a review of its warranty reserves, and concluded that a reduction of approximately $17.0 million was warranted. This non-cash adjustment would result in an increase to the Company's income in the period in which the adjustment is taken. While KPMG did not object to the magnitude of the reduction, management and KPMG could not agree on the proper period or periods in which to record the adjustment. Management believed that the reduction was the result of a current change in the estimation process, and that therefore the entire reduction should be reflected in the third quarter. KPMG ultimately advised the Company that a substantial portion of the reduction related to periods prior to 2002, and the Company's financial statements for prior periods should be restated for a correction of an error to reflect the warranty reserve based upon the best information available to the Company at the time those prior period financial statements were prepared. Despite lengthy discussions between management and KPMG, including consultation with the staff of the Securities and Exchange Commission, management and KPMG could not reach agreement on a proper accounting treatment.

The Audit Committee and the Audit Committee Chairman reviewed the matter with management and KPMG on several occasions, both informally and at formal meetings of the Audit Committee. Meanwhile, the Company's filing of its Form 10-Q for the quarter ended September 30, 2002 was delayed. Ultimately, the Audit Committee recommended to the Board of Directors that a new auditor be engaged to assist in bringing the matter to a conclusion. The Board agreed that, without regard to the ultimate resolution of the warranty issue, it would be in the Company's best interests to change auditors at that time. The Company authorized KPMG to respond fully to the inquiries of the successor accountant concerning the disagreement.

The Company's Board of Directors, upon recommendation of the Audit Committee, approved the appointment of Deloitte & Touche LLP ("Deloitte & Touche") effective December 12, 2002, subject to Deloitte & Touche's customary new client acceptance procedures which were completed December 17, 2002, as the Company's independent auditors for 2002 and until otherwise replaced. During the two fiscal years ended December 31, 2001, and the subsequent interim period prior to the appointment of Deloitte & Touche, the Company did not consult with Deloitte & Touche regarding any of the matters set forth in Item 304(a)(2)(i) or (ii) of Regulation S-K. For a discussion of the final accounting treatment of the warranty reserve reduction and the effect on the Company's financial statements if the reduction had not been recorded in 2002, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Change in Accounting Estimate."

Item 9A. ***Controls and Procedures***

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic filings with the Commission.

There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect these internal controls subsequent to the date of their most recent evaluation. Since there were no significant deficiencies or material weaknesses identified in the Company's internal controls, the Company did not take any corrective actions.

PART III

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

Certain information concerning the Company's executive officers is included under the caption "Executive Officers of the Registrant" following Part I, Item 4 of this Form 10-K. The other information required by Item 10 has been included in the Company's definitive Proxy Statement under the captions "Board of Directors," "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed with the Commission within 120 days after the end of fiscal 2003 (April 29, 2004) pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 11. ***Executive Compensation***

The Company maintains employee benefit plans and programs in which its executive officers are participants. Copies of certain of these plans and programs are set forth or incorporated by reference as Exhibits to this report. Information required by Item 11 is included in the Company's definitive Proxy Statement under the captions "Compensation of Executive Officers," "Report of the Compensation and Management Succession Committee and the Stock Option Committee (Employee Plans) of the Board of Directors," "Performance Graph" and "Board of Directors," to be filed with the Commission within 120 days after the end of fiscal 2003 (April 29, 2004) pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by Item 12 is included in Item 5 of this report and the Company's definitive Proxy Statement under the caption "Beneficial Ownership of the Company's Securities," to be filed with the Commission within 120 days after the end of fiscal 2003 (April 29, 2004) pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 13. ***Certain Relationships and Related Transactions***

The information required by Item 13 is included in the Company's definitive Proxy Statement under the captions "Compensation of Executive Officers — Compensation Committee Interlocks and Insider Participation," to be filed with the Commission within 120 days after the end of fiscal 2003 (April 29, 2004) pursuant to Regulation 14A, which information is incorporated herein by this reference.

Item 14. ***Principal Accounting Fees and Services***

The information included in Item 14 is included in the Company's definitive Proxy Statement under the caption "Independent Public Accountants" to be filed with the Commission within 120 days after the end of fiscal 2003 (April 29, 2004) pursuant to Regulation 14A, which information is incorporated herein by this reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) *Documents filed as part of this report:*

1. *Financial Statements.* The following consolidated financial statements of Callaway Golf Company and its subsidiaries required to be filed pursuant to Part II, Item 8 of this Form 10-K, are included in this Annual Report on Form 10-K on pages F-1 through F-42:

Consolidated Balance Sheets at December 31, 2003 and 2002;

Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001;

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001;

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2003, 2002 and 2001;

Notes to Consolidated Financial Statements; and

Reports of Independent Auditors and Independent Public Accountants.

2. *Financial Statement Schedule.* The following consolidated financial statement schedule of Callaway Golf Company and its subsidiaries required to be filed pursuant to Part IV, Item 15 of this Form 10-K, is included in this Annual Report on Form 10-K on pages S-1 through S-3:

Schedule II — Consolidated Valuation and Qualifying Accounts; and

Reports of Independent Auditors and Independent Public Accountants on Financial Statement Schedule.

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

3. *Exhibits.*

A copy of any of the following exhibits will be furnished to any beneficial owner of the Company's Common Stock, or any person from whom the Company solicits a proxy, upon written request and payment of the Company's reasonable expenses in furnishing any such exhibit. All such requests should be directed to the Company's Director of Investor Relations at Callaway Golf Company, 2180 Rutherford Road, Carlsbad, CA 92008.

3.1	Certificate of Incorporation, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission ("Commission") on July 1, 1999 (file no. 1-10962).
3.2	Third Amended and Restated Bylaws, as amended and restated as of December 3, 2003.†
4.1	Dividend Reinvestment and Stock Purchase Plan, incorporated herein by this reference to the Prospectus in the Company's Registration Statement on Form S-3, as filed with the Commission on March 29, 1994 (file no. 33-77024).
4.2	Rights Agreement by and between the Company and Mellon Investor Services LLC (f/k/a Chemical Mellon Shareholder Services) as Rights Agent, dated as of June 21, 1995, incorporated herein by this reference to Exhibit 4.0 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).
4.3	First Amendment to Rights Agreement, effective June 22, 2001, by and between the Company and Mellon Investor Services LLC, as Rights Agent, incorporated herein by this reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).

4.4	Certificate of Determination of Rights, Preferences, Privileges and Restrictions of Series A Junior Participating Preferred Stock, incorporated herein by this reference to Exhibit 3.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, as filed with the Commission on August 12, 1995 (file no. 1-10962).

Executive Compensation Contracts/ Plans

10.1	Second Amendment to Second Amended Executive Officer Employment Agreement, effective as of September 15, 2003, between Callaway Golf Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.60 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Commission on November 14, 2003 (file no. 1-10962).
10.2	First Amendment to Second Amended Executive Officer Employment Agreement, dated March 1, 2003, by and between the Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.48 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).
10.3	Second Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Ronald A. Drapeau, incorporated herein by this reference to Exhibit 10.53 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).
10.4	First Amendment to Executive Officer Employment Agreement, dated April 1, 2003, by and between the Company and Richard C. Helmstetter, incorporated herein by this reference to Exhibit 10.49 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).
10.5	Executive Officer Employment Agreement by and between the Company and Richard Helmstetter entered into as of January 1, 1998, incorporated herein by this reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, as filed with the Commission on March 31, 1998 (file no. 1-10962).
10.6	Second Amendment to First Amended Executive Officer Employment Agreement, effective September 15, 2003, between Callaway Golf Company and Steven C. McCracken, incorporated herein by this reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Commission on November 14, 2003 (file no. 1-10962).
10.7	First Amendment to First Amended Executive Officer Employment Agreement, dated March 1, 2003, by and between the Company and Steven C. McCracken, incorporated herein by this reference to Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).
10.8	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Steven C. McCracken, incorporated herein by this reference to Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).
10.9	Second Amendment to First Amended Executive Officer Employment Agreement, effective September 15, 2003, between Callaway Golf Company and Bradley J. Holiday, incorporated herein by this reference to Exhibit 10.62 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Commission on November 14, 2003 (file no. 1-10962).
10.10	First Amendment to First Amended Executive Officer Employment Agreement, dated March 1, 2003, by and between the Company and Bradley J. Holiday, incorporated herein by this reference to Exhibit 10.51 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).
10.11	First Amended Executive Officer Employment Agreement, effective as of June 1, 2002, by and between the Company and Bradley J. Holiday, incorporated herein by this reference to Exhibit 10.55 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Commission on August 14, 2002 (file no. 1-10962).

10.12	Second Amendment to Executive Officer Employment Agreement, effective September 15, 2003, between Callaway Golf Company and Patrice Hutin, incorporated herein by this reference to Exhibit 10.63 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Commission on November 14, 2003 (file no. 1-10962).
10.13	First Amendment to Executive Officer Employment Agreement, dated March 1, 2003, by and between the Company and Patrice Hutin, incorporated herein by this reference to Exhibit 10.52 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the Commission on May 7, 2003 (file no. 1-10962).
10.14	Executive Officer Employment Agreement, effective November 6, 2002, by and between the Company and Patrice Hutin, incorporated herein by this reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 17, 2003 (file no. 1-10962).
10.15	Officer Employment Agreement between The Top-Flite Golf Company (f/k/a TFGC Acquisition Corp.) and Robert A. Penicka, incorporated herein by this reference to Exhibit 10.59 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Commission on November 14, 2003 (file no. 1-10962).
10.16	Executive Officer Employment Agreement, entered into as of September 1, 2000, between the Company and Michael W. McCormick, incorporated herein by this reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.17	Separation Agreement and General Release, made as of August 31, 2002, by and between Michael W. McCormick and the Company, incorporated herein by this reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 17, 2003 (file no. 1-10962).
10.18	Callaway Golf Company Executive Deferred Compensation Plan (as amended and restated, effective August 22, 2000), incorporated herein by this reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, as filed with the Commission on November 14, 2000 (file no. 1-10962).
10.19	Second Amendment to Callaway Golf Company Executive Deferred Compensation Plan, incorporated herein by this reference to Exhibit 10.52 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, as filed with the Commission on May 10, 2002 (file no. 1-10962).
10.20	Callaway Golf Company 1991 Stock Incentive Plan (as amended and restated August 2000), incorporated herein by this reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.21	Callaway Golf Company 1995 Stock Incentive Plan (as amended and restated November 7, 2001), incorporated herein by this reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 17, 2003 (file no. 1-10962).
10.22	Amended and Restated 1996 Stock Option Plan (as amended and restated May 3, 2000), incorporated herein by this reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000, as filed with the Commission on August 14, 2000 (file no. 1-10962).
10.23	Callaway Golf Company 1998 Stock Incentive Plan (as amended and restated August 15, 2000), incorporated herein by this reference to the corresponding exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.24	Callaway Golf Company Non-Employee Directors Stock Option Plan (as amended and restated August 15, 2000), incorporated herein by this reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).

10.25	Callaway Golf Company 2001 Non-Employee Directors Stock Option, incorporated herein by this reference to Appendix A to the Company's definitive Proxy Statement on Schedule 14A filed with the Commission on March 27, 2000 (file no. 1-10962).
10.26	Indemnification Agreement between the Company and Samuel H. Armacost, dated as of April 21, 2003, incorporated herein by this reference to Exhibit 10.57 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Commission on August 7, 2003 (file no. 1-10962).
10.27	Indemnification Agreement between the Company and John C. Cushman, III, dated as of April 21, 2003, incorporated herein by this reference to Exhibit 10.58 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Commission on August 7, 2003 (file no. 1-10962).
10.28	Indemnification Agreement, effective June 7, 2001, by and between the Company and Ronald S. Beard, incorporated herein by this reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, as filed with the Commission on November 14, 2001 (file no. 1-10962).
10.29	Indemnification Agreement, dated as of July 1, 1999, by and between the Company and William C. Baker, incorporated herein by this reference to Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.30	Indemnification Agreement, dated July 1, 1999, by and between the Company and Yotaro Kobayashi, incorporated herein by this reference to Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
10.31	Indemnification Agreement, dated July 1, 1999, by and between Callaway Golf Company and Richard L. Rosenfield, incorporated herein by this reference to Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, as filed with the Commission on August 16, 1999 (file no. 1-10962).
	Other Contracts
10.32	Amendment No. 4 to Asset Purchase Agreement between TFGC Estate Inc. (f/k/a The Top-Flite Golf Company) and Callaway Golf Company, dated as of September 30, 2003, incorporated herein by this reference to Exhibit 99.5 to the Company's current report on Form 8-K, as filed with the Commission on September 30, 2003 (file no. 1-10962).
10.33	Amendment No. 3 to Asset Purchase Agreement between TFGC Estate Inc. (f/k/a The Top-Flite Golf Company) and Callaway Golf Company, dated as of September 15, 2003, incorporated herein by this reference to Exhibit 99.4 to the Company's current report on Form 8-K, as filed with the Commission on September 30, 2003 (file no. 1-10962).
10.34	Amendment No. 2 to Asset Purchase Agreement between TFGC Estate Inc. (f/k/a The Top-Flite Golf Company) and Callaway Golf Company, dated as of September 4, 2003, incorporated herein by this reference to Exhibit 99.3 to the Company's current report on Form 8-K, as filed with the Commission on September 30, 2003 (file no. 1-10962).
10.35	Amendment No. 1 to Asset Purchase Agreement between TFGC Estate Inc. (f/k/a The Top-Flite Golf Company) and Callaway Golf Company, dated as of August 11, 2003, incorporated herein by this reference to Exhibit 99.2 to the Company's current report on Form 8-K, as filed with the Commission on September 30, 2003 (file no. 1-10962).
10.36	Asset Purchase Agreement between The Top-Flite Golf Company(f/k/a Spalding Sports Worldwide, Inc.) and the Company, dated as of June 30, 2003, incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Commission on August 7, 2003 (file no. 1-10962).
10.37	Credit Agreement, dated as of November 10, 2003, between the Company and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Banc of America Securities LLC, as Sole Lead Manager and Sole Book Manager, and the other lenders party to the Credit Agreement.†

10.38	Pledge Agreement, dated November 10, 2003, by and between the Company and Bank of America, N.A., as Administrative Agent.†
10.39	Termination letter agreement, dated November 12, 2003, between the Company and Bank of America, N.A. (terminating the June 16, 2003 Credit Agreement).†
10.40	Credit Agreement, dated as of June 16, 2003, between the Company and Bank of America, N.A., incorporated herein by this reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, dated June 16, 2003, as filed with the Commission on June 17, 2003 (file no. 1-10962).
10.41	Pledge Agreement, dated as of June 16, 2003, between the Company and Bank of America, N.A., incorporated herein by this reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Commission on August 7, 2003 (file no. 1-10962).
10.42	Master Energy Purchase and Sale Agreement and related Confirmation letter, each entered into as of April 12, 2001, by and between Enron Energy Services, Inc. and the Company, incorporated herein by this reference to Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, as filed with the Commission on August 14, 2001 (file no. 1-10962).
10.43	Amendment No. 1 to Trust Agreement, effective as of June 29, 2001, by Callaway Golf Company with the consent of Arrowhead Trust Incorporated, incorporated herein by this reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 21, 2002 (file no. 1-10962).
10.44	Trust Agreement by and between Callaway Golf Company and Sanwa Bank California, as Trustee, for the benefit of participating employees, dated July 14, 1995, incorporated herein by this reference to Exhibit 10.45 to the corresponding exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, as filed with the Commission on November 14, 1995 (file no. 1-10962).
10.45	Assignment and Assumption Agreement, effective as of April 24, 2000, by and among Callaway Golf Company, Sanwa Bank California and Arrowhead Trust Incorporated, incorporated herein by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (file no. 1-10962).
16.1	Letter dated March 22, 2002 from Arthur Andersen LLP to the Commission, incorporated herein by this reference to Exhibit 16.1 to the Company's Current Report on Form 8-K, dated March 22, 2002, as filed with the Commission on March 28, 2002 (file no. 1-10962).
16.2	Letter dated December 19, 2002 from KPMG LLP to the Commission, incorporated herein by this reference to Exhibit 16.1 to the Company's Current Report on Form 8-K, dated December 12, 2002, as filed with the Commission on December 19, 2002 (file no. 1-10962).
21.1	List of Subsidiaries.†
23.1	Consent of Deloitte & Touche LLP.†
23.2	Note regarding Arthur Andersen LLP.†
24.1	Form of Power of Attorney.†
31.1	Certification of Ronald A. Drapeau pursuant to Rule13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
31.2	Certification of Bradley J. Holiday pursuant to Rule13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

† Included in this Report

(b) *Reports on Form 8-K:*

Form 8-K, filed as of January 22, 2004, reporting the issuance of a press release of even date therewith, which press release was captioned, “Callaway Golf Announces 2003 Results and Reiterates 2004 Guidance.”

Form 8-K, filed as of December 18, 2003, reporting the issuance of a press release of even date therewith, which press release was captioned, “Callaway Golf Provides Guidance for Full Year 2003 and 2004.”

Form 8-K/A, filed as of November 26, 2003, reporting the acquisition of substantially all of the assets of TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide Inc.). Included with this filing were the following financial statements: (i) audited consolidated financial statements of SHC, Inc. (f/k/a Spalding Holdings Corporation) as of December 31, 2002, and the year then ended, (ii) unaudited condensed consolidated financial statements of SHC, Inc. as of and for the eight months ended August 24, 2003 and August 23, 2002, (iii) pro forma unaudited consolidated condensed balance sheet as of September 30, 2003 and (iv) pro forma unaudited consolidated condensed statements of operations for the nine months ended September 30, 2003 and the year ended December 31, 2002.

Form 8-K, filed as of October 23, 2003, reporting the issuance of a press release of even date therewith, which press release was captioned, “Callaway Golf Announces Nine Months’ Results and Upgrades Full Year Earnings Estimates for its Core Business; Nine-Month Net Income and Earnings Per Share Are The Highest Since 1997.”

SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /s/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman and Chief Executive Officer

Date: March 10, 2004

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

Signature	Title	Dated as of
Principal Executive Officer:		
/s/ RONALD A. DRAPEAU Ronald A. Drapeau	Chairman of the Board and Chief Executive Officer	March 10, 2004
Principal Financial Officer and Principal Accounting Officer:		
/s/ BRADLEY J. HOLIDAY Bradley J. Holiday	Senior Executive Vice President and Chief Financial Officer	March 10, 2004
Directors:		
* Samuel H. Armacost	Director	March 10, 2004
* William C. Baker	Director	March 10, 2004
* Ronald S. Beard	Director	March 10, 2004
* John C. Cushman, III	Director	March 10, 2004
* Yotaro Kobayashi	Director	March 10, 2004
* Richard L. Rosenfield	Director	March 10, 2004

*By: /s/ BRADLEY J. HOLIDAY
Bradley J. Holiday,
Attorney-in-fact

CALLAWAY GOLF COMPANY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31,	
	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,340	$ 108,452
Accounts receivable, net	100,664	63,867
Inventories, net	185,389	151,760
Deferred taxes	36,707	34,519
Other current assets	13,362	10,429
Total current assets	383,462	369,027
Property, plant and equipment, net	164,763	167,340
Intangible assets, net	149,635	103,115
Goodwill	20,216	18,202
Deferred taxes	12,289	5,216
Other assets	18,201	16,945
	$ 748,566	$ 679,845
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 79,787	$ 61,720
Accrued employee compensation and benefits	25,544	23,168
Accrued warranty expense	12,627	13,464
Note payable, current portion	—	3,160
Capital leases, current portion	240	—
Income taxes payable	11,962	7,649
Total current liabilities	130,160	109,161
Long-term liabilities:		
Deferred compensation	8,947	7,375
Energy derivative valuation account	19,922	19,922
Capital leases, net of current portion	154	—
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred Stock, $.01 par value, 3,000,000 shares authorized, none issued and outstanding at December 31, 2003 and 2002	—	—
Common Stock, $.01 par value, 240,000,000 shares authorized, 83,710,094 shares and 83,577,427 shares issued at December 31, 2003 and 2002, respectively	837	836
Additional paid-in capital	400,939	371,496
Unearned compensation	—	(15)
Retained earnings	466,441	439,454
Accumulated other comprehensive loss	2,890	(3,847)
Less: Grantor Stock Trust held at market value, 8,702,577 shares and 10,128,723 shares at December 31, 2003 and 2002, respectively	(146,638)	(134,206)
	724,469	673,718
Less: Common Stock held in treasury, at cost, 8,144,667 shares and 7,772,378 shares at December 31, 2003 and 2002, respectively	(135,086)	(130,331)
Total shareholders' equity	589,383	543,387
	$ 748,566	$ 679,845

The accompanying notes are an integral part of these financial statements.

CALLAWAY GOLF COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,					
	2003		2002		2001	
Net sales	$814,032	100%	$793,219	100%	$818,072	100%
Cost of sales	445,417	55%	393,068	50%	411,585	50%
Gross profit	368,615	45%	400,151	50%	406,487	50%
Selling expenses	207,783	26%	200,329	25%	188,415	23%
General and administrative expenses	65,448	8%	56,580	7%	71,058	9%
Research and development expenses	29,529	4%	32,182	4%	32,697	4%
Total operating expenses	302,760	37%	289,091	36%	292,170	36%
Income from operations	65,855	8%	111,060	14%	114,317	14%
Interest and other income, net	3,550		2,271		5,349	
Interest expense	(1,522)		(1,660)		(1,552)	
Unrealized energy derivative losses	—		—		(19,922)	
Income before income taxes	67,883	8%	111,671	14%	98,192	12%
Provision for income taxes	22,360		42,225		39,817	
Net income	$ 45,523	6%	$ 69,446	9%	$ 58,375	7%
Earnings per common share:						
Basic	$ 0.69		$ 1.04		$ 0.84	
Diluted	$ 0.68		$ 1.03		$ 0.82	
Common equivalent shares:						
Basic	66,027		66,517		69,809	
Diluted	66,471		67,274		71,314	

The accompanying notes are an integral part of these financial statements.

CALLAWAY GOLF COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	$ 45,523	$ 69,446	$ 58,375
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,496	37,640	37,467
Loss on disposal of long-lived assets	24,163	1,168	1,824
Loss on purchase of leased equipment	—	2,318	—
Tax benefit (reversal of benefit) from exercise of stock options	(982)	5,479	14,520
Non-cash compensation	15	314	342
Non-cash energy derivative losses	—	—	19,922
Net non-cash foreign currency hedging (gains) loss	2,619	(4,238)	(4,748)
Net (gain) loss from sale of marketable securities	98	(37)	—
Deferred taxes	(8,320)	11,357	1,732
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	12,698	(9,279)	3,182
Inventories, net	4,897	21,785	(37,147)
Other assets	(4,743)	10,202	5,630
Accounts payable and accrued expenses	(2,561)	11,579	3,936
Accrued employee compensation and benefits	(3,898)	(2,383)	2,848
Accrued warranty expense	(838)	(21,400)	(4,499)
Income taxes payable	4,004	6,185	(1,644)
Deferred compensation	1,572	(922)	(1,587)
Net cash provided by operating activities	118,743	139,214	100,153
Cash flows from investing activities:			
Capital expenditures	(7,810)	(73,502)	(35,274)
Acquisitions, net of cash acquired	(160,321)	—	(5,758)
Investment in marketable securities	—	—	(6,422)
Proceeds from sale of marketable securities	24	6,998	—
Cash paid for investment	—	(2,000)	—
Proceeds from sale of capital assets	178	871	4,629
Net cash used in investing activities	(167,929)	(67,633)	(42,825)
Cash flows from financing activities:			
Payments on financing arrangements	(8,117)	(2,374)	(1,168)
Issuance of Common Stock	17,994	18,305	50,651
Acquisition of Treasury Stock	(4,755)	(46,457)	(104,049)
Dividends paid, net	(18,536)	(18,601)	(19,447)
Net cash used in financing activities	(13,414)	(49,127)	(74,013)
Effect of exchange rate changes on cash and cash equivalents	1,488	1,735	(1,648)
Net increase (decrease) in cash and cash equivalents	(61,112)	24,189	(18,333)
Cash and cash equivalents at beginning of year	108,452	84,263	102,596
Cash and cash equivalents at end of year	$ 47,340	$108,452	$ 84,263
Supplemental disclosures (See Note 3 for acquisition related disclosures):			
Marketable securities received upon demutualization of insurance provider	$ —	$ 540	$ —
Unrealized loss on marketable securities	$ —	$ (92)	$ —
Issuance of note payable for acquisition of intangible assets	$ —	$ —	$ 6,702
Cancellation of restricted Common Stock	$ —	$ —	$ 992
Common Stock issued for acquisition of intangible assets	$ —	$ —	$ 516
Cash paid for interest and fees	$ (835)	$ (953)	$ (977)
Cash paid for income taxes	$ (30,925)	$ (16,628)	$ (25,738)

The accompanying notes are an integral part of these financial statements.

CALLAWAY GOLF COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands)

	Common Stock		Additional Paid-in	Unearned	Retained	Accumulated Other Comprehensive	Grantor Stock	Treasury Stock			Comprehensive
	Shares	Amount	Capital	Compensation	Earnings	Loss	Trust	Shares	Amount	Total	Income
Balance, December 31, 2000	78,959	$790	$347,765	$(1,214)	$349,681	$(6,096)	$ (98,713)	(4,815)	$ (80,469)	$ 511,744	
Exercise of stock options	3,484	34	42,621	—	—	—	2,375	—	—	45,030	
Tax benefit from exercise of stock options	—	—	14,520	—	—	—	—	—	—	14,520	
Cancellation of Restricted Common Stock	(32)	—	(992)	992	—	—	—	—	—	—	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(6,001)	(104,049)	(104,049)	
Compensatory stock and stock options	—	—	331	11	—	—	—	—	—	342	
Employee stock purchase plan	283	3	2,244	—	—	—	3,374	—	—	5,621	
Shares issued for intangible assets	—	—	(129)	—	—	—	—	40	645	516	
Cash dividends	—	—	—	—	(21,717)	—	—	—	—	(21,717)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	2,270	—	—	—	—	2,270	
Addition to Grantor Stock Trust	—	—	(9,717)	—	—	—	(90,282)	5,837	99,999	—	
Adjustment of Grantor Stock Trust shares to market value	—	—	22,898	—	—	—	(22,898)	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	(3,297)	—	—	—	(3,297)	$ (3,297)
Unrealized gain on cash flow hedges, net of tax	—	—	—	—	—	4,994	—	—	—	4,994	4,994
Net income	—	—	—	—	58,375	—	—	—	—	58,375	58,375
Balance, December 31, 2001	82,694	$827	$419,541	$ (211)	$388,609	$(4,399)	$(206,144)	(4,939)	$ (83,874)	$ 514,349	$60,072
Exercise of stock options	879	9	10,067	—	—	—	2,950	—	—	13,026	
Tax benefit from exercise of stock options	—	—	5,479	—	—	—	—	—	—	5,479	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(2,833)	(46,457)	(46,457)	
Compensatory stock and stock options	—	—	118	196	—	—	—	—	—	314	
Employee stock purchase plan	4	—	(2,590)	—	—	—	7,869	—	—	5,279	
Cash dividends	—	—	—	—	(21,502)	—	—	—	—	(21,502)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	2,901	—	—	—	—	2,901	
Adjustment of Grantor Stock Trust shares to market value	—	—	(61,119)	—	—	—	61,119	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	5,602	—	—	—	5,602	$ 5,602
Unrealized loss on cash flow hedges, net of tax	—	—	—	—	—	(4,958)	—	—	—	(4,958)	(4,958)
Unrealized loss on marketable securities, net of tax	—	—	—	—	—	(92)	—	—	—	(92)	(92)
Net income	—	—	—	—	69,446	—	—	—	—	69,446	69,446
Balance, December 31, 2002	83,577	$836	$371,496	$ (15)	$439,454	$(3,847)	$(134,206)	(7,772)	$(130,331)	$ 543,387	$69,998
Exercise of stock options	133	1	(900)	—	—	—	14,650	—	—	13,751	
Reversal of tax benefit from exercise of stock options	—	—	(982)	—	—	—	—	—	—	(982)	
Acquisition of Treasury Stock	—	—	—	—	—	—	—	(373)	(4,755)	(4,755)	
Compensatory stock and stock options	—	—	—	15	—	—	—	—	—	15	
Employee stock purchase plan	—	—	(851)	—	—	—	5,094	—	—	4,243	
Cash dividends	—	—	—	—	(21,160)	—	—	—	—	(21,160)	
Dividends on shares held by Grantor Stock Trust	—	—	—	—	2,624	—	—	—	—	2,624	
Adjustment of Grantor Stock Trust shares to market value	—	—	32,176	—	—	—	(32,176)	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	7,396	—	—	—	7,396	$ 7,396
Unrealized loss on cash flow hedges, net of tax	—	—	—	—	—	(751)	—	—	—	(751)	(751)
Change in unrealized loss on marketable securities, net of tax	—	—	—	—	—	92	—	—	—	92	92
Net income	—	—	—	—	45,523	—	—	—	—	45,523	45,523
Balance, December 31, 2003	83,710	$837	$400,939	$ —	$466,441	$ 2,890	$(146,638)	(8,145)	$(135,086)	$ 589,383	$52,260

The accompanying notes are an integral part of these financial statements.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company

Callaway Golf Company ("Callaway Golf" or the "Company") was incorporated in California in 1982 and was reincorporated in Delaware in 1999. The Company designs, manufactures and sells high-quality, innovative golf clubs and golf balls and also sells golf accessories. Callaway Golf's primary products for the periods presented include Big Bertha Hawk Eye VFT Titanium Metal Woods, ERC Fusion and ERC Fusion+ Drivers, ERC Forged Titanium Drivers and ERC II Forged Titanium Metal Woods, Great Big Bertha II Titanium Metal Woods and Great Big Bertha II+ Titanium Drivers, Big Bertha Steelhead Plus and Big Bertha Steelhead III Metal Woods, Big Bertha C4 Drivers, Great Big Bertha Hawk Eye and Great Big Bertha Hawk Eye VFT Tungsten Injected Titanium Irons, Steelhead X-16, Steelhead X-14 and Big Bertha Irons, Odyssey putters and wedges, Callaway Golf wedges, Top-Flite woods, Top-Flite irons and wedges, Ben Hogan irons and wedges, golf balls, golf bags and other golf accessories. The golf ball product line includes the Rule 35, CB1, CTU 30, HX, HX 2-Piece, HX Tour, Big Bertha, Warbird, Ben Hogan, Top-Flite and Strata golf balls.

Note 2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements for the periods presented include the accounts of the Company and its subsidiaries, Callaway Golf Sales Company, Golf Funding Corporation ("Golf Funding"), Callaway Golf Ball Company, Callaway Golf Europe Ltd., Callaway Golf K.K. (formerly named ERC International Company), Callaway Golf (Germany) GmbH, Callaway Golf Canada Ltd., Callaway Golf Korea, Ltd., Callaway Golf South Pacific PTY Ltd., Callaway Golf Company Grantor Stock Trust and The Top-Flite Golf Company. All intercompany transactions and balances have been eliminated. Callaway Golf Ball Company was merged with the Company as of December 29, 2000.

Acquisitions

During the first quarter of 2001, the Company acquired distribution rights and substantially all of the assets from its distributors in Spain and Australia for $4,400,000 and $1,400,000, respectively. These acquisitions were accounted for using the purchase method. These acquisitions are not considered significant business combinations. Accordingly, pro forma financial information is not presented.

In September 2003, the Company acquired through a court-approved sale substantially all of the golf-related assets of the TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc.), which included golf ball manufacturing facilities, the Top-Flite, Strata and Ben Hogan brands, and all golf-related U.S. and foreign golf-related patents and trademarks (the "Top-Flite Acquisition"). This acquisition was accounted for using the purchase method and was considered a significant business combination. Accordingly, pro forma financial information is presented in Note 3.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and judgments 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. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Examples of such estimates include provisions for warranty, uncollectable accounts receivable, inventory obsolescence, market value estimates of derivative instruments and recoverability of long-lived assets. Actual results may materially differ from these estimates. On an on-going basis, the

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company reviews its estimates to ensure that the estimates appropriately reflect changes in its business or as new information becomes available.

Revenue Recognition

Sales are recognized net of an allowance for sales returns and sales programs when both title and legal and practical risk of loss transfer to the customer. In December 2003, the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition." The adoption of SAB 104 did not have a material impact on the Company's revenue recognition policies, nor our financial position or results of operations (see Recent Accounting Pronouncements below).

Amounts billed to customers for shipping and handling are included in net sales and costs incurred related to shipping and handling are included in cost of sales.

Royalty income is recorded as underlying product sales occur, subject to certain minimums, in accordance with the related licensing arrangements (Note 15). Royalty income for 2003, 2002 and 2001 was $2,703,000, $1,155,000 and $1,909,000, respectively. In 2003, the Company began classifying royalty income as a component of net sales and royalty related expenses as a component of selling expenses, rather than other income. Prior periods have been reclassified to reflect the current period presentation.

Warranty Policy

The Company has a stated two-year warranty policy for its golf clubs, although the Company's historical practice has been to honor warranty claims well after the two-year stated warranty period. The Company's policy is to accrue the estimated cost of warranty coverage at the time the sale is recorded. In estimating its future warranty obligations the Company considers various relevant factors, including the Company's stated warranty policies and practices, the historical frequency of claims, and the cost to replace or repair its products under warranty. The following table provides a reconciliation of the activity related to the Company's reserve for warranty expense:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Beginning balance	$ 13,464	$ 34,864	$ 39,363
Provision[1]	11,752	(6,987)	9,527
Claims paid/costs incurred	(12,589)	(14,413)	(14,026)
Ending balance	$ 12,627	$ 13,464	$ 34,864

(1) In the third quarter of 2002, the Company changed its methodology of estimating warranty accruals and reduced its warranty reserve by approximately $17,000,000. The change in methodology has been accounted for as a change in accounting principle inseparable from a change in estimate (Note 4).

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade receivables and payables, forward foreign currency exchange contracts (Note 8) and its financing arrangements (Note 7). The carrying amounts of these instruments approximate fair value because of their short-term maturities and variable interest rates. During 2001, the Company also entered into an energy contract accounted for as a derivative instrument that has been recorded based on estimated fair values through the effective date of termination (Notes 8 and 13).

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Advertising Costs

The Company advertises primarily through television and print media. The Company's policy is to expense advertising costs, including production costs, as incurred. Advertising expenses for 2003, 2002 and 2001 were $44,770,000, $44,001,000 and $44,707,000, respectively.

Research and Development Costs

Research and development costs are expensed as incurred.

Foreign Currency Translation and Transactions

The Company's foreign subsidiaries utilize their local currency as their functional currency. The accounts of these foreign subsidiaries have been translated into United States dollars using the current exchange rate at the balance sheet date for assets and liabilities and the average exchange rate for the period for revenues and expenses. Cumulative translation gains or losses are recorded as accumulated other comprehensive income in shareholders' equity. Gains or losses resulting from transactions that are made in a currency different from the functional currency are recognized in earnings as they occur or, for hedging contracts, when the underlying hedged transaction affects earnings. The Company recorded transaction gains of $1,566,000, 2,046,000 and $2,533,000 in 2003, 2002 and 2001, respectively, in interest and other income, net.

Derivatives and Hedging

The Company enters into derivative financial instrument contracts only for hedging purposes and accounts for them in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133 and its amendments SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The purpose of these derivative instruments is to minimize the variability of cash flows associated with the anticipated transactions being hedged. As changes in foreign currency rates impact the United States dollar value of anticipated transactions, the fair value of the forward contracts also changes, offsetting foreign currency rate fluctuations. 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 and effectiveness of hedges.

During the second quarter of 2001, the Company entered into a derivative commodity instrument as part of a comprehensive strategy to ensure the uninterrupted supply of electricity while capping electricity costs in the volatile California energy market.

Additional information about the Company's use of derivative instruments is presented in Notes 8 and 13.

Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period, increased by potentially dilutive common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include shares owned by the Callaway Golf Company Grantor Stock Trust, options granted pursuant to the Company's stock option plans, potential shares related to the Employee Stock Purchase Plan and rights to purchase preferred shares under the Callaway Golf Company Shareholder Rights Plan (Note 10). Dilutive securities related to the Callaway Golf Company Grantor Stock Trust and the Company's stock option plans are included in the calculation of diluted earnings per common share using the treasury stock method. Under the treasury stock method, the dilutive securities related to the

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Callaway Golf Company Grantor Stock Trust do not have any impact upon the diluted earnings per common share. Dilutive securities related to the Employee Stock Purchase Plan are calculated by dividing the average withholdings during the period by 85% of the lower of the offering period price or the market value at the end of the period. The dilutive effect of rights to purchase preferred shares under the Callaway Golf Shareholder Rights Plan have not been included as dilutive securities because the conditions necessary to cause these rights to be exercisable were not met. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations for the years ended December 31, 2003, 2002 and 2001 is presented in Note 9.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments purchased with original maturities of three months or less.

Marketable Securities and Other Investments

The Company determines the appropriate classification of its investments at the time of acquisition and reevaluates such determination at each balance sheet date. Trading securities are carried at quoted fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are carried at quoted fair value, with unrealized gains and losses reported in shareholders' equity as a component of accumulated other comprehensive income. Investments in limited partnerships that do not have readily determinable fair values are stated at cost and are reported in other assets. Realized gains and losses are determined using the specific identification method and are included in interest and other income, net.

The Company held no marketable securities at December 31, 2003. Marketable securities at December 31, 2002 were $26,000 and consisted primarily of investments in public corporations, which are classified as available-for-sale securities within other assets. Proceeds from the sale of available-for-sale securities for the years ended December 31, 2003 and 2002 were $24,000 and $6,998,000, respectively. There were no proceeds in 2001. For the year ended December 31, 2003, the Company recorded a realized loss on available-for-sale securities sold of $93,000. For the years ended December 31, 2002 and 2001, the Company recorded $95,000 and $1,597,000, respectively, of realized gains on available-for-sale securities sold and unrealized and realized gains on trading securities in interest and other income, net.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Inventories include material, labor and manufacturing overhead costs.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Buildings and improvements	10-30 years
Machinery and equipment	5-15 years
Furniture, computers and equipment	3-5 years
Production molds	2 years

Normal repairs and maintenance costs are expensed as incurred. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Replacements are capitalized and the property, plant, and equipment accounts are relieved of the items being replaced. The related costs and accumulated depreciation of disposed assets are eliminated and any resulting gain or loss on disposition is included in

income. Construction in process consists primarily of store display equipment not yet assembled and installed, in-process internally developed software and unfinished molds that have not yet been placed in service.

In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. Costs incurred in the preliminary project stage are expensed. All direct external costs incurred to develop internal-use software during the development stage are capitalized and amortized using the straight-line method over the remaining estimated useful lives. Costs such as maintenance and training are expensed as incurred.

In August 2002, the Company purchased previously leased manufacturing equipment utilized in the Company's golf ball operations. In December 1998, the Company entered into a master lease agreement for the acquisition and lease of golf ball equipment. By December 31, 1999, the Company had finalized its lease program and leased $50,000,000 of equipment under the operating lease. On February 11, 2002, pursuant to the master lease agreement, the Company notified the lessor of its election to purchase the leased equipment in August 2002 which was the end of the initial lease term. During the third quarter of 2002, pursuant to the master lease agreement and the Company's February 11, 2002 notice, the Company paid $50,800,000 in full satisfaction of the purchase price of the leased equipment and recorded the $48,500,000 estimated fair value of the equipment in fixed assets. The estimated fair value of the equipment was based on an independent appraisal. The actual purchase price was dependent in part upon interest rates on the date of purchase. Due to a decline in interest rates, the actual purchase price exceeded the estimated fair value of the equipment. Therefore, in 2002, a charge of $2,300,000 was recorded in cost of sales.

During the fourth quarter of 2003, in connection with the Top-Flite Acquisition (Note 3), the Company began consolidating the Callaway Golf and Top-Flite golf club and golf ball manufacturing and research and development operations. In connection with this consolidation, the Company disposed of certain long-lived assets. As a result, the Company reduced the carrying value of its golf ball assets and therefore incurred pre-tax charges to earnings in the amount of $24,080,000.

Long-Lived Assets

In accordance with Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company assesses potential impairments of its long-lived assets whenever events or changes in circumstances indicate that the asset's carrying value may not be recoverable. An impairment loss would be recognized when the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group.

Goodwill and Intangible Assets

Goodwill and intangible assets consist of goodwill, trade name, trademark, trade dress, patents and other intangible assets acquired during the Odyssey Sports, Inc. acquisition, the Top-Flite Golf Company Acquisition and the acquisition of certain foreign distributors. During 2001, goodwill and intangible assets were amortized using the straight-line method over periods ranging from three to 40 years. See Note 3, for further discussion of the intangible assets acquired in connection with the Top-Flite Acquisition.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, acquired intangible assets must be separately identified. Goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed at least annually for impairment. Acquired intangible assets with definite lives are amortized over their individual useful lives. In addition to goodwill, the Company's intangible assets with indefinite lives consist of trade name, trademark and trade dress. In accordance with

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

SFAS No. 142, the goodwill and other intangible assets with indefinite lives that were being amortized over periods ranging from five to 40 years follow the non-amortization approach beginning January 1, 2002. Patents and other intangible assets are amortized using the straight-line method over periods ranging from less than one year to sixteen years (Note 6).

Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described in Note 10. The Company accounts for its stock-based employee compensation plans using the recognition and measurement principles (intrinsic value method) of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. For the years ended December 31, 2003, 2002 and 2001, the Company recorded compensation expense of $15,000, $184,000 and $301,000, in net income as a result of the restricted stock awards granted in 1998. All other employee stock-based awards were granted with an exercise price equal to the market value of the underlying common stock on the date of grant and no compensation cost is reflected in net income from operations for those awards. Pro forma disclosures of net income and earnings per share, as if the fair value-based recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" had been applied in measuring stock-based employee compensation expense, are as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share data)		
Net income:			
Net income, as reported	$45,523	$ 69,446	$ 58,375
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	10	114	179
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(9,839)	(11,003)	(14,606)
Pro forma net income	$35,694	$ 58,557	$ 43,948
Earnings per Common Share:			
Basic — as reported	$ 0.69	$ 1.04	$ 0.84
Basic — pro forma	$ 0.54	$ 0.88	$ 0.63
Diluted — as reported	$ 0.68	$ 1.03	$ 0.82
Diluted — pro forma	$ 0.54	$ 0.88	$ 0.62

The pro forma amounts reflected above may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense as the options vest and additional options may be granted in future years. The fair value of employee stock options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31,		
	2003	2002	2001
Dividend yield	1.7%	1.7%	1.6%
Expected volatility	46.1%	52.2%	53.9%
Risk free interest rates	2.26% - 2.75%	1.94% - 2.37%	3.81% - 4.22%
Expected lives	3-4 years	3-4 years	3-4 years

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The weighted-average grant-date fair value of options granted during 2003, 2002 and 2001 was $6.74, $6.17 and $6.98 per share, respectively. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of grants under the Company's employee stock-based compensation plans.

Compensation expense for non-employee stock-based compensation awards is measured using the fair-value method.

Income Taxes

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

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries since such amounts are expected to be reinvested indefinitely. The Company provides a valuation allowance for its deferred tax assets when, in the opinion of management, it is more likely than not that such assets will not be realized.

Interest and Other Income, Net

Interest and other income, net includes gains and losses on foreign currency transactions, interest income, gains and losses on investments to fund the deferred compensation plan, gains and losses on the sale of marketable securities and losses generated from the sale of the Company's excess energy supply. In 2003, the Company began classifying royalty income as a component of net sales and royalty related expenses as a component of selling expenses. Previously, royalty revenue and the related expenses were recorded as a component of other income. Prior periods have been reclassified to conform with the current period presentation. The components of interest and other income, net are as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Net foreign currency gains	$1,566	$2,046	$ 2,533
Net gains on deferred compensation plan assets	1,608	156	1,462
Net gain (loss) on sale of securities	(93)	95	1,597
Net losses on excess energy sales	—	—	(2,052)
Other	469	(26)	1,809
	$3,550	$2,271	$ 5,349

Comprehensive Income

Components of comprehensive income are reported in the financial statements in the period in which they are recognized. The components of comprehensive income for the Company include net income, unrealized gains or losses on cash flow hedges, foreign currency translation adjustments and unrealized gains or losses on marketable securities. Since the Company has met the indefinite reversal criteria, it does not

accrue income taxes on foreign currency translation adjustments. During 2003, no gains or losses were reclassified to earnings as a result of the discontinuance of cash flow hedges. The components of accumulated other comprehensive income are as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Unrealized gain (loss) on cash flow hedges	$(1,669)	$ (918)	$ 4,040
Equity adjustment from foreign currency translation	4,559	(2,837)	(8,439)
Unrealized loss on marketable securities	—	(92)	—
	$ 2,890	$(3,847)	$(4,399)

Segment Information

The Company's operating segments are organized on the basis of products and consist of Golf Clubs and Golf Balls. The Golf Clubs segment consists primarily of Callaway Golf, Top-Flite and Ben Hogan woods, irons, wedges and putters as well as Odyssey putters and other golf-related accessories. The Golf Balls segment consists primarily of Callaway Golf, Top-Flite, Ben Hogan and Strata golf balls that are designed, manufactured and sold by the Company. The Company also discloses information about geographic areas. This information is presented in Note 14.

Diversification of Credit Risk

The Company's financial instruments that are subject to concentrations of credit risk consist primarily of cash equivalents, marketable securities, trade receivables and foreign currency contracts.

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

The Company operates in the golf equipment industry and primarily sells its products to golf equipment retailers, sporting goods retailers and mass merchants, directly and through wholly-owned domestic and foreign subsidiaries, and to foreign distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from these customers. The Company maintains reserves for estimated credit losses, which it considers adequate to cover any such losses. Managing customer-related credit risk is more difficult in regions outside of the United States. During 2003, 2002 and 2001, approximately 45%, 45% and 46%, respectively, of the Company's net sales were made in regions outside of the United States. An adverse change in either economic conditions abroad or in the Company's relationship with significant foreign retailers could significantly increase the Company's credit risk related to its international operations.

The Company enters into forward exchange rate contracts and put or call options for the purpose of hedging foreign exchange rate exposures on existing or anticipated transactions. In the event of a failure to honor one of these contracts by one of the banks with which the Company has contracted, management believes any loss would be limited to the exchange rate differential from the time the contract was made until the time it was compensated.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Recent Accounting Pronouncements

In December 2003, the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") No. 104**,** "Revenue Recognition," which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104 clarifies existing guidance regarding revenues for contracts which contain multiple deliverables to make it consistent with Emerging Issues Task Force ("EITF") No. 00-21,"Accounting for Revenue Arrangements with Multiple Deliverables." The adoption of SAB 104 did not have a material impact on the Company's revenue recognition policies, nor its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. On November 5, 2003, the FASB issued FASB Staff Position No. 150-3, deferring the effective date for the measurement provisions of paragraphs 9 and 10 of SFAS 150, as they apply to mandatorily redeemable non-controlling interests. This deferral is for an indefinite period. The adoption of SFAS No. 150 and FASB Staff Position No. 150-3 have not had, and are not expected to have, a material impact on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," effective for contracts entered into or modified after June 30, 2003, with certain exceptions. This statement amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity." The adoption of this statement did not have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" and in December 2003, issued Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities — An Interpretation of APB No. 51." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46(R) clarifies the application of Accounting Research Bulletin ("APB") No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without subordinated financial support from other parties. The consolidation requirements of FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. FIN No. 46(R) applies immediately to variable interest entities created after December 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies no later than the first reporting period ending after December 15, 2004, to variable interest entities in which an enterprise holds a variable interest (other than special purpose) that it acquired before January 1, 2004. FIN No. 46(R) applies to public enterprises as of the beginning of the applicable interim or annual period. The Company believes that the adoption of FIN No. 46 and FIN No. 46(R) has not had and will not have a

material impact on its financial position or results of operations because the Company has no variable interest entities.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company is required to follow the prescribed disclosure format and has provided the additional disclosures required by SFAS No. 148 for the year ended December 31, 2003 (Note 2).

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of FASB Statements No. 5, 57 and 107, and rescission of FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others." FIN No. 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 has not had a material impact on the Company's results of operations or financial position.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of such costs covered by the standard include lease termination costs and certain employee severance costs associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit and disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 has and will continue to govern the accounting methodology applied to costs associated with the Company's consolidation of the Callaway Golf and Top-Flite operations (Note 3).

Reclassifications

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

Note 3. Top-Flite Asset Purchase

On September 15, 2003, the Company acquired through a court-approved sale substantially all of the golf-related assets of TFGC Estate Inc. (f/k/a The Top-Flite Golf Company, f/k/a Spalding Sports Worldwide, Inc., the "Seller") and thereafter completed the valuation and settlement of certain additional assets related to Seller's international operations (the "Top-Flite Acquisition"). The settlement of the international assets was effective October 1, 2003.

The Company acquired the Top-Flite assets because they provided a unique opportunity to increase significantly the size and profitability of the Company's golf ball business and the Company was able to purchase the acquired assets at less than their estimated fair value. The Company paid the cash purchase price for the Top-Flite Acquisition from cash on hand. The Company intends to continue the U.S. and foreign operations of the acquired golf assets, including the use of acquired assets in the manufacture of golf balls and

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

golf clubs and the commercialization of existing Top-Flite, Strata and Ben Hogan brands, patents and trademarks.

The Company's consolidated statement of operations include the Company's Top-Flite business results of operations in the United States for the period of September 15, 2003 through December 31, 2003. The Company's consolidated statement of operations include the Company's Top-Flite business results of operations outside of the United States for the period of October 1, 2003 through December 31, 2003.

The Top-Flite Acquisition was accounted for as a purchase in accordance with SFAS No. 141, "Business Combinations." Under SFAS No. 141, the estimated aggregate cost of the acquired assets is $183,066,000, which includes cash paid ($154,145,000), transaction costs (approximately $6,176,000), and assumed liabilities (approximately $22,745,000). The estimated fair value of the assets exceeded the estimated aggregate acquisition costs. As a result, the Company was required to reduce the carrying value of the acquired long-term assets on a pro rata basis. In accordance with applicable accounting rules, a full determination of the allocation of the aggregate acquisition costs will be made upon a final assessment of the estimated fair value of the acquired net assets. It is anticipated that the final assessment will be completed during the second quarter of 2004 and that the final allocation will not differ materially from the preliminary allocation. The preliminary allocation is as follows (in thousands):

Assets Acquired:	
Accounts receivable	$ 43,976
Inventory	32,809
Other assets	1,154
Property and equipment	56,668
Intangible assets (Note 6)	48,459
Liabilities Assumed:	
Current liabilities	(17,917)
Long term liabilities	(4,828)
Total net assets acquired	$160,321

During the fourth quarter of 2003, the Company recorded pre-tax charges of $24,080,000 associated with the integration of the Callaway Golf and Top-Flite Golf operations (Note 2).

Pro Forma Results of Operations

The following sets forth the Company's pro forma results of operations for the years ended December 31, 2003 and 2002, as if the acquisition of the Top-Flite golf operations had taken place at the beginning of the periods presented (in thousands, except per share data)[(1)].

	Year Ended December 31,	
	2003	2002
Net sales[(2)]	$1,005,070	$1,052,237
Net income	$ 33,471	$ 50,191
Earnings per common share:		
Basic	$ 0.51	$ 0.75
Diluted	$ 0.50	$ 0.74

(1) Until September 15, 2003, the Top-Flite golf business was operated as a part of, and was integrated with, the other businesses of Spalding Sports Worldwide. The pro forma results of operations presented above therefore are based upon an estimated allocation of personnel and costs with regard to the manner in which the Top-Flite golf business was structured and operated as part of Spalding Sports Worldwide. The allocated personnel and costs are not necessarily indicative of the personnel and costs that would have been included had the Top-Flite business been operated as part of Callaway Golf Company since the beginning of the periods presented. As a result, the pro forma results of operations are not necessarily indicative of the results of operations for the periods presented had the acquisition been completed at the beginning of the periods presented.

(2) In 2003, Callaway Golf began recording royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

Note 4. Change in Accounting Estimate

In preparing its financial statements, the Company is required to make certain estimates, including those related to provisions for warranty, uncollectable accounts receivable, inventory obsolescence, valuation allowance for deferred tax assets and the market value of derivative instruments. The Company periodically reviews its estimates to ensure that the estimates appropriately reflect changes in its business or as new information becomes available.

The Company has a stated two-year warranty policy for its golf clubs, although the Company's historical practice has been to honor warranty claims well after the two-year stated warranty period. Prior to the third quarter of 2002, the Company's method of estimating both its implicit and explicit warranty obligation was to utilize data and information based on the cumulative failure rate by product after taking into consideration specific risks the Company believes existed at the time the financial statements were prepared. These additional risks included product specific risks, such as the introduction of products with new technology or materials that would be more susceptible to failure or breakage, and other business risks, such as increased warranty liability as a result of acquisitions. In many cases, additions to the warranty reserve for new product introductions have been based on management's judgment of possible future claims derived from the limited product failure data that was available at the time.

Beginning in the second quarter of 2001, the Company began to compile data that illustrated the timing of warranty claims in relation to product life cycles. In the third quarter of 2002, the Company determined it had gathered sufficient data and concluded it should enhance its warranty accrual estimation methodology to utilize the additional data. The analysis of the data, in management's judgment, provided management with

more insight into timing of claims and demonstrated that some product failures are more likely to occur early in a product's life cycle while other product failures occur in a more linear fashion over the product's life cycle. As a result of its analysis of the recently collected additional information, the Company believes it has gained better insight and improved judgment to more accurately project the ultimate failure rates of its products. As a result of this refinement in its methodology, the Company concluded that it should change its methodology of estimating warranty accruals and reduce its warranty reserve by approximately $17,000,000. The $17,000,000 reduction is recorded in cost of sales and favorably impacted gross profit as a percentage of net sales by 2 percentage points for the year ended December 31, 2002. The change in methodology has been accounted for as a change in accounting principle inseparable from a change in estimate.

Note 5. Selected Financial Statement Information

	December 31,	
	2003	2002
	(In thousands)	
Accounts receivable, net:		
Trade accounts receivable	$ 106,856	$ 69,341
Allowance for doubtful accounts	(6,192)	(5,474)
	$ 100,664	$ 63,867
Inventories, net:		
Raw materials	$ 76,122	$ 63,953
Work-in-process	9,129	2,550
Finished goods	118,744	102,018
	203,995	168,521
Reserve for excess and obsolescence	(18,606)	(16,761)
	$ 185,389	$ 151,760
Property, plant and equipment, net:		
Land	$ 12,805	$ 10,533
Buildings and improvements	91,148	89,630
Machinery and equipment	129,270	114,635
Furniture, computers and equipment	90,571	79,891
Production molds	26,968	26,059
Construction-in-process	2,920	5,537
	353,682	326,285
Accumulated depreciation	(188,919)	(158,945)
	$ 164,763	$ 167,340
Accounts payable and accrued expenses:		
Accounts payable	$ 35,340	$ 18,544
Accrued expenses	24,627	26,486
Accrued sales programs	19,820	16,690
	$ 79,787	$ 61,720

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31,	
	2003	2002
	(In thousands)	
Accrued employee compensation and benefits:		
Accrued payroll and taxes	$16,577	$16,015
Accrued vacation and sick pay	8,126	6,172
Accrued commissions	841	981
	$25,544	$23,168

Note 6. Goodwill and Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." As a result of adopting SFAS No. 142, the Company's goodwill and certain intangible assets are no longer amortized, but are subject to an annual impairment test. The following sets forth the intangible assets by major asset class:

	Useful Life (Years)	December 31, 2003			December 31, 2002		
		Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
		(In thousands)					
Non-Amortizing:							
Trade name, trademark and trade dress[1]		$120,605	$ —	$120,605	$ 88,590	$ —	$ 88,590
Amortizing:							
Patents[2]	3-16	32,277	7,251	25,026	20,167	5,697	14,470
Other[3]	1-9	4,386	382	4,004	57	2	55
Total intangible assets		$157,268	$7,633	$149,635	$108,814	$5,699	$103,115

(1) Acquired during business acquisition transactions.

(2) The gross balance of patents at December 31, 2003 and 2002 acquired during business acquisition transactions was $19,114,000 and $6,963,000, respectively. The accumulated amortization balance of acquired patents at December 31, 2003 and 2002 was $3,131,000 and $2,472,000, respectively.

(3) The gross balance of other intangibles at December 31, 2003 acquired during business acquisition transactions was $4,293,000. The accumulated amortization balance of other acquired intangibles at December 31, 2003 was $364,000. There were no other acquired intangibles at December 31, 2002.

Aggregate amortization expense on intangible assets was approximately $2,008,000 for the year ended December 31, 2003. Amortization expense related to intangible assets at December 31, 2003 in each of the next five fiscal years and beyond is expected to be incurred as follows:

	(In thousands)
2004	$ 3,764
2005	3,705
2006	2,846
2007	2,673
2008	2,639
Thereafter	13,403
	$29,030

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with SFAS No. 142, the Company has completed the annual impairment tests and fair value analysis for goodwill and other non-amortizing intangible assets, respectively, held throughout the year. There were no impairments or impairment indicators present and no loss was recorded during the year ended December 31, 2003. The value of the trade names and other intangible assets acquired in connection with the Top-Flite Acquisition were determined through an independent valuation. Changes in goodwill during the year ended December 31, 2003 were due to foreign currency fluctuations.

The following summarizes what net income would have been had the non-amortization provisions of SFAS No. 142 been adopted over the entire reporting period, adjusted for taxes:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands, except for per share)	
Reported net income	$45,523	$69,446	$58,375
Trade name amortization	—	—	1,044
Trademark and trade dress amortization	—	—	448
Goodwill amortization	—	—	2,153
Adjusted net income	$45,523	$69,446	$62,020
Basic earnings per share:			
Reported net income	$ 0.69	$ 1.04	$ 0.84
Trade name amortization	—	—	0.01
Trademark and trade dress amortization	—	—	0.01
Goodwill amortization	—	—	0.03
Adjusted basic earnings per share	$ 0.69	$ 1.04	$ 0.89
Diluted earnings per share:			
Reported net income	$ 0.68	$ 1.03	$ 0.82
Trade name amortization	—	—	0.01
Trademark and trade dress amortization	—	—	0.01
Goodwill amortization	—	—	0.03
Adjusted diluted earnings per share	$ 0.68	$ 1.03	$ 0.87

Note 7. Financing Arrangements

Effective June 16, 2003, the Company terminated its prior revolving credit facility with GE Capital Corporation and other lenders and entered into a revolving credit facility with Bank of America, N.A. for a $50,000,000 line of credit that was scheduled to be available until September 16, 2005, subject to earlier termination in accordance with its terms.

Effective November 10, 2003, the Company terminated its $50,000,000 line of credit with Bank of America, N.A. and obtained a new $100,000,000 revolving line of credit from Bank of America, N.A. and certain other lenders. The new $100,000,000 credit facility is scheduled to be available until November 2004, subject to earlier termination in accordance with its terms and subject to extension upon agreement of all parties. Upon the expiration of the new revolving credit facility, provided the Company is not in default of the terms of the new revolving credit facility and subject to certain conditions, the Company has the option to convert the amounts outstanding under the new revolving credit facility into a one-year term loan. At

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2003, there were no borrowings outstanding under the $100,000,000 line of credit and the Company was in compliance with the covenants and other terms thereof.

Subject to the terms of the new credit facility, the Company can borrow up to a maximum of $100,000,000. The Company is required to pay certain fees, including an unused commitment fee equal to 12.5 to 20.0 basis points per annum of the unused commitment amount, with the exact amount determined based upon the Company's Consolidated Leverage Ratio. For purposes of the new credit facility, "Consolidated Leverage Ratio" means, as of any date of determination, the ratio of "Consolidated Funded Indebtedness" as of such date to "Consolidated EBITDA" for the four most recent fiscal quarters (as such terms are defined in the new credit facility agreement). Outstanding borrowings under the new credit facility accrue interest at the Company's election at (i) the higher of (a) the Federal Funds Rate plus 50.0 basis points or (b) Bank of America's prime rate, and in either case less a margin of 50.0 to 100.0 basis points depending upon the Company's Consolidated Leverage Ratio or (ii) the Eurodollar Rate (as such term is defined in the new credit facility agreement) plus a margin of 75.0 to 125.0 basis points depending upon the Company's Consolidated Leverage Ratio. The Company has agreed that repayment of amounts under the new credit facility will be guaranteed by certain of the Company's domestic subsidiaries and will be secured by the Company's pledge of 65% of the stock it holds in certain of its foreign subsidiaries and by certain intercompany debt securities and proceeds thereof.

The new credit facility agreement requires the Company to maintain certain minimum financial covenants. Specifically, (i) the Company's Consolidated Leverage Ratio may not exceed 1.25 to 1.00 and (ii) Consolidated EBITDA (which would exclude certain non-cash charges related to the restructuring of the Company's golf ball operations) for any four consecutive quarters may not be less than $50,000,000. The new credit facility agreement also includes certain other restrictions, including restrictions limiting additional indebtedness, dividends, stock repurchases, transactions with affiliates, capital expenditures, asset sales, acquisitions, mergers, liens and encumbrances and other matters customarily restricted in loan documents. The new credit facility also contains other customary provisions, including affirmative covenants, representations and warranties and events of default.

Fees incurred in connection with these facilities are recorded in interest expense. At the time the Company entered into these facilities, the Company paid certain fees, including origination fees, which are amortized over the term of the facilities. The amortization of fees was approximately $265,000 in 2003 and approximately $556,000 in both 2002 and 2001, respectively. During 2003, the Company expensed $583,000 of unamortized fees associated with the facilities terminated during the year. The Company also paid unused facility fees for each of the facilities in the amount of approximately $221,000 in 2003 and approximately $300,000 in both 2002 and 2001, respectively.

In connection with the Top-Flite Acquisition, the Company assumed long-term debt related to a warehouse located in Chicopee, Massachusetts, payable in full in 2018 and secured by the warehouse. Interest on the outstanding balance accrued at an annual rate of 300 basis points over the one-year U.S. Treasury Note. The interest rate on the outstanding balance was 4.31% in 2003. In November 2003, the Company paid the loan balance in full. The Company recorded interest expense of $44,000 associated with the loan in 2003. Also in connection with the Top-Flite acquisition, the Company assumed capital lease obligations in the aggregate amount of $394,000 at December 31, 2003, related primarily to computer and telecommunication systems. The lease agreements expire in 2006.

In April 2001, the Company entered into a note payable in the amount of $7,500,000 as part of a licensing agreement for patent rights. The unsecured, interest-free note payable was paid in full on December 31, 2003. The Company recorded interest expense of $139,000, $326,000 and $332,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In March 2004, as a result of the recent Top Flite acquisition and normal seasonality of the Company's business, the Company obtained a commitment (subject to customary loan documentation and closing conditions) for an additional $25.0 million unsecured line of credit with Bank of America. The purpose of this commitment is to ensure an additional source of liquidity during the first part of the new golf season during which the Company typically uses more cash than it generates. During the second quarter, the Company typically begins generating cash in excess of its cash needs. The Company expects that all amounts borrowed under its credit facilities will be paid off by the end of the second quarter and that the Company will thereafter continue to generate cash for the balance of the year.

Note 8. Derivatives and Hedging

The Company uses derivative financial instruments to manage its exposures to foreign exchange rates. The Company also utilized a derivative commodity instrument to manage its exposure to electricity rates in the volatile California energy market during the period of June 2001 through November 2001. The derivative instruments are accounted for pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." As amended, SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures.

Foreign Currency Exchange Contracts

The Company enters into foreign exchange contracts to hedge against exposure to changes in foreign currency exchange rates. Such contracts are designated at inception to the related foreign currency exposures being hedged, which include anticipated intercompany sales of inventory denominated in foreign currencies, payments due on intercompany transactions from certain wholly-owned foreign subsidiaries, and anticipated sales by the Company's wholly-owned European subsidiary for certain Euro-denominated transactions. Hedged transactions are denominated primarily in British Pounds, Euros, Japanese Yen, Korean Won, Canadian Dollars and Australian Dollars. To achieve hedge accounting, contracts must reduce the foreign currency exchange rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies. Pursuant to its foreign exchange hedging policy, the Company may hedge anticipated transactions and the related receivables and payables denominated in foreign currencies using forward foreign currency exchange rate contracts and put or call options. Foreign currency derivatives are used only to meet the Company's objectives of minimizing variability in the Company's operating results arising from foreign exchange rate movements. The Company does not enter into foreign exchange contracts for speculative purposes. Hedging contracts mature within twelve months from their inception.

At December 31, 2003, 2002 and 2001, the notional amounts of the Company's foreign exchange contracts were approximately $91,222,000, $134,782,000 and $156,961,000, respectively. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates, and records all derivatives on the balance sheet at fair value. At December 31, 2003, the fair values of foreign currency-related derivatives were recorded as current assets of $50,000 and current liabilities of $799,000. At December 31, 2002, the fair values of foreign currency-related derivatives were recorded as current assets of $127,000 and current liabilities of $2,637,000.

At December 31, 2003, 2002 and 2001, the notional amounts of the Company's foreign exchange contracts designated as cash flow hedges were approximately $44,443,000, $84,843,000 and $122,550,000, respectively. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in accumulated other comprehen-

sive income ("OCI") as a separate component of shareholders' equity and subsequently reclassified into earnings in the period during which the hedged transaction is recognized in earnings. During the years ended December 31, 2003, 2002 and 2001, the Company recorded the following hedging activity in OCI (in thousands):

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Beginning OCI balance related to cash flow hedges	$(1,362)	$ 6,424	$ (1,599)
Add: Net gain (loss) initially recorded in OCI	(3,858)	(3,923)	10,950
Deduct: Net gain (loss) reclassified from OCI into earnings	(2,701)	3,863	2,927
Ending OCI balance related to cash flow hedges	$(2,519)	$(1,362)	$ 6,424

During the years ended December 31, 2003 and 2001, no gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges. During the year ended December 30, 2002, gains of $171,000 were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of December 31, 2003, $2,519,000 of deferred net losses related to derivative instruments designated as cash flow hedges were included in OCI. These derivative instruments hedge transactions that are expected to occur within the next twelve months. As the hedged transactions are completed, the related deferred net gain or loss is reclassified from OCI into earnings. The Company does not expect that such reclassifications will have a material effect on the Company's earnings, as any gain or loss on the derivative instruments generally would be offset by the opposite effect on the related underlying transactions.

The ineffective portion of the gain or loss for derivative instruments that are designated and qualify as cash flow hedges is immediately reported as a component of interest and other income. For foreign currency contracts designated as cash flow hedges, hedge effectiveness is measured using the spot rate. Changes in the spot-forward differential are excluded from the test of hedging effectiveness and are recorded currently in earnings as a component of interest and other income. During the years ended December 31, 2003, 2002 and 2001, the Company recorded net gains of $38,000, $376,000 and $1,988,000, respectively, as a result of changes in the spot-forward differential. Assessments of hedge effectiveness are performed using the dollar offset method and applying a hedge effectiveness ratio between 80% and 125%. Given that both the hedged item and the hedging instrument are evaluated using the same spot rate, the Company anticipates the hedges to be highly effective. The effectiveness of each derivative is assessed quarterly.

At December 31, 2003, 2002 and 2001, the notional amounts of the Company's foreign exchange contracts used to hedge outstanding balance sheet exposures were approximately $46,779,000, $49,939,000 and $34,411,000, respectively. The gains and losses on foreign currency contracts used to hedge balance sheet exposures are recognized as a component of interest and other income in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities and thus offset these gains and losses. During the years ended December 31, 2003, 2002 and 2001, the Company recorded net losses of $6,838,000 and $8,148,000 and net gains of $4,473,000, respectively, due to net realized and unrealized gains and losses on contracts used to hedge balance sheet exposures.

Energy Derivative

In the second quarter of 2001, the Company entered into a long-term, fixed-price, fixed-capacity, energy supply contract as part of a comprehensive strategy to ensure the uninterrupted supply of electricity while capping costs in the volatile California electricity market. The contract was originally effective through May 2006. This derivative did not qualify for hedge accounting treatment under SFAS No. 133. Therefore, the Company recognized in earnings the changes in the estimated fair value of the contract based on current

market rates as unrealized energy derivative losses. During the fourth quarter of 2001, the Company notified the energy supplier that, among other things, the energy supplier was in default of the energy supply contract and that based upon such default, and for other reasons, the Company was terminating the energy supply contract. As a result, the Company adjusted the estimated fair value of this contract through the date of termination. As the contract is terminated and neither party to the contract is performing pursuant to the terms of the contract, the terminated contract ceased to represent a derivative instrument in accordance with SFAS No. 133. The Company, therefore, no longer records future valuation adjustments for changes in electricity rates. The Company continues to reflect the derivative valuation account on its balance sheet, subject to periodic review, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Any non-cash unrealized gains to be recognized upon extinguishment of the derivative valuation account would be reported as non-operating income.

As of the date of termination of the energy supply contract, the derivative valuation account reflected $19,922,000 of unrealized losses resulting from changes in the estimated fair value of the contract. The fair value of the contract was estimated at the time of termination based on market prices of electricity for the remaining period covered by the contract. The net differential between the contract price and estimated market prices for future periods was applied to the volume stipulated in the contract and discounted on a present value basis to arrive at the estimated fair value of the contract at the time of termination. The estimate was highly subjective because quoted market rates directly relevant to the Company's local energy market and for periods extending beyond a 10- to 12-month horizon were not quoted on a traded market. In making the estimate, the Company instead had to rely upon near-term market quotations and other market information to determine an estimate of the fair value of the contract. In management's opinion, there are no available contract valuation methods that provide a reliable single measure of the fair value of the energy derivative because of the lack of quoted market rates directly relevant to the terms of the contract and because changes in subjective input assumptions can materially affect the fair value estimates. See Note 13 for a discussion of contingencies related to the termination of the Company's derivative energy supply contract.

Note 9. Earnings Per Common Share

The schedule below summarizes the elements included in the calculation of basic and diluted earnings per common share for the years ended December 31, 2003, 2002 and 2001.

	Year Ended December 31,		
	2003	2002	2001
		(In thousands, except per share data)	
Net income	$45,523	$69,446	$58,375
Weighted-average shares outstanding:			
Weighted-average shares outstanding — Basic	66,027	66,517	69,809
Dilutive securities	444	757	1,505
Weighted-average shares outstanding — Diluted	66,471	67,274	71,314
Earnings per common share:			
Basic	$ 0.69	$ 1.04	$ 0.84
Diluted	$ 0.68	$ 1.03	$ 0.82

For the years ended December 31, 2003, 2002 and 2001, options outstanding totaling 10,606,000 shares, 14,177,000 shares and 8,943,000 shares, respectively, were excluded from the calculations of earnings per common share, as their effect would have been antidilutive.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 10. Stock, Stock Options and Rights

Common Stock and Preferred Stock

The Company has an authorized capital of 243,000,000 shares, $.01 par value, of which 240,000,000 shares are designated Common Stock, and 3,000,000 shares are designated Preferred Stock. Of the Preferred Stock, 240,000 shares are designated Series A Junior Participating Preferred Stock in connection with the Company's shareholders' rights plan (see Shareholders' Rights Plan below). The remaining shares of Preferred Stock are undesignated as to series, rights, preferences, privileges or restrictions.

The holders of Common Stock are entitled to one vote for each share of Common Stock on all matters submitted to a vote of the Company's shareholders. Although to date no shares of Series A Junior Participating Preferred Stock have been issued, if such shares were issued, each share of Series A Junior Participating Preferred Stock would entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Company. The holders of Series A Junior Participating Preferred Stock and the holders of Common Stock shall generally vote together as one class on all matters submitted to a vote of the Company's shareholders. Shareholders entitled to vote for the election of directors are entitled to vote cumulatively for one or more nominees.

Treasury Stock

In May 2000, August 2001 and May 2002, the Company announced that its Board of Directors authorized it to repurchase its Common Stock in the open market or in private transactions, subject to the Company's assessment of market conditions and buying opportunities from time to time, up to a maximum cost to the Company of $100,000,000, $100,000,000 and $50,000,000, respectively. The following schedule summarizes the Company's repurchase programs:

	Year Ended December 31,					
	2003		2002		2001	
	Shares Repurchased	Average Cost Per Share	Shares Repurchased	Average Cost Per Share	Shares Repurchased	Average Cost Per Share
	(In thousands, except per share data)					
Authority Announced in May 2000.	—	—	—	—	1,022	$19.09
Authority Announced in August 2001.	—	—	866	$17.86	4,979	$16.98
Authority Announced in May 2002.	373	$12.77	1,967	$15.75	n/a	n/a
Total	373	$12.77	2,833	$16.40	6,001	$17.34

The Company has completed its May 2000 and August 2001 repurchase programs. As of December 31, 2003, the Company is authorized to repurchase up to $14,269,000 of its Common Stock under the repurchase program announced in May 2002. The Company's repurchases of shares of Common Stock are recorded at average cost in Common Stock held in treasury and result in a reduction of shareholders' equity.

In July 2001, the Company issued 5,837,000 shares of Common Stock held in treasury to the Callaway Golf Grantor Stock Trust in exchange for a promissory note in the amount of $90,282,000. The sale of these shares had no net impact on shareholders' equity.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Grantor Stock Trust

In July 1995, the Company established the Callaway Golf Company Grantor Stock Trust (the "GST") for the purpose of funding the Company's obligations with respect to one or more of the Company's non-qualified or qualified employee benefit plans. The GST shares are used primarily for the settlement of employee stock option exercises and employee stock plan purchases. The existence of the GST will have no impact upon the amount of benefits or compensation that will be paid under the Company's employee benefit plans. The GST acquires, holds and distributes shares of the Company's Common Stock in accordance with the terms of the trust. Shares held by the GST are voted in accordance with voting directions from eligible employees of the Company as specified in the GST.

In conjunction with the formation of the GST, the Company issued 4,000,000 shares of newly issued Common Stock to the GST in exchange for a promissory note in the amount of $60,575,000 ($15.14 per share). In December 1995, the Company issued an additional 1,300,000 shares of newly issued Common Stock to the GST in exchange for a promissory note in the amount of $26,263,000 ($20.20 per share). In July 2001, the Company issued 5,837,000 shares of Common Stock held in treasury to the GST in exchange for a promissory note in the amount of $90,282,000 ($15.47 per share). The issuance of these shares to the GST had no net impact on shareholders' equity.

For financial reporting purposes, the GST is consolidated with the Company. The value of shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with the settlement of employee stock option exercises and employee stock plan purchases. Each period, the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in paid-in capital. The issuance of shares by the GST is accounted for by reducing the GST and paid-in capital accounts proportionately as the shares are released. The GST does not impact the determination or amount of compensation expense for the benefit plans being settled.

The following table presents shares released from the GST for the settlement of employee stock option exercises and employee stock plan purchases for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Employee stock option exercises	1,041	197	150
Employee stock plan purchases	385	439	223
Total shares released from the GST	1,426	636	373

Options

The Company had the following stock option plans under which shares were available for grant at December 31, 2003: the 1995 Employee Stock Incentive Plan (the "1995 Plan"), the 1996 Stock Option Plan (the "1996 Plan"), the 1998 Stock Incentive Plan (the "1998 Plan") and the 2001 Non-Employee Directors Stock Option Plan (the "2001 Directors Plan").

The 1996 Plan and the 1998 Plan permit the granting of options or other stock awards to the Company's officers, employees and consultants. Under the 1996 Plan and the 1998 Plan, options may not be granted at option prices that are less than fair market value at the date of grant. The 1995 Plan permits the granting of options or other stock awards to only non-executive officer employees and consultants of the Company. Although stock option grants under the 1995 Plan may be made at exercise prices less than market value at the date of grant, the Company's practice has been to grant stock options at exercise prices equal to the market value at the date of grant. The 1995 Plan was amended in 2001 and the 1996 Plan was amended in 2000 to increase the maximum number of shares of Common Stock to be issued upon exercise of an option to

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10,800,000 and 9,000,000 shares, respectively. The 2001 Directors Plan is a shareholder approved plan. It provides for automatic grants of stock options upon a non-employee Director's initial appointment to the Company's Board of Directors and annually on the anniversary of such appointment. All such grants are made at prices based on the market value of the stock at the date of grant.

The following table presents shares authorized, available for future grant and outstanding under each of the Company's plans as of December 31, 2003:

	Authorized	Available	Outstanding
		(In thousands)	
1991 Plan	10,000	—	412
Promotion Plan	3,560	—	746
1995 Plan	10,800	1,556	6,473
1996 Plan	9,000	1,598	4,876
1998 Plan	500	250	117
Key Officer Plans	1,100	—	260
2001 Directors Plan	500	374	126
Directors Plan	840	—	228
Total	36,300	3,778	13,238

Under the Company's stock option plans, outstanding options generally vest over periods ranging from zero to five years from the grant date and generally expire up to 12 years after the grant date.

The following summarizes stock option transactions for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,					
	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(In thousands, except per share data)					
Outstanding at beginning of year	14,936	$ 20.19	14,753	$ 20.57	16,758	$ 19.66
Granted	1,820	$ 12.73	2,458	$ 16.46	3,475	$ 19.72
Exercised	(1,174)	$ 11.71	(1,077)	$ 12.10	(3,634)	$ 12.39
Canceled	(2,344)	$ 25.18	(1,198)	$ 24.45	(1,846)	$ 26.77
Outstanding at end of year	13,238	$ 19.04	14,936	$ 20.19	14,753	$ 20.57
Options exercisable at end of year	9,922	$ 20.56	11,522	$ 21.11	11,484	$ 21.20
Price range of outstanding options		$5.25 - $40.00		$5.00 - $40.00		$5.00 - $40.00

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The exercise price of all options granted during 2003, 2002 and 2001 was generally equal to the market value on the date of grant. The following table summarizes additional information about outstanding stock options at December 31, 2003:

Range of Exercise Price	Number Outstanding	Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
	(in thousands)			(in thousands)	
$5.25 - $10	18	2.87	$ 7.26	18	$ 7.26
$ 10 - $15	4,356	6.44	$12.88	2,695	$13.17
$ 15 - $25	5,843	6.55	$17.65	4,188	$18.07
$ 25 - $40	3,021	1.88	$30.68	3,021	$30.68
$5.25 - $40	13,238	5.44	$19.04	9,922	$20.56

During 2002 and 2001, the Company, at its discretion, extended the expiration terms or accelerated the vesting of 683,000 and 1,422,000 options, respectively, held by certain employees and officers. At the time of the modifications, the exercise prices of the options were in excess of the then-current market price and accordingly these actions did not result in compensation expense for the Company. Also during 2001, the Company, at its discretion, cancelled and re-granted 17,000 options and recognizes compensation expense, if any, related to these options in accordance with variable plan accounting.

Shareholders' Rights Plan

The Company has a plan to protect shareholders' rights in the event of a proposed takeover of the Company. This plan is not intended to prevent transactions which provide full and fair value to shareholders. It is intended to discourage abusive takeover tactics and to provide time for the Company's Board of Directors to review and evaluate what is in the best interests of shareholders. Under the plan, each share of the Company's outstanding Common Stock carries one right to purchase one one-thousandth of a share of the Company's Series "A" Junior Participating Preferred Stock (the "Right"). The Right entitles the holder, under certain circumstances, to purchase Common Stock of Callaway Golf Company or of the acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding Common Stock. The Rights are redeemable by the Company at $0.01 per Right and expire in 2005.

Restricted Common Stock

During 1998, the Company granted 130,000 shares of Restricted Common Stock with a fair value of $31 per share to 26 officers of the Company. Of these shares, 83,750 shares were canceled due to the service requirement not being met. During 1998, the Company, at its discretion, accelerated the vesting of 20,000 shares and recorded related compensation expense of $618,000. The remaining 26,250 shares, vested on January 1, 2003. The net compensation expense of $814,000 related to the remaining shares was recognized ratably over the vesting period, based on the difference between the exercise price and market value of the stock on the measurement date.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("1999 ESPP"), pursuant to which participating employees authorize the Company to withhold compensation and to use the withheld amounts to purchase shares of the Company's Common Stock at 85% of the lower of the fair market value on the first day of a two year offering period or the last day of each six month exercise period. During 2003, 2002 and 2001, approximately 385,000, 443,000 and 506,000 shares, respectively, of the Company's Common Stock were

purchased under the 1999 ESPP or the ESPP. As of December 31, 2003, 450,000 shares were reserved for future issuance under the 1999 ESPP.

Compensation Expense

During 2003, 2002 and 2001, the Company recorded $15,000, $314,000 and $342,000, respectively, in compensation expense for Restricted Common Stock and certain options to purchase shares of Common Stock granted to employees, officers, professional endorsers and consultants of the Company. The valuation of options granted to non-employees is estimated using the Black-Scholes option-pricing model.

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

Note 11. Employee Benefit Plans

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to 15% of annual compensation, up to the maximum permitted under Federal law, and the Company is obligated to contribute annually an amount equal to 100% of the participant's contribution up to 6% of that participant's annual compensation. Employees contributed $6,216,000, $6,502,000 and $6,353,000 to the 401(k) Plan in 2003, 2002 and 2001, respectively. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of $4,695,000, $4,912,000 and $4,474,000 during 2003, 2002 and 2001, respectively. Additionally, the Company can make discretionary contributions based on the profitability of the Company. For the years ended December 31, 2003, 2002 and 2001, the Company recorded compensation expense for discretionary contributions of $1,898,000, $2,669,000 and $3,786,000, respectively.

The Company also has an unfunded, non-qualified deferred compensation plan. The plan allows officers, certain other employees and directors of the Company to defer all or part of their compensation, to be paid to the participants or their designated beneficiaries upon retirement, death or separation from the Company. To support the deferred compensation plan, the Company has elected to purchase Company-owned life insurance. The cash surrender value of the Company-owned insurance related to deferred compensation is included in other assets and was $9,905,000 and $9,139,000 at December 31, 2003 and 2002, respectively. The liability for the deferred compensation is included in long-term liabilities and was $ 8,947,000 and $7,375,000 at December 31, 2003, and 2002, respectively. For the years ended December 31, 2003 and 2002, the total participant deferrals were $1,544,000 and $1,634,000, respectively.

Note 12. Income Taxes

The Company's income before income tax provision was subject to taxes in the following jurisdictions for the following periods:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
United States	$50,803	$101,897	$75,872
Foreign	17,080	9,774	22,320
	$67,883	$111,671	$98,192

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The provision for income taxes is as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Current tax provision:			
Federal	$21,452	$26,666	$23,056
State	2,954	3,935	3,350
Foreign	7,215	3,811	8,273
Deferred tax expense (benefit):			
Federal	(8,323)	5,944	3,595
State	120	1,367	1,526
Foreign	(1,058)	502	17
Income tax provision	$22,360	$42,225	$39,817

During 2003, 2002 and 2001, tax benefits related to stock option exercises were $1,784,00, $5,479,000 and $14,520,000, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in paid-in capital.

Deferred tax assets and liabilities are classified as current or noncurrent according to the classification of the related asset or liability. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2003 and 2002 are as follows:

	December 31,	
	2003	2002
	(In thousands)	
Deferred tax assets:		
Reserves and allowances	$16,527	$15,089
Depreciation and amortization	6,921	—
Compensation and benefits	7,474	5,513
Effect of inventory overhead adjustment	1,708	1,858
Compensatory stock options and rights	1,328	1,734
Revenue recognition	8,171	7,209
Long-lived asset impairment	625	1,757
Capital loss carryforward	—	41
Tax credit carryforwards	1,200	1,458
Energy derivative	8,108	8,129
Other	2,133	2,427
Total deferred tax assets	54,195	45,215
Valuation allowance for deferred tax assets	(3,540)	(2,454)
Deferred tax assets, net of valuation allowance	50,655	42,761
Deferred tax liabilities:		
State taxes, net of federal income tax benefit	(1,659)	(1,454)
Depreciation and amortization	—	(1,572)
Net deferred tax assets	$48,996	$39,735

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At December 31, 2003, the Company had $1,200,000 of credit carryforwards primarily relating to state investment tax credits that expire December 31, 2006.

A valuation allowance has been established due to the uncertainty of realizing certain tax carryforwards, and a portion of other deferred tax assets. Based on management's assessment, it is more likely than not that all the net deferred tax assets will be realized through future earnings.

A reconciliation of income taxes computed by applying the statutory U.S. income tax rate to the Company's income before income taxes to the income tax provision is as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Amounts computed at statutory U.S. tax rate	$23,703	$39,085	$34,367
State income taxes, net of U.S. tax benefit	2,509	4,213	4,047
State tax credits, net of U.S. tax benefit	(1,138)	(429)	(878)
Expenses with no tax benefit	876	1,089	693
Foreign sales corporation tax benefits	(4,277)	(1,060)	(1,406)
Change in deferred tax valuation allowance	1,086	(310)	1,410
Other	(399)	(363)	1,584
Income tax provision	$22,360	$42,225	$39,817

U.S. income taxes were not provided for undistributed earnings of certain non-U.S. subsidiaries that will be re-invested outside the United States indefinitely. As of December 31, 2003 the cumulative amount of net undistributed earnings of foreign subsidiaries was $31,100,000. It is not practical to calculate the unrecognized deferred tax liability associated with the undistributed earnings.

U.S. tax return examinations have been completed for the years through 1997. Management believes adequate provisions for income tax have been recorded for all years.

Note 13. Commitments and Contingencies

Legal Matters

In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated or may initiate actions against alleged infringers under the intellectual property laws of various countries, including, for example, the U.S. Lanham Act, the U.S. Patent Act, and other pertinent laws. Defendants in these actions may, among other things, contest the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others may assert counterclaims against the Company. Historically, these matters individually and in the aggregate have not had 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 material 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. It is possible that one or more claims of potential infringement could lead to litigation, the need to obtain licenses, the need to alter a product to avoid infringement, a settlement or judgment, or some other action or material loss by the Company.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On April 6, 2001, a complaint was filed against Callaway Golf Company and Callaway Golf Sales Company in the Circuit Court of Sevier County, Tennessee, Case No. 2001-241-IV. The complaint seeks to assert a class action by plaintiff on behalf of himself and on behalf of consumers in Tennessee and Kansas who purchased select Callaway Golf products on or after March 20, 2000. Specifically, the complaint alleges that the Company adopted a New Product Introduction Policy governing the introduction of certain of the Company's new products in violation of Tennessee and Kansas antitrust and consumer protection laws. The plaintiff is seeking damages, restitution and punitive damages. The parties are engaged in discovery.

On November 4, 2002, Callaway Golf Sales Company was served with a complaint filed in the District Court of Sedgwick County, Kansas, Case No. 02C3607, seeking to assert an alleged class action on behalf of Kansas consumers who purchased select Callaway Golf products covered by the New Product Introduction Policy. Callaway Golf Company is also named in the Kansas case. The plaintiff in the Kansas case seeks damages and restitution for the alleged class under Kansas law.

On October 3, 2001, the Company filed suit in the United States District Court for the District of Delaware, Civil Action No. 01-669, against Dunlop Slazenger Group Americas, Inc., d/b/a MaxFli ("MaxFli") for infringement of a golf ball aerodynamics patent owned by the Company, U.S. Patent No. 6,213,898 (the "Aerodynamics Patent"). On October 15, 2001, MaxFli filed an answer to the complaint denying any infringement, and also filed a counterclaim against the Company asserting that former MaxFli employees hired by the Company had disclosed confidential MaxFli trade secrets to the Company, and that the Company had used that information to enter the golf ball business. Among other remedies, MaxFli is seeking compensatory damages; an additional award of punitive damages equal to two times the compensatory damages; prejudgment interest; attorneys' fees; a declaratory judgment; and injunctive relief. Both parties have amended their claims. The Company added a claim for false advertising and MaxFli added a claim for inequitable conduct before the Patent and Trademark Office. The parties are engaged in expert discovery. MaxFli's original report from its damages expert asserts that MaxFli is entitled to at least $18,500,000 in compensatory damages from the Company. MaxFli recently submitted a supplemental damages report seeking an additional $11,300,000 in compensatory damages, for a total compensatory damages claim of approximately $30,00,000. The Company has submitted its own expert report seeking damages for false advertising**.** The Company anticipates that each party will challenge the methodology and conclusions in the expert damages reports of the other. On November 12, 2003, pursuant to an agreement between the Company and MaxFli, the Court dismissed the Company's claim for infringement of the Aerodynamics Patent and all portions of MaxFli's counterclaim related to the Aerodynamics Patent, thereby resolving that part of the case. The trial on the Company's false advertising claim and MaxFli's remaining counterclaims is scheduled to commence in the summer of 2004. An unfavorable resolution of MaxFli's counterclaim could have a significant adverse effect upon the Company's results of operations, cash flows and financial position.

On December 2, 2002, Callaway Golf Company was served with a complaint filed in the Circuit Court of the 19th Judicial District in and for Martin County, Florida, Case No. 935CA, by the Perfect Putter Co. and certain principals of the Perfect Putter Co. Plaintiffs have sued Callaway Golf Company, Callaway Golf Sales Company and a Callaway Golf Sales Company sales representative. Plaintiffs allege that the Company misappropriated certain alleged trade secrets of the Perfect Putter Co. and incorporated those purported trade secrets in the Company's Odyssey White Hot 2-Ball Putter. Plaintiffs also allege that the Company made false statements and acted inappropriately during discussions with plaintiffs. Plaintiffs are seeking compensatory damages, exemplary damages, attorney's fees and costs, pre- and post-judgment interest and injunctive relief. On December 20, 2002, Callaway Golf removed the case to the United States District Court for the Southern District of Florida, Case No. 02-14342. On April 29, 2003, the District Court denied plaintiffs' motion to remand the case to state court. Thereafter, on August 14, 2003, the plaintiffs filed a second amended complaint adding a new claim for civil theft under Florida law based on the facts set forth in the original complaint. If successful on that claim, the plaintiffs will be entitled to treble damages. The Company has

denied the allegations of the second amended complaint. The parties are currently engaged in discovery. The trial of the action has been set to commence in September 2004.

On July 3, 2003, Saso Golf, Inc. filed a lawsuit against the Company, Callaway Golf Sales Co., and an unrelated defendant in the United States District Court for the Northern District of Illinois, Case No. 03-CV-4646. Saso Golf alleges that sales of Callaway Golf's metal woods, including but not limited to the original Callaway Golf Biggest Big Bertha, infringe U.S. Patent No. 5,645,495 and seeks compensatory damages, treble damages, attorney's fees, prejudgment interest, costs and injunctive relief. The Company has denied the allegations in the Complaint. The Court has not set a trial date, and the parties are conducting discovery.

The Company and its subsidiaries, incident to their business activities, are parties to a number of legal proceedings, lawsuits and other claims, including the matters specifically noted above. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, management is unable to estimate 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 December 31, 2003. Except as discussed above with regard to the MaxFli litigation, management believes at this time that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated annual results of operations or cash flows, or financial position.

Supply of Electricity and Energy Contracts

In the second quarter of 2001, the Company entered into an agreement with Pilot Power Group, Inc. ("Pilot Power") as the Company's energy service provider and in connection therewith entered into a long-term, fixed-priced, fixed-capacity, energy supply contract (the "Enron Contract") with Enron Energy Services, Inc. ("EESI"), a subsidiary of Enron Corporation, as part of a comprehensive strategy to ensure the uninterrupted supply of energy while capping electricity costs in the volatile California energy market. The Enron Contract provided, subject to the other terms and conditions of the contract, for the Company to purchase nine megawatts of energy per hour from June 1, 2001 through May 31, 2006 (394,416 megawatts over the term of the contract). The total purchase price for such energy over the full contract term would have been approximately $43,484,000.

At the time the Company entered into the Enron Contract, nine megawatts per hour was in excess of the amount the Company expected to be able to use in its operations. The Company agreed to purchase this amount, however, in order to obtain a more favorable price than the Company could have obtained if the Company had purchased a lesser quantity. The Company expected to be able to sell any excess supply through Pilot Power.

On November 29, 2001, the Company notified EESI that, among other things, EESI was in default of the Enron Contract and that based upon such default, and for other reasons, the Company was terminating the Enron Contract effective immediately. At the time of termination, the contract price for the remaining energy to be purchased under the Enron Contract through May 2006 was approximately $39,126,000.

On November 30, 2001, EESI notified the Company that it disagreed that it was in default of the Enron Contract and that it was prepared to deliver energy pursuant to the Enron Contract. On December 2, 2001, EESI, along with Enron Corporation and numerous other related entities, filed for bankruptcy. Since November 30, 2001, the parties have not been operating under the Enron Contract and Pilot Power has been providing energy to the Company from alternate suppliers.

As a result of the Company's notice of termination to EESI, and certain other automatic termination provisions under the Enron Contract, the Company believes that the Enron Contract has been effectively and appropriately terminated. There can be no assurance that EESI or another party will not assert a future claim against the Company or that a bankruptcy court or arbitrator will not ultimately nullify the Company's

termination of the Enron Contract. No provision has been made for contingencies or obligations, if any, under the Enron Contract beyond November 30, 2001.

Vendor Arrangements

The Company is dependent on a limited number of suppliers for its clubheads and shafts, some of which are single-sourced. 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 (because of financial difficulties or otherwise) are unable or fail to provide suitable components. However, any significant production delay or disruption caused by the inability of current suppliers to deliver or the transition to other suppliers could have a material adverse impact on the Company's results of operations. The Company is also single-sourced or dependent on a limited number of suppliers for the materials it uses to make its golf balls. Many of the materials are customized for the Company. Any delay or interruption in such supplies could have a material adverse impact upon the Company's golf ball business. If the Company did experience any such delays or interruptions, there is no assurance that the Company would be able to find adequate alternative suppliers at a reasonable cost or without significant disruption to its business.

Lease Commitments

The Company leases certain warehouse, distribution and office facilities, vehicles as well as office equipment under operating leases and certain computer and telecommunication equipment under capital leases. Lease terms range from one to ten years expiring at various dates through December 2008, with options to renew at varying terms. Commitments for minimum lease payments under non-cancelable operating leases as of December 31, 2003 are as follows:

	(In thousands)
2004	$ 4,820
2005	3,551
2006	2,854
2007	2,060
2008	828
Thereafter	1,648
	$15,761

Future minimum lease payments have not been reduced by future minimum sublease rentals of $1,144,000 under an operating lease. Rent expense for the years ended December 31, 2003, 2002 and 2001 was $4,388,000, $3,780,000 and $3,759,000, respectively.

Golf Professional Endorsement Contracts

The Company establishes relationships with professional golfers in order to evaluate and promote Callaway Golf, Odyssey, Top-Flite, Ben Hogan and Strata branded products. The Company has entered into endorsement arrangements with members of the various professional tours, including the Champions Tour, the PGA Tour, the LPGA Tour, the PGA European Tour, the Japan Golf Tour and the Nationwide Tour. Many of these contracts provide incentives for successful performances using the Company's products. For example, under these contracts, the Company could be obligated to pay a cash bonus to a professional who wins a particular tournament while playing the Company's golf clubs or golf balls. It is not possible to predict with any certainty the amount of such performance awards the Company will be required to pay in any given

year. Such expenses, however, are an ordinary part of the Company's business and the Company does not believe that the payment of these performance awards will have a material adverse effect upon the Company.

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company's customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company and (iv) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, the Company has made contractual commitments to several employees providing for severance payments upon the occurrence of certain prescribed events. The Company also has several consulting agreements that provide for payment of nominal fees upon the issuance of patents and/or the commercialization of research results. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers' compensation insurance policies. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company's financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments will be required under the commitments and guarantees described above. The fair value of indemnities, commitments and guarantees that the Company issued during 2003 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

The Company has entered into employment contracts with each of the Company's officers. These contracts generally provide for severance benefits, including salary continuation, if employment is terminated by the Company for convenience or by the officer for substantial cause. In addition, in order to assure that the officers would continue to provide independent leadership consistent with the Company's best interests in the event of an actual or threatened change in control of the Company, the contracts also generally provide for certain protections in the event of such a change in control. These protections include the extension of employment contracts and the payment of certain severance benefits, including salary continuation, upon the termination of employment following a change in control. The Company is also generally obligated to reimburse such officers for the amount of any excise taxes associated with such benefits.

Note 14. 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 primarily of Callaway Golf, Top-Flite and Ben Hogan woods, irons, wedges and putters as well as Odyssey putters and other golf-related accessories. The Golf Balls segment consists primarily of Callaway Golf, Top-Flite, Ben Hogan and Strata golf balls that are designed, manufactured and sold by the Company. There are no significant intersegment transactions.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The table below contains information utilized by management to evaluate its operating segments.

	2003	2002	2001
		(In thousands)	
Net sales[1]			
Golf Clubs	$735,654	$727,196	$763,219
Golf Balls	78,378	66,023	54,853
	$814,032	$793,219	$818,072
Income (loss) before tax[1]			
Golf Clubs[2]	$167,996	$179,489	$186,570
Golf Balls[3]	(52,687)	(25,576)	(17,868)
Reconciling items[4][5]	(47,476)	(42,242)	(70,510)
	$ 67,833	$111,671	$ 98,192
Identifiable assets			
Golf Clubs	$307,462	$311,823	$343,741
Golf Balls	190,172	103,152	60,166
Reconciling items[6]	250,932	264,870	243,695
	$748,566	$679,845	$647,602
Goodwill			
Golf Clubs	$ 20,216	$ 18,202	$ 16,846
Golf Balls	—	—	—
	$ 20,216	$ 18,202	$ 16,846
Depreciation and amortization			
Golf Clubs	$ 30,818	$ 30,628	$ 33,212
Golf Balls	13,678	7,012	4,255
	$ 44,496	$ 37,640	$ 37,467

(1) Beginning with the first quarter of 2003, the Company records royalty revenue in net sales and royalty expenses as a component of selling expenses. Previously, royalty revenue and royalty expenses were recorded as a component of other income. Prior periods have been reclassified to conform with the current period presentation.

(2) For 2002, the Company's income before tax includes the effect of the change in accounting estimate for the Company's warranty accrual. During the third quarter of 2002, the Company reduced its warranty reserve by approximately $17,000,000 (Note 4).

(3) On September 15, 2003 the Company completed the domestic portion of the Top-Flite Acquisition. The settlement of the international assets was effective October 1, 2003. Thus, the Company's financial data include the Top-Flite business results of operations in the United States from September 15, 2003 through December 31, 2003 and the international operations from October 1, 2003 through December 31, 2003. Additionally, the Company's 2003 income (loss) before tax includes the recognition of integration charges related to the consolidation of its Callaway Golf and Top-Flite golf ball and golf club manufacturing and research and development operations. These charges reduced the Company's income (loss) before tax by approximately $24,080,000 (Notes 2 and 3).

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(4) For 2001, the Company's income (loss) before tax includes the recognition of unrealized energy contract losses due to changes in the estimated fair value of the energy contract based on market rates. During the second and third quarters of 2001, the Company recorded an aggregate $19,922,000 of unrealized losses. During the fourth quarter of 2001, the Company terminated the energy contract. As a result, the Company will continue to reflect the derivative valuation account on its balance sheet with no future valuation adjustments for changes in market rates, subject to periodic review (Notes 8 and 13).

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

(6) Identifiable assets are comprised of net inventory, certain property, plant and equipment, intangible assets and goodwill. Reconciling items represent unallocated corporate assets not segregated between the two segments.

The Company's net sales by product category are as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Net sales			
Drivers and Fairway Woods	$252,420	$309,972	$392,945
Irons	271,684	243,454	248,872
Putters	142,814	111,523	67,471
Golf Balls	78,378	66,023	54,853
Accessories and Other*	68,736	62,247	53,931
	$814,032	$793,219	$818,072

* Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

The Company markets its products in the United States and internationally, with its principal international markets being Japan and Europe. The tables below contain information about the geographical areas in which the Company operates. Revenues are attributed to the location to which the product was shipped. Long-lived assets are based on location of domicile.

	Sales	Long-Lived Assets
	(In thousands)	
2003		
United States	$449,424	$305,176
Europe	145,148	16,995
Japan	101,259	3,590
Rest of Asia	58,327	846
Other foreign countries	59,874	8,007
	$814,032	$334,614

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Sales	Long-Lived Assets
	(In thousands)	
2002		
United States*	$439,847	$263,706
Europe	136,941	16,477
Japan	102,624	3,791
Rest of Asia	58,040	1,000
Other foreign countries	55,767	3,683
	$793,219	$288,657
2001		
United States*	$446,000	$234,281
Europe	118,417	13,261
Japan	130,706	3,415
Rest of Asia	63,928	729
Other foreign countries	59,021	2,877
	$818,072	$254,563

* Beginning with the first quarter of 2003, the Company records royalty revenue in net sales. Previously, royalty revenue was recorded as a component of other income and prior periods have been reclassified to conform with the current period presentation.

Note 15. Licensing Arrangements

The Company from time to time licenses its trademarks and service marks to third parties for use on products such as golf apparel, golf shoes and other golf related products, such as headwear, travel bags, golf towels and umbrellas. The Company has a current licensing arrangement with Ashworth, Inc. for the creation of a complete line of Callaway Golf men's and women's apparel for distribution in the United States, Canada, Europe, Australia, New Zealand and South Africa. The first full year in which the Company received royalty revenue under these licensing arrangements was 2003. The Company also has a current licensing arrangement with Sanei International Co., Ltd. ("Sanei") for the creation of a complete line of Callaway Golf men's and women's apparel for distribution in Asian Pacific markets including Japan, Korea, Hong Kong, Taiwan, Singapore, Indonesia, Malaysia, Thailand, Vietnam, Philippines, Brunei, Myanmar and Shenzhen in China.

In addition to apparel, the Company has also entered into licensing arrangements with (i) Tour Golf Group, Inc. for the creation of a Callaway Golf footwear collection, (ii) Fossil, Inc. for a line of Callaway Golf watches and clocks and (iii) TRG Accessories, LLC for the creation of a collection consisting of luggage, personal leather products and skin protection products. Also in 2003, as part of the Top-Flite Acquisition, the Company assumed certain license agreements Top-Flite had previously entered into with third parties to license the use of its Top-Flite, Ben Hogan and Strata brands on apparel, souvenirs and gifts.

Note 16. Transactions with Related Parties

A director of the Company is also a retired partner of a law firm that performs legal services for the Company. Legal fees incurred with this law firm totaled $2,971,000, $1,095,000 and $351,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The director receives no benefit as a result of the Callaway Golf fees paid to the law firm. A former director of the Company is also a senior managing director of an investment bank which performed services for the Company. Investment banking fees incurred with this

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

investment bank in 2003 and 2001 totaled $3,563,000 and $557,000, respectively. There were no fees paid in 2002.

The Callaway Golf Company Foundation (the "Foundation") oversees and administers charitable giving for the Company and makes grants to carefully selected organizations. Directors and executive officers of the Company also serve as directors of the Foundation and the Company's employees provide accounting and administrative services for the Foundation. In 2003, 2002 and 2001, the Company recognized charitable contribution expense of $939,000, $1,165,000 and $1,000,000, respectively, as a result of its unconditional promise to contribute such amounts to the Foundation.

In the latter part of 2003, the Company requested on short notice that one of its executive officers relocate to Chicopee, Massachusetts to be the President and Chief Operating Officer of the newly acquired Top-Flite business. In order to assist this officer with his relocation across country on such short notice (and because under the Sarbanes-Oxley Act of 2002 the Company is prohibited from making a loan to him), the Company purchased his residence in California at a cost of $2,000,000. The purchase price was determined based upon two independent appraisals. As of December 31, 2003, the Company was marketing the home and accounted for the home as a long-lived asset held for sale classified as other assets.

Note 17. Summarized Quarterly Data (Unaudited)

	Fiscal Year 2003 Quarters				
	1st	2nd	3rd[3]	4th[3][5]	Total
	(In thousands, except per share data)				
Net sales	$271,719	$242,077	$153,634	$146,602	$814,032
Gross profit	$137,837	$126,494	$ 70,220	$ 34,064	$368,615
Net income (loss)	$ 42,477	$ 34,143	$ 2,334	$ (33,431)	$ 45,523
Earnings (loss) per common share[1]					
Basic	$ 0.65	$ 0.52	$ 0.04	$ (0.50)	$ 0.69
Diluted	$ 0.64	$ 0.52	$ 0.03	$ (0.50)	$ 0.68

	Fiscal Year 2002 Quarters				
	1st	2nd	3rd[4]	4th	Total
Net sales[2]	$256,708	$252,473	$161,257	$122,781	$793,219
Gross profit[2]	$128,751	$137,789	$ 79,886	$ 53,725	$400,151
Net income (loss)	$ 30,694	$ 37,142	$ 7,187	$ (5,577)	$ 69,446
Earnings (loss) per common share[1]					
Basic	$ 0.46	$ 0.56	$ 0.11	$ (0.08)	$ 1.04
Diluted	$ 0.45	$ 0.55	$ 0.11	$ (0.08)	$ 1.03

(1) Earnings per share is computed individually for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not necessarily equal the total for the year.

(2) Beginning in the first quarter of 2003, the Company records royalty revenue as a component of net sales and royalty expenses as a component of selling expenses. Previously, royalty revenue and royalty expense was recorded as a component of other income. Prior periods have been reclassified to conform with the current period presentation. Previously reported net sales for 2002 were $256,380,000, $252,182,000, $160,981,000, $122,521,000 and $792,064,000 for the first, second, third and fourth quarters and for the year ended 2002, respectively. Previously reported gross profit for 2002 was $128,423,000, $137,498,000, $79,610,000, $53,465,000 and $398,996,000 for the first, second, third and fourth quarters and for the year ended 2002, respectively.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(3) On September 15, 2003 the Company completed the domestic portion of the Top-Flite Acquisition. The settlement of the international assets was effective October 1, 2003. Thus, the Company's consolidated statement of operations include The Top-Flite Golf Company results of operations in the United States for the period of September 15, 2003 through December 31, 2003 and the international operations for the period of October 1, 2003 through December 31, 2003. See Note 3 for pro forma disclosure for the years ended December 31, 2003 and 2002.

(4) The Company's gross profit, net income and earnings per common share includes the effect of the change in accounting estimate for the Company's warranty accrual. During the third quarter of 2002, the Company reduced its warranty reserve by approximately $17,000,000, pre-tax (Note 4).

(5) The Company's gross profit, net income and earnings per common share include the recognition of $24,080,000 in pre-tax integration charges recorded during the fourth quarter of 2003 related to the consolidation of its Callaway Golf and Top-Flite operations (Note 2).

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Callaway Golf Company:

We have audited the accompanying consolidated balance sheets of Callaway Golf Company and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Callaway Golf Company and subsidiaries for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 15, 2002 (except with respect to the Company's election to purchase certain leased equipment as discussed in Note 2 (previously reported in Note 17 in the previously issued 2001 financial statements), as to which the date is February 11, 2002).

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Callaway Golf Company and subsidiaries as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the consolidated financial statements of Callaway Golf Company and subsidiaries as of December 31, 2001, and for the year then ended, were audited by other auditors who have ceased operations. As described in Notes 2, 6 and 15, these consolidated financial statements have been revised to include certain transitional disclosures and reclassifications required by Statement of Financial Accounting Standards (Statement) No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as of January 1, 2002, Statement No. 148, *Accounting for Stock Based Compensation-Transition and Disclosure*, which disclosure provisions were adopted by the Company on December 31, 2002 and the Company's reclassification of royalty income as a component of net sales and royalty related expenses as a component of selling expenses, rather than other income. Our audit procedures with respect to the disclosures in Note 6 pertaining to 2001 included (i) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense, net of related tax effects, recognized in those periods related to goodwill and intangible assets that are no longer being amortized, as a result of initially applying Statement No. 142, to the Company's underlying records obtained from management; (ii) agreeing the amounts of goodwill, gross non-amortizing and amortizing intangible assets and their related accumulated amortization and net book value to the Company's underlying records obtained from management; and (iii) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income and the related earnings per share amounts and the components of the intangible assets to reported intangible assets, and the reclassification of goodwill. Our audit procedures with respect to the pro forma disclosures in Note 2 pertaining to 2001 included agreeing the previously reported net income and pro forma net income amounts to previously issued financial statements and the adjustments to reported net income representing stock-based employee compensation expense included in reported net income and total stock-based employee compensation expense determined under a fair value based method for all awards, net of related tax effects, to the Company's underlying records obtained from management. Our audit procedures with respect to the disclosure of the reclassification of royalty income pertaining to 2001 included (i) agreeing the previously reported net sales and selling expenses to the previously issued financial statements and the adjustments to reported net sales and selling expenses representing royalty income and royalty-related expenses recognized in those periods to underlying records

obtained from management; (ii) agreeing the amounts of net sales, selling expenses, royalty income and royalty related expenses to the Company's underlying records obtained from management; and (iii) testing the mathematical accuracy of net sales, selling expenses and other income as adjusted for the reclassifications described above to the similarly reported amounts.

In our opinion, the disclosures for 2001 in Notes 2, 6 and 15 and related reclassifications, as described above, are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

As discussed in Note 6 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill and intangible assets.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

March 10, 2004

THE FOLLOWING AUDIT REPORT OF ARTHUR ANDERSEN LLP ("ARTHUR ANDERSEN") IS A COPY OF THE ORIGINAL AUDIT REPORT DATED JANUARY 15, 2002, PREVIOUSLY ISSUED BY ARTHUR ANDERSEN IN CONNECTION WITH THE AUDIT OF THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2001. THIS AUDIT REPORT HAS NOT BEEN RE-ISSUED BY ARTHUR ANDERSEN AS THEY HAVE CEASED OPERATIONS. WE ARE INCLUDING THIS COPY OF THE ARTHUR ANDERSEN AUDIT REPORT PURSUANT TO RULE 2-02(e) OF REGULATION S-X UNDER THE SECURITIES ACT OF 1933.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Callaway Golf Company:

We have audited the accompanying consolidated balance sheet of Callaway Golf Company (a Delaware corporation) and Subsidiaries as of December 31, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Callaway Golf Company and Subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

San Diego, California January 15, 2002

(except with respect to the matter discussed
in Note 17, as to which the date is
February 11, 2002)

SCHEDULE II

CALLAWAY GOLF COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2003, 2002 and 2001

Date	Allowance for Doubtful Accounts	Reserve for Obsolete Inventory	Valuation Allowance For Deferred Tax Assets
		(Dollars in thousands)	
Balance, December 31, 2000	$ 6,227	$ 7,720	$1,354
Provision	(412)	4,392	1,459
Write-off, disposals, costs and other, net	(658)	(4,976)	(49)
Balance, December 31, 2001	5,157	7,136	2,764
Provision	1,124	12,871	—
Write-off, disposals, costs and other, net	(807)	(3,246)	(310)
Balance, December 31, 2002	5,474	16,761	2,454
Provision	2,047	7,629	1,189
Write-off, disposals, costs and other, net	(1,329)	(5,784)	(103)
Balance, December 31, 2003	$ 6,192	$18,606	$3,540

INDEPENDENT AUDITORS' REPORT ON

FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Callaway Golf Company

We have audited the consolidated financial statements of Callaway Golf Company and subsidiaries as of December 31, 2003 and 2002, and for the years then ended, and have issued our report thereon dated March 10, 2004, which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the adoption of a new accounting principle and (ii) the application of procedures with respect to certain other disclosures related to the 2001 consolidated financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures; such financial statements and report are included elsewhere in this Annual Report of Callaway Golf Company on Form 10-K for the year ended December 31, 2003. Our audits also included the consolidated financial statement schedule of Callaway Golf Company for the years ended December 31, 2003 and 2002, listed in the accompanying index at Item 15(a)(2). This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such 2003 and 2002 consolidated financial statement schedule, when considered in relation to the basic 2003 and 2002 financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

March 10, 2004

THE FOLLOWING AUDIT REPORT OF ARTHUR ANDERSEN LLP ("ARTHUR ANDERSEN") IS A COPY OF THE ORIGINAL AUDIT REPORT DATED JANUARY 15, 2002, PREVIOUSLY ISSUED BY ARTHUR ANDERSEN IN CONNECTION WITH THE AUDIT OF THE COMPANY'S FINANCIAL STATEMENT SCHEDULE INCLUDED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2001. THIS AUDIT REPORT HAS NOT BEEN RE-ISSUED BY ARTHUR ANDERSEN AS THEY HAVE CEASED OPERATIONS. WE ARE INCLUDING THIS COPY OF THE ARTHUR ANDERSEN AUDIT REPORT PURSUANT TO RULE 2-02(e) OF REGULATION S-X UNDER THE SECURITIES ACT OF 1933.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON

FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Callaway Golf Company:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements as of and for the year ended December 31, 2001 included in Exhibit 13.1 of this Form 10-K, and have issued our report thereon dated January 15, 2002 (except with respect to the matter discussed in Note 17, as to which the date is February 11, 2002). Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14(a)(2) of this Form 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. The information in the schedule as of and for the year ended December 31, 2001 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

San Diego, California

January 15, 2002

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.2	Third Amended and Restated Bylaws, as amended and restated as of December 3, 2003.
10.37	Credit Agreement, dated as of November 10, 2003, between the Company and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Bank of America Securities LLC, as Sole Lead Manager and Sole Book Manager, and the other lenders party to the Credit Agreement.
10.38	Pledge Agreement, dated November 10, 2003, by and between the Company and Bank of America, N.A., as Administrative Agent.
10.39	Termination letter agreement, dated November 12, 2003, between the Company and Bank of America, N.A. (terminating the June 16, 2003 Credit Agreement).
21.1	List of Subsidiaries.
23.1	Consent of Deloitte & Touche LLP.
23.2	Note regarding Arthur Andersen LLP.
24.1	Form of Power of Attorney.
31.1	Certification of Ronald A. Drapeau pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Bradley J. Holiday pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 3.2

THIRD AMENDED AND RESTATED

BYLAWS

OF

CALLAWAY GOLF COMPANY

(A DELAWARE CORPORATION)

(AS AMENDED AND RESTATED DECEMBER 3, 2003)

Amended and Restated December 3, 2003

INDEX

ARTICLE I

CORPORATE OFFICES

1.1. REGISTERED OFFICE

The registered office of the corporation shall be fixed in the certificate of incorporation of the corporation.

1.2. OTHER OFFICES

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1. PLACE OF MEETINGS

Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

2.2. ANNUAL MEETING

(a) The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected, and any other proper business may be transacted.

(b) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the corporation's notice of meeting, (ii) by or at the direction of the board of directors or (iii) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in this bylaw, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 2.2.

(c) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 2.2(b) above, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not

earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (x) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner and (y) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

2.3 SPECIAL MEETING

A special meeting of the stockholders may be called at any time by the board of directors, or by the chairman of the board, or by the president. No other person or persons are permitted to call a special meeting.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS

All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 2.6 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the purpose or purposes for which the meeting is called (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

2.5 CONDUCT OF MEETING

The board of directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the board, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the

proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the board or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the board or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of stockholders shall be given either personally or by first-class mail or by telefacsimile or other written communication. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telefacsimile or other means of written communication.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

2.7 QUORUM

The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting in accordance with this Section 2.7.

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the laws of the State of Delaware or of the certificate of incorporation or these bylaws, a different vote is required, in which case such express provision shall govern and control the decision of the question.

If a quorum be initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less

than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

2.8 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time and place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners, and to voting trusts and other voting agreements).

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

2.10 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT

Except as may be otherwise provided in the certificate of incorporation, any action which may be taken at any annual or special meeting of stockholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted. In the case of election of directors, if the certificate of incorporation so provides, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors; provided, however,

that a director may be elected at any time to fill a vacancy on the board of directors (other than a vacancy created by the removal of a director) that has not been filled by the directors, by the written consent of the holders of a majority of the outstanding shares entitled to vote for the election of directors. All such consents shall be filed with the secretary of the corporation and shall be maintained in the corporate records. Any stockholder giving a written consent, or the stockholder's proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

If the consents of all stockholders entitled to vote have not been solicited in writing, and if the unanimous written consent of all such stockholders shall not have been received, the secretary shall give prompt notice of the corporate action approved by the stockholders without a meeting.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING

For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, nor more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the board of directors in the case of an action in writing without a meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date.

If the board of directors does not so fix a record date, (a) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held, and (b) the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be the first date on which a signed written consent setting forth the action to be taken is delivered to the corporation at its principal place of business or to the corporation's registered office in Delaware.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new record date for the adjourned meeting, but the board of directors shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.

The record date for any other purpose shall be as provided in Section 8.1 of these bylaws.

2.13 PROXIES

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, telefacsimile or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the General Corporation Law of Delaware.

2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation and these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER OF DIRECTORS; INDEPENDENCE

(a) The board of directors shall consist of not less than six (6) nor more than fifteen (15) members, with the exact number within that range to be set from time to time exclusively by resolution of the board of directors.

(b) A substantial majority of the members of the board of directors shall be independent as determined by the board of directors or as otherwise required by applicable law, regulation or listing standard of the New York Stock Exchange.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Each director, including a director elected or appointed to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

3.4 RESIGNATION AND VACANCIES

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

All vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; provided, that whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors. If any regular meeting day shall fall on a legal holiday, then the meeting shall be held next succeeding full business day.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telefacsimile, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or telefacsimile, it shall be delivered personally or by telephone or telefacsimile at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone or telefacsimile may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.8 QUORUM

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.10 of these bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of the certificate of incorporation and other applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 WAIVER OF NOTICE

Notice of a meeting need not be given to any director (i) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. All such waivers, consents, and approvals shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

3.10 ADJOURNMENT

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

3.11 NOTICE OF ADJOURNMENT

Notice of the time and place of holding an adjourned meeting need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.7 of these bylaws, to the directors who were not present at the time of the adjournment.

3.12 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

3.13 FEES AND COMPENSATION OF DIRECTORS

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.13 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

3.14 APPROVAL OF LOANS TO OFFICERS

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or any of its subsidiaries, including any officer or employee who is a director of the corporation or any of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of one or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have and may exercise all the powers and authority of the board, but no such committee shall have the power or authority to:

(a) approve or adopt, or recommend to the stockholders, any action or matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval; or

(b) adopt, amend or repeal any bylaw of the corporation.

4.2 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment), Section 3.11 (notice of adjournment), and Section 3.12 (action without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

4.3 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when requested.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a chief executive officer, a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these bylaws, shall be chosen by the board, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or may empower the chief executive officer or president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors or such empowered officer may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

5.6 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned by the board of directors or as may be prescribed by these bylaws.

5.7 CHIEF EXECUTIVE OFFICER

Subject to the control of the board of directors, the chief executive officer shall have general supervision, direction, and control of the business and the officers of the corporation. The chief executive officer shall have such other duties and powers as may be prescribed from time to time by the board of directors or these bylaws.

5.8 PRESIDENT

The president shall have such powers and perform such duties as from time to time may be prescribed by these bylaws, the chief executive officer or the board of directors.

5.9 VICE PRESIDENTS

The vice presidents shall have such powers and perform such duties as from time to time may be prescribed for them respectively by these bylaws, the chief executive officer or the board of directors.

5.10 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws, shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the chief executive officer, board of directors or by these bylaws.

5.11 CHIEF FINANCIAL OFFICER

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. The chief financial officer shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all transactions effected as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the chief executive officer, board of directors or these bylaws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, indemnify any person against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was a director or officer of the corporation. For purposes of this Section 6.1, a "director" or "officer" of the corporation shall mean any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

The corporation shall be required to indemnify a director or officer in connection with an action, suit, or proceeding (or part thereof) initiated by such director or officer only if the initiation of such action, suit, or proceeding (or part thereof) by the director or officer was authorized by the board of directors of the corporation.

The corporation shall pay the expenses (including attorney's fees) incurred by a director or officer of the corporation entitled to indemnification hereunder in defending any action, suit or proceeding referred to in this Section 6.1 in advance of its final disposition; provided, however, that payment of expenses incurred by a director or officer of the corporation in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should ultimately be determined that the director of officer is not entitled to be indemnified under this Section 6.1 or otherwise.

This Section shall create a right of indemnification for each person referred to above, whether or not the proceeding to which the indemnification relates arose in whole or in part prior to the adoption of this Section, and in the event of death, such right shall extend to such person's legal representatives. The rights conferred on any person by this Section shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, these bylaws, agreement, vote of the stockholders or disinterested directors or otherwise. Any repeal or modification of the foregoing provisions of this Section shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, to indemnify any person (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding, in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was an employee or agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) shall mean any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS

The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books and other records of its business and properties.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under

oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTORS

Any director shall have the right to examine (and to make copies of) the corporation's stock Any director shall have the right to examine (and to make copies of) the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director.

7.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, if any, the president, any vice president, the chief financial officer, the secretary or any assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent and exercise on behalf of this corporation all rights incident to any and all shares of the stock of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

7.4 CERTIFICATION AND INSPECTION OF BYLAWS

The original or a copy of these bylaws, as amended or otherwise altered to date, certified by the secretary, shall be kept at the corporation's principal executive office and shall be open to inspection by the stockholders of the corporation, at all reasonable times during office hours.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the General Corporation Law of Delaware.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 STOCK CERTIFICATES; TRANSFER; PARTLY PAID SHARES

The shares of the corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and, upon request, every holder of uncertificated shares, shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman or vice-chairman of the board of directors, or the president or any vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Certificates for shares shall be of such form and device as the board of directors may designate and shall state the name of the record holder of the shares represented thereby; its number; date of issuance; the number of shares for which it is issued; a summary statement or reference to the powers, designations, preferences or other special rights of such stock and the qualifications, limitations or restrictions of such preferences and/or rights, if any; a statement or summary of liens, if any; a conspicuous notice of restrictions upon transfer or registration of transfer, if any; a statement as to any applicable voting trust agreement; if the shares be assessable, or, if assessments are collectible by personal action, a plain statement of such facts.

Upon surrender to the secretary or transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.5 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.6 LOST CERTIFICATES

Except as provided in this Section 8.6, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

8.7 TRANSFER AGENTS AND REGISTRARS

The board of directors may appoint one or more transfer agents or transfer clerks, and one or more registrars, each of which shall be an incorporated bank or trust company -- either

domestic or foreign, who shall be appointed at such times and places as the requirements of the corporation may necessitate and the board of directors may designate.

8.8 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

The original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote or by the board of directors of the corporation. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

Whenever an amendment or new bylaw is adopted, it shall be copied in the book of bylaws with the original bylaws, in the appropriate place. If any bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or the filing of the operative written consent(s) shall be stated in said book.

Exhibit 10.37

CREDIT AGREEMENT

Dated as of November 10, 2003

Among

CALLAWAY GOLF COMPANY,

as the Borrower,

BANK OF AMERICA, N.A.,
as Administrative Agent, Swing Line Lender

and

L/C Issuer,

and

The Other Lenders Party Hereto

BANC OF AMERICA SECURITIES LLC,
as
Sole Lead Arranger and Sole Book Manager

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FORM OF

CREDIT AGREEMENT

This CREDIT AGREEMENT ("Agreement") is entered into as of November 10, 2003, among CALLAWAY GOLF COMPANY, a Delaware corporation (the "Borrower"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BANK OF AMERICA, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.

The Borrower has requested that the Lenders provide a revolving credit facility that, at the option of the Borrower, is subject to being extended and converted to a term facility at the end of the revolving period, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I.
DEFINITIONS AND ACCOUNTING TERMS

1.01 DEFINED TERMS. As used in this Agreement, the following terms shall have the meanings set forth below:

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the Closing Date, by which the Borrower, directly or indirectly, acquires (a) any going business or all or substantially all of the assets of any Person or division thereof, whether through purchase of assets, merger, or otherwise or (b) in one transaction or as the most recent transaction in a series of transactions, a majority (in number of votes) of the Equity Interests of a Person which has ordinary voting power for the election of directors or other similar management personnel of a Person (other than Equity Interests having such power only by reason of the happening of a contingency) or a majority of the outstanding Equity Interests of a Person.

"Administrative Agent" means Bank of America in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

"Administrative Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as the Administrative Agent may from time to time notify the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent, a copy of which each Lender shall deliver to both the Administrative Agent and the Borrower.

"Affiliate" means, with respect to any Person, another Person that directly or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Agent-Related Persons" means the Administrative Agent, together with its Affiliates (including, in the case of Bank of America in its capacity as the Administrative Agent, the Arranger), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"Aggregate Commitments" means the Commitments of all the Lenders.

"Agreement" means this Credit Agreement.

"Applicable Rate" means, from time to time, the following percentages per annum, based upon the Consolidated Leverage Ratio as set forth in the most recent Compliance Certificate delivered pursuant to Section 6.02(a) below:

APPLICABLE RATE

Pricing Level	Consolidated Leverage Ratio	Commitment Fee	Eurodollar Rate + Letter of Credit Fees	Base Rate +
1	> than = to 1.00:1	0.200%	1.25%	Minus 0.50%
2	< than 1.00 :1 but > than = to 0.50:1	0.175%	1.00%	Minus 0.75%
3	< than 0.50:1	0.125%	0.75%	Minus 1.00%

Any increase or decrease in the Applicable Rate resulting from a change in the Consolidated Leverage Ratio shall become effective as of the first Business Day immediately following the date a Compliance Certificate is delivered pursuant to Section 6.02(a); provided, however, that if a Compliance Certificate is not delivered when due in accordance with such Section, then Pricing Level 1 shall apply as of the first Business Day after the date on which such Compliance Certificate was required to have been delivered. The Applicable Rate in effect from the Closing Date through the first date on which there is a change in the Applicable Rate pursuant to the preceding sentence shall be determined based upon Pricing Level 3.

"Arranger" means Banc of America Securities LLC, in its capacity as sole lead arranger and sole book manager.

"Assignment and Assumption" means an Assignment and Assumption substantially in the form of Exhibit E.

"Attorney Costs" means and includes all reasonable fees, expenses and disbursements of any law firm or other external counsel and, without duplication, the reasonable allocated cost of internal legal services and all reasonable expenses and disbursements of internal counsel.

"Attributable Indebtedness" means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Off-Balance Sheet Liabilities, the capitalized amount of the remaining lease payments under the relevant lease that

would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

"Audited Financial Statements" means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the fiscal year ended December 31, 2002, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year of the Borrower and its Subsidiaries, including the notes thereto.

"Availability Period" means the period from and including the Closing Date to the earliest of (a) the Revolving Maturity Date, (b) the date of termination of the Aggregate Commitments pursuant to Section 2.06 or (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of the of the L/C Issuer to make L/C Credit Extensions pursuant to Section 8.02.

"Bank of America" means Bank of America, N.A. and its successors.

"Base Rate" means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate." The "prime rate" is a rate set by Bank of America based upon various factors including Bank of America's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Committed Loan" means a Committed Loan that is a Base Rate Loan.

"Base Rate Loan" means a Loan that bears interest based on the Base Rate.

"Borrower" has the meaning specified in the introductory paragraph hereto.

"Borrowing" means a Committed Borrowing or a Swing Line Borrowing, as the context may require.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent's Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

"Cash Collateralize" has the meaning specified in Section 2.03(g).

"Change of Control" means, with respect to any Person, an event or series of events by which:

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee,

agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire (such right, an "option right"), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 25% or more of the equity securities of such Person entitled to vote for members of the board of directors or equivalent governing body of such Person on a fully-diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right); or

(b) during any period of 12 consecutive months, a majority of the members of the board of directors or other equivalent governing body of such Person cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (excluding, in the case of both clause (ii) and clause (iii), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors).

"Closing Date" means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 4.01 (or, in the case of Section 4.01(b), waived by the Person entitled to receive the applicable payment).

"Code" means the Internal Revenue Code of 1986.

"Collateral" means the Pledged Debt Securities, the Pledged Equity Interests, and such other collateral on which the Administrative Agent shall be granted a Lien pursuant to the Pledge Agreement, the other Pledge Documents, and the other Loan Documents.

"Commitment" means, as to each Lender, its obligation to (a) make Committed Loans to the Borrower pursuant to Section 2.01, (b) purchase participations in L/C Obligations, and (c) purchase participations in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

"Committed Borrowing" means a borrowing consisting of simultaneous Committed Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by each of the Lenders pursuant to Section 2.01.

"Committed Loan" has the meaning specified in Section 2.01.

"Committed Loan Notice" means a notice of (a) a Committed Borrowing, (b) a conversion of Committed Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit A.

"Compliance Certificate" means a certificate substantially in the form of Exhibit D.

"Consenting Lenders" has the meaning specified in Section 2.15(b).

"Consolidated EBITDA" means, for any period, for the Borrower and its Subsidiaries on a consolidated basis, an amount equal to Consolidated Net Income for such period plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges for such period, (ii) the provision for federal, state, local and foreign income taxes payable by the Borrower and its Subsidiaries for such period, (iii) the amount of depreciation and amortization expense for such period, (iv) non-cash charges in an aggregate amount not in excess of $50,000,000 incurred in connection with the downsizing, restructuring, closure or partial closure of the golf ball manufacturing operations of the Borrower, (v) losses on the sale of fixed assets and (vi) other expenses of the Borrower and its Subsidiaries reducing such Consolidated Net Income which do not represent a cash item in such period (including, without limitation, the amount of any deduction to Consolidated Net Income as the result of any grant to members of the management of the Borrower or its Subsidiaries of any Equity Interests in the Borrower), and minus (b) the following to the extent increasing such Consolidated Net Income (i) all non-cash gains which have been added in determining Consolidated Net Income for such period and (ii) gains on the sale of fixed assets.

"Consolidated Funded Indebtedness" means, as of any date of determination, for the Borrower and its Subsidiaries on a consolidated basis, the sum of (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money (including Obligations hereunder) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments, (d) all obligations in respect of the deferred purchase price of property or services (other than trade accounts and accrued expenses payable in the ordinary course of business), (e) Attributable Indebtedness in respect of capital leases and Off-Balance Sheet Liabilities, (f) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Borrower or any Subsidiary, and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Borrower or a Subsidiary is a general partner or joint venturer, unless such Indebtedness is expressly made non-recourse to the Borrower or such Subsidiary.

"Consolidated Interest Charges" means, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses of the Borrower and its Subsidiaries in connection

with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of the Borrower and its Subsidiaries with respect to such period under capital leases that is treated as interest in accordance with GAAP.

"Consolidated Leverage Ratio" means, as of any date of determination, the ratio of (a) Consolidated Funded Indebtedness as of such date to (b) Consolidated EBITDA for the four fiscal quarters most recently ended for which the Borrower has delivered financial statements pursuant to Section 6.01(a) or (b).

"Consolidated Net Income" means, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the net income of the Borrower and its Subsidiaries (excluding extraordinary gains but including extraordinary losses) for that period.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Control" has the meaning specified in the definition of "Affiliate."

"Credit Extension" means each of the following: (a) a Borrowing and (b) an L/C Credit Extension.

"Debtor Relief Laws" means the Bankruptcy Code of the United States, the Insolvency Act of 1986 of England and Wales, the Enterprise Act of 2002 of England and Wales, the Bankruptcy and Insolvency Act of Canada, the Companies' Creditors Arrangement Act of Canada, the Civil Rehabilitation Law of Japan, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions as from time to time in effect and any successor Laws and affecting the rights of creditors generally.

"Default" means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

"Default Rate" means an interest rate equal to (a) the Base Rate plus (b) the Applicable Rate, if any, applicable to Base Rate Loans plus (c) 3% per annum; provided, however, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 3% per annum, in each case to the fullest extent permitted by applicable Laws.

"Defaulting Lender" means any Lender that (a) has failed to fund any portion of the Committed Loans, participations in L/C Obligations or participations in Swing Line Loans required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

"Direct Material Foreign Subsidiary" means any Material Foreign Subsidiary that is a Wholly Owned Subsidiary in which the Equity Interests are directly owned by the Borrower or another Domestic Subsidiary.

"Disposition" or "Dispose" means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith. The transfer of equipment to suppliers for the purpose of facilitating production of product for the Borrower and its Subsidiaries shall not constitute a "Disposition" for purposes of this Agreement.

"Dollar" and "$" mean lawful money of the United States.

"Domestic Subsidiary" means any Subsidiary that is organized under the laws of any political subdivision of the United States.

"Eligible Assignee" has the meaning specified in Section 10.07(g).

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust and other equity ownership interests in a Person.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA Event" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any

liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

"Eurodollar Rate" means for any Interest Period with respect to any Eurodollar Rate Loan, a rate per annum determined by the Lender pursuant to the following formula:

$$\text{Eurodollar Rate} = \frac{\text{Eurodollar Base Rate}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

Where,

"Eurodollar Base Rate" means, for such Interest Period:

(a) the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate that appears on the page of the Telerate screen (or any successor thereto) that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(b) if the rate referenced in the preceding clause (a) does not appear on such page or service or such page or service shall not be available, the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(c) if the rates referenced in the preceding clauses (a) and (b) are not available, the rate per annum determined by the Administrative Agent as the rate of interest at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted and with a term equivalent to such Interest Period would be offered by the Lender's London Branch to major banks in the London interbank eurodollar market at their request at approximately 1:00 p.m. (London time) two Business Days prior to the first day of such Interest Period.

"Eurodollar Reserve Percentage" means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, carried out to five decimal places) in effect on such day applicable to the Administrative Agent under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities"). The Eurodollar Rate for each outstanding Eurodollar Rate Loan shall be adjusted automatically as of the effective date of any change in the Eurodollar Reserve Percentage.

"Eurodollar Rate Loan" means a Committed Loan that bears interest at a rate based on the Eurodollar Rate.

"Event of Default" has the meaning specified in Section 8.01.

"Existing Credit Agreement" means that certain Credit Agreement dated as of June 16, 2003 between the Borrower and Bank of America, N.A.

"Existing Letters of Credit" means any letters of credit outstanding under the Existing Credit Agreement on the Closing Date as listed on Schedule 1.01 to this Agreement.

"Extension Effective Date" has the meaning specified in Section 2.15(b).

"Federal Funds Rate" means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Administrative Agent.

"Fee Letter" means, collectively, the mandate letter dated as of October 17, 2003 among the Borrower, the Administrative Agent and the Arranger and the letter agreement, dated November 10, 2003, among the Borrower, the Administrative Agent and the Arranger.

"Financial Institution" means (i) a commercial bank organized under the laws of the United States or any state thereof, (ii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country, (iii) any institution the business of which is engaging in financial activities described in Section 4(i) of the Bank Holding Company Act of 1956, (iv) any Affiliate of any Lender, or (v) any other entity approved by the Administrative Agent.

"Foreign Lender" has the meaning specified in Section 10.15(a)(i).

"Foreign Subsidiary" means any Subsidiary of the Borrower that is not a Domestic Subsidiary.

"FRB" means the Board of Governors of the Federal Reserve System of the United States.

"GAAP" means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the

accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, administrative tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"GSOT" means the Callaway Golf Company Grantor Stock Trust established pursuant to the Trust Agreement dated as of July 14, 1995 between the Borrower and Sanwa Bank California, as amended from time to time. For purposes of this Agreement, the GSOT is not an "Affiliate" or a "Subsidiary" of the Borrower.

"Guarantor" means each Domestic Subsidiary of the Borrower that executes and delivers a Guaranty.

"Granting Lender" has the meaning specified in Section 10.07(h).

"Guaranty" means each Guaranty made by a Guarantor in favor of the Administrative Agent on behalf of the Lenders, substantially in the form of Exhibit F.

"Guarantee" means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

"Honor Date" has the meaning specified in Section 2.03(c)(i).

"Immaterial Subsidiary" means, at any time, any Subsidiary of the Borrower that is not a Material Subsidiary.

"Indebtedness" means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable and accrued expenses arising in the ordinary course of business);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) capital leases and Off-Balance Sheet Liabilities; and

(g) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date. The amount of any capital lease or Off-Balance Sheet Liabilities as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

"Indemnified Liabilities" has the meaning set forth in Section 10.05.

"Indemnitees" has the meaning set forth in Section 10.05.

"Intangible Assets" means assets that are considered to be intangible assets under GAAP, including customer lists, goodwill, computer software, copyrights, trade names, trademarks, patents, franchises, licenses, unamortized deferred charges, unamortized debt discount and capitalized research and development costs.

"Interest Payment Date" means, (a) as to any Loan other than a Base Rate Loan, the last day of each Interest Period applicable to such Loan, the Revolving Maturity Date and, if extended, the Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan

(including a Swing Line Loan), the last Business Day of each March, June, September and December, the Revolving Maturity Date and, if extended, the Maturity Date.

"Interest Period" means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one, two, three or six months thereafter, as selected by the Borrower in its Committed Loan Notice; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period for Loans shall extend beyond the Maturity Date, as in effect from time to time.

"Investment" means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

"IRS" means the United States Internal Revenue Service.

"Joint Venture" means a corporation, partnership, limited liability company, joint venture or other similar legal arrangement (whether created by contract or conducted through a separate legal entity) which is not the Borrower or a Subsidiary of any Loan Party and which is now or hereafter formed by any Loan Party with another Person in order to conduct a common venture or enterprise with such Person.

"Laws" means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

"L/C Advance" means, with respect to each Lender, such Lender's funding of its participation in any L/C Borrowing in accordance with its Pro Rata Share.

"L/C Borrowing" means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Committed Borrowing.

"L/C Credit Extension" means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the renewal or increase of the amount thereof.

"L/C Issuer" means Bank of America in its capacity as issuer of Letters of Credit hereunder, or any successor issuer of Letters of Credit hereunder.

"L/C Obligations" means, as at any date of determination, the aggregate undrawn amount of all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings.

"Lender" has the meaning specified in the introductory paragraph hereto and, as the context requires, includes the L/C Issuer, the Swing Line Lender and any Lender counterparty with the Borrower to a Swap Contract permitted and contemplated hereby.

"Lending Office" means, as to any Lender, the office or offices of such Lender described as such in such Lender's Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

"Letter of Credit" means any letter of credit issued hereunder and shall include any Existing Letters of Credit. A Letter of Credit may be a commercial letter of credit or a standby letter of credit.

"Letter of Credit Application" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

"Letter of Credit Expiration Date" means the Revolving Maturity Date (or, if such day is not a Business Day, the next preceding Business Day).

"Letter of Credit Sublimit" means an amount equal to $20,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever in respect of property (including any conditional sale or other title retention agreement, and any financing lease having substantially the same economic effect as any of the foregoing).

"Loan" means an extension of credit by a Lender to the Borrower under Article II in the form of a Committed Loan or a Swing Line Loan.

"Loan Documents" means this Agreement, each Note, the Fee Letter, the Guaranties, the Pledge Documents, and each other document, agreement, and instrument as shall be executed or delivered in connection herewith or therewith.

"Loan Parties" means, collectively, the Borrower and each Guarantor.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Borrower or the Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party.

"Material Domestic Subsidiary" means, at any time, any Domestic Subsidiary of the Borrower that is also a Material Subsidiary.

"Material Foreign Subsidiary" means, at any time, any Foreign Subsidiary of the Borrower that is also a Material Subsidiary; provided, however, that any Foreign Subsidiary organized in connection with the Permitted IHC Transaction that is a Wholly Owned Subsidiary in which Equity Interests are directly owned by the Borrower or another Domestic Subsidiary shall be deemed a "Material Foreign Subsidiary" immediately upon its formation.

"Material Subsidiary" means, at any time:

(a) Any Subsidiary of the Borrower (i) in which the aggregate Investments made by the Borrower and its Subsidiaries (excluding receivables of the Borrower and its Subsidiaries arising in the ordinary course of business for the sale of inventory and provision of services but, in the case of Investments in a Foreign Subsidiary, including Investments in Subsidiaries of such Foreign Subsidiary other than any such receivables) exceed Fifteen Million Dollars ($15,000,000) or (ii) that had gross annual sales during the four fiscal quarters most recently ended (calculated on a Pro Forma Basis after giving effect to any Acquisition made during such period) of $50,000,000 or more; and

(b) Any Domestic Subsidiary of the Borrower directly holding Equity Interests that are Pledged Equity Interests or Pledged Debt Securities.

"Maturity Date" means the later of the Revolving Maturity Date or, if maturity is extended pursuant to Section 2.14, such extended date as determined pursuant to such Section .

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

"Note" means a promissory note made by the Borrower in favor of a Lender evidencing Loans made by such Lender, substantially in the form of Exhibit C.

"Obligations" means all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, or Swap Contract with a Lender, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

"Off-Balance Sheet Liabilities" means the monetary obligations of a Person under a so-called synthetic lease, off-balance sheet or tax retention lease, if such obligations are considered indebtedness for borrowed money for tax purposes but such lease is classified as an operating lease under GAAP, but in any case excluding any obligations (a) that are liabilities of any such Person as lessee under any operating lease so long as the terms of such operating lease do not require any payment by or on behalf of such Person at termination of such operating lease pursuant to a required purchase by or on behalf of such Person of the property or assets subject to such operating lease or (b) under any arrangement pursuant to which such Person guarantees or otherwise assures any other Person of the value of the property or assets subject to such operating lease.

"Organization Documents" means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

"Outstanding Amount" means (a) with respect to Committed Loans and Swing Line Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Committed Loans and Swing Line Loans, as the case may be, occurring on such date; and (b) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.

"Participant" has the meaning specified in Section 10.07(d).

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

"Permitted Acquisition" means any Acquisition by the Borrower or any of its Material Subsidiaries where:

(a) the Board of Directors or authorized management committee of the Borrower or of the applicable Material Subsidiary and of the Person whose assets or Equity Interests are being acquired has approved such Acquisition;

(b) the business acquired in connection with such Acquisition is not engaged, directly or indirectly, in any line of business other than the businesses in which the Borrower and its Subsidiaries are engaged on the Closing Date and any business activities that are substantially similar, related, incidental, or complementary thereto;

(c) both before and after giving effect to such Acquisition and the Loans and Letters of Credit (if any) requested to be made in connection therewith, each of the representations and warranties in the Loan Documents is true and correct in all material respects (except (i) any such representation or warranty which relates to a specified prior date and (ii) to the extent the Administrative Agent has been notified in writing by the Borrower that any representation or warranty is not correct and the Required Lenders have explicitly waived in writing compliance with such representation or warranty) and no Default or Event of Default exists, will exist, or would result therefrom;

(d) after giving effect to the Acquisition, the Borrower will continue to be compliance with the covenants in this Agreement, determined on a Pro Forma Basis;

(e) concurrently with any Acquisition of Equity Interests of a Direct Material Foreign Subsidiary by the Borrower or a Domestic Subsidiary, the Borrower or such Domestic Subsidiary will cause such Equity Interests to be pledged to the Administrative Agent under the Pledge Agreement and otherwise to be free and clear of Liens except as otherwise may be permitted under this Agreement and the other Loan Documents; and

(f) concurrently with any Acquisition resulting in a Material Domestic Subsidiary, the Borrower will cause such Subsidiary to become a Guarantor in accordance with Section 6.12(a).

"Permitted IHC Transaction" means a corporate reorganization of the Borrower and its Subsidiaries in which:

(a) the Borrower and its Subsidiaries establish and capitalize, to the extent reasonably necessary to effectuate the purposes thereof, one or more Wholly Owned Foreign Subsidiaries in one or a series of transactions after giving effect to which at least one Direct Material Foreign Subsidiary will be Wholly Owned Subsidiary in which the Equity Interests are owned directly by the Borrower and/or its Domestic Subsidiaries and sixty-five percent (65%) of the Equity

Interests in such Direct Material Foreign Subsidiary will constitute Collateral pursuant to the Pledge Agreement;

(b) the Borrower and/or its Material Domestic Subsidiaries (collectively the "Licensors"), while retaining ownership of and the right to transfer and encumber Intangible Assets, including the right to license Intangible Assets to Persons both within and outside of the United States, grant to a Foreign Subsidiary (the "IHC") a non-exclusive license in Intangible Assets under which (i) the IHC agrees to pay royalties to the Licensors in return for the right to exploit Intangible Assets in specified jurisdictions, (ii) the Licensors reserve the right to revoke the license in their discretion and, in any event, upon breach of the license by the IHC, and (iii) the IHC disclaims, waives, and agrees to hold the Licensors harmless from any warranties, indemnities or claims against them arising out of Intangible Assets licensed to the IHC, including without limitation, on account of any claims of infringement;

(c) the Administrative Agent will release any Lien on Pledged Equity Securities and Pledged Debt Securities of any Foreign Subsidiary that ceases to be directly owned by the Borrower or a Domestic Subsidiary of the Borrower; and

(d) at and after the times that the Direct Material Foreign Subsidiary and the IHC described in subsections (a) and (b) above are formed, the Borrower and its Subsidiaries take such other and ancillary actions as are reasonably necessary to effectuate the foregoing transaction.

"Permitted Lien" means each Lien permitted by Section 7.01.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

"Pledge Agreement" means a Pledge Agreement substantially in the form of Exhibit H to this Agreement pursuant to which the Administrative Agent is granted a first priority perfected security interest in the Collateral as security for the Obligations, subject only to any Permitted Liens that, by their terms, may have priority over the security interest of the Administrative Agent in the Collateral.

"Pledge Documents" means the Pledge Agreement, the Supplemental Agreement between the Borrower and the Administrative Agent dated as of November [10], 2003 governed by the Laws of Japan, the Equitable Mortgage over Securities between the Borrower and the Administrative Agent dated as of November [10], 2003 governed by the Laws of England and Wales, stock powers, financing statements, and each other document, agreement and instrument executed, delivered or filed in connection with the forgoing.

"Pledged Debt Securities" means any debt securities directly owned by the Borrower or any Domestic Subsidiary of the Borrower that are issued by the IHC (as defined in the definition

of "Permitted IHC Transaction") and the promissory notes and any other instruments, agreements or documents evidencing such debt securities.

"Pledged Equity Interests" means all Equity Interests in any Direct Material Foreign Subsidiary of the Borrower and the certificates representing all such Equity Interests; provided that the Pledged Equity Interests shall not include (i) more than 65% of the issued and outstanding shares of voting stock (but shall include 100% of the issued and outstanding shares of non-voting stock) of any such Direct Material Foreign Subsidiary, (ii) to the extent that applicable Law requires issuance of directors' qualifying shares to satisfy national citizenship requirements, such Equity Interests, or (iii) Equity Interests that are not directly owned by the Borrower or any Domestic Subsidiary of the Borrower.

"Pledgor" means the Borrower and each Domestic Subsidiary of the Borrower that joins in the Pledge Agreement by executing a Joinder Agreement substantially in the form of Exhibit A thereto.

"Pro Forma Basis" means, with respect to compliance with any test or covenant hereunder, compliance with such covenant or test after giving effect to an Acquisition (including pro forma adjustments arising out of events which are directly attributable to the Acquisition, are factually supportable, and are expected to have a continuing impact, in each case determined on a basis consistent with application of GAAP and Requirements of Law; such pro forma adjustments may include cost savings resulting from head count reductions, closure of facilities and similar restructuring charges or integration activities or other adjustments certified as based on reasonable assumptions by a Responsible Officer of the Borrower, together with such other pro forma adjustments certified as based on reasonable assumptions by a Responsible Officer of the Borrower as may be reasonably acceptable to the Lender using, for purposes of determining such compliance, the historical financial statements of the Borrower, its Subsidiaries and any Person so acquired).

"Pro Rata Share" means, with respect to each Lender at any time, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the amount of the Commitment of such Lender at such time and the denominator of which is the amount of the Aggregate Commitments at such time; provided that if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02, then the Pro Rata Share of each Lender shall be determined based on the Pro Rata Share of such Lender immediately prior to such termination and after giving effect to any subsequent assignments made pursuant to the terms hereof. The initial Pro Rata Share of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

"Register" has the meaning set forth in Section 10.07(c).

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

"Request for Credit Extension" means (a) with respect to a Borrowing, conversion or continuation of Committed Loans, a Committed Loan Notice, (b) with respect to an L/C Credit

Extension, a Letter of Credit Application, and (c) with respect to a Swing Line Loan, a Swing Line Loan Notice.

"Required Lenders" means, as of any date of determination, Lenders having more than 50% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Sections 2.14 or 8.02, Lenders holding in the aggregate more than 50% of the Total Outstandings (with the aggregate amount of each Lender's risk participation and funded participation in L/C Obligations and Swing Line Loans being deemed "held" by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

"Responsible Officer" means the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of a Loan Party.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other equity interest of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other equity interest or of any option, warrant or other right to acquire any such capital stock or other equity interest.

"Revolving Maturity Date" means the later of November 8, 2004 or, if maturity is extended pursuant to Section 2.15, such extended date as determined pursuant to such Section.

"SEC" means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

"SEC Filings" means all annual registration statements of the Borrower (other than exhibits thereto, pricing supplements and any registration statements (a) on Form S-8 or its equivalent or (b) in connection with asset securitization transactions) and reports on Forms 10-K, 10Q and 8-K (or their equivalents) which the Borrower shall have filed with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934.

"SPC" has the meaning specified in Section 10.07(h).

"Subsidiary" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Swap Contract" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

"Swap Termination Value" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

"Swing Line" means the revolving credit facility made available by the Swing Line Lender pursuant to Section 2.04.

"Swing Line Borrowing" means a borrowing of a Swing Line Loan pursuant to Section 2.04.

"Swing Line Lender" means Bank of America in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

"Swing Line Loan" has the meaning specified in Section 2.04(a).

"Swing Line Loan Notice" means a notice of a Swing Line Borrowing pursuant to Section 2.04(b), which, if in writing, shall be substantially in the form of Exhibit B.

"Swing Line Sublimit" means an amount equal to the lesser of (a) $15,000,000 and (b) the Aggregate Commitments. The Swing Line Sublimit is part of, and not in addition to, the Aggregate Commitments.

"Threshold Amount" means, for purposes of Section 6.04 (payment of obligations), 8.01(e) (cross-default), 8.01(h) (judgments) and 8.01(i) (ERISA), $10,000,000.

"Total Outstandings" means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

"Type" means, with respect to a Committed Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"United States" and "U.S." mean the United States of America.

"Unreimbursed Amount" has the meaning set forth in Section 2.03(c)(i).

"Wholly Owned Subsidiary" means any Subsidiary in which 100% of the Equity Interests are owned by the Borrower or a Subsidiary of the Borrower except for those Equity Interests that applicable Law requires to be issued as directors' qualifying shares to satisfy national citizenship requirements

1.02 OTHER INTERPRETIVE PROVISIONS. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) (i) The words "herein," "hereto," "hereof" and "hereunder" and words of similar import when used in any Loan Document shall refer to such Loan Document as a whole and not to any particular provision thereof.

(ii) Article, Section, Exhibit and Schedule references are to the Loan Document in which such reference appears.

(iii) The term "including" is by way of example and not limitation.

(iv) The term "documents" includes any and all instruments, documents, agreements, certificates, notices, reports, financial statements and other writings, however evidenced, whether in physical or electronic form.

(c) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(d) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 ACCOUNTING TERMS. (a) All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to

time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.04 ROUNDING. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 REFERENCES TO AGREEMENTS AND LAWS. Unless otherwise expressly provided herein, (a) references to Organization Documents, agreements (including the Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document; and (b) references to any Law shall include all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such Law.

1.06 TIMES OF DAY. Unless otherwise specified, all references herein to times of day shall be references to Pacific time (daylight or standard, as applicable).

1.07 LETTER OF CREDIT AMOUNTS. Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to mean the maximum face amount of such Letter of Credit after giving effect to all increases thereof contemplated by such Letter of Credit or the Letter of Credit Application therefor, whether or not such maximum face amount is in effect at such time.

ARTICLE II.

THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 COMMITTED LOANS. Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a "Committed Loan") to the Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Commitment; provided, however, that after giving effect to any Committed Borrowing, (i) the Total Outstandings shall not exceed the Aggregate Commitments, and (ii) the aggregate Outstanding Amount of the

Committed Loans of any Lender, plus such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, plus such Lender's Pro Rata Share of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01, prepay under Section 2.05, and reborrow under this Section 2.01. Committed Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein.

2.02 BORROWINGS, CONVERSIONS AND CONTINUATIONS OF COMMITTED LOANS.

(a) Each Committed Borrowing, each conversion of Committed Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Committed Loans, and (ii) on the requested date of any Borrowing of Base Rate Committed Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(b) must be confirmed promptly by delivery to the Administrative Agent of a written Committed Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of $1,000,000 or a whole multiple of $250,000 in excess thereof. Except as provided in Sections 2.03(c) and 2.04(c), each Borrowing of or conversion to Base Rate Committed Loans shall be in a principal amount of $100,000 or a whole multiple of $50,000 in excess thereof. Each Committed Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Committed Borrowing, a conversion of Committed Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Committed Loans to be borrowed, converted or continued, (iv) the Type of Committed Loans to be borrowed or to which existing Committed Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Committed Loan in a Committed Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Committed Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If the Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Committed Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Committed Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Pro Rata Share of the applicable Committed Loans, and if no timely notice of a conversion or continuation is provided by the Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans described in the preceding subsection. In the case of a Committed Borrowing, each Lender shall make the amount of its Committed Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on the Business Day specified in the applicable Committed Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 4.02, the Administrative Agent shall make all funds so

received available to the Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of the Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Administrative Agent by the Borrower; provided, however, that if, on the date the Committed Loan Notice with respect to such Borrowing is given by the Borrower, there are Swing Line Loans or L/C Borrowings outstanding, then the proceeds of such Borrowing shall be applied, first, to the payment in full of any such L/C Borrowings, second, to the payment in full of any such Swing Line Loans, and third, to the Borrower as provided above.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Required Lenders.

(d) The Administrative Agent shall promptly notify the Borrower and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. The determination of the Eurodollar Rate by the Administrative Agent shall be conclusive in the absence of manifest error. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrower and the Lenders of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After giving effect to all Committed Borrowings, all conversions of Committed Loans from one Type to the other, and all continuations of Committed Loans as the same Type, there shall not be more than ten (10) Interest Periods in effect with respect to Committed Loans.

2.03 LETTERS OF CREDIT.

(a) The Letter of Credit Commitment.

(i) Subject to the terms and conditions set forth herein, (A) the L/C Issuer agrees, in reliance upon the agreements of the other Lenders set forth in this Section 2.03, (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of the Borrower, and to amend or renew Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drafts under the Letters of Credit; and (B) the Lenders severally agree to participate in Letters of Credit issued for the account of the Borrower; provided that the L/C Issuer shall not be obligated to make any L/C Credit Extension with respect to any Letter of Credit, and no Lender shall be obligated to participate in any Letter of Credit if as of the date of such L/C Credit Extension, (x) the Total Outstandings would exceed the Aggregate Commitments, (y) the aggregate Outstanding Amount of the Committed Loans of any Lender, plus such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, plus such Lender's Pro Rata Share of the Outstanding Amount of all Swing Line Loans would exceed such Lender's Commitment, or (z) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit. Within the foregoing limits, and subject to the

terms and conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. All Existing Letters of Credit shall be deemed to have been issued pursuant hereto, and from and after the Closing Date shall be subject to and governed by the terms and conditions hereof.

(ii) The L/C Issuer shall be under no obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the L/C Issuer from issuing such Letter of Credit, or any Law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the L/C Issuer in good faith deems material to it;

(B) subject to Section 2.03(b)(iii) the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last renewal, unless the Required Lenders have approved such expiry date;

(C) the expiry date of such requested Letter of Credit would occur more than twelve months (in the case of standby Letters of Credit) or six months (in the case of commercial Letters of Credit) after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date;

(D) the issuance of such Letter of Credit would violate one or more policies of the L/C Issuer; or

(E) such Letter of Credit is in an initial amount less than $100,000 or denominated in a currency other than Dollars.

(iii) The L/C Issuer shall be under no obligation to amend any Letter of Credit if (A) the L/C Issuer would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Renewal Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the L/C Issuer (with a copy to the Administrative Agent) in the form of a Letter of Credit Application, appropriately completed and signed

by a Responsible Officer of the Borrower. Such Letter of Credit Application must be received by the L/C Issuer and the Administrative Agent not later than 1:00 p.m. at least two Business Days (or such later date and time as the L/C Issuer may agree in a particular instance in its sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the L/C Issuer may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the L/C Issuer may require.

(ii) Promptly after receipt of any Letter of Credit Application, the L/C Issuer will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, the L/C Issuer will provide the Administrative Agent with a copy thereof. Upon receipt by the L/C Issuer of confirmation from the Administrative Agent that the requested issuance or amendment is permitted in accordance with the terms hereof, then, subject to the terms and conditions hereof, the L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the L/C Issuer's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Pro Rata Share times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the L/C Issuer may, in its sole and absolute discretion, agree to issue a standby Letter of Credit that has automatic renewal provisions (each, an "Auto-Renewal Letter of Credit"); provided that any such Auto-Renewal Letter of Credit must permit the L/C Issuer to prevent any such renewal at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Nonrenewal Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the L/C Issuer, the Borrower shall not be required to make a specific request to the L/C Issuer for any such renewal. Once an Auto-Renewal Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the L/C Issuer to permit the renewal of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the L/C Issuer shall not permit any such renewal if (A) the L/C Issuer has determined that it would have no obligation at such time to issue such Letter of Credit in its renewed form under the terms

hereof (by reason of the provisions of Section 2.03(a)(ii) or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is two Business Days before the Nonrenewal Notice Date (1) from the Administrative Agent that the Required Lenders have elected not to permit such renewal or (2) from the Administrative Agent, any Lender or the Borrower that one or more of the applicable conditions specified in Section 4.02 is not then satisfied.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the L/C Issuer will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the L/C Issuer shall notify the Borrower and the Administrative Agent thereof. Not later than 1:00 p.m. on the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an "Honor Date") or the next succeeding Business Day if notice of drawing was received by the Borrower after 11:00 a.m. on the Honor Date, the Borrower shall reimburse the L/C Issuer through the Administrative Agent in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the L/C Issuer by such time, the Administrative Agent shall promptly notify each Lender of the Honor Date (or the next succeeding Business Day, if applicable), the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such Lender's Pro Rata Share thereof. In such event, the Borrower shall be deemed to have requested a Committed Borrowing of Base Rate Loans to be disbursed on the Honor Date (or the next succeeding Business Day, if applicable) in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.02 for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Aggregate Commitments and the conditions set forth in Section 4.02 (other than the delivery of a Committed Loan Notice). Any notice given by the L/C Issuer or the Administrative Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender (including the Lender acting as L/C Issuer) shall upon any notice pursuant to Section 2.03(c)(i) make funds available to the Administrative Agent for the account of the L/C Issuer at the Administrative Agent's Office in an amount equal to its Pro Rata Share of the Unreimbursed Amount not later than 1:00 p.m. on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each Lender that so makes funds available shall be deemed to have made a Base Rate Committed Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the L/C Issuer.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Committed Borrowing of Base Rate Loans because the conditions set forth in Section

4.02 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each Lender's payment to the Administrative Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each Lender funds its Committed Loan or L/C Advance pursuant to this Section 2.03(c) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such Lender's Pro Rata Share of such amount shall be solely for the account of the L/C Issuer.

(v) Each Lender's obligation to make Committed Loans or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the L/C Issuer, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Committed Loans pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 4.02 (other than delivery by the Borrower of a Committed Loan Notice). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the L/C Issuer for the amount of any payment made by the L/C Issuer under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Administrative Agent for the account of the L/C Issuer any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), the L/C Issuer shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the L/C Issuer at a rate per annum equal to the Federal Funds Rate from time to time in effect. A certificate of the L/C Issuer submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the L/C Issuer has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Administrative Agent receives for the account of the L/C Issuer any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral applied thereto by the Administrative Agent), the Administrative Agent

will distribute to such Lender its Pro Rata Share thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by the Administrative Agent.

(ii) If any payment received by the Administrative Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 10.06 (including pursuant to any settlement entered into by the L/C Issuer in its discretion), each Lender shall pay to the Administrative Agent for the account of the L/C Issuer its Pro Rata Share thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect.

(e) Obligations Absolute. The obligation of the Borrower to reimburse the L/C Issuer for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) the existence of any claim, counterclaim, set-off, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the L/C Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the L/C Issuer under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the L/C Issuer under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will immediately notify the L/C Issuer. The Borrower shall be conclusively deemed to have waived any such claim against the L/C Issuer and its correspondents unless such notice is given as aforesaid.

(f) Role of L/C Issuer. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the L/C Issuer shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the L/C Issuer, any Agent-Related Person nor any of the respective correspondents, participants or assignees of the L/C Issuer shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Letter of Credit Application. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the L/C Issuer, any Agent-Related Person, nor any of the respective correspondents, participants or assignees of the L/C Issuer, shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(e); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the L/C Issuer, and the L/C Issuer may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the L/C Issuer's willful misconduct or gross negligence or the L/C Issuer's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the L/C Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(g) Cash Collateral. Upon the request of the Administrative Agent, (i) if the L/C Issuer has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the Letter of Credit Expiration Date, any Letter of Credit may for any reason remain outstanding and partially or wholly undrawn, the Borrower shall immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations (in an amount equal to such Outstanding Amount determined as of the date of such L/C Borrowing (or the next succeeding Business Day, if applicable) or the Letter of Credit Expiration Date, as the case may be). For purposes hereof, "Cash Collateralize" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the L/C Issuer and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to

documentation in form and substance satisfactory to the Administrative Agent and the L/C Issuer (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Administrative Agent, for the benefit of the L/C Issuer and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at Bank of America.

(h) Applicability of ISP98 and UCP. Unless otherwise expressly agreed by the L/C Issuer and the Borrower when a Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), (i) the rules of the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance) shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce (the "ICC") at the time of issuance (including the ICC decision published by the Commission on Banking Technique and Practice on April 6, 1998 regarding the European single currency (euro)) shall apply to each commercial Letter of Credit.

(i) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Pro Rata Share (i) a Letter of Credit fee for each commercial Letter of Credit equal to the fee that the L/C Issuer would, from time to time, ordinarily and customarily charge on account of such Letter of Credit issued by the L/C Issuer for the account of its own customers and (ii) a Letter of Credit fee for each standby Letter of Credit equal to the Applicable Rate times the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). Such letter of credit fees shall be computed on a quarterly basis in arrears. Such letter of credit fees shall be due and payable on the first Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. If there is any change in the Applicable Rate during any quarter, the daily maximum amount of each standby Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(j) Fronting Fee and Documentary and Processing Charges Payable to L/C Issuer. The Borrower shall pay directly to the L/C Issuer for its own account a fronting fee with respect to each Letter of Credit in the amounts and at the times specified in the Fee Letter. In addition, the Borrower shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) Conflict with Letter of Credit Application. In the event of any conflict between the terms hereof and the terms of any Letter of Credit Application, the terms hereof shall control.

2.04 SWING LINE LOANS.

(a) The Swing Line. Subject to the terms and conditions set forth herein, the Swing Line Lender agrees to make loans (each such loan, a "Swing Line Loan") to the Borrower from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit, notwithstanding the fact that such Swing Line Loans, when aggregated with the Pro Rata Share of the Outstanding Amount of Committed Loans and L/C Obligations of the Lender acting as Swing Line Lender, may exceed the amount of such Lender's Commitment; provided, however, that after giving effect to any Swing Line Loan, (i) the Total Outstandings shall not exceed the Aggregate Commitments, and (ii) the aggregate Outstanding Amount of the Committed Loans of any Lender, plus such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, plus such Lender's Pro Rata Share of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment, and provided, further, that the Borrower shall not use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan. Within the foregoing limits, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.04, prepay under Section 2.05, and reborrow under this Section 2.04. Each Swing Line Loan shall be a Base Rate Loan. Immediately upon the making of a Swing Line Loan, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Lender's Pro Rata Share times the amount of such Swing Line Loan.

(b) Borrowing Procedures. Each Swing Line Borrowing shall be made upon the Borrower's irrevocable notice to the Swing Line Lender and the Administrative Agent, which may be given by telephone. Each such notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum of $100,000 and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Administrative Agent of a written Swing Line Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Promptly after receipt by the Swing Line Lender of any telephonic Swing Line Loan Notice, the Swing Line Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Administrative Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in writing) from the Administrative Agent (including at the request of any Lender) prior to 2:00 p.m. on the date of the proposed Swing Line Borrowing (A) directing the Swing Line Lender not to make such Swing Line Loan as a result of the limitations set forth in the proviso to the first sentence of Section 2.04(a), or (B) that one or more of the applicable conditions specified in Article IV is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender will, not later than 3:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the Borrower at its office by crediting the account of the Borrower on the books of the Swing Line Lender in immediately available funds.

(c) Refinancing of Swing Line Loans.

(i) The Swing Line Lender at any time in its sole and absolute discretion may request, on behalf of the Borrower (which hereby irrevocably authorizes the Swing Line Lender to so request on its behalf), that each Lender make a Base Rate Committed Loan in an amount equal to such Lender's Pro Rata Share of the amount of Swing Line Loans then outstanding. Such request shall be made in writing (which written request shall be deemed to be a Committed Loan Notice for purposes hereof) and in accordance with the requirements of Section 2.02, without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the unutilized portion of the Aggregate Commitments and the conditions set forth in Section 4.02. The Swing Line Lender shall furnish the Borrower with a copy of the applicable Committed Loan Notice promptly after delivering such notice to the Administrative Agent. Each Lender shall make an amount equal to its Pro Rata Share of the amount specified in such Committed Loan Notice available to the Administrative Agent in immediately available funds for the account of the Swing Line Lender at the Administrative Agent's Office not later than 1:00 p.m. on the day specified in such Committed Loan Notice, whereupon, subject to Section 2.04(c)(ii), each Lender that so makes funds available shall be deemed to have made a Base Rate Committed Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the Swing Line Lender.

(ii) If for any reason any Swing Line Loan cannot be refinanced by such a Committed Borrowing in accordance with Section 2.04(c)(i), the request for Base Rate Committed Loans submitted by the Swing Line Lender as set forth herein shall be deemed to be a request by the Swing Line Lender that each of the Lenders fund its risk participation in the relevant Swing Line Loan and each Lender's payment to the Administrative Agent for the account of the Swing Line Lender pursuant to Section 2.04(c)(i) shall be deemed payment in respect of such participation.

(iii) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.04(c) by the time specified in Section 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the Federal Funds Rate from time to time in effect. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (iii) shall be conclusive absent manifest error.

(iv) Each Lender's obligation to make Committed Loans or to purchase and fund risk participations in Swing Line Loans pursuant to this Section 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Swing Line Lender, the Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however,

that each Lender's obligation to make Committed Loans pursuant to this Section 2.04(c) is subject to the conditions set forth in Section 4.02. No such funding of risk participations shall relieve or otherwise impair the obligation of the Borrower to repay Swing Line Loans, together with interest as provided herein.

(d) Repayment of Participations.

(i) At any time after any Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will distribute to such Lender its Pro Rata Share of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in Section 10.06 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Lender shall pay to the Swing Line Lender its Pro Rata Share thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Administrative Agent will make such demand upon the request of the Swing Line Lender.

(e) Interest for Account of Swing Line Lender. The Swing Line Lender shall be responsible for invoicing the Borrower for interest on the Swing Line Loans. Until each Lender funds its Base Rate Committed Loan or risk participation pursuant to this Section 2.04 to refinance such Lender's Pro Rata Share of any Swing Line Loan, interest in respect of such Pro Rata Share shall be solely for the account of the Swing Line Lender.

(f) Payments Directly to Swing Line Lender. The Borrower shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

2.05 PREPAYMENTS.

(a) The Borrower may, upon notice to the Administrative Agent, at any time or from time to time voluntarily prepay Committed Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Administrative Agent not later than 11:00 a.m. (A) three Business Days prior to any date of prepayment of Eurodollar Rate Loans and (B) on the date of prepayment of Base Rate Committed Loans; (ii) any prepayment of Eurodollar Rate Loans shall be in a principal amount of $1,000,000 or a whole multiple of $250,000 in excess thereof; and (iii) any prepayment of Base Rate Committed Loans shall be in a principal amount of $100,000 or a whole multiple of $50,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Committed Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Pro Rata Share of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such

notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest thereon, together with any additional amounts required pursuant to Section 3.05. Each such prepayment shall be applied to the Committed Loans of the Lenders in accordance with their respective Pro Rata Shares.

(b) The Borrower may, upon notice to the Swing Line Lender (with a copy to the Administrative Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the date of the prepayment, and (ii) any such prepayment shall be in a minimum principal amount of $100,000. Each such notice shall specify the date and amount of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein.

(c) If for any reason, prior to the Revolving Maturity Date, the Total Outstandings at any time exceed the Aggregate Commitments then in effect, the Borrower shall immediately prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.05(c) unless after the prepayment in full of the Committed Loans and Swing Line Loans the Total Outstandings exceed the Aggregate Commitments then in effect.

2.06 TERMINATION OR REDUCTION OF COMMITMENTS. The Borrower may, upon notice to the Administrative Agent, terminate the Aggregate Commitments, or from time to time permanently reduce the Aggregate Commitments; provided that (i) any such notice shall be received by the Administrative Agent not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of $1,000,000 or any whole multiple of $500,000 in excess thereof, (iii) the Borrower shall not terminate or reduce the Aggregate Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Outstandings would exceed the Aggregate Commitments, and (iv) if, after giving effect to any reduction of the Aggregate Commitments, the Letter of Credit Sublimit or the Swing Line Sublimit exceeds the amount of the Aggregate Commitments, such Sublimit shall be automatically reduced by the amount of such excess. The Administrative Agent will promptly notify the Lenders of any such notice of termination or reduction of the Aggregate Commitments. Any reduction of the Aggregate Commitments shall be applied to the Commitment of each Lender according to its Pro Rata Share. All commitment fees accrued until the effective date of any termination of the Aggregate Commitments shall be paid on the effective date of such termination.

2.07 REPAYMENT OF LOANS.

(a) The Borrower shall repay to the Lenders on the Revolving Maturity Date or, if extended, the Maturity Date as so extended the aggregate principal amount of Committed Loans outstanding on such date.

(b) The Borrower shall repay each Swing Line Loan on the earlier to occur of (i) the date five Business Days after such Loan is made and (ii) the Revolving Maturity Date.

(c) If the Maturity Date is extended pursuant to Section 2.14, the Borrower may prepay Committed Loans outstanding after the Revolving Maturity Date in whole or in part on any date, but once repaid no such Committed Loans may not be reborrowed.

2.08 INTEREST.

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Eurodollar Rate for such Interest Period plus the Applicable Rate; (ii) each Base Rate Committed Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate; and (iii) each Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate.

(b) If any amount payable by the Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Furthermore, while any Event of Default exists, the Borrower shall pay interest on the principal amount of all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Subject, in each case, to applicable Law, interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.09 FEES. In addition to certain fees described in subsections (i) and (j) of Section 2.03:

(a) Commitment Fee. The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Pro Rata Share, a commitment fee equal to the Applicable Rate times the actual daily amount by which the Aggregate Commitments exceed the sum of (i) the Outstanding Amount of Committed Loans and (ii) the Outstanding Amount of L/C Obligations. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the Revolving Maturity Date. The commitment fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Rate during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(b) Other Fees. (i) The Borrower shall pay to the Arranger and the Administrative Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(ii) The Borrower shall pay to the Lenders such fees as shall have been separately agreed upon in writing in the amounts and at the times so specified. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.10 COMPUTATION OF INTEREST AND FEES. All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day.

2.11 EVIDENCE OF DEBT.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be prima facie evidence of the amount of the Credit Extensions made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. The Borrower shall execute and deliver to each Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

2.12 PAYMENTS GENERALLY.

(a) All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Pro Rata Share (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue.

(b) If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(c) Unless the Borrower or any Lender has notified the Administrative Agent, prior to the date any payment is required to be made by it to the Administrative Agent hereunder, that the Borrower or such Lender, as the case may be, will not make such payment, the Administrative Agent may assume that the Borrower or such Lender, as the case may be, has timely made such payment and may (but shall not be so required to), in reliance thereon, make available a corresponding amount to the Person entitled thereto. If and to the extent that such payment was not in fact made to the Administrative Agent in immediately available funds, then:

(i) if the Borrower failed to make such payment, each Lender shall forthwith on demand repay to the Administrative Agent the portion of such assumed payment that was made available to such Lender in immediately available funds, together with interest thereon in respect of each day from and including the date such amount was made available by the Administrative Agent to such Lender to the date such amount is repaid to the Administrative Agent in immediately available funds at the Federal Funds Rate from time to time in effect; and

(ii) if any Lender failed to make such payment, such Lender shall forthwith on demand pay to the Administrative Agent the amount thereof in immediately available funds, together with interest thereon for the period from the date such amount was made available by the Administrative Agent to the Borrower to the date such amount is recovered by the Administrative Agent (the "Compensation Period") at a rate per annum equal to the Federal Funds Rate from time to time in effect. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Committed Loan included in the applicable Borrowing. If such Lender does not pay such amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent may make a demand therefor upon the Borrower, and the Borrower shall pay such amount to the Administrative Agent, together with interest thereon for the Compensation Period at a rate per annum equal to the rate of interest applicable to the applicable Borrowing. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Commitment or to prejudice any rights which the Administrative Agent or the

Borrower may have against any Lender as a result of any default by such Lender hereunder.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (c) shall be prima facie evidence of such among, absent manifest error.

(d) If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the applicable Credit Extension set forth in Article IV are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(e) The obligations of the Lenders hereunder to make Committed Loans and to fund participations in Letters of Credit and Swing Line Loans are several and not joint. The failure of any Lender to make any Committed Loan or to fund any such participation on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Committed Loan or purchase its participation.

(f) Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 SHARING OF PAYMENTS. If, other than as expressly provided elsewhere herein, any Lender shall obtain on account of the Committed Loans made by it, or the participations in L/C Obligations or in Swing Line Loans held by it, any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share contemplated hereunder) thereof, such Lender shall immediately (a) notify the Administrative Agent of such fact, and (b) purchase from the other Lenders such participations in the Committed Loans made by them and/or such subparticipations in the participations in L/C Obligations or Swing Line Loans held by them, as the case may be, as shall be necessary to cause such purchasing Lender to share the excess payment in respect of such Committed Loans or such participations, as the case may be, pro rata with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from the purchasing Lender under any of the circumstances described in Section 10.06 (including pursuant to any settlement entered into by the purchasing Lender in its discretion), such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered, without further interest thereon. The Borrower agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to Section 10.09) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation. The Administrative

Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Lenders following any such purchases or repayments. Each Lender that purchases a participation pursuant to this Section shall from and after such purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Obligations purchased.

2.14 EXTENSIONS OF MATURITY DATE.

(a) Not earlier than 60 days prior to, nor later than 45 days prior to, any Revolving Maturity Date, the Borrower may, upon notice to the Administrative Agent (which shall promptly notify the Lenders), request a one-year term out of the Credit Extensions made under this Agreement.

(b) As conditions precedent to such extension:

(i) On or prior to the then applicable Revolving Maturity Date, the Borrower shall deliver to the Administrative Agent a certificate of each Loan Party (in sufficient copies for each Lender) dated as of the applicable Revolving Maturity Date signed by a Responsible Officer of such Loan Party (A) certifying and attaching the resolutions adopted by such Loan Party approving or consenting to such extension and (B) in the case of the Borrower, certifying that, before and after giving effect to such extension, (1) the representations and warranties contained in Article V and the other Loan Documents are true and correct on and as of the Revolving Maturity Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2.14, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to subsections (a) and (b), respectively, of Section 6.01, and (2) no Default exists; and

(ii) On or prior to the then applicable Revolving Maturity Date, the Borrower shall have paid to the Administrative Agent for the pro rata account of the Lenders a Term Out Premium, equal to 0.25% of the Total Outstandings on the Revolving Maturity Date.

(c) If the Borrower shall request that the Credit Extensions be termed out in accordance with this Section 2.14 and the conditions precedent thereto shall be satisfied (i) effective as of the then applicable Revolving Maturity Date, the Maturity Date shall be extended twelve months from the then applicable Revolving Maturity Date, (ii) the Committed Loans outstanding on the then applicable Revolving Maturity Date shall be term Loans payable in full on the Maturity Date, (iii) except for funding participations through Committed Loans made at the request of the L/C Issuer or Swing Line Lender pursuant to succeeding clauses (iv) and (v), on and after the Revolving Maturity Date no Loan may be made or Letter of Credit issued or increased, (iv) the L/C Issuer shall retain the rights and obligations of the L/C Issuer hereunder with respect to Letters of Credit outstanding as of the Revolving Maturity Date and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate

Committed Loans (notwithstanding that the Availability Period shall have terminated) or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)), (v) the Swing Line Lender shall retain all of the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it, outstanding as of the Revolving Maturity Date and, for any reason, not then paid or payable, including the right to require the Lenders to make Base Rate Committed Loans (notwithstanding that the Availability Period shall have terminated) or to fund risk participations in outstanding Swing Line Loans pursuant to Section 2.04(c), and (vi) on and after the Revolving Maturity Date, notwithstanding that the Availability Period shall have terminated, additional Committed Loans shall be made solely to fund the Lenders' respective Pro Rata Shares of L/C Obligations and Swing Line Loans then outstanding as and when the same shall be payable pursuant to this Agreement. After the Revolving Maturity Date, the Borrower may continue to request conversions and continuations of Committed Loans in accordance with this Agreement.

2.15 EXTENSIONS OF REVOLVING MATURITY DATe.

(a) Not earlier than 60 days prior to, nor later than 45 days prior to the Revolving Maturity Date then in effect, the Borrower may, upon notice to the Administrative Agent (which shall promptly notify the Lenders), request a 364-day extension of the Revolving Maturity Date then in effect. Within 30 days of delivery of such notice, each Lender shall notify the Administrative Agent whether or not it consents to such credit extension (which consent may be given or withheld in such Lender's sole and absolute discretion). Any Lender not responding within the above time period shall be deemed not to have consented to such extension. The Administrative Agent shall promptly notify the Borrower and the Lenders of the Lenders' responses. If any Lender declines, or is deemed to have declined, to consent to such extension, the Borrower may cause any such Lender to be replaced as a Lender pursuant to Section 10.16.

(b) The Revolving Maturity Date shall be extended only if all Lenders (after giving effect to any replacements of Lenders permitted herein) (the "Consenting Lenders") have consented thereto. If so extended, the Revolving Maturity Date, as to the Consenting Lenders, shall be extended to a date 364 days from the Revolving Maturity Date then in effect, effective as of the Revolving Maturity Date then in effect (such existing Revolving Maturity Date being the "Extension Effective Date"). The Administrative Agent and the Borrower shall promptly confirm to the Lenders such extension and the Extension Effective Date. As a condition precedent to such extension, the Borrower shall deliver to the Administrative Agent a certificate of each Loan Party dated as of the Extension Effective Date (in sufficient copies for each Lender) signed by a Responsible Officer of such Loan Party (i) certifying and attaching the resolutions adopted by such Loan Party approving or consenting to such extension and (ii) in the case of the Borrower, certifying that, before and after giving effect to such extension, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct on and as of the Extension Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2.15, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to subsections (a) and (b), respectively, of Section 6.01, and (B) no Default exists.

(c) This Section shall supersede any provisions in Sections 2.13 or 10.01 to the contrary.

ARTICLE III.
TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 TAXES.

(a) Any and all payments by the Borrower to or for the account of the Administrative Agent or any Lender under any Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of the Administrative Agent and each Lender, taxes imposed on or measured by its overall net income, and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which the Administrative Agent or such Lender, as the case may be, is organized or maintains a lending office (all such non-excluded taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by any Laws to deduct any Taxes from or in respect of any sum payable under any Loan Document to the Administrative Agent or any Lender, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section), each of the Administrative Agent and such Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable Laws, and (iv) within 30 days after the date of such payment, the Borrower shall furnish to the Administrative Agent (which shall forward the same to such Lender) the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, the Borrower agrees to pay any and all present or future stamp, court or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under any Loan Document or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, any Loan Document (hereinafter referred to as "Other Taxes").

(c) If the Borrower shall be required to deduct or pay any Taxes or Other Taxes from or in respect of any sum payable under any Loan Document to the Administrative Agent or any Lender, the Borrower shall also pay to the Administrative Agent or to such Lender, as the case may be, at the time interest is paid, such additional amount that the Administrative Agent or such Lender specifies is necessary to preserve the after-tax yield (after factoring in all taxes, including taxes imposed on or measured by net income) that the Administrative Agent or such Lender would have received if such Taxes or Other Taxes had not been imposed.

(d) The Borrower agrees to indemnify the Administrative Agent and each Lender for (i) the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section) paid by the Administrative Agent and such Lender, (ii) amounts payable under Section 3.01(c) and (iii) any liability (including additions to tax, penalties, interest and expenses) arising therefrom or with respect

thereto, in each case whether or not such Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Payment under this subsection (d) shall be made within 30 days after the date the Lender or the Administrative Agent makes a demand therefor.

(e) If the Borrower is required to pay additional amounts to any Lender or the Administrative Agent pursuant to this Section 3.01, such Lender or the Administrative Agent, as the case may be, shall use reasonable efforts consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to reduce or eliminate any such additional payment by the Borrower.

(f) If the Borrower pays any additional amount in respect of any Taxes or Other Taxes pursuant to this Section 3.01 which result in any Lender or the Administrative Agent actually receiving from the taxing authority imposing such Taxes or Other Taxes a refund of all or any portion of such Taxes or Other Taxes, such Lender or the Administrative Agent, as the case may be, shall, within 30 days of receipt of such refund, pay to the Borrower an amount equal to the amount of such refund actually received by such Lender or Administrative Agent, as the case may be, and reasonably attributable to Taxes and Other Taxes that have been paid by the Borrower pursuant to this Section 3.01 with respect to such refund.

(g) The Borrower shall not be required to make any payments under this Section 3.01 to any Lender, the Administrative Agent, or any Participant that has failed to comply with the applicable certification requirements set forth in Section 10.15.

(h) Notwithstanding anything in Sections 3.01(a), 3.01(b), 3.01(c), or 3.01(d), the Borrower shall not be obligated to compensate any Lender or the Administrative Agent for any amount arising or accruing before the earliest of (i) 180 days prior to the date on which such Lender or the Administrative Agent, as the case may be, gives notice to the Borrower under this Section 3.01 or (ii) the date such taxes arose or began accruing (and such Lender or the Administrative Agent, as the case may be, did not know such amount was arising or accruing).

3.02 ILLEGALITY. If any Lender determines that any change in Law occurring after the Closing Date has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Eurodollar Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Committed Loans to Eurodollar Rate Loans shall be suspended until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all Eurodollar Rate Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted. Each Lender agrees to designate a different Lending Office if such designation

will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender.

3.03 INABILITY TO DETERMINE RATES. If the Required Lenders determine that for any reason adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan, or that the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have converted such request into a request for a Committed Borrowing of Base Rate Loans in the amount specified therein.

3.04 INCREASED COST AND REDUCED RETURN; CAPITAL ADEQUACY.

(a) If any Lender determines that as a result of the introduction of or any change in or in the interpretation of any Law occurring after the Closing Date, or such Lender's compliance therewith, there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Loans or (as the case may be) issuing or participating in Letters of Credit, or a reduction in the amount received or receivable by such Lender in connection with any of the foregoing (excluding for purposes of this subsection (a) any such increased costs or reduction in amount resulting from (i) Taxes or Other Taxes (as to which Section 3.01 shall govern), (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or any foreign jurisdiction or any political subdivision of either thereof under the Laws of which such Lender is organized or has its Lending Office, and (iii) reserve requirements utilized in the determination of the Eurodollar Rate, then from time to time within 15 days of demand by such Lender (with a copy of such demand to the Administrative Agent) and subject to Section 3.04(c), the Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender determines that the introduction of any Law regarding capital adequacy or any change therein or in the interpretation thereof, or compliance by such Lender (or its Lending Office) therewith, has the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder (taking into consideration its policies with respect to capital adequacy and such Lender's desired return on capital), then from time to time upon demand of such Lender (with a copy of such demand to the Administrative Agent), the Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such reduction.

(c) Promptly after receipt of knowledge of any change in law or other event that will entitle any Lender to compensation under this Section 3.04, the Lender shall give notice thereof to the Borrower (with a copy to the Administrative Agent) certifying the basis for such request for compensation in accordance with Section 3.06(a) and designate a different Lending Office if such designation will avoid, or reduce, the amount of compensation payable under this Section

3.04 and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. Notwithstanding anything in Sections 3.04(a) or 3.04(b) to the contrary, the Borrower shall not be obligated to compensate any Lender for any amount arising or accruing before the earlier of (i) 180 days prior to the date on which such Lender gave notice to the Borrower under this Section 3.04(c) or (ii) the date such amount arose or began accruing (and such Lender did not know such amount was arising or accruing) as a result of the retroactive application of any change in Law or other event giving rise the claim for compensation.

3.05 FUNDING LOSSES. Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or

(b) any failure by the Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to Section 10.16;

including (i) in the case of a conversion, payment, prepayment or failure to prepay, borrow, continue or convert (except by reason of a suspension of the availability of the Eurodollar Rate pursuant to Section 3.02 or Section 3.03 or demand for prepayment or conversion on a date other than the last day of the relevant Interest Period made by any Lender pursuant to Section 3.02), any loss of anticipated profits and (ii) in all cases, any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lenders under this Section 3.05, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Base Rate used in determining the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

3.06 MATTERS APPLICABLE TO ALL REQUESTS FOR COMPENSATION.

(a) A certificate of the Administrative Agent or any Lender claiming compensation under this Article III and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be prima facie evidence thereof. In determining such amount, the Administrative Agent or such Lender may use any reasonable averaging and attribution methods.

(b) Upon any Lender's making a claim for compensation under Section 3.01 or 3.04 and/or upon the occurrence of the circumstances described in Section 3.02 with respect to such Lender, the Borrower may replace such Lender in accordance with Section 10.16.

(c) Prior to giving notice pursuant to Section 3.02 or to demanding compensation or other payment pursuant to Section 3.01 or Section 3.04, a Lender or the Administrative Agent shall consult with the Borrower with reference to the circumstances giving rise thereto; provided that nothing in this Section 3.06(c) shall limit the right of any Lender or the Administrative Agent, as the case may be, to require full performance by the Borrower of its obligations under such Sections.

3.07 SURVIVAL. All of the Borrower's obligations under this Article III shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

ARTICLE IV.
CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

4.01 CONDITIONS OF INITIAL CREDIT EXTENSION. The obligation of each Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or facsimiles (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent and its legal counsel:

(i) executed counterparts of this Agreement, the Guaranties from each Material Domestic Subsidiary of the Borrower, the Pledge Agreement from the Borrower, and other Pledge Documents requested by the Administrative Agent, sufficient in number for distribution to the Administrative Agent, each Lender and the Borrower;

(ii) a Note executed by the Borrower in favor of each Lender;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each of the Borrower and the Guarantors is validly existing, in good standing and qualified to engage in business in the jurisdiction of its organization;

(v) favorable opinion of internal counsel to the Loan Parties and of Gibson, Dunn & Crutcher LLP, special counsel to the Loan Parties, addressed to the Administrative Agent and each Lender, as to the matters set forth in Exhibit G;

(vi) a certificate of a Responsible Officer of each Loan Party either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(vii) a certificate signed by a Responsible Officer of the Borrower certifying (A) that the conditions specified in Sections 4.02(a) and (b) have been satisfied, (B) except as disclosed in the Borrower's SEC Filings made prior to the Closing Date, that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect; and (C) a calculation of the Consolidated Leverage Ratio as of the last day of the fiscal quarter of the Borrower most recently ended prior to the Closing Date; and

(viii) evidence that the Existing Credit Agreement has been or concurrently with the Closing Date is being terminated and all Liens securing obligations under the Existing Credit Agreement have been or concurrently with the Closing Date are being released.

(b) Any fees required to be paid by the Borrower to the Administrative Agent, the Lenders or the Arranger on or before the Closing Date shall have been paid.

(c) Unless waived by the Administrative Agent, the Borrower shall have paid all Attorney Costs of the Administrative Agent to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

(d) The Closing Date shall have occurred on or before November 12, 2003.

4.02 CONDITIONS TO ALL CREDIT EXTENSIONS. The obligation of each Lender to honor any Request for Credit Extension (other than a Committed Loan Notice requesting only a conversion of Committed Loans to the other Type, or a continuation of Eurodollar Rate Loans) is subject to the following conditions precedent:

(a) The representations and warranties of the Borrower and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be

deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01.

(b) No Default shall exist, or would result from such proposed Credit Extension.

(c) The Administrative Agent and, if applicable, the L/C Issuer or the Swing Line Lender shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension (other than a Committed Loan Notice requesting only a conversion of Committed Loans to the other Type or a continuation of Eurodollar Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

ARTICLE V.
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

5.01 EXISTENCE, QUALIFICATION AND POWER; COMPLIANCE WITH LAWS. Each Loan Party (a) is a corporation duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws; except in each case referred to in clause (b)(i), (c) or (d), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.02 AUTHORIZATION; NO CONTRAVENTION. The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien (other than Liens in favor of the Administrative Agent) under, (i) any Contractual Obligation to which such Person is a party or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law.

5.03 GOVERNMENTAL AUTHORIZATION; OTHER CONSENTS. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document except for such approvals, consents, exemptions, authorizations, actions, notices and filings which have been obtained, taken, given or made and are in full force and effect.

5.04 BINDING EFFECT. This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar Laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

5.05 FINANCIAL STATEMENTS; NO MATERIAL ADVERSE EFFECT.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of the Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness, to the extent required by GAAP to be shown on such financial statements.

(b) The unaudited consolidated financial statements of the Borrower and its Subsidiaries dated June 30, 2003, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments. Such financial statements and the SEC Filings delivered to the Lenders set forth all material indebtedness and other liabilities, direct or contingent of the Borrower and its consolidated Subsidiaries as of the date of such financial statements, including liabilities for taxes, material commitments and Indebtedness, to the extent required by GAAP to be shown on such financial statements.

(c) Except as disclosed in the SEC Filings made by the Borrower on or prior to the Closing Date, since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

5.06 LITIGATION. Except as disclosed in SEC Filings made by the Borrower prior to the Closing Date or previously disclosed to the Lenders, there are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Borrower, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

5.07 NO DEFAULT. Neither the Borrower nor any Subsidiary is in default under or with respect to any Contractual Obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 OWNERSHIP OF PROPERTY; LIENS. Each of the Borrower and each Subsidiary has good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The property of the Borrower and its Subsidiaries is subject to no Liens, other than Liens permitted by Section 7.01.

5.09 ENVIRONMENTAL COMPLIANCE. The Borrower and its Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof the Borrower has reasonably concluded that, except as specifically disclosed in SEC Filings delivered to the Lenders, such Environmental Laws and claims could not, individually or in the aggregate reasonably be expected to have a Material Adverse Effect.

5.10 INSURANCE. The properties of the Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts (after giving effect to any self-insurance compatible with the following standards), with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or the applicable Subsidiary operates.

5.11 TAXES. The Borrower and its Subsidiaries have filed all Federal, state and other material tax returns and reports required to be filed, and have paid all Federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Borrower or any Subsidiary that would, if made, have a Material Adverse Effect.

5.12 ERISA COMPLIANCE.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could be reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.13 SUBSIDIARIES. Except as disclosed in SEC Filings made by the Borrower or as otherwise disclosed by the Borrower to the Lenders, the Borrower has no Subsidiaries and has no Equity Interests in any other Person.

5.14 MARGIN REGULATIONS; INVESTMENT COMPANY ACT; PUBLIC UTILITY HOLDING COMPANY ACT.

(a) The Borrower is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock. Following the application of the proceeds of each Borrowing or drawing under each Letter of Credit, not more than 25% of the value of the assets (either of the Borrower only or of the Borrower and its Subsidiaries on a consolidated basis) subject to the provisions of Section 7.01 or Section 7.05 or subject to any restriction contained in any agreement or instrument between the Borrower and any Lender or any Affiliate of any Lender relating to Indebtedness and within the scope of Section 8.01(e) will be margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System).

(b) None of the Borrower, any Person Controlling the Borrower, or any Subsidiary (i) is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, or (ii) is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

5.15 DISCLOSURE. No written report, financial statement, certificate or other written information furnished by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) taken as a whole contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial

information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time (it being understood that projections are subject to significant uncertainties and contingencies, many of which are beyond the Borrower's control, and that no assurance can be given the projections will be realized).

5.16 COMPLIANCE WITH LAWS. Each of the Borrower and each Subsidiary is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.17 TAX SHELTER REGULATIONS. The Borrower does not intend to treat the Loans and/or Letters of Credit and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4). In the event the Borrower determines to take any action inconsistent with such intention, it will promptly notify the Administrative Agent thereof. If the Borrower so notifies the Administrative Agent, the Borrower acknowledges that the Administrative Agent and/or one or more of the Lenders may treat its Committed Loans and/or its interest in Swing Line Loans and/or Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 1.6011-4 or Section 301.6112-1, and the Administrative Agent and such Lender or Lenders, as applicable, may file such IRS forms or maintain such lists and other records as they may determine is required by such Treasury Regulations..

5.18 INTELLECTUAL PROPERTY; LICENSES, ETC. To the best knowledge of the Borrower and except as otherwise disclosed in the SEC Filings made by the Borrower prior to the Closing Date or previously disclosed to the Lenders, the Borrower and its Subsidiaries own, or possess the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights (collectively, "IP Rights") that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed by the Borrower or any Subsidiary infringes upon any valid, proprietary rights held by any other Person that could result in a claim, that, if successful, could reasonably be expected to have a Material Adverse Effect. Except as disclosed in SEC Filings made by the Borrower prior to the Closing Date or previously disclosed to the Lenders, no claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrower, threatened, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.19 COLLATERAL. The provisions of this Agreement and the other Loan Documents create legal, valid, perfected, enforceable and continuing security interests in the Collateral in favor of the Administrative Agent for the benefit of the Lenders, the Swing Line Lender and the L/C Issuer, having priority over all other Liens on the Collateral except for Permitted Liens arising under, and having priority pursuant to, applicable Law.

ARTICLE VI.
AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02, 6.03 and 6.11) cause each Subsidiary to:

6.01 FINANCIAL STATEMENTS. Deliver to the Administrative Agent (with sufficient copies for each Lender), in form and detail satisfactory to the Administrative Agent and the Required Lenders:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit; and

(b) as soon as available, but in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of the Borrower as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes; and

(c) concurrently with the delivery of the financial statements referred to in subsections (a) and (b) above, consolidating balance sheets of the Borrower and its Subsidiaries as of the end of the relevant fiscal year (in the case of subsection (a)) or fiscal quarter (in the case of subsection (b)) and the related consolidating statement of income for the fiscal year (in the case of subsection (a)) or fiscal quarter (in the case of subsection (b)).

As to any information contained in materials furnished pursuant to Section 6.02(c), the Borrower shall not be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of the Borrower to furnish the information and materials described in subsections (a) and (b) above at the times specified therein.

6.02 CERTIFICATES; OTHER INFORMATION. Deliver to the Administrative Agent (with sufficient copies for each Lender), in form and detail satisfactory to the Administrative Agent and the Required Lenders:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b), a duly completed Compliance Certificate signed by a Responsible Officer of the Borrower;

(b) promptly after any request by the Administrative Agent or any Lender, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the Borrower by independent accountants in connection with the accounts or books of the Borrower or any Subsidiary, or any audit of any of them;

(c) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower, and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to the Administrative Agent pursuant hereto;

(d) promptly after the Borrower has notified the Administrative Agent of any intention by the Borrower to treat the Loans and/or Letters of Credit and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4), a duly completed copy of IRS Form 8886 or any successor form; and

(e) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.01(a) or (b) or Section 6.02(c) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed on Schedule 10.02; or (ii) on which such documents are posted on the Borrower's behalf on IntraLinks/IntraAgency or another relevant website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) if any Lender so requests, the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall notify (which may be by facsimile or electronic mail) the Administrative Agent and each Lender of the posting of any such documents. Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the Compliance Certificates required by Section 6.02(a) to the Administrative Agent and each of the Lenders. Except for such Compliance

Certificates, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

6.03 NOTICES. Notify the Administrative Agent and each Lender:

(a) Within five (5) Business Days after the occurrence of a Default under Section 8.01(e) and promptly after the occurrence of any other Default;

(b) Promptly of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including, if applicable (i) breach or non-performance of, or any default under, a Contractual Obligation of the Borrower or any Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between the Borrower or any Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Subsidiary, including pursuant to any applicable Environmental Laws;

(c) Promptly of the occurrence of any ERISA Event; and

(d) Promptly of any material change in accounting policies or financial reporting practices by the Borrower or any Subsidiary.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 6.03(a) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

6.04 PAYMENT OF OBLIGATIONS. Pay and discharge as the same shall become due and payable, all its obligations and liabilities in an aggregate amount in excess of the Threshold Amount, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

6.05 PRESERVATION OF EXISTENCE, ETC. (a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by Section 7.04 or 7.05; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.06 MAINTENANCE OF PROPERTIES. (a) Except for any downsizing, restructuring, closure or partial closure of the golf ball manufacturing operations of the Borrower in existence on the Closing Date, maintain, preserve and protect all of its material properties and material equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; and (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.07 MAINTENANCE OF INSURANCE. Maintain with financially sound and reputable insurance companies not Affiliates of the Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts (after giving effect to any self-insurance compatible with the following standards) as are customarily carried under similar circumstances by such other Persons.

6.08 COMPLIANCE WITH LAWS. Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, write, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 BOOKS AND RECORDS. (a) Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower or such Subsidiary, as the case may be; and (b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Borrower or such Subsidiary, as the case may be.

6.10 INSPECTION RIGHTS. Permit representatives and independent contractors of the Administrative Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at the expense of the Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided, however, that when an Event of Default exists the Administrative Agent or any Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice.

6.11 USE OF PROCEEDS. Use the proceeds of the Credit Extensions for general corporate purposes not in contravention of any Law or of any Loan Document, including any Permitted Acquisition.

6.12 ADDITIONAL GUARANTORS AND PLEDGORS.

(a) Notify the Administrative Agent prior to the time that any Person becomes a Material Domestic Subsidiary, and promptly thereafter (and in any event prior to the date such Person becomes such a Material Domestic Subsidiary), cause such Person to (i) become a Guarantor by executing and delivering to the Administrative Agent a counterpart of the Guaranty or such other document as the Administrative Agent shall deem appropriate for such purpose, (ii) if such Person holds directly any Equity Interests that are Pledged Equity Interests or any Pledged Debt Securities, become a Pledgor by executing and delivering to the Administrative Agent a Joinder Agreement substantially in the form of Exhibit A to the Pledge Agreement and make such deliveries to the Administrative Agent as are required by the Pledge Agreement, (iii) deliver to the Administrative Agent such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of such Person as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof in connection with the Guaranty, Pledge Agreement, and any other Loan Documents to which such Person is a party, (iv) deliver to the Administrative Agent such documents and certifications as the Administrative Agent may reasonably require to evidence that such Person is duly organized or formed and is validly existing, in good standing and qualified to engage in business in jurisdictions reasonably identified by the Administrative Agent and (v) deliver to the Administrative Agent favorable opinions of counsel (which may be internal counsel) to such Person, all in form, content and scope reasonably satisfactory to the Administrative Agent; and

(b) Notify the Administrative Agent prior to the time that a Guarantor that is not a Pledgor acquires a direct interest in any Equity Interests that are Pledged Equity Interests or in any Pledged Debt Securities and promptly thereafter (and in any event prior to the date such Person acquires such Pledged Equity Interests or Pledged Debt Securities) cause such Person to (i) become a Pledgor by executing and delivering to the Administrative Agent a Joinder Agreement substantially in the form of Exhibit A to the Pledge Agreement and make such deliveries to the Administrative Agent as are required by the Pledge Agreement, (ii) deliver to the Administrative Agent such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of such Guarantor as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof in connection with the Pledge Agreement, (iii) deliver to the Administrative Agent such documents and certifications as the Administrative Agent may reasonably require to evidence that such Guarantor continues to be duly organized or formed and that such Guarantor is validly existing, in good standing and qualified to engage in business to the extent reasonably required by the Administrative Agent in connection with the Pledge Agreement, and (iv) deliver to the Administrative Agent favorable opinions of counsel (which may be internal counsel) to such Guarantor, all in form, content and scope reasonably satisfactory to the Administrative Agent.

ARTICLE VII.
NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall not, nor shall it permit any Material Subsidiary to, directly or indirectly:

7.01 LIENS. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:

(a) Liens pursuant to any Loan Document;

(b) Liens existing on the date hereof that, to the best knowledge of the Borrower, are listed on Schedule 7.01;

(c) Liens for taxes, fees, assessments or other governmental charges not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP or to the extent that nonpayment thereof is permitted by Section 6.04;

(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person;

(e) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;

(f) deposits or other Liens to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety bonds (other than bonds related to judgments or litigation), performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person;

(h) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution;

(i) Liens securing judgments for the payment of money not constituting an Event of Default under Section 8.01(h) or securing appeal or other surety bonds related to such judgments;

(j) Liens securing Indebtedness permitted under Section 7.03(e); provided that (i) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (ii) the Indebtedness secured thereby does not exceed, on the date of acquisition, the cost or fair market value, whichever is lower, of the property being acquired;

(k) Liens securing Indebtedness permitted under Section 7.03(g); provided that such Liens (i) do not at any time encumber any property other than the property acquired and, if

Equity Interests in a Person are acquired, the assets of such Person , (ii) do not encumber any Collateral, and (iii) were not created in anticipation of such Permitted Acquisition;

(l) Liens on the Collateral in favor of the Administrative Agent;

(m) extensions, renewals and replacements of Liens referred to in clauses (a) through (k) above, provided that the property covered thereby is not increased and any renewal or extension of the obligations secured or benefited thereby is permitted by Section 7.03;

(n) leases, subleases, licenses and rights to use granted to others not otherwise prohibited by this Agreement that do not materially adversely affect the conduct by the Borrower and by its Subsidiaries of their core golf products business; and

(o) Liens securing other Indebtedness of the Borrower and its Material Subsidiaries not expressly permitted by subsections (a) through (n) above; provided that the aggregate amount of Indebtedness secured by such Liens permitted by this subsection (o) shall not exceed $5,000,000 in the aggregate outstanding at any one time.

Notwithstanding any other provision of this Section 7.01, the restrictions set forth herein shall not apply to any Liens on stock of the Borrower held by the Borrower as treasury stock or held by the GSOT that would constitute margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System).

7.02 INVESTMENTS. Make any Investments, except:

(a) Investments held by the Borrower or such Subsidiary in the form of cash equivalents or short-term marketable securities;

(b) advances to officers, directors and employees of the Borrower and Subsidiaries for travel, entertainment, relocation and analogous ordinary business purposes;

(c) Investments in existence on the Closing Date of the Borrower and its Subsidiaries, including, without limitation, the Borrower's existing Investment in the GSOT;

(d) Investments of the Borrower in any Guarantor and Investments of any Guarantor in another Guarantor;

(e) Investments in the nature of intercompany loans (i) from any wholly owned Subsidiary to the Borrower or any other wholly owned Subsidiary or (ii) from the Borrower to any wholly owned Subsidiary; provided that (x) neither the Borrower nor any Domestic Subsidiary may make loans to any Foreign Subsidiaries of the Borrower pursuant to this subsection (e) and (y) any loans made by any Foreign Subsidiaries to the Borrower or to any of its Domestic Subsidiaries pursuant to this subsection (e) shall be subordinated to the obligations of the Borrower and Guarantors pursuant to subordination provisions acceptable to the Administrative Agent;

(f) Investments made in connection with the Permitted IHC Transaction; provided that any loan or advance made by the Borrower or a Domestic Subsidiary to a Direct Material

Foreign Subsidiary in connection with the Permitted IHC Transaction shall be evidenced by one or more senior intercompany notes and shall be pledged to the Administrative Agent pursuant to the Pledge Agreement;

(g) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(h) Guarantees permitted by Section 7.03;

(i) Investments made in connection with Permitted Acquisitions;

(j) Investments in Foreign Subsidiaries that are Immaterial Subsidiaries;

(k) Investments in Subsidiaries of the Borrower or in Joint Ventures; provided that the aggregate amount of all such Investments pursuant to this clause (k) shall not exceed $5,000,000;

(l) Investments pursuant to Swap Contracts otherwise permitted hereunder; and

(m) other Investments made after the Closing Date and not otherwise permitted hereunder in an aggregate amount not to exceed $10,000,000.

7.03 INDEBTEDNESS. Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness outstanding on the date hereof and listed on Schedule 7.03;

(c) Guarantees of the Borrower or any Subsidiary in respect of Indebtedness otherwise permitted hereunder of the Borrower or any Subsidiary;

(d) Obligations (contingent or otherwise) of the Borrower or any Subsidiary existing or arising under any Swap Contract, provided that such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments, investments, assets, or property held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person, and not for purposes of speculation or taking a "market view;"

(e) Indebtedness in respect of capital leases, Off-Balance Sheet Liabilities and purchase money obligations for fixed or capital assets; provided, however, that the aggregate amount of all such Indebtedness in any fiscal year shall not exceed $40,000,000; provided, further, that, so long as no Default has occurred or would result from such incurrence, Indebtedness permitted to be incurred by this subsection (e) but not actually incurred may be carried over for incurrence in the following fiscal year; provided, finally, that the aggregate amount of such Indebtedness incurred from the Closing Date through the Maturity Date may not exceed $80,000,000;

(f) Indebtedness to Financial Institutions in an aggregate amount not to exceed $50,000,000;

(g) Indebtedness in an aggregate amount not in excess of $20,000,000 outstanding at any one time assumed in connection with Permitted Acquisitions that was not created in anticipation of such Permitted Acquisitions;

(h) Indebtedness to the Person, or the beneficial holders of Equity Interests in the Person, whose assets or Equity Interests are acquired in a Permitted Acquisition where such Indebtedness (i) is payable in full no sooner than three years from the date of such Acquisition, (ii) is repayable in installments of no more than one-third of the initial amount in any year after the date of such Permitted Acquisition, and (iii) bears interest and fees that are consistent with then available market rates for such Indebtedness;

(i) Indebtedness of wholly owned Domestic Subsidiaries to each other Indebtedness of Foreign Subsidiaries to each other and other Indebtedness of Subsidiaries of the Borrower to the Borrower that is subordinated to the Obligations on terms and conditions satisfactory to the Administrative Agent;

(j) intercompany Indebtedness among the Borrower and its Subsidiaries permitted by Section 7.02;

(k) in addition to any Indebtedness permitted by the preceding subsection (j) Indebtedness of any wholly owned Subsidiary to the Borrower or another wholly owned Subsidiary constituting the purchase price in respect of intercompany transfers of goods and services made in the ordinary course of business to the extent otherwise permitted by Section 7.08 and not constituting Indebtedness for borrowed money;

(l) Indebtedness of the Borrower or any Subsidiary in connection with guaranties resulting from endorsement of negotiable instruments in the ordinary course of business;

(m) Indebtedness on account of surety bonds and appeal bonds in connection with the enforcement of rights or claims of the Borrower or its Subsidiaries or in connection with judgments not resulting in an Event of Default under Section 8.01(h);

(n) any refinancings, refundings, renewals or extensions of Indebtedness permitted pursuant to Sections 7.03(a), (b), and (e); provided that (i) the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and by an amount equal to any existing commitments unutilized thereunder and (ii) Indebtedness subordinated to the Obligations is not refinanced except on subordination terms at least as favorable to the Administrative Agent and the other Lenders and no more restrictive on the Borrower than the subordinated Indebtedness being refinanced, and in an amount not less than the amount outstanding at the time of refinancing; and

(o) other Indebtedness incurred after the Closing Date and not otherwise permitted hereunder in an aggregate amount not to exceed Two Million Dollars ($2,000,000).

7.04 FUNDAMENTAL CHANGES. Merge, dissolve, liquidate, consolidate with or into another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default exists or would result therefrom:

(a) any Subsidiary may merge with (i) the Borrower, provided that the Borrower shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries, provided that when any Guarantor is merging with another Subsidiary, the Guarantor shall be the continuing or surviving Person or the surviving Person shall become a Guarantor;

(b) any Foreign Subsidiary may merge with (i) the Borrower, provided that the Borrower shall be the continuing or surviving Person or (ii) any one or more other Subsidiaries, provided that when any Foreign Subsidiary is merging with a Domestic Subsidiary, the Domestic Subsidiary shall be the continuing or surviving Person;

(c) any Subsidiary may Dispose of all or substantially all of its assets (upon voluntary liquidation or otherwise) to the Borrower or to another Subsidiary; provided that if the transferor in such transaction is a Guarantor, then the transferee must either be the Borrower or another Guarantor;

(d) the Borrower and its Subsidiaries may engage in the Permitted IHC Transaction;

(e) any Immaterial Subsidiary may be wound up, liquidated or dissolved; and

(f) the Subsidiaries of the Borrower may merge or consolidate with any Person pursuant to a Permitted Acquisition; and

(g) the Borrower and its Subsidiaries may make those Dispositions permitted by Section 7.05.

7.05 DISPOSITIONS. Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of inventory in the ordinary course of business;

(c) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are reasonably promptly applied to the purchase price of such replacement property;

(d) Dispositions of property by any Subsidiary to the Borrower or to a Wholly Owned Subsidiary; provided that if the transferor of such property is a Guarantor, the transferee thereof must either be the Borrower or a Guarantor; and Dispositions of property by the Borrower to any Guarantor;

(e) Dispositions permitted by Section 7.04 (including, without limitation, pursuant to the Permitted IHC Transaction);

(f) leases, subleases, licenses and rights to use granted to others not otherwise prohibited by this Agreement that do not materially adversely affect the conduct by the Borrower and by its Subsidiaries of their core golf products business;

(g) Dispositions made in connection with the closure, downsizing, restructuring, closure or partial closure of the golf ball manufacturing operations of the Borrower;

(h) the factoring of Japanese retail receivables by Callaway Golf K.K.; and

(i) other Dispositions in an aggregate amount not to exceed $10,000,000;

provided, however, that any Disposition pursuant to clauses (a) through (h) shall be for fair market value; provided, further, that the Borrower or any of its Material Subsidiaries may enter into an agreement to make a Disposition otherwise prohibited by this Section 7.05 if failure to consummate such Disposition would not result in a liability or Indebtedness otherwise prohibited by this Agreement and either (i) the aggregate amount of assets subject to such agreement, when combined with assets subject to other such agreements, during any fiscal year does not exceed Ten Million Dollars ($10,000,000) or (ii) the consummation of the Disposition contemplated by such agreement is conditioned upon either the termination of this Agreement or receipt of the prior written consent of the Administrative Agent. Upon reasonable prior written notice of the Borrower, the Administrative Agent agrees, no later than concurrently with any Disposition of any Collateral permitted by this Section 7.05, to release its Lien on such Collateral and, in connection therewith, to file or authorize filing of appropriate amendments or terminations of financing statements and to execute and deliver such releases and related documents as the Borrower shall reasonably request to effectuate such release of the Administrative Agent's Lien on such Collateral.

Notwithstanding any other provision of this Section 7.05, the restrictions set forth herein shall not apply to any Dispositions or agreements with respect to Dispositions of stock of the Borrower held by the Borrower as treasury stock or held by the GSOT that would constitute margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System).

7.06 RESTRICTED PAYMENTS. Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that:

(a) each Subsidiary may make Restricted Payments to the Borrower and to Wholly Owned Subsidiaries (and, in the case of a Restricted Payment by a Subsidiary that is not a Wholly Owned Subsidiary, to the Borrower and any Subsidiary and to each other owner of Equity Interests of such Subsidiary on a pro rata basis based on their relative ownership interests);

(b) the Borrower and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other Equity Interests of such Person;

(c) the Borrower and each Subsidiary may purchase, redeem or otherwise acquire shares of its common stock or other Equity Interests or warrants or options to acquire any such Equity Interests with the proceeds received from the substantially concurrent issue of new shares of its common stock or other Equity Interests;

(d) the Borrower may purchase Equity Interests in any Loan Party or options with respect to Equity Interests in any Loan Party held by employees or management of any Loan Party in connection with the termination of employment of such employees or management; and

(e) so long as no Default would exist after giving effect thereto, the Borrower may declare or pay cash dividends to its stockholders and purchase, redeem or otherwise acquire shares of its capital stock or warrants, rights or options to acquire any such shares for cash in an aggregate amount not to exceed $150,000,000 in any fiscal year; provided, however, that so long as no Default has occurred or would result from such declaration or payment, any Restricted Payment permitted by this subsection (e) but not otherwise made may be carried over for expenditure in the following fiscal year; provided, finally, that the aggregate amount of such Restricted Payments made from the Closing Date through the Maturity Date shall not exceed $300,000,000.

7.07 CHANGE IN NATURE OF BUSINESS. Engage in any material line of business substantially different from those lines of business conducted by the Borrower and its Subsidiaries on the date hereof or any business substantially related or incidental thereto.

7.08 TRANSACTIONS WITH AFFILIATES. Enter into any transaction of any kind with any Affiliate of the Borrower, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Borrower or such Subsidiary as would be obtainable by the Borrower or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate; provided that the foregoing restriction shall not apply to transactions between or among the Borrower and any of its Wholly Owned Subsidiaries or between and among any Wholly Owned Subsidiaries.

7.09 BURDENSOME AGREEMENTS. Enter into any Contractual Obligation (other than this Agreement or any other Loan Document) that limits the ability (i) of any Subsidiary to make Restricted Payments to the Borrower or any Guarantor or to otherwise transfer property to the Borrower or any Guarantor, (ii) of any Material Domestic Subsidiary to Guarantee the Indebtedness of the Borrower owing to the Administrative Agent or the Lenders, or (iii) of the Borrower or any Material Domestic Subsidiary to grant to the Administrative Agent for the benefit of the Lenders, the L/C Issuer and the Swing Line Lender a perfected security interest in any Collateral.

7.10 USE OF PROCEEDS. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

7.11 FINANCIAL COVENANTS.

(a) Consolidated Leverage Ratio. Permit the Consolidated Leverage Ratio at any time during any period of four consecutive fiscal quarters to exceed 1.25 to 1.00.

(b) Minimum Consolidated EBITDA. Permit the Consolidated EBITDA for any four consecutive fiscal quarters to be less than $50,000,000.

7.12 CAPITAL EXPENDITURES. Make any expenditure in respect of the purchase or other acquisition of any fixed or capital asset (excluding normal replacements and maintenance which are properly charged to current operations), except for capital expenditures in the ordinary course of business not exceeding, in the aggregate for the Borrower and it Subsidiaries, to exceed $40,000,000 in any fiscal year; provided, however, that so long as no Default has occurred and is continuing or would result from such expenditure, any portion of any amount set forth above, if not expended in the fiscal year for which it is permitted above, may be carried over for expenditure in the next following fiscal year; provided, finally, that the aggregate of such expenditures made from the Closing Date through the Maturity Date shall not exceed $80,000,000.

ARTICLE VIII.
EVENTS OF DEFAULT AND REMEDIES

8.01 EVENTS OF DEFAULT. Any of the following shall constitute an Event of Default:

(a) Non-Payment. The Borrower or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan or any L/C Obligation, or (ii) within three days after the same becomes due, any interest on any Loan or on any L/C Obligation, or any commitment or other fee due hereunder, or (iii) within five days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. The Borrower fails to perform or observe any term, covenant or agreement contained in any of Sections 6.01, 6.02, 6.03, 6.05, 6.10, 6.11 or 6.12 or Article VII; or

(c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 30 days; or

(d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of the Borrower or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed made; or

(e) Cross-Default. (i) The Borrower or any Material Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder

and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Borrower or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which the Borrower or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Material Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 60 calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) The Borrower or any Material Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process for an amount in excess of the Threshold Amount is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within 30 days after its issue or levy; or

(h) Judgments. There is entered against the Borrower or any Material Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount (to the extent not covered by independent third-party insurance) exceeding (x) in respect of litigation not disclosed in SEC Filings made prior to the Closing Date, the Threshold Amount or, (y) when aggregated with final judgments or order for the payment of money entered in respect of litigation disclosed in SEC Filings made prior to the Closing Date, $35,000,000 or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) (X) in the case of a monetary judgment or order, enforcement proceedings are commenced by any creditor upon non-payment

of any such monetary judgment or order and (Y) in the case of a nonmonetary judgment or order, enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 30 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or

(j) Invalidity of Loan Documents. Any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party or any other Person contests in any manner the validity or enforceability of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document; or

(k) Collateral. The Administrative Agent shall fail to have a first priority perfected security interest in the Collateral.

(l) Change of Control. There occurs any Change of Control with respect to the Borrower.

8.02 REMEDIES UPON EVENT OF DEFAULT. If any Event of Default occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

(a) declare the commitment of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower;

(c) require that the Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and

(d) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions

shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Administrative Agent or any Lender.

8.03 APPLICATION OF FUNDS. After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received on account of the Obligations shall be applied by the Administrative Agent in the following order:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including Attorney Costs and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to the Lenders (including Attorney Costs and amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Second payable to them;

Third, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans and L/C Borrowings, ratably among the Lenders in proportion to the respective amounts described in this clause Third payable to them;

Fourth, to payment of that portion of the Obligations constituting unpaid principal of the Loans and L/C Borrowings ratably among the Lenders in proportion to the respective amounts described in this clause Fourth held by them;

Fifth, to the Administrative Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit;

Sixth, to the payment of Obligations on any Swap Contract with any Lender;

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Borrower or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause Fifth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

ARTICLE IX. ADMINISTRATIVE AGENT

9.01 APPOINTMENT AND AUTHORIZATION OF ADMINISTRATIVE AGENT.

(a) Each Lender hereby irrevocably appoints, designates and authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document (including, without limitation, to act as collateral agent, security trustee or in an analogous capacity) together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere herein or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Administrative Agent have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" or "security trustee" herein and in the other Loan Documents with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) The L/C Issuer shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the L/C Issuer shall have all of the benefits and immunities (i) provided to the Administrative Agent in this Article IX with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and the applications and agreements for letters of credit pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in this Article IX and in the definition of "Agent-Related Person" included the L/C Issuer with respect to such acts or omissions, and (ii) as additionally provided herein with respect to the L/C Issuer.

9.02 DELEGATION OF DUTIES. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

9.03 LIABILITY OF ADMINISTRATIVE AGENT. No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (b) be responsible in any manner to any Lender or participant for any recital, statement, representation or warranty made by any Loan Party or any officer thereof, contained herein or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection

with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Loan Party or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender or participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party or any Affiliate thereof.

9.04 RELIANCE BY ADMINISTRATIVE AGENT.

(a) The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, communication, signature, resolution, representation, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, electronic mail message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to any Loan Party), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under any Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders (or such greater number of Lenders as may be expressly required hereby in any instance) and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders.

(b) For purposes of determining compliance with the conditions specified in Section 4.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received written notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

9.05 NOTICE OF DEFAULT. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Administrative Agent for the account of the Lenders, unless the Administrative Agent shall have received written notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default." The Administrative Agent will notify the Lenders of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Default as may be directed by the Required Lenders in accordance with Article VIII; provided, however, that unless and until the Administrative Agent has received any such direction, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable or in the best interest of the Lenders.

9.06 CREDIT DECISION; DISCLOSURE OF INFORMATION BY ADMINISTRATIVE AGENT. Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by the Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of any Loan Party or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Loan Parties and their respective Subsidiaries, and all applicable bank or other regulatory Laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrower and the other Loan Parties hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower and the other Loan Parties. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent herein, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Loan Parties or any of their respective Affiliates which may come into the possession of any Agent-Related Person.

9.07 INDEMNIFICATION OF ADMINISTRATIVE AGENT. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand each Agent-Related Person (to the extent not reimbursed by or on behalf of any Loan Party and without limiting the obligation of any Loan Party to do so), pro rata, and hold harmless each Agent-Related Person from and against any and all Indemnified Liabilities incurred by it; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities to the extent determined in a final, nonappealable judgment by a court of competent jurisdiction to have resulted from such Agent-Related Person's own gross negligence or willful misconduct; provided, however, that no action taken in accordance with the directions of the Required Lenders shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section. Without limitation of the foregoing, each Lender shall reimburse the Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Administrative Agent is not reimbursed for such expenses by or on behalf of the Borrower. The undertaking in this Section shall survive termination of the Aggregate Commitments, the payment of all other Obligations and the resignation of the Administrative Agent.

9.08 ADMINISTRATIVE AGENT IN ITS INDIVIDUAL CAPACITY. Bank of America and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with each of the Loan Parties and their respective Affiliates as though Bank of America were not the Administrative Agent or the L/C Issuer hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Bank of America or its Affiliates may receive information regarding any Loan Party or its Affiliates (including information that may be subject to confidentiality obligations in favor of such Loan Party or such Affiliate) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, Bank of America shall have the same rights and powers under this Agreement as any other Lender and may exercise such rights and powers as though it were not the Administrative Agent or the L/C Issuer, and the terms "Lender" and "Lenders" include Bank of America in its individual capacity.

9.09 SUCCESSOR ADMINISTRATIVE AGENT. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders and the Borrower; provided that any such resignation by Bank of America shall also constitute its resignation as L/C Issuer and Swing Line Lender. If the Administrative Agent resigns under this Agreement, the Required Lenders shall, with the consent of the Borrower so long as no Event of Default has occurred and is continuing (which consent shall not be unreasonably withheld or delayed) appoint from among the Lenders a successor administrative agent for the Lender. If no successor administrative agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and the Borrower, a successor administrative agent from among the Lenders. Upon the acceptance of its appointment as successor administrative agent hereunder, the Person acting as such successor administrative agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent, L/C Issuer and Swing Line Lender and the respective terms "Administrative Agent," "L/C Issuer" and "Swing Line Lender" shall mean such successor administrative agent, Letter of Credit issuer and swing line lender, and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated and the retiring L/C Issuer's and Swing Line Lender's rights, powers and duties as such shall be terminated, without any other or further act or deed on the part of such retiring L/C Issuer or Swing Line Lender or any other Lender, other than the obligation of the successor L/C Issuer to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or to make other arrangements satisfactory to the retiring L/C Issuer to effectively assume the obligations of the retiring L/C Issuer with respect to such Letters of Credit. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article IX and Sections 10.04 and 10.05 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor administrative agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above.

9.10 ADMINISTRATIVE AGENT MAY FILE PROOFS OF CLAIM. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment,

composition or other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.03(i) and (j), 2.09 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.09 and 10.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

9.11 COLLATERAL AND GUARANTY MATTERS. The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon termination of the Aggregate Commitments and payment in full of all Obligations (other than contingent indemnification obligations) and the expiration or termination of all Letters of Credit, (ii) that is sold or to be sold as part of or in connection with any sale permitted hereunder or under any other Loan Document, or (iii) subject to Section 10.01, if approved, authorized or ratified in writing by the Required Lenders;

(b) to subordinate any Lien on any property granted to or held by the Administrative Agent under any Loan Document to the holder of any Lien on such property that is permitted by Section 7.01(i); and

(c) to release any Guarantor from its obligations under the Guaranty if such Person ceases to be a Subsidiary as a result of a transaction permitted hereunder.

Upon request by the Administrative Agent at any time, the Required Lenders will confirm in writing the Administrative Agent's authority to release or subordinate its interest in particular types or items of property, or to release any Guarantor from its obligations under the Guaranty pursuant to this Section 9.11.

9.12 OTHER AGENTS; ARRANGERS AND MANAGERS. None of the Lenders or other Persons identified on the facing page or signature pages of this Agreement as a "syndication agent," "documentation agent," "co-agent," "book manager," "lead manager," "arranger," "lead arranger," "co-arranger" or the like shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than, in the case of such Lenders, those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders or other Persons so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders or other Persons so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE X.
MISCELLANEOUS

10.01 AMENDMENTS, ETC. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and the Borrower or the applicable Loan Party, as the case may be, and acknowledged by the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(a) waive any condition set forth in Section 4.01(a) without the written consent of each Lender;

(b) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02) without the written consent of such Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for any payment or mandatory prepayment of principal, interest, fees or other amounts due to the Lenders (or any of them) or any scheduled or mandatory reduction of the Aggregate Commitments hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or (subject to clause (v) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document, or change the manner of computation of any financial ratio (including any change in any applicable defined term) used in determining the Applicable Rate that would result in a reduction of any interest rate on any Loan

or any fee payable hereunder without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Required Lenders shall be necessary (i) to amend the definition of "Default Rate" or to waive any obligation of the Borrower to pay interest at the Default Rate or (ii) to amend any financial covenant hereunder (or any defined term used therein) even if the effect of such amendment would be to reduce the rate of interest on any Loan or L/C Borrowing or to reduce any fee payable hereunder.

(e) change Section 2.13 or Section 8.03 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender;

(f) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(g) except as otherwise contemplated by any Loan Document, release any Guarantor from the Guaranty without the written consent of each Lender; or

(h) except as otherwise contemplated by any Loan Document, release all or substantially all of the Collateral without the written consent of each Lender;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the L/C Issuer in addition to the Lenders required above, affect the rights or duties of the L/C Issuer under this Agreement or any Letter of Credit Application relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, affect the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; (iv) Section 10.07(h) may not be amended, waived or otherwise modified without the consent of each Granting Lender all or any part of whose Loans are being funded by an SPC at the time of such amendment, waiver or other modification; and (v) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended without the consent of such Lender.

10.02 NOTICES AND OTHER COMMUNICATIONS; FACSIMILE COPIES.

(a) General. Unless otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered to the applicable address, facsimile number or (subject to subsection (c) below) electronic mail address, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Borrower, the Administrative Agent, the L/C Issuer or the Swing Line Lender, to the address, facsimile number, electronic mail address or telephone number specified for such Person on Schedule 10.02 or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties; and

(ii) if to any other Lender, to the address, facsimile number, electronic mail address or telephone number specified in its Administrative Questionnaire or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the Borrower, the Administrative Agent, the L/C Issuer and the Swing Line Lender.

All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (i) actual receipt by the relevant party hereto and (ii) (A) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (B) if delivered by mail, four Business Days after deposit in the mails, postage prepaid; (C) if delivered by facsimile, when sent and receipt has been confirmed by telephone; and (D) if delivered by electronic mail (which form of delivery is subject to the provisions of subsection (c) below), when delivered; provided, however, that notices and other communications to the Administrative Agent, the L/C Issuer and the Swing Line Lender pursuant to Article II shall not be effective until actually received by such Person. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

(b) Effectiveness of Facsimile Documents and Signatures. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be binding on all Loan Parties, the Administrative Agent and the Lenders. The Administrative Agent may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

(c) Limited Use of Electronic Mail. Electronic mail and Internet and intranet websites may be used only to distribute routine communications, such as financial statements and other information as provided in Section 6.02, and to distribute Loan Documents for execution by the parties thereto, and may not be used for any other purpose.

(d) Reliance by Administrative Agent and Lenders. The Administrative Agent and the Lenders shall be entitled to rely and act upon any notices (including telephonic Committed Loan Notices and Swing Line Loan Notices) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The signature of a Responsible Officer of a Loan Party on any certificate, notice or other document delivered hereunder shall be prima facie evidence that the document has been authorized by all necessary corporate, partnership and/or other action on the party of such Loan Party. The Borrower shall indemnify each Agent-Related Person and each Lender from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on

behalf of the Borrower. All telephonic notices to and other communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

10.03 NO WAIVER; CUMULATIVE REMEDIES. No failure by any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.04 ATTORNEY COSTS, EXPENSES AND TAXES. The Borrower agrees (a) to pay or reimburse the Administrative Agent for all costs and expenses incurred in connection with the development, preparation, negotiation and execution of this Agreement and the other Loan Documents and any amendment, waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all Attorney Costs, and (b) to pay or reimburse the Administrative Agent and each Lender for all costs and expenses incurred in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Loan Documents (including all such costs and expenses incurred during any "workout" or restructuring in respect of the Obligations and during any legal proceeding, including any proceeding under any Debtor Relief Law), including all Attorney Costs. The foregoing costs and expenses shall include all search, filing, recording, title insurance and appraisal charges and fees and taxes related thereto, and other out-of-pocket expenses incurred by the Administrative Agent and the cost of independent public accountants and other outside experts retained by the Administrative Agent or any Lender. All amounts due under this Section 10.04 shall be payable within ten Business Days after demand therefor. The agreements in this Section shall survive the termination of the Aggregate Commitments and repayment of all other Obligations.

10.05 INDEMNIFICATION BY THE BORROWER. Whether or not the transactions contemplated hereby are consummated, the Borrower shall indemnify and hold harmless each Agent-Related Person, each Lender and their respective Affiliates, directors, officers, employees, counsel, agents and attorneys-in-fact (collectively the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against any such Indemnitee in any way relating to or arising out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Loan Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated thereby or the consummation of the transactions contemplated thereby, (b) any Commitment, Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the L/C Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), or (c) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of,

preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether any Indemnitee is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses or disbursements are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. No Indemnitee shall be liable for any damages arising from the use by others of any information or other materials obtained through IntraLinks or other similar information transmission systems in connection with this Agreement, nor shall any Indemnitee have any liability for any indirect or consequential damages relating to this Agreement or any other Loan Document or arising out of its activities in connection herewith or therewith (whether before or after the Closing Date). All amounts due under this Section 10.05 shall be payable within ten Business Days after demand therefor. The agreements in this Section shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

10.06 PAYMENTS SET ASIDE. To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent or any Lender, or the Administrative Agent or any Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect.

10.07 SUCCESSORS AND ASSIGNS.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) or (i) of this Section or (iv) to an SPC in accordance with the provisions of subsection (h) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans (including for purposes of this subsection (b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it); provided that (i) except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund (as defined in subsection (g) of this Section) with respect to a Lender, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than $10,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); (ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, except that this clause (ii) shall not apply to rights in respect of Swing Line Loans; (iii) any assignment of a Commitment must be approved by the Administrative Agent, the L/C Issuer and the Swing Line Lender unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee); and (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of $3,500. Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, 10.04 and 10.05 with respect to facts and circumstances occurring prior to the effective date of such assignment). Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.01 that directly affects such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.09 as though it were a Lender, provided such Participant agrees to be subject to Section 2.13 as though it were a Lender.

(e) A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 10.15 as though it were a Lender.

(f) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) As used herein, the following terms have the following meanings:

"Eligible Assignee" means (a) a Lender; (b) an Affiliate of a Lender; (c) an Approved Fund; and (d) any other Person (other than a natural person) approved by (i) the Administrative Agent, the L/C Issuer and the Swing Line Lender, and (ii) unless an Event of Default has occurred and is continuing, the Borrower (each such approval not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of the Borrower's Affiliates or Subsidiaries.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(h) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower (an "SPC") the option to provide all or any part of any Committed Loan that such Granting Lender would otherwise be obligated to make pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to fund any Committed Loan, and (ii) if an SPC elects not to exercise such option or otherwise fails to make all or any part of such Committed Loan, the Granting Lender shall be obligated to make such Committed Loan pursuant to the terms hereof. Each party hereto hereby agrees that (i) neither the grant to any SPC nor the exercise by any SPC of such option shall increase the costs or expenses or otherwise increase or change the obligations of the Borrower under this Agreement (including its obligations under Section 3.04), (ii) no SPC shall be liable for any indemnity or similar payment obligation under this Agreement for which a Lender would be liable, and (iii) the Granting Lender shall for all purposes, including the approval of any amendment, waiver or other modification of any provision of any Loan Document, remain the lender of record hereunder. The making of a Committed Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Committed Loan were made by such Granting Lender. In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior debt of any SPC, it will not institute against, or join any other Person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency, or liquidation proceeding under the laws of the United States or any State thereof. Notwithstanding anything to the contrary contained herein, any SPC may (i) with notice to, but without prior consent of the Borrower and the Administrative Agent and with the payment of a processing fee of $3,500, assign all or any portion of its right to receive payment with respect to any Committed Loan to the Granting Lender and (ii) disclose on a confidential basis any non-public information relating to its funding of Committed Loans to any rating agency, commercial paper dealer or provider of any surety or Guarantee or credit or liquidity enhancement to such SPC.

(i) Notwithstanding anything to the contrary contained herein, any Lender that is a Fund may create a security interest in all or any portion of the Loans owing to it and the Note, if any, held by it to the trustee for holders of obligations owed, or securities issued, by such Fund as security for such obligations or securities, provided that unless and until such trustee actually becomes a Lender in compliance with the other provisions of this Section 10.07, (i) no such pledge shall release the pledging Lender from any of its obligations under the Loan Documents and (ii) such trustee shall not be entitled to exercise any of the rights of a Lender under the Loan Documents even though such trustee may have acquired ownership rights with respect to the pledged interest through foreclosure or otherwise.

(j) Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Commitment and Loans pursuant to subsection (b) above, Bank of America may, (i) upon 30 days' notice to the Borrower and the Lenders, resign as L/C Issuer and/or (ii) upon 30 days' notice to the Borrower, resign as Swing Line Lender. In the event of any such resignation as L/C Issuer or Swing Line Lender, the Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer or Swing Line Lender hereunder; provided, however, that no failure by the Borrower to appoint any such successor shall affect the resignation of Bank of America as L/C Issuer or Swing Line Lender, as the case may be. If Bank of America resigns as L/C Issuer, it shall retain all the rights and obligations of the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Committed Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)). If Bank of America resigns as Swing Line Lender, it shall retain all the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to make Base Rate Committed Loans or fund risk participations in outstanding Swing Line Loans pursuant to Section 2.04(c).

10.08 CONFIDENTIALITY. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Borrower. For purposes of this Section, "Information" means all information received from any Loan Party relating to any Loan Party or any of their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by any Loan Party. Notwithstanding anything herein to the contrary, "Information" shall not include, and the Administrative Agent, each Lender and the respective Affiliates of each of the foregoing (and the respective partners, directors, officers, employees, agents, advisors and other representatives of each of the foregoing and their Affiliates) may disclose without limitation of any kind, any information with respect to the "tax treatment" and "tax structure" (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Administrative Agent or such Lender

relating to such tax treatment and tax structure; provided that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Loans, Letters of Credit and transactions contemplated hereby; provided, further, that the foregoing provision shall not apply to the extent reasonably necessary to comply with securities laws but shall not in any event permit any Person to reveal the identity of the Borrower or of its Subsidiaries.

10.09 SET-OFF. In addition to any rights and remedies of the Lenders provided by law, upon the occurrence and during the continuance of any Event of Default, each Lender is authorized at any time and from time to time, without prior notice to the Borrower or any other Loan Party, any such notice being waived by the Borrower (on its own behalf and on behalf of each Loan Party) to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the respective Loan Parties against any and all Obligations owing to such Lender hereunder or under any other Loan Document, now or hereafter existing, irrespective of whether or not the Administrative Agent or such Lender shall have made demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured or denominated in a currency different from that of the applicable deposit or indebtedness. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

10.10 INTEREST RATE LIMITATION. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the "Maximum Rate"). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.11 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.12 INTEGRATION. This Agreement, together with the other Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and thereof and supersedes all prior agreements, written or oral, on such subject matter. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control; provided that the inclusion of supplemental rights or remedies in favor of the Administrative Agent or the Lenders in any other Loan Document

shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

10.13 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

10.14 SEVERABILITY. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.15 TAX FORMS. (a) (i) Each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code (a "Foreign Lender") shall deliver to the Administrative Agent, prior to receipt of any payment subject to withholding under the Code (or upon accepting an assignment of an interest herein), two duly signed completed copies of either IRS Form W-8BEN or any successor thereto (relating to such Foreign Lender and entitling it to an exemption from, or reduction of, withholding tax on all payments to be made to such Foreign Lender by the Borrower pursuant to this Agreement) or IRS Form W-8ECI or any successor thereto (relating to all payments to be made to such Foreign Lender by the Borrower pursuant to this Agreement) or such other evidence satisfactory to the Borrower and the Administrative Agent that such Foreign Lender is entitled to an exemption from, or reduction of, U.S. withholding tax, including any exemption pursuant to Section 881(c) of the Code. Thereafter and from time to time, each such Foreign Lender shall (A) promptly submit to the Administrative Agent such additional duly completed and signed copies of one of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to the Borrower and the Administrative Agent of any available exemption from or reduction of, United States withholding taxes in respect of all payments to be made to such Foreign Lender by the Borrower pursuant to this Agreement, (B) promptly notify the Administrative Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (C) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Lending Office) to avoid any requirement of

applicable Laws that the Borrower make any deduction or withholding for taxes from amounts payable to such Foreign Lender.

(ii) Each Foreign Lender, to the extent it does not act or ceases to act for its own account with respect to any portion of any sums paid or payable to such Lender under any of the Loan Documents (for example, in the case of a typical participation by such Lender), shall deliver to the Administrative Agent on the date when such Foreign Lender ceases to act for its own account with respect to any portion of any such sums paid or payable, and at such other times as may be necessary in the determination of the Administrative Agent (in the reasonable exercise of its discretion), (A) two duly signed completed copies of the forms or statements required to be provided by such Lender as set forth above, to establish the portion of any such sums paid or payable with respect to which such Lender acts for its own account that is not subject to U.S. withholding tax, and (B) two duly signed completed copies of IRS Form W-8IMY (or any successor thereto), together with any information such Lender chooses to transmit with such form, and any other certificate or statement of exemption required under the Code, to establish that such Lender is not acting for its own account with respect to a portion of any such sums payable to such Lender.

(iii) No Loan Party shall be required to pay any additional amount to any Foreign Lender under Section 3.01 (A) with respect to any Taxes required to be deducted or withheld on the basis of the information, certificates or statements of exemption such Lender transmits with an IRS Form W-8IMY pursuant to this Section 10.15(a) or (B) if such Lender shall have failed to satisfy the foregoing provisions of this Section 10.15(a); provided that if such Lender shall have satisfied the requirement of this Section 10.15(a) on the date such Lender became a Lender or ceased to act for its own account with respect to any payment under any of the Loan Documents, nothing in this Section 10.15(a) shall relieve any Loan Party of its obligation to pay any amounts pursuant to Section 3.01 in the event that, as a result of any change in any applicable law, treaty or governmental rule, regulation or order, or any change in the interpretation, administration or application thereof, such Lender is no longer properly entitled to deliver forms, certificates or other evidence at a subsequent date establishing the fact that such Lender or other Person for the account of which such Lender receives any sums payable under any of the Loan Documents is not subject to withholding or is subject to withholding at a reduced rate.

(iv) The Administrative Agent may, without reduction, withhold any Taxes required to be deducted and withheld from any payment under any of the Loan Documents with respect to which the Borrower is not required to pay additional amounts under this Section 10.15(a).

(b) Upon the request of the Administrative Agent, each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Code shall deliver to the Administrative Agent two duly signed completed copies of IRS Form W-9. If such Lender fails to deliver such forms, then the Administrative Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable back-up withholding tax imposed by the Code, without reduction.

(c) If any Governmental Authority asserts that the Administrative Agent did not properly withhold or backup withhold, as the case may be, any tax or other amount from payments made to or for the account of any Lender, such Lender shall indemnify the

Administrative Agent therefor, including all penalties and interest, any taxes imposed by any jurisdiction on the amounts payable to the Administrative Agent under this Section, and costs and expenses (including Attorney Costs) of the Administrative Agent. The obligation of the Lenders under this Section shall survive the termination of the Aggregate Commitments, repayment of all other Obligations hereunder and the resignation of the Administrative Agent.

10.16 REPLACEMENT OF LENDERS. Under any circumstances set forth herein providing that the Borrower shall have the right to replace a Lender as a party to this Agreement, the Borrower may, upon notice to such Lender and the Administrative Agent, replace such Lender by causing such Lender to assign its Commitment (with the assignment fee to be paid by the Borrower in such instance) pursuant to Section 10.07(b) to one or more other Lenders or Eligible Assignees procured by the Borrower; provided, however, that if the Borrower elects to exercise such right with respect to any Lender pursuant to Section 3.06(b), it shall be obligated to replace all Lenders that have made similar requests for compensation pursuant to Section 3.01 or 3.04. The Borrower shall (x) pay in full all principal, interest, fees and other amounts owing to such Lender through the date of replacement (including any amounts payable pursuant to Section 3.05), (y) provide appropriate assurances and indemnities (which may include letters of credit) to the L/C Issuer and the Swing Line Lender as each may reasonably require with respect to any continuing obligation to fund participation interests in any L/C Obligations or any Swing Line Loans then outstanding, and (z) release such Lender from its obligations under the Loan Documents. Any Lender being replaced shall execute and deliver an Assignment and Assumption with respect to such Lender's Commitment and outstanding Loans and participations in L/C Obligations and Swing Line Loans.

10.17 GOVERNING LAW.

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE; PROVIDED THAT THE ADMINISTRATIVE AGENT AND EACH LENDER SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF CALIFORNIA SITTING IN SAN DIEGO, CALIFORNIA OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF SUCH STATE, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, THE BORROWER, THE ADMINISTRATIVE Agent AND EACH LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. THE BORROWER, THE ADMINISTRATIVE Agent AND EACH LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF ANY LOAN DOCUMENT OR OTHER DOCUMENT RELATED THERETO. THE BORROWER, THE ADMINISTRATIVE Agent AND EACH LENDER WAIVES PERSONAL SERVICE OF

ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY THE LAW OF SUCH STATE.

10.18 WAIVER OF RIGHT TO TRIAL BY JURY. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

10.19 USA PATRIOT ACT NOTICE. Each Lender and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that, pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001) (the "Act")), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

CALLAWAY GOLF COMPANY

By: /s/ RONALD A. DRAPEAU
Name: Ronald A. Drapeau
Title: CEO

BANK OF AMERICA, N.A., as
Administrative Agent

By: /s/ DORA A. BROWN
_____
Dora A. Brown, Vice President Agency
Management Officer

BANK OF AMERICA, N.A., as a Lender, L/C Issuer and Swing Line Lender

By: /s/ SUSAN J. PEPPING
_____
Susan J. Pepping, Senior Vice President

UNION BANK OF CALIFORNIA, N.A., as
Co-Agent and a Lender

By: /s/ DOUGLAS S. LAMBELL

Douglas S. Lambell, Vice President

U.S. BANK NATIONAL ASSOCIATION, as a
Lender

By: /s/ SCOTT J. BELL

Scott J. Bell, Vice President

JPMORGAN CHASE BANK, as a Lender

By: /s/ C. SCOTT FIELDS
_____
C. Scott Fields, Vice President

EXHIBIT A

FORM OF COMMITTED LOAN NOTICE

Date: _____, _____

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of November 10, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Callaway Golf Company, a Delaware corporation (the "Borrower"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender.

The undersigned hereby requests (select one):

[ ] A Borrowing of Committed Loans [ ] A conversion or continuation of Loans

1. On_____ (a Business Day).

2. In the amount of $ _____.

3. Comprised of_____.
[Type of Committed Loan requested]

4. For Eurodollar Rate Loans: with an Interest Period of_____ months.

[The Committed Borrowing requested herein complies with the proviso to the first sentence of Section 2.01 of the Agreement.]

CALLAWAY GOLF COMPANY

By: _____
Name: _____
Title: _____

EXHIBIT B

FORM OF SWING LINE LOAN NOTICE

Date: _____, _____

To: Bank of America, N.A., as Swing Line Lender
Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of November 10, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Callaway Golf Company, a Delaware corporation (the "Borrower"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender.

The undersigned hereby requests a Swing Line Loan:

1. On_____ (a Business Day).

2. In the amount of $_____ .

The Swing Line Borrowing requested herein complies with the requirements of the provisos to the first sentence of Section 2.04(a) of the Agreement.

CALLAWAY GOLF COMPANY

By: _____
Name: _____
Title: _____

EXHIBIT C

FORM OF NOTE

FOR VALUE RECEIVED, the undersigned (the "Borrower"), hereby promises to pay to _____ or registered assigns (the "Lender"), in accordance with the provisions of the Agreement (as hereinafter defined), the principal amount of each Loan from time to time made by the Lender to the Borrower under that certain Credit Agreement, dated as of November 10, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among the Borrower, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender.

The Borrower promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. Except as otherwise provided in Section 2.04(f) of the Agreement with respect to Swing Line Loans, all payments of principal and interest shall be made to the Administrative Agent for the account of the Lender in Dollars in immediately available funds at the Administrative Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Note is one of the Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. This Note is also entitled to the benefits of any Guaranty and is secured by the Collateral. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

CALLAWAY GOLF COMPANY

By: _____
Name: _____
Title: _____

LOANS AND PAYMENTS WITH RESPECT THERETO

DATE	TYPE OF LOAN MADE	AMOUNT OF LOAN MADE	END OF INTEREST PERIOD	AMOUNT OF PRINCIPAL OR INTEREST PAID THIS DATE	OUTSTANDING PRINCIPAL BALANCE THIS DATE	NOTATION MADE BY

EXHIBIT D

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date:_____ ,

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of November 10, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Callaway Golf Company, a Delaware corporation (the "Borrower"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender.

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the_____ of the Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to the Administrative Agent on the behalf of the Borrower, and that:

[Use following paragraph 1 for fiscal YEAR-END financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial statements required by Section 6.01(a) of the Agreement for the fiscal year of the Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following paragraph 1 for fiscal QUARTER-END financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 6.01(b) of the Agreement for the fiscal quarter of the Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries in accordance with GAAP as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of the Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of the Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period the Borrower performed and observed all its Obligations under the Loan Documents, and

[select one:]

[to the best knowledge of the undersigned during such fiscal period, the Borrower performed and observed each covenant and condition of the Loan Documents applicable to it.]

--or--

[the following covenants or conditions have not been performed or observed and the following is a list of each such Default and its nature and status:]

4. The representations and warranties of the Borrower contained in Article V of the Agreement, or which are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof in all material respects, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Compliance Certificate, the representations and warranties contained in subsections (a) and (b) of Section 5.05 of the Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 of the Agreement, including the statements in connection with which this Compliance Certificate is delivered.

5. The financial covenant analyses and information set forth on Schedule 2 attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of_____,_____.

CALLAWAY GOLF COMPANY

By: _____
Name: _____
Title: _____

For the Quarter/Year ended _____("Statement Date")

SCHEDULE 2
to the Compliance Certificate
($ in 000's)

I. SECTION 7.01(O) - LIENS

A. Aggregate liens securing other Indebtedness (not otherwise expressly permitted) of Borrower and Material Subsidiaries at Statement Date: $_____

MAXIMUM PERMITTED AT ANY ONE TIME: $5,000,000

II. SECTION 7.02(F), (K), (M) - INVESTMENTS

A. Investments made in connection with Permitted IHC Transaction for the fiscal quarter ended on above date: $_____

B. Total Investments made in connection with Permitted IHC Transaction at Statement Date: $_____

NO STATED MAXIMUM

C. In addition to Investments in Subsidiaries otherwise permitted aggregate investment(s) in Subsidiaries and Joint Ventures as of Statement Date: $_____

MAXIMUM AGGREGATE AMOUNT PERMITTED: $5,000,000

D. Aggregate other Investment(s) made after Closing Date not otherwise expressly permitted at Statement Date: $_____

MAXIMUM AGGREGATE AMOUNT PERMITTED: $10,000,000

III. SECTION 7.03(E), (F), (G), (H), (O) - INDEBTEDNESS

A. If first fiscal year, aggregate Indebtedness in respect of capital leases, Off-Balance Sheet Liabilities and purchase money obligations for fixed and capital assets at Statement Date for current fiscal yr: $_____

MAXIMUM PERMITTED: $40,000,000

B. If subsequent fiscal year, aggregate Indebtedness in respect of capital leases, Off-Balance Sheet Liabilities and purchase money obligations for fixed and capital assets at Statement Date including any carryover amount: $_____

AGGREGATE MAXIMUM (WITH CARRYOVER) PERMITTED: $80,000,000

C. Aggregate Indebtedness to Financial Institutions at Statement Date: $_____

MAXIMUM PERMITTED AT ANY ONE TIME: $50,000,000

D. Aggregate Indebtedness assumed in connection with Permitted Acquisition(s) at Statement Date: $_____

MAXIMUM PERMITTED AT ANY ONE TIME: $20,000,000

E. Aggregate Indebtedness to Persons whose assets or Equity Interests were acquired in a Permitted Acquisition at Statement Date: $_____

NO MAXIMUM

F. Other Indebtedness (not otherwise permitted) incurred after Closing Date: $_____

MAXIMUM AGGREGATE PERMITTED: $2,000,000

IV. SECTION 7.05(I) - DISPOSITIONS

A. Other permitted Dispositions (not otherwise expressly permitted) made since Closing Date: $_____

MAXIMUM AGGREGATE OTHER PERMITTED DISPOSITIONS: $10,000,000

V. SECTION 7.06(E) - RESTRICTED PAYMENTS

A. If first fiscal year, cash dividends declared or paid: $_____

B. Purchase/redemption/acquisition of capital stock/warrants during fiscal year: $_____

C. Total dividends, stock repurchase, etc. during such fiscal year (VA plus VB): $_____

MAXIMUM PERMITTED: $150,000,000

D. If not first fiscal year, cash dividends declared or paid: $_____

E. Purchase/ redemption/acquisition of capital stock/warrants during such fiscal year: $_____

F. Total dividends and stock repurchase during such fiscal year (V.D +V.E): $_____

AGGREGATE MAXIMUM (WITH CARRYOVER) PERMITTED: $300,000,000

VI SECTION 7.11 (A) - MAXIMUM CONSOLIDATED LEVERAGE RATIO.

A. Consolidated EBITDA for four consecutive fiscal quarters ending on Statement Date ("Subject Period"):(Line VII.E below) $_____

B. Consolidated Funded Indebtedness at Statement Date: $_____

C. Consolidated Leverage Ratio (Line VI.B / Line VI.A):_____ to 1

MAXIMUM PERMITTED: 1.25 TO 1.00

APPLICABLE PRICING LEVEL

APPLICABLE RATE

Pricing Level	Consolidated Leverage Ratio	Commitment Fee	Eurodollar Rate + Letter of Credit Fees	Base Rate +
1	> or =1.00:1	0.200%	1.25%	Minus 0.50%
2	<1.00:1 but > or =0.50:1	0.175%	1.00%	Minus 0.75%
3	<0.50:1	0.125%	0.75%	Minus 1.00%

APPLICABLE NEW PRICING LEVEL AS OF STATEMENT DATE:

VII. SECTION 7.11 (B) - MINIMUM CONSOLIDATED EBITDA.

A. Consolidated EBITDA for the most recent quarter ending on Statement Date ("Subject Period"):

1. Consolidated Net Income: $_____

2. Consolidated Interest Charges: $_____

3. Provision for income taxes: $_____

4. Depreciation expenses: $_____

5. Amortization expenses: $_____

6. Non-cash charges associated with the downsizing/restructure/closure of the golf ball manufacturing operations (not to exceed $50,000,000 in the aggregate): $_____

7. Losses on sale of fixed assets: $_____

8. Other non-cash expenses reducing Consolidated Net Income: $_____

9. Gains on sale of fixed assets: $_____

10. Other non-cash gains increasing Consolidated Net Income: $_____

11. Consolidated EBITDA for Subject Period (Lines VII.A. 1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 - 9 - 10): $_____

B. Consolidated EBITDA for the second most recent quarter $_____

C. Consolidated EBITDA for the third most recent quarter $_____

D. Consolidated EBITDA for the fourth most recent quarter $_____

E. Consolidated EBITDA for the last four consecutive quarters (Lines VII.A.11 + VII.B + VII.C + VII.D) $_____

MINIMUM REQUIRED: $50,000,000

VIII. SECTION 7.12 - CAPITAL EXPENDITURES.

A. If first fiscal year, capital expenditures made during current fiscal year to date: $_____

MAXIMUM PERMITTED: $40,000,000

B. If not first fiscal year, capital expenditures made during current fiscal year to date: $_____

AGGREGATE MAXIMUM (WITH CARRYOVER) PERMITTED: $80,000,000

EXHIBIT E

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the "Assignor") and [Insert name of Assignee] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of the Assignor's rights and obligations as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including, without limitation, Letters of Credit, Guarantees and Swing Line Loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: _____

2. Assignee: _____ [and is an Affiliate/Approved Fund of [identify Lender

3. Borrower(s): Callaway Golf Company

4. Administrative Agent: _____, as the administrative agent under the Credit Agreement

5. Credit Agreement: The Credit Agreement, dated as of November 10, 2003, among Callaway Golf Company, the Lenders parties thereto, and Bank of America, N.A., as Administrative Agent

6. Assigned Interest:(1)

Facility Assigned	Aggregate Amount of Commitment/Loans for all Lenders*	Amount of Commitment/Loans Assigned*	Percentage Assigned of Commitment/Loans(2)
_____(3)	$_____	$_____	_____%
_____	$_____	$_____	_____%
_____	$_____	$_____	_____%

[7. Trade Date: _____](4)

Effective Date: _____, 20__ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE
[NAME OF ASSIGNEE]

By: _____
Title:

- ---

* Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

(1) The reference to "Loans" in the table should be used only if the Credit Agreement provides for Term Loans.

(2) Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

(3) Fill in the appropriate terminology for the types of facilities under the Credit Agreement that are being assigned under this Assignment (e.g. "Revolving Credit Commitment", "Term Loan Commitment", etc.).

(4) To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.

[Consented to and](5) Accepted:

[NAME OF ADMINISTRATIVE AGENT],
as Administrative Agent

By: _____
Title:

[Consented to:](6)

CALLAWAY GOLF COMPANY

By: _____
Title:

- ---

(5) To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

(6) To be added only if the consent of the Borrower and/or other parties (e.g. Swing Line Lender, L/C Issuer) is required by the terms of the Credit Agreement.

ANNEX 1 TO ASSIGNMENT AND ASSUMPTION

CREDIT AGREEMENT DATED AS OF NOVEMBER [10], 2003 AMONG CALLAWAY GOLF COMPANY, AS THE BORROWER, BANK OF AMERICA, N.A., AS ADMINISTRATIVE AGENT, AND THE OTHER LENDERS AND PARTIES THERETO

STANDARD TERMS AND CONDITIONS FOR

ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section __ thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (v) if it is a Foreign Lender, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned interest (including payments of principal, interest, fees and other amounts) to the Assignee whether such amounts have accrued prior to or on or

after the Effective Date. The Assignor and the Assignee shall make all appropriate adjustments in payments by the Administrative Agent for periods prior to the Effective Date or with respect to the making of this assignment directly between themselves.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of California.

EXHIBIT F

FORM OF GUARANTY

This Guaranty ("Guaranty") is made as of _____, _____, by the undersigned (collectively, "Guarantor"), in favor of Bank of America, N.A., as Administrative Agent ("Administrative Agent"), the Lenders, L/C Issuer, and Swing Line Lender, as each such term and other capitalized terms used, but not otherwise defined in this Guaranty, are defined in the Credit Agreement dated as of November 10, 2003 (as the same may be modified, amended and restated from time to time, herein called the "Credit Agreement") among Callaway Golf Company (the "Borrower"), the Administrative Agent, and the other parties thereto.

PRELIMINARY STATEMENT

WHEREAS, the Borrower has requested the Lenders to extend credit to the Borrower, and the Lenders have agreed to do so on the terms and conditions contained in the Credit Agreement; and

WHEREAS, it is a condition precedent to the obligation of the Lenders to extend and to continue extending such credit under the Credit Agreement that the Guarantor shall have executed and delivered this Guaranty Agreement;

WHEREAS, the Guarantor will derive direct and indirect economic benefits pursuant to the terms of the Credit Agreement;

WHEREAS, the Borrower's obligations under the Credit Agreement are guarantied by this Guaranty;

NOW, THEREFORE, in consideration of the premises and in order to induce the Lenders to enter into, and to extend credit under, the Credit Agreement and for other good and valuable consideration, receipt of which is hereby acknowledged, the Guarantor hereby agrees for the benefit of the Administrative Agent and the Lenders as follows:

Guaranty

1. Guaranty of Guaranteed Obligations. The Guarantor hereby absolutely and unconditionally guarantees to the Administrative Agent and the Lenders the prompt and punctual payment and performance when due (whether at its maturity, by lapse of time, by acceleration or otherwise) of the Guaranteed Obligations (hereinafter defined). This is a guaranty of payment, not of collection. If the Borrower defaults in the payment when due of the Guaranteed Obligations or any part thereof, the Guarantor shall in lawful money of the United States pay on demand, all sums due and owing on such Guaranteed Obligations, including all interest, charges, fees and other sums, costs and expenses.

2. Guaranteed Obligations. As used herein, the term "Guaranteed Obligations" means the Obligations (as such term and all other capitalized terms used but not otherwise defined herein are defined in the Credit Agreement), the obligation of the Borrower to repay any and all other indebtedness, obligations and liabilities of every kind and character of the

Borrower to the Administrative Agent and the Lenders, or any one or more of them, whether now existing or hereafter arising, whether due and owing or to become due and owing, whether joint or several, or joint and several, whether absolute or contingent, as created by, evidenced by, arising in connection with and/or owing at any time under the Credit Agreement; provided, however, if any court of competent jurisdiction shall enter a judgment that any obligation of the Guarantor under this Guaranty would be void as a fraudulent conveyance, fraudulent transfer or the like under applicable Law (including the California Uniform Fraudulent Transfer Act and Sections 544 and 548 of the United States Bankruptcy Code), the "Guaranteed Obligations" of the Guarantor under this Guaranty shall equal the Guaranteed Obligations, determined as initially provided in this sentence, minus the amount that would be void. If the amount of the Guaranteed Obligations outstanding is determined by a court of competent jurisdiction, that determination shall be conclusive and binding on the Guarantor, regardless of whether the Guarantor was a party to the proceeding in which the determination was made or not. The Guarantor confirms that this Guaranty is not being executed or delivered nor are Guaranteed Obligations being incurred by the Guarantor (and, by accepting this Guaranty, the Administrative Agent and each Lender confirms that it is not accepting this Guaranty) with actual intent to hinder, delay or defraud any Person to whom the Guarantor is or may hereafter be indebted.

3. Rights of the Administrative Agent and the Lenders. The Guarantor authorizes the Administrative Agent and the Lenders to perform any or all of the following acts at any time in their sole discretion, all without notice to the Guarantor and without affecting the Guarantor's obligations under this Guaranty:

(a) Alter any terms of the Guaranteed Obligations or any part of them, including renewing, compromising, extending or accelerating, or otherwise changing the time for payment of, or increasing or decreasing the rate of interest on, the Guaranteed Obligations or any part of them.

(b) Take and hold security for the Guaranteed Obligations or this Guaranty, accept additional or substituted security for either, and subordinate, exchange, enforce, waive, release, compromise, fail to perfect and sell or otherwise dispose of any such security.

(c) Direct the order and manner of any sale of all or any part of any security now or later to be held for the Guaranteed Obligations or this Guaranty, and also bid at any such sale.

(d) Apply any payments or recoveries from the Borrower, the Guarantor or any other source, and any proceeds of any security, to the Borrower's obligations under Credit Agreement in such manner, order and priority as the Administrative Agent and the Lenders may elect, whether or not those obligations are guaranteed by this Guaranty or secured at the time of the application.

(e) Release the Borrower of its liability for any obligations comprising the Guaranteed Obligations or any part thereof.

(f) Substitute, add or release any one or more guarantors or endorsers.

(g) In addition to the extensions of credit accommodations under the Credit Agreement, any Lender may extend other credit to the Borrower, and may take and hold

security for the credit so extended, all without affecting the Guarantor's liability under this Guaranty.

4. Guaranty to be Absolute. The Guarantor expressly agrees that until the Guaranteed Obligations are paid and performed in full and each and every term, covenant and condition of this Guaranty is full performed, the Guarantor shall not be released by or because of:

(a) Any act or event which might otherwise discharge, reduce, limit or modify the Guarantor's obligations under this Guaranty:

(b) Any waiver, extension, modification, forbearance, delay or other act or omission of the Administrative Agent or any Lender or their failure to proceed promptly or otherwise as against the Borrower, the Guarantor or any security;

(c) Any action, omission or circumstance which might increase the likelihood that the Guarantor may be called upon to perform under this Guaranty or which might affect the rights or remedies of the Guarantor as against the Borrower; or

(d) Any dealings occurring at any time between the Borrower and any Lender, whether relating to the Guaranteed Obligations or otherwise.

The Guarantor hereby expressly waives and surrenders any defense to its liability under this Guaranty based upon any of the foregoing acts, omissions, agreements, waivers or matters. It is the purpose and intent of this Guaranty that the obligations of the Guarantor under it shall be absolute and unconditional under any and all circumstances.

5. Guarantor's Waivers. The Guarantor waives:

(a) All statues of limitations as a defense to any action or proceeding brought against the Guarantor by the Administrative Agent or any Lender, to the fullest extent permitted by law;

(b) Any right it may have to require the Administrative Agent or any Lender to proceed against the Borrower or any Guarantor, proceed against or exhaust any security held from the Borrower or any Guarantor, or pursue any other remedy in the Administrative Agent's or any Lender's power to pursue;

(c) Any defense based on any claim that the Guarantor's obligations exceed or are more burdensome than those of the Borrower or any other Guarantor;

(d) Any defense based on: (1) any legal disability of the Borrower or any Guarantor, (ii) any release, discharge, modification, impairment or limitation of the liability of the Borrower or any Guarantor to the Administrative Agent or any Lender from any cause, whether consented to by the Administrative Agent or any Lender or arising by operation of law or from any bankruptcy or other voluntary or involuntary proceeding, in or out of court, for the adjustment of debtor-creditor relationships ("Insolvency Proceeding") and (iii) any rejection or disaffirmance of the Guaranteed Obligations, or any part thereof, or any security held therefor, in any such Insolvency Proceeding;

(e) Any defense based on any action taken or omitted by the Administrative Agent or any Lender in any Insolvency Proceeding involving the Borrower or any Guarantor, including any election to have the claims of the Administrative Agent or any Lender allowed as being secured, partially secured or unsecured, any extension of credit by any Lender to the Borrower or any Guarantor in any Insolvency Proceeding, and the taking and holding by the Administrative Agent or any Lender of any security for any such extension of credit;

(f) All presentments, demands for performance, notice of intention to accelerate, notice of acceleration, notices of nonperformance, protests, notices of protest, notices of dishonor, notices of acceptance of this Guaranty and of the existence, creation, or incurring of new or additional indebtedness, and demands and notices of every kind; and

(g) Any defense based on or arising out of any defense that the Borrower or any Guarantor may have to the payment or performance of the Guaranteed Obligations or any part of them.

6. Waivers of Subrogation and Other Rights.

(a) Upon a default by the Borrower, the Administrative Agent and the Lenders in their sole discretion, without prior notice to or consent of the Guarantor, may elect to: (i) foreclose either judicially or nonjudicially against any real or personal property security it may hold for the Guaranteed Obligations, (ii) accept a transfer of any such security in lien of foreclosure, (iii) compromise or adjust the Guaranteed Obligations or any part thereof or make any other accommodation with the Borrower or any Guarantor, or (iv) exercise any other remedy against Borrower, any Guarantor or any security. No such action by the Administrative Agent or any Lender shall release or limit the liability of the Guarantor, who shall remain liable under this Guaranty after the action, even if the effect of the action is to deprive the Guarantor of any subrogation rights, rights of indemnity, or other rights to collect reimbursement from Borrower or any Guarantor for any sums paid to the Administrative Agent or any Lender, whether contractual or arising by operation of law or otherwise. The Guarantor expressly agrees that under no circumstances shall it be deemed to have any right, title, interest or claim in or to any real or personal property to be held by the Administrative Agent or any Lender or any third party after any foreclosure or transfer in lieu of foreclosure of any security for the Guaranteed Obligations.

(b) Regardless of whether the Guarantor may have made any payments to the Administrative Agent or any Lender, the Guarantor forever waives: (i) all rights of subrogation, all rights of indemnity, and any other rights to collect reimbursement from the Borrower and any other Guarantor for any sums paid to the Administrative Agent or any Lender, whether contractual or arising by operation of law (including the United States the Bankruptcy Code or any successor or similar statute) or otherwise, (ii) all rights to enforce any remedy that the Administrative Agent or any Lender may have against Borrower or any other Guarantor, and (iii) all rights to participate in any security now or later to be held by the Administrative Agent or any Lender for the Guaranteed Obligations.

7. Revival and Reinstatement. If the Administrative Agent or any Lender is required to pay, return or restore to the Borrower or any other Person any amounts previously paid on the Guaranteed Obligations because of any Insolvency Proceeding of Borrower or any

other Person, any stop notice or any other reason, the obligations of the Guarantor shall be reinstated and revived, and the rights of the Administrative Agent and the Lenders shall continue with regard to such amounts, all as though they had never been paid.

8. Information Regarding the Borrower. Before signing this Guaranty, the Guarantor investigated the financial condition and business operations of the Borrower and such other matters as the Guarantor deemed appropriate to assure itself of the Borrower's ability to discharge its obligations under the Credit Agreement and other Loan Documents. The Guarantor assumes full responsibility for that due diligence, as well as for keeping informed of all matters which may affect the Borrower's ability to pay and perform its obligations hereunder. Neither the Administrative Agent nor any Lender has any duty to disclose to the Guarantor any information which it or they may have or receive about the Borrower's financial condition, business operations, or any other circumstances bearing on its ability to perform.

9. Subordination. Any rights of the Guarantor, whether now existing or later arising, to receive payment on account of any indebtedness (including interest) owed to it by the Borrower or any subsequent owner of any real property collateral for the Guaranteed Obligations, or to withdraw capital invested by it in the Borrower, or to receive distributions from the Borrower, shall at all times be subordinate as to Lien and time of payment and in all other respects to the full and prior repayment to the Administrative Agent and the Lenders of the Guaranteed Obligations. The Guarantor shall not be entitled to enforce or receive payment of any sums hereby subordinated until the Guaranteed Obligations have been paid and performed in full and any such sums received in violation of this Guaranty shall be received by the Guarantor in trust for the Administrative Agent and the Lenders.

10. Authorization; No Violation. The Guarantor is authorized to execute, deliver and perform under this Guaranty, which is a valid and binding obligation of the Guarantor except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability. No provision or obligation of the Guarantor contained in this Guaranty violates any applicable law, regulation or ordinance, or any order or ruling of any court or governmental agency. No such provision or obligation conflicts with, or constitutes a breach or default under, any agreement to which the Guarantor is a party.

11. Additional and Independent Obligations. The Guarantor's obligations under this Guaranty are in addition to its obligations under any other existing or future guaranties, each of which shall remain in full force and effect until it is expressly modified or released in a writing signed by the beneficiary of such other guaranty or guaranties. The Guarantor's obligations under this Guaranty are independent of those of the Borrower on the Guaranteed Obligations. The Administrative Agent and the Lenders may bring a separate action, or commence a separate reference or arbitration proceeding against the Guarantor without first proceeding against the Borrower, any other Person or any security that the Administrative Agent or any Lender may hold, and without pursuing any other remedy. Neither the Administrative Agent's nor any Lender's rights under this Guaranty shall be exhausted by any action by the Administrative Agent or any Lender until the Guaranteed Obligations have been paid and performed in full.

12. No Waiver; Consents; Cumulative Remedies. Each waiver by the Administrative Agent and the Lenders must be in writing, and no waiver shall be construed as a

continuing waiver. No waiver shall be implied from delay by the Administrative Agent or the Lenders in exercising or failure to exercise any right or remedy against the Borrower, the Guarantor or any security. Consent by the Administrative Agent and the Lenders to any act or omission by the Borrower or the Guarantor shall not be construed as a consent to any other or subsequent act or omission, or as a waiver of the requirement for consent of the Lender to be obtained in any future or other instance. All remedies of the Administrative Agent and the Lenders against the Borrower and the Guarantor are cumulative.

13. No Release. The Guarantor shall not be released from its obligations under this Guaranty except by a writing signed by the Administrative Agent.

14. Heirs, Successors and Assigns; Participations. The terms of this Guaranty shall bind and benefit the heirs, legal representatives, successors and assigns of the Administrative Agent, the Lenders and the Guarantor; provided, however, that the Guarantor may not assign this Guaranty, or assign or delegate any of its rights or obligations under this Guaranty, without the prior written consent of the Administrative Agent. Any of the Administrative Agent or the Lenders, in its sole discretion, may sell or assign participations or other interests in the Guaranteed Obligations and this Guaranty, in whole or in part, all without notice to or the consent of the Guarantor and without affecting the Guarantor's obligations under this Guaranty. Also without notice to or the consent of the Guarantor, but subject to its confidentiality obligations under the Credit Agreement, any of the Administrative Agent or any Lender may disclose any and all information in its possession concerning the Guarantor, this Guaranty and any security for this Guaranty to any actual or prospective purchaser of any securities issued or to be issued by the Administrative Agent or any Lender, and to any actual or prospective purchaser or assignee of any participation or other interest in the Guaranteed Obligations and this Guaranty.

15. Notices. All notices given under this Guaranty must be in writing and must be given in the manner provided in the Credit Agreement and to the addresses therein set forth as may be changed by the parties in accordance therewith.

16. Rules of Construction. In this Guaranty, the word "Borrower" includes both the named Borrower and any other Person who at any time assumes or otherwise becomes primarily liable for all or any part of the obligations of the named Borrower on the Guaranteed Obligations. The word "Person" includes any individual, company, trust or other legal entity of any kind. The word "include(s)" means "include(s), without limitation." and the word "including" means "including, but not limited to." When the context and construction so require, all words used in the singular shall be deemed to have been used in the plural and vice versa. No listing of specific instances, items or matters in any way limits the scope or generality of any language of this Guaranty. All headings appearing in this Guaranty are for convenience only and shall be disregarded in construing this Guaranty.

17. Governing Law. THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS, OF THE STATE OF CALIFORNIA.

18. Costs and Expenses. If any lawsuit, reference or arbitration is commenced which arises out of, or which relates to this Guaranty, the Credit Agreement, the Loan Documents or the Guaranteed Obligations, the prevailing party shall be entitled to recover from

each other party such sums as the court, referee or arbitrator may adjudge to be reasonable attorneys; fees (including allocated costs for services of in-house counsel) in the action or proceeding, in addition to costs and expenses otherwise allowed by Law. In all other situations, including any Insolvency Proceeding, the Guarantor agrees to pay all of costs and expenses of the Administrative Agent, including attorneys' fees (including allocated costs for services of in-house counsel) which may be incurred in any effort to collect or enforce the Guaranteed Obligations or any part thereof or any term of this Guaranty. From the time(s) incurred until paid in full, all sums shall bear interest at the Default Rate, as defined in the Credit Agreement.

19. Consideration. The Guarantor acknowledges that it expects to benefit from the extension of the credit accommodations to the Borrower under the Credit Agreement because of its relationship to the Borrower, and that it is executing this Guaranty in consideration of that anticipated benefit.

20. Integration; Modifications. This Guaranty (a) integrates all the terms and conditions mentioned in or incidental to this Guaranty, (b) supersedes all oral negotiations and prior writings with respect to its subject matter, and (c) is intended by the Guarantor and the Administrative Agent as the final expression of the agreement with respect to the terms and conditions set forth in this Guaranty and as the complete and exclusive statement of the terms agreed to by the Guarantor and the Administrative Agent. No representation, understanding, promise or condition shall be enforceable against any party unless it is contained in this Guaranty. This Guaranty may not be modified except in a writing signed by both the Administrative Agent and the Guarantor.

21. Miscellaneous. The illegality or unenforceability of one or more provisions of this Guaranty shall not affect any other provision. Time is of the essence in the performance of this Guaranty by the Guarantor.

22. Joint and Several. If this Guaranty is executed by more than one Person, all references to the "Guarantor" herein shall be construed as referring to each such Person, all of whom shall be jointly and severally liable hereunder.

CALLAWAY GOLF SALES COMPANY,
a California corporation

By: _____
Name:_____
Title:_____

THE TOP-FLITE GOLF COMPANY,
a Delaware corporation

By: _____
Name:_____
Title:_____

EXHIBIT G

OPINION MATTERS

The matters contained in the following Sections of the Credit Agreement should be covered by the legal opinion:

- Section 5.01(a), (b) and (c)
- Section 5.02
- Section 5.03
- Section 5.04
- Section 5.06
- Section 5.14(b)
- Section 5.19

EXHIBIT H

FORM OF

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (the "Pledge Agreement") is made and dated as of the 10th day of November, 2003 by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Borrower" and, collectively, with any other Person that joins in this Pledge Agreement by execution and delivery of a Joinder Agreement substantially in the form of Exhibit A to this Pledge Agreement, the "Pledgors"), and BANK OF AMERICA, N.A., a national banking association, as Administrative Agent (the "Administrative Agent").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of November 10, 2003 by and among the Borrower, the Administrative Agent, the L/C Issuer, the Swing Line Lenders, and the other Lenders party thereto (as amended, extended and replaced from time to time, the "Credit Agreement"), the Lenders have agreed to extend credit to the Borrower from time to time. All capitalized terms not otherwise defined herein are used with the meanings given such terms in the Credit Agreement. All other terms not otherwise defined herein shall have the meanings attributed to such terms in the California Uniform Commercial Code as in effect from time to time.

B. As a condition precedent to the Lenders' obligations to extend and to continue extending credit under the Credit Agreement and as security for the payment and performance of the Secured Obligations (as defined in Paragraph 3 below), the Pledgors are required to execute and deliver and/or from time to time join in this Pledge Agreement, all for the purpose of granting a security interest in Collateral, all as hereinafter provided.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Grant of Security Interest. Each Pledgor hereby pledges, assigns and grants to the Administrative Agent, for the ratable benefit of the Lenders, a security interest in the property described in Paragraph 2 below (collectively and severally, the "Pledged Collateral") to secure payment and performance of such Pledgor's Secured Obligations.

2. Collateral. The Pledged Collateral shall consist of all right, title and interest of each Pledgor, whether now existing or hereafter acquired:

(a) all Pledged Equity Interests, including, without limitation, those Pledged Equity Interests listed on Schedule 1 to this Pledge Agreement;

(b) all Pledged Debt Securities, including, without limitation, those Pledged Debt Securities listed on Schedule 1 to this Pledge Agreement;

(c) all other property that may be delivered to and held by the Administrative Agent pursuant to the terms of this Pledge Agreement;

(d) all payments of principal or interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed, in respect of, in exchange for or upon the conversion of the securities referred to in subparagraphs (a) and (b) above;

(e) all rights, powers and privileges with respect to the Pledged Collateral referred to in subparagraphs (a) through (d) above; and

(f) all proceeds of the foregoing Pledged Collateral.

Upon delivery to the Administrative Agent, (a) any stock certificates, promissory notes or other securities now or hereafter included in the Pledged Collateral (the "Pledged Securities") shall be accompanied by stock powers duly executed in blank or other instruments of transfer satisfactory to the Administrative Agent and by such other endorsement, instruments and documents as the Administrative Agent may reasonably request and (b) all other property comprising part of the Pledged Collateral shall be accompanied by proper instruments of assignment duly executed by the appropriate Pledgor and such other endorsements, instruments or documents as the Administrative Agent may reasonably request. Each Pledgor promises promptly to deliver to the Administrative Agent any and all Pledged Securities and any and all certificates or other instruments or documents representing the Pledged Collateral. Each delivery of or other change in Pledged Securities shall be accompanied by a schedule describing the securities theretofor and then being pledged hereunder, which schedule shall be attached hereto as Schedule 1 and made a part hereof. Each schedule so delivered shall supersede any prior schedules so delivered. If any Pledged Securities or other assets of any Pledgor shall, at any time, cease to be Pledged Collateral hereunder (including, without limitation, as the result of (i) any Disposition thereof permitted by the Credit Agreement or (ii) the issuer thereof ceasing to be a Direct Material Foreign Subsidiary), the Administrative Agent, on behalf of the Lenders, agrees, at the cost of the Borrower, (i) that its security interest therein concurrently will be terminated without further action of the Administrative Agent, (ii) promptly on receipt of written notice thereof, to re-deliver to such Pledgor all stock certificates, promissory notes, stock powers, endorsements, instruments and documents delivered to the Administrative Agent hereunder in connection with such Pledged Collateral, and (iii) to terminate or appropriately amend financing statements filed to perfect the security interest in such Pledged Collateral.

3. Secured Obligations. The "Secured Obligations" secured by this Pledge Agreement shall consist of (i) in the case of the Borrower, all Obligations of the Borrower under, and as defined in, the Credit Agreement and each other Loan Document to which it is a party, in each case whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred, whether now existing or hereafter arising and (ii) in the case of any other Pledgor, all Guaranteed Obligations under, and as defined in, the Guaranty of such Pledgor and each other Loan Document to which it is a party, in each case whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred, in each case whether now existing or hereafter arising.

4. Representations and Warranties. In addition to all representations and warranties of the Pledgors set forth in the other Loan Documents, which are incorporated herein by this reference, each Pledgor hereby represents and warrants that: (a) the Pledged Equity Interests represent that percentage set forth on Schedule I of the issued and outstanding Equity Interests of the issuer with respect thereto; (b) except for the security interest granted hereunder, such Pledgor (i) is and, except as otherwise permitted by the Credit Agreement, will at all times continue to be the direct owner, beneficially and of record, of the Pledged Securities indicated on Schedule I, (ii) holds the same free and clear of all Liens except those permitted by the Credit Agreement or any other Loan Document; (iii) will not Dispose of or make any assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Pledged Collateral, other than pursuant hereto, or as permitted by the Credit Agreement or the other Loan Documents and (iv) will cause any and all Pledged Securities received after the date of this Pledge Agreement, whether for value paid or otherwise, to be forthwith deposited with the Administrative Agent and pledged or assigned hereunder; (c) such Pledgor (i) has the power and authority to pledge the Pledged Collateral in the manner hereby done or contemplated and (ii) will defend its title or interest thereto or therein against any and all Liens (other than the Liens created by this Pledge Agreement or permitted by the Credit Agreement or the other Loan Documents), however arising, of all Persons whomsoever; (d) no consent of any other Person (including stockholders or creditors of the such Pledgor) and no consent or approval of any Governmental Authority or any securities exchange was or is necessary to the validity or enforceability of the pledge effected hereby, except such consents as have been obtained and are in full force and effect, (e) by virtue of the execution and delivery by such Pledgor of this Pledge Agreement, when the Pledged Securities, certificates or other documents representing or evidencing the Pledged Collateral are delivered to the Administrative Agent in accordance with this Pledge Agreement or, if a security interest in the Pledged Collateral may not, under applicable law be perfected by possession, then upon the filing of appropriate financing statements, the Administrative Agent will obtain, on behalf of itself and the Lenders, a valid and perfected first Lien upon and security interest in such Pledged Securities as security for the payment and performance of the Secured Obligations of such Pledgor; (f) all of the Pledged Equity Interests have been duly

authorized and validly issued and are fully paid and nonassessable and are in certificated form; and (g) the Pledged Collateral will not be represented by any certificates, notes, securities, documents, or other instruments other than those delivered hereunder.

5. Registration in Nominee Name; Denominations. The Administrative Agent shall have the right following an Event of Default which is continuing (in its sole and absolute discretion) to hold the Pledged Securities in its own name as pledgee, the name of its nominee (as pledge or as sub-agent) or the name of the Pledgor granting a security interest therein, endorsed or assigned in blank or in favor of the Administrative Agent. Each Pledgor will promptly give to the Administrative Agent copies of any notices or other communication received by it from any Governmental Authority with respect to the Pledged Securities registered in the name of such Pledgor. The Administrative Agent shall at all times following an Event of Default which is continuing have the right to exchange the certificates representing Pledged Securities for certificates of smaller or larger denominations for any purpose consistent with this Pledge Agreement. Each Pledgor hereby grants to the Administrative Agent an exclusive, irrevocable power of attorney, with full power and authority in the place and stead of such Pledgor to take all such action permitted under this Paragraph 5. Each Pledgor agrees to reimburse the Administrative Agent upon demand for any costs and expenses, including, without limitation, attorneys' fees, the Administrative Agent may incur while acting as such Pledgor's attorney-in-fact hereunder, all of which costs and expenses are included in the Secured Obligations of such Pledgor secured hereby. It is further agreed and understood between the parties hereto that such care as the Administrative Agent gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Pledged Collateral when in the Administrative Agent's possession; provided, however, that the Administrative Agent shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other Person in connection with the Secured Obligations or with respect to the Pledged Collateral.

6. Administration of the Pledged Securities.

(a) Until there shall have occurred and be continuing an Event of Default, each Pledgor shall be entitled to vote or consent with respect to the Pledged Securities in any manner not inconsistent with this Pledge Agreement or any document or instrument delivered or to be delivered pursuant to or in connection with any thereof; provided, however, that no Pledgor will be entitled to exercise any such right if the result thereof could materially and adversely affect the rights inuring to a holder of the Pledged Securities or the rights and remedies of the Administrative Agent under this Pledge Agreement, the Credit Agreement or the Loan Documents or the ability of the Administrative Agent to exercise the same. If there shall have occurred and be continuing an Event of Default and the Administrative Agent shall have notified a Pledgor that the Administrative Agent desires to exercise its proxy rights with respect to all or a portion of the Pledged Securities, such Pledgor hereby grants to the Administrative Agent an irrevocable proxy for the Pledged Securities of such Pledgor pursuant to which proxy the Administrative Agent shall be entitled to vote or consent, in its discretion, and in such event, each such Pledgor agrees to deliver to the Administrative

Agent such further evidence of the grant of such proxy as the Administrative Agent may request. Upon the occurrence and during the continuance of an Event of Default, all rights of each Pledgor to exercise the voting and consensual rights and powers it is entitled to exercise pursuant to this Pledge Agreement shall cease, and all such rights shall thereupon become vested in the Administrative Agent, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers.

(b) In the event that, at any time or from time to time after the date hereof, any Pledgor, as record and beneficial owner of Pledged Securities, shall receive or shall become entitled to receive, any dividend or any other distribution whether in securities or property by way of stock split, spin-off, split-up or reclassification, combination of shares or the like, or in case of any reorganization, consolidation or merger, or any Pledgor, as record and beneficial owner of Pledged Securities, shall thereby be entitled to receive securities or property in respect of such Pledged Securities, then and in each such case, each such Pledgor shall deliver to the Administrative Agent, and the Administrative Agent shall be entitled to receive and retain, all such securities or property as part of the Pledged Securities as security for the payment and performance of such Pledgor's Secured Obligations; provided, however, that until an Event of Default shall have occurred and be continuing, each Pledgor shall be entitled to receive, retain, and use any cash dividends, interest, principal payments and other distributions paid to it on account of the Pledged Securities to the extent that such payments or other distributions are permitted by, and otherwise paid in accordance with, the terms and conditions of the Credit Agreement and the other Loan Documents.

(c) Upon the occurrence of an Event of Default, all rights of the Pledgors to dividends, distributions, interest or principal that any Pledgor is authorized to receive pursuant to this Pledge Agreement shall cease, and all such rights shall thereupon become vested in the Administrative Agent, which shall have the sole and exclusive right and authority to receive and retain such dividends, distributions, interest or principal. All dividends, distributions, interest or principal received by any Pledgor contrary to the provisions of this Pledge Agreement shall be held in trust for the benefit of the Administrative Agent and the Lenders, shall be segregated from other property or funds of such Pledgor and shall forthwith be delivered to the Administrative Agent upon demand in the same form as so received (with any necessary endorsement). Any and all money and other property paid over to or received by the Administrative Agent pursuant to the provisions of this subparagraph (c) shall be retained by the Administrative Agent in an account to be established by the Administrative Agent upon receipt of such money or other property and shall constitute Pledged Collateral under this Pledge Agreement to be applied in accordance herewith.

(d) Upon the occurrence of an Event of Default, the Administrative Agent is authorized to sell the Pledged Securities and, at any such sale of any of the Pledged Securities, if it deems it advisable to do so, to restrict the prospective bidders or purchasers to persons or entities who (1) will represent and agree that they are purchasing for their own account, for investment, and not with a view to the distribution or sale of any of the Pledged Securities; and (2) satisfy the offeree and purchaser requirements for a valid private placement transaction under Section 4(2) of the Securities Act of 1933, as

amended (the "Act"), and under Securities and Exchange Commission Release Nos. 33-6383; 34-18524; 35-22407; 39-700; IC-12264; AS-306, or under any similar statute, rule or regulation. Each Pledgor agrees that disposition of the Pledged Securities pursuant to any private sale made as provided above may be at prices and on other terms less favorable than if the Pledged Securities were sold at public sale, and that the Administrative Agent has no obligation to delay the sale of any Pledged Securities for public sale under the Act. Each Pledgor agrees that a private sale or sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner. In the event that the Administrative Agent elects to sell all or any part of the Pledged Securities of any Pledgor, and there is a public market for such Pledged Securities, in a public sale ,such Pledgor shall use its best efforts to register and qualify its Pledged Securities, or applicable part thereof, under the Act and all state blue sky or securities laws required by the proposed terms of sale and all expenses thereof shall be payable by such Pledgor, including, but not limited to, all costs of (i) registration or qualification of, under the Act or any state blue sky or securities laws or pursuant to any applicable rule or regulation issued pursuant thereto, any Pledged Securities, and (ii) sale of such Pledged Securities, including, but not limited to, brokers' or underwriters' commissions, fees or discounts, accounting and legal fees, costs of printing and other expenses of transfer and sale.

(e) If any consent, approval or authorization of any state, municipal or other governmental department, agency or authority should be necessary to effectuate any sale or other disposition of the Pledged Securities of a Pledgor, or any part thereof, such Pledgor will execute such applications and other instruments as may be reasonably required in connection with securing any such consent, approval or authorization, and will otherwise use its commercially reasonable efforts to secure the same.

(f) Nothing contained in this Paragraph 6 shall be deemed to limit the other obligations of any Pledgor contained in the Credit Agreement, the Guaranties, this Pledge Agreement, or the other Loan Documents or the rights of the Administrative Agent hereunder or thereunder.

7. Remedies.

(a) Upon the occurrence of an Event of Default, the Administrative Agent may, without notice to or demand on any Pledgor and in addition to all rights and remedies available to the Administrative Agent or any Lender with respect to the Secured Obligations, at law, in equity or otherwise, do any one or more of the following:

(1) Foreclose or otherwise enforce the Administrative Agent's security interest in Pledged Collateral of such Pledgor in any manner permitted by law or provided for in this Pledge Agreement.

(2) Sell, lease, license or otherwise dispose of any Pledged Collateral of such Pledgor at one or more public or private sales at the Administrative Agent's place of business or any other place or places, including, without limitation, any broker's board or securities exchange, whether or not such Pledged Collateral is present

at the place of sale, for cash or credit or future delivery, on such terms and in such manner as the Administrative Agent may determine.

(3) Recover from such Pledgor all costs and expenses, including, without limitation, reasonable attorneys' fees (including the allocated cost of internal counsel), incurred or paid by the Administrative Agent in exercising any right, power or remedy provided by this Pledge Agreement.

(4) In connection with the disposition of any Pledged Collateral of such Pledgor, disclaim any warranty relating to title, possession or quiet enjoyment.

(b) Unless the Pledged Collateral of a Pledgor threatens to decline speedily in value or is of a type customarily sold on a recognized market, such Pledgor shall be given ten (10) Business Days' prior notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of such Pledged Collateral is to be made pursuant to this Pledge Agreement, which notice each Pledgor hereby agrees shall be deemed reasonable notice thereof.

(c) Upon any sale or other Disposition pursuant to this Pledge Agreement, the Administrative Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Pledged Collateral or portion thereof so sold or Disposed of. Each purchaser at any such sale or other disposition (including the Administrative Agent) shall hold the Pledged Collateral free from any claim or right of whatever kind, including any equity or right of redemption of any Pledgor, and each Pledgor specifically waives (to the extent permitted by law) all rights of redemption, stay or appraisal which it has or may have under any rule of law or statute now existing or hereafter adopted.

(d) Any deficiency with respect to the Secured Obligations of a Pledgor which exists after the Disposition or liquidation of the Pledged Collateral of such Pledgor shall be a continuing liability of such Pledgor to the Administrative Agent and the Lenders and shall be immediately paid by such Pledgor to such Person.

8. Application of Non-Cash Proceeds. Notwithstanding anything else contained in this Pledge Agreement, if any non-cash proceeds are received in connection with any sale or Disposition of any Pledged Collateral, the Administrative Agent shall not apply such non-cash proceeds to the Secured Obligations unless and until such proceeds are converted to cash; provided, however, that if such non-cash proceeds are not expected on the date of receipt thereof to be converted to cash within one year after such date, the Administrative Agent shall use commercially reasonable efforts to convert such non-cash proceeds to cash within such one year period.

9. Waiver of Hearing. Each Pledgor expressly waives to the extent permitted under applicable law any constitutional or other right to a judicial hearing prior to the time the Administrative Agent takes possession or Disposes of the Pledged Collateral upon the occurrence of an Event of Default.

10. Cumulative Rights. The rights, powers and remedies of the Administrative Agent under this Pledge Agreement shall be in addition to all rights, powers and remedies given to the Administrative Agent or any Lender by virtue of any statute or rule of law, the Credit Agreement, the Guaranties, any Loan Document or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Administrative Agent's security interest in the Pledged Collateral.

11. Waiver. Any forbearance or failure or delay by the Administrative Agent in exercising any right, power or remedy shall not preclude the further exercise thereof, and every right, power or remedy of the Administrative Agent shall continue in full force and effect until such right, power or remedy is specifically waived in a writing executed by the Administrative Agent. Each Pledgor waives any right to require the Administrative Agent to proceed against any Person or to exhaust any Pledged Collateral or to pursue any remedy in the Administrative Agent's or any Lender's power.

12. Setoff. Each Pledgor agrees that the Administrative Agent and the Lenders may exercise their rights of setoff with respect to the Secured Obligations in the same manner as if the Secured Obligations of such Pledgor were unsecured.

13. Financing Statements. Each Pledgor hereby consents to, authorizes and instructs the Administrative Agent to file financing statements with respect to the Pledged Collateral in all locations deemed appropriate by the Administrative Agent from time to time.

14. Entire Agreement. This Pledge Agreement and the other Loan Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

15. Survival. All representations, warranties, covenants and agreements contained herein and in the other Loan Documents of each Pledgor shall survive the termination of this Pledge Agreement and shall be effective until the Secured Obligations of all Pledgors are paid and performed in full or longer as expressly provided herein.

16. Notices. All notices shall be given in accordance with the Credit Agreement, which, in the case of Pledgors other than the Borrower, shall be addressed to such Pledgor care of the Borrower at the address indicated in the Credit Agreement.

17. Governing Law. This Pledge Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to its choice of law rules.

18. Counterparts. This Pledge Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement.

19. Severability. The illegality or unenforceability of any provision of this Pledge Agreement or any instrument or agreement required hereunder or thereunder shall

not in any way affect or impair the legality or enforceability of the remaining provisions hereof or thereof.

[Signature Pages Following}

EXECUTED as of the day and year first above written.

CALLAWAY GOLF COMPANY, as Pledgor

By: _____
Name: _____
Title: _____

BANK OF AMERICA, N.A., as
Administrative Agent

By: _____
Name: _____
Title: _____

SCHEDULE I
(TO PLEDGE AGREEMENT)

PLEDGED SECURITIES

1. PLEDGED EQUITY INTERESTS

PLEDGOR	ISSUER	NO. OF EQUITY INTERESTS PLEDGED	PERCENTAGE OF TOTAL
Borrower	Callaway Golf Kabushuiki Kaisaha	Certificates representing 650 Shares	65%
Borrower	Callaway Golf Europe Limited	Certificate representing 2,066,918 Shares	65%
Borrower	Callaway Golf Canada Ltd.	Certificate representing 65 Shares	65%

2. PLEDGED DEBT SECURITIES

None

EXHIBIT A

(TO PLEDGE AGREEMENT)

JOINDER AGREEMENT

THIS JOINDER AGREEMENT (this "Agreement") is made and dated as of the ____ day of ___, 200_ by and between _____, a _____ (the "Joining Pledgor") and Bank of America, N.A. (the "Administrative Agent").

WHEREAS, Callaway Golf Company (the "Borrower"), the Administrative Agent, the L/C Issuer, the Swing Line Lender and the Lenders party thereto have entered into a Credit Agreement dated as of November [10], 2003 (as amended, modified, or waived, the "Credit Agreement") pursuant to which the Lenders have agreed to extend credit to the Borrower on the terms and conditions contained thereon;

WHEREAS, the Borrower and the Administrative Agent, for itself and the Lenders, have executed a Pledge Agreement (as such term and all other capitalized terms used, but not otherwise defined, are defined in the Credit Agreement) pursuant to which the Borrower has, and certain other Pledgors may have, granted to the Administrative Agent a security interest in the Pledged Collateral, as defined in the Pledge Agreement;

WHEREAS, the Joining Pledgor is or concurrently herewith is becoming a Guarantor under the Credit Agreement and will acquire an interest in Pledged Collateral or property required to become Pledged Collateral under the Pledge Agreement and, pursuant to the Credit Agreement, is required to join in the Pledge Agreement;

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Agreements of Joining Pledgor. The Joining Pledgor hereby (a) joins in the Pledge Agreement as though a party thereto ab initio, (b) grants to the Administrative Agent a security interest in all right, title and interest of the Joining Pledgor in the Pledged Collateral of the Joining Pledgor, whether now owned or hereafter acquired, (c) delivers to the Administrative Agent a new Schedule 1 to the Pledge Agreement to the extent required by the Pledge Agreement on account of Pledged Securities of the Joining Pledgor, (d) from and after the date of this Agreement, agrees to be a Pledgor under the Pledge Agreement and to be bound by all of the terms and conditions of the Pledge Agreement, each of which is incorporate herein by reference as though set forth at length and (e) agrees to deliver to the Administrative Agent such other agreements and documents as the Administrative Agent may reasonably required to effectuate this joinder and to realize for the Administrative Agent and the Lenders the benefits of the Pledged Collateral intended to be granted pursuant to the Pledge Agreement.

2. Acceptance by Administrative Agent. The Administrative Agent hereby agrees that, as of the date of this Agreement, the Joining Pledgor is and shall be a party to the Pledge Agreement.

3. Miscellaneous. This Pledge Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to its choice of law rules. This Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement.

BANK OF AMERICA, N.A., as Administrative Agent

By: _____
Name: _____
Title: _____

_____, a _____, as
Joining Pledgor

By: _____
Name: _____
Title: _____

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (the "Pledge Agreement") is made and dated as of the 10th day of November, 2003 by and between CALLAWAY GOLF COMPANY, a Delaware corporation (the "Borrower" and, collectively, with any other Person that joins in this Pledge Agreement by execution and delivery of a Joinder Agreement substantially in the form of Exhibit A to this Pledge Agreement, the "Pledgors"), and BANK OF AMERICA, N.A., a national banking association, as Administrative Agent (the "Administrative Agent").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of November 10, 2003 by and among the Borrower, the Administrative Agent, the L/C Issuer, the Swing Line Lenders, and the other Lenders party thereto (as amended, extended and replaced from time to time, the "Credit Agreement"), the Lenders have agreed to extend credit to the Borrower from time to time. All capitalized terms not otherwise defined herein are used with the meanings given such terms in the Credit Agreement. All other terms not otherwise defined herein shall have the meanings attributed to such terms in the California Uniform Commercial Code as in effect from time to time.

B. As a condition precedent to the Lenders' obligations to extend and to continue extending credit under the Credit Agreement and as security for the payment and performance of the Secured Obligations (as defined in Paragraph 3 below), the Pledgors are required to execute and deliver and/or from time to time join in this Pledge Agreement, all for the purpose of granting a security interest in Collateral, all as hereinafter provided.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Grant of Security Interest. Each Pledgor hereby pledges, assigns and grants to the Administrative Agent, for the ratable benefit of the Lenders, a security interest in the property described in Paragraph 2 below (collectively and severally, the "Pledged Collateral") to secure payment and performance of such Pledgor's Secured Obligations.

2. Collateral. The Pledged Collateral shall consist of all right, title and interest of each Pledgor, whether now existing or hereafter acquired:

(a) all Pledged Equity Interests, including, without limitation, those Pledged Equity Interests listed on Schedule 1 to this Pledge Agreement;

(b) all Pledged Debt Securities, including, without limitation, those Pledged Debt Securities listed on Schedule 1 to this Pledge Agreement;

(c) all other property that may be delivered to and held by the Administrative Agent pursuant to the terms of this Pledge Agreement;

(d) all payments of principal or interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed, in respect of, in exchange for or upon the conversion of the securities referred to in subparagraphs (a) and (b) above;

(e) all rights, powers and privileges with respect to the Pledged Collateral referred to in subparagraphs (a) through (d) above; and

(f) all proceeds of the foregoing Pledged Collateral.

Upon delivery to the Administrative Agent, (a) any stock certificates, promissory notes or other securities now or hereafter included in the Pledged Collateral (the "Pledged Securities") shall be accompanied by stock powers duly executed in blank or other instruments of transfer satisfactory to the Administrative Agent and by such other endorsement, instruments and documents as the Administrative Agent may reasonably request and (b) all other property comprising part of the Pledged Collateral shall be accompanied by proper instruments of assignment duly executed by the appropriate Pledgor and such other endorsements, instruments or documents as the Administrative Agent may reasonably request. Each Pledgor promises promptly to deliver to the Administrative Agent any and all Pledged Securities and any and all certificates or other instruments or documents representing the Pledged Collateral. Each delivery of or other change in Pledged Securities shall be accompanied by a schedule describing the securities theretofor and then being pledged hereunder, which schedule shall be attached hereto as Schedule 1 and made a part hereof. Each schedule so delivered shall supersede any prior schedules so delivered. If any Pledged Securities or other assets of any Pledgor shall, at any time, cease to be Pledged Collateral hereunder (including, without limitation, as the result of (i) any Disposition thereof permitted by the Credit Agreement or (ii) the issuer thereof ceasing to be a Direct Material Foreign Subsidiary), the Administrative Agent, on behalf of the Lenders, agrees, at the cost of the Borrower, (i) that its security interest therein concurrently will be terminated without further action of the Administrative Agent, (ii) promptly on receipt of written notice thereof, to re-deliver to such Pledgor all stock certificates, promissory notes, stock powers, endorsements, instruments and documents delivered to the Administrative Agent hereunder in connection with such Pledged Collateral, and (iii) to terminate or appropriately amend financing statements filed to perfect the security interest in such Pledged Collateral.

3. Secured Obligations. The "Secured Obligations" secured by this Pledge Agreement shall consist of (i) in the case of the Borrower, all Obligations of the Borrower under, and as defined in, the Credit Agreement and each other Loan Document to which it is a party, in each case whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred, whether now existing or hereafter arising and (ii) in the case of any other Pledgor, all Guaranteed Obligations under, and as defined in, the Guaranty of such Pledgor and each other Loan Document to which it is a party, in each case whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred, in each case whether now existing or hereafter arising.

4. Representations and Warranties. In addition to all representations and warranties of the Pledgors set forth in the other Loan Documents, which are incorporated herein by this reference, each Pledgor hereby represents and warrants that: (a) the Pledged Equity Interests represent that percentage set forth on Schedule I of the issued and outstanding Equity Interests of the issuer with respect thereto; (b) except for the security interest granted hereunder, such Pledgor (i) is and, except as otherwise permitted by the Credit Agreement, will at all times continue to be the direct owner, beneficially and of record, of the Pledged Securities indicated on Schedule I, (ii) holds the same free and clear of all Liens except those permitted by the Credit Agreement or any other Loan Document; (iii) will not Dispose of or make any assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Pledged Collateral, other than pursuant hereto, or as permitted by the Credit Agreement or the other Loan Documents and (iv) will cause any and all Pledged Securities received after the date of this Pledge Agreement, whether for value paid or otherwise, to be forthwith deposited with the Administrative Agent and pledged or assigned hereunder; (c) such Pledgor (i) has the power and authority to pledge the Pledged Collateral in the manner hereby done or contemplated and (ii) will defend its title or interest thereto or therein against any and all Liens (other than the Liens created by this Pledge Agreement or permitted by the Credit Agreement or the other Loan Documents), however arising, of all Persons whomsoever; (d) no consent of any other Person (including stockholders or creditors of the such Pledgor) and no consent or approval of any Governmental Authority or any securities exchange was or is necessary to the validity or enforceability of the pledge effected hereby, except such consents as have been obtained and are in full force and effect, (e) by virtue of the execution and delivery by such Pledgor of this Pledge Agreement, when the Pledged Securities, certificates or other documents representing or evidencing the Pledged Collateral are delivered to the Administrative Agent in accordance with this Pledge Agreement or, if a security interest in the Pledged Collateral may not, under applicable law be perfected by possession, then upon the filing of appropriate financing statements, the Administrative Agent will obtain, on behalf of itself and the Lenders, a valid and perfected first Lien upon and security interest in such Pledged Securities as security for the payment and performance of the Secured Obligations of such Pledgor; (f) all of the Pledged Equity Interests have been duly

authorized and validly issued and are fully paid and nonassessable and are in certificated form; and (g) the Pledged Collateral will not be represented by any certificates, notes, securities, documents, or other instruments other than those delivered hereunder.

5. Registration in Nominee Name; Denominations. The Administrative Agent shall have the right following an Event of Default which is continuing (in its sole and absolute discretion) to hold the Pledged Securities in its own name as pledgee, the name of its nominee (as pledge or as sub-agent) or the name of the Pledgor granting a security interest therein, endorsed or assigned in blank or in favor of the Administrative Agent. Each Pledgor will promptly give to the Administrative Agent copies of any notices or other communication received by it from any Governmental Authority with respect to the Pledged Securities registered in the name of such Pledgor. The Administrative Agent shall at all times following an Event of Default which is continuing have the right to exchange the certificates representing Pledged Securities for certificates of smaller or larger denominations for any purpose consistent with this Pledge Agreement. Each Pledgor hereby grants to the Administrative Agent an exclusive, irrevocable power of attorney, with full power and authority in the place and stead of such Pledgor to take all such action permitted under this Paragraph 5. Each Pledgor agrees to reimburse the Administrative Agent upon demand for any costs and expenses, including, without limitation, attorneys' fees, the Administrative Agent may incur while acting as such Pledgor's attorney-in-fact hereunder, all of which costs and expenses are included in the Secured Obligations of such Pledgor secured hereby. It is further agreed and understood between the parties hereto that such care as the Administrative Agent gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Pledged Collateral when in the Administrative Agent's possession; provided, however, that the Administrative Agent shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other Person in connection with the Secured Obligations or with respect to the Pledged Collateral.

6. Administration of the Pledged Securities.

(a) Until there shall have occurred and be continuing an Event of Default, each Pledgor shall be entitled to vote or consent with respect to the Pledged Securities in any manner not inconsistent with this Pledge Agreement or any document or instrument delivered or to be delivered pursuant to or in connection with any thereof; provided, however, that no Pledgor will be entitled to exercise any such right if the result thereof could materially and adversely affect the rights inuring to a holder of the Pledged Securities or the rights and remedies of the Administrative Agent under this Pledge Agreement, the Credit Agreement or the Loan Documents or the ability of the Administrative Agent to exercise the same. If there shall have occurred and be continuing an Event of Default and the Administrative Agent shall have notified a Pledgor that the Administrative Agent desires to exercise its proxy rights with respect to all or a portion of the Pledged Securities, such Pledgor hereby grants to the Administrative Agent an irrevocable proxy for the Pledged Securities of such Pledgor pursuant to which proxy the Administrative Agent shall be entitled to vote or consent, in its discretion, and in such event, each such Pledgor agrees to deliver to the Administrative

Agent such further evidence of the grant of such proxy as the Administrative Agent may request. Upon the occurrence and during the continuance of an Event of Default, all rights of each Pledgor to exercise the voting and consensual rights and powers it is entitled to exercise pursuant to this Pledge Agreement shall cease, and all such rights shall thereupon become vested in the Administrative Agent, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers.

(b) In the event that, at any time or from time to time after the date hereof, any Pledgor, as record and beneficial owner of Pledged Securities, shall receive or shall become entitled to receive, any dividend or any other distribution whether in securities or property by way of stock split, spin-off, split-up or reclassification, combination of shares or the like, or in case of any reorganization, consolidation or merger, or any Pledgor, as record and beneficial owner of Pledged Securities, shall thereby be entitled to receive securities or property in respect of such Pledged Securities, then and in each such case, each such Pledgor shall deliver to the Administrative Agent, and the Administrative Agent shall be entitled to receive and retain, all such securities or property as part of the Pledged Securities as security for the payment and performance of such Pledgor's Secured Obligations; provided, however, that until an Event of Default shall have occurred and be continuing, each Pledgor shall be entitled to receive, retain, and use any cash dividends, interest, principal payments and other distributions paid to it on account of the Pledged Securities to the extent that such payments or other distributions are permitted by, and otherwise paid in accordance with, the terms and conditions of the Credit Agreement and the other Loan Documents.

(c) Upon the occurrence of an Event of Default, all rights of the Pledgors to dividends, distributions, interest or principal that any Pledgor is authorized to receive pursuant to this Pledge Agreement shall cease, and all such rights shall thereupon become vested in the Administrative Agent, which shall have the sole and exclusive right and authority to receive and retain such dividends, distributions, interest or principal. All dividends, distributions, interest or principal received by any Pledgor contrary to the provisions of this Pledge Agreement shall be held in trust for the benefit of the Administrative Agent and the Lenders, shall be segregated from other property or funds of such Pledgor and shall forthwith be delivered to the Administrative Agent upon demand in the same form as so received (with any necessary endorsement). Any and all money and other property paid over to or received by the Administrative Agent pursuant to the provisions of this subparagraph (c) shall be retained by the Administrative Agent in an account to be established by the Administrative Agent upon receipt of such money or other property and shall constitute Pledged Collateral under this Pledge Agreement to be applied in accordance herewith.

(d) Upon the occurrence of an Event of Default, the Administrative Agent is authorized to sell the Pledged Securities and, at any such sale of any of the Pledged Securities, if it deems it advisable to do so, to restrict the prospective bidders or purchasers to persons or entities who (1) will represent and agree that they are purchasing for their own account, for investment, and not with a view to the distribution or sale of any of the Pledged Securities; and (2) satisfy the offeree and purchaser requirements for a valid private placement transaction under Section 4(2) of the Securities Act of 1933, as

amended (the "Act"), and under Securities and Exchange Commission Release Nos. 33-6383; 34-18524; 35-22407; 39-700; IC-12264; AS-306, or under any similar statute, rule or regulation. Each Pledgor agrees that disposition of the Pledged Securities pursuant to any private sale made as provided above may be at prices and on other terms less favorable than if the Pledged Securities were sold at public sale, and that the Administrative Agent has no obligation to delay the sale of any Pledged Securities for public sale under the Act. Each Pledgor agrees that a private sale or sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner. In the event that the Administrative Agent elects to sell all or any part of the Pledged Securities of any Pledgor, and there is a public market for such Pledged Securities, in a public sale ,such Pledgor shall use its best efforts to register and qualify its Pledged Securities, or applicable part thereof, under the Act and all state blue sky or securities laws required by the proposed terms of sale and all expenses thereof shall be payable by such Pledgor, including, but not limited to, all costs of (i) registration or qualification of, under the Act or any state blue sky or securities laws or pursuant to any applicable rule or regulation issued pursuant thereto, any Pledged Securities, and (ii) sale of such Pledged Securities, including, but not limited to, brokers' or underwriters' commissions, fees or discounts, accounting and legal fees, costs of printing and other expenses of transfer and sale.

(e) If any consent, approval or authorization of any state, municipal or other governmental department, agency or authority should be necessary to effectuate any sale or other disposition of the Pledged Securities of a Pledgor, or any part thereof, such Pledgor will execute such applications and other instruments as may be reasonably required in connection with securing any such consent, approval or authorization, and will otherwise use its commercially reasonable efforts to secure the same.

(f) Nothing contained in this Paragraph 6 shall be deemed to limit the other obligations of any Pledgor contained in the Credit Agreement, the Guaranties, this Pledge Agreement, or the other Loan Documents or the rights of the Administrative Agent hereunder or thereunder.

7. Remedies.

(a) Upon the occurrence of an Event of Default, the Administrative Agent may, without notice to or demand on any Pledgor and in addition to all rights and remedies available to the Administrative Agent or any Lender with respect to the Secured Obligations, at law, in equity or otherwise, do any one or more of the following:

(1) Foreclose or otherwise enforce the Administrative Agent's security interest in Pledged Collateral of such Pledgor in any manner permitted by law or provided for in this Pledge Agreement.

(2) Sell, lease, license or otherwise dispose of any Pledged Collateral of such Pledgor at one or more public or private sales at the Administrative Agent's place of business or any other place or places, including, without limitation, any broker's board or securities exchange, whether or not such Pledged Collateral is present

at the place of sale, for cash or credit or future delivery, on such terms and in such manner as the Administrative Agent may determine.

(3) Recover from such Pledgor all costs and expenses, including, without limitation, reasonable attorneys' fees (including the allocated cost of internal counsel), incurred or paid by the Administrative Agent in exercising any right, power or remedy provided by this Pledge Agreement.

(4) In connection with the disposition of any Pledged Collateral of such Pledgor, disclaim any warranty relating to title, possession or quiet enjoyment.

(b) Unless the Pledged Collateral of a Pledgor threatens to decline speedily in value or is of a type customarily sold on a recognized market, such Pledgor shall be given ten (10) Business Days' prior notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of such Pledged Collateral is to be made pursuant to this Pledge Agreement, which notice each Pledgor hereby agrees shall be deemed reasonable notice thereof.

(c) Upon any sale or other Disposition pursuant to this Pledge Agreement, the Administrative Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Pledged Collateral or portion thereof so sold or Disposed of. Each purchaser at any such sale or other disposition (including the Administrative Agent) shall hold the Pledged Collateral free from any claim or right of whatever kind, including any equity or right of redemption of any Pledgor, and each Pledgor specifically waives (to the extent permitted by law) all rights of redemption, stay or appraisal which it has or may have under any rule of law or statute now existing or hereafter adopted.

(d) Any deficiency with respect to the Secured Obligations of a Pledgor which exists after the Disposition or liquidation of the Pledged Collateral of such Pledgor shall be a continuing liability of such Pledgor to the Administrative Agent and the Lenders and shall be immediately paid by such Pledgor to such Person.

8. Application of Non-Cash Proceeds. Notwithstanding anything else contained in this Pledge Agreement, if any non-cash proceeds are received in connection with any sale or Disposition of any Pledged Collateral, the Administrative Agent shall not apply such non-cash proceeds to the Secured Obligations unless and until such proceeds are converted to cash; provided, however, that if such non-cash proceeds are not expected on the date of receipt thereof to be converted to cash within one year after such date, the Administrative Agent shall use commercially reasonable efforts to convert such non-cash proceeds to cash within such one year period.

9. Waiver of Hearing. Each Pledgor expressly waives to the extent permitted under applicable law any constitutional or other right to a judicial hearing prior to the time the Administrative Agent takes possession or Disposes of the Pledged Collateral upon the occurrence of an Event of Default.

10. Cumulative Rights. The rights, powers and remedies of the Administrative Agent under this Pledge Agreement shall be in addition to all rights, powers and remedies given to the Administrative Agent or any Lender by virtue of any statute or rule of law, the Credit Agreement, the Guaranties, any Loan Document or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Administrative Agent's security interest in the Pledged Collateral.

11. Waiver. Any forbearance or failure or delay by the Administrative Agent in exercising any right, power or remedy shall not preclude the further exercise thereof, and every right, power or remedy of the Administrative Agent shall continue in full force and effect until such right, power or remedy is specifically waived in a writing executed by the Administrative Agent. Each Pledgor waives any right to require the Administrative Agent to proceed against any Person or to exhaust any Pledged Collateral or to pursue any remedy in the Administrative Agent's or any Lender's power.

12. Setoff. Each Pledgor agrees that the Administrative Agent and the Lenders may exercise their rights of setoff with respect to the Secured Obligations in the same manner as if the Secured Obligations of such Pledgor were unsecured.

13. Financing Statements. Each Pledgor hereby consents to, authorizes and instructs the Administrative Agent to file financing statements with respect to the Pledged Collateral in all locations deemed appropriate by the Administrative Agent from time to time.

14. Entire Agreement. This Pledge Agreement and the other Loan Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

15. Survival. All representations, warranties, covenants and agreements contained herein and in the other Loan Documents of each Pledgor shall survive the termination of this Pledge Agreement and shall be effective until the Secured Obligations of all Pledgors are paid and performed in full or longer as expressly provided herein.

16. Notices. All notices shall be given in accordance with the Credit Agreement, which, in the case of Pledgors other than the Borrower, shall be addressed to such Pledgor care of the Borrower at the address indicated in the Credit Agreement.

17. Governing Law. This Pledge Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to its choice of law rules.

18. Counterparts. This Pledge Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement.

19. Severability. The illegality or unenforceability of any provision of this Pledge Agreement or any instrument or agreement required hereunder or thereunder shall

not in any way affect or impair the legality or enforceability of the remaining provisions hereof or thereof.

[Signature Pages Following}

EXECUTED as of the day and year first above written.

CALLAWAY GOLF COMPANY, as Pledgor

By: /s/ RONALD A. DRAPEAU
Name: Ronald A. Drapeau
Title: CEO

BANK OF AMERICA, N.A., as
Administrative Agent

By: /s/ DORA A. BROWN
Name: Dora A. Brown
Title: Vice President

EXHIBIT A

(TO PLEDGE AGREEMENT)

JOINDER AGREEMENT

THIS JOINDER AGREEMENT (this "Agreement") is made and dated as of the ____ day of ___, 200_ by and between _____, a _____ (the "Joining Pledgor") and Bank of America, N.A. (the "Administrative Agent"). ----------

WHEREAS, Callaway Golf Company (the "Borrower"), the Administrative Agent, the L/C Issuer, the Swing Line Lender and the Lenders party thereto have entered into a Credit Agreement dated as of November [10], 2003 (as amended, modified, or waived, the "Credit Agreement") pursuant to which the Lenders have agreed to extend credit to the Borrower on the terms and conditions contained thereon;

WHEREAS, the Borrower and the Administrative Agent, for itself and the Lenders, have executed a Pledge Agreement (as such term and all other capitalized terms used, but not otherwise defined, are defined in the Credit Agreement) pursuant to which the Borrower has, and certain other Pledgors may have, granted to the Administrative Agent a security interest in the Pledged Collateral, as defined in the Pledge Agreement;

WHEREAS, the Joining Pledgor is or concurrently herewith is becoming a Guarantor under the Credit Agreement and will acquire an interest in Pledged Collateral or property required to become Pledged Collateral under the Pledge Agreement and, pursuant to the Credit Agreement, is required to join in the Pledge Agreement;

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Agreements of Joining Pledgor. The Joining Pledgor hereby (a) joins in the Pledge Agreement as though a party thereto ab initio, (b) grants to the Administrative Agent a security interest in all right, title and interest of the Joining Pledgor in the Pledged Collateral of the Joining Pledgor, whether now owned or hereafter acquired, (c) delivers to the Administrative Agent a new Schedule 1 to the Pledge Agreement to the extent required by the Pledge Agreement on account of Pledged Securities of the Joining Pledgor, (d) from and after the date of this Agreement, agrees to be a Pledgor under the Pledge Agreement and to be bound by all of the terms and conditions of the Pledge Agreement, each of which is incorporate herein by reference as though set forth at length and (e) agrees to deliver to the Administrative Agent such other agreements and documents as the Administrative Agent may reasonably required to effectuate this joinder and to realize for the Administrative Agent and the Lenders the benefits of the Pledged Collateral intended to be granted pursuant to the Pledge Agreement.

2. Acceptance by Administrative Agent. The Administrative Agent hereby agrees that, as of the date of this Agreement, the Joining Pledgor is and shall be a party to the Pledge Agreement.

3. Miscellaneous. This Pledge Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to its choice of law rules. This Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement.

BANK OF AMERICA, N.A., as Administrative Agent

By: _____
Name: _____
Title: _____

_____, a _____, as
Joining Pledgor

By: _____
Name: _____
Title: _____

EXHIBIT 10.39

BANK OF AMERICA, N.A.

November 12, 2003

Callaway Golf Company
2180 Rutherford Road
Carlsbad, CA 92008-7328

Re: Credit Agreement dated as of June 16, 2003 (the "Bi-Lateral Credit Agreement") between Callaway Golf Company (the "Borrower") and Bank of America, N.A. (the "Lender")

Ladies and Gentlemen:

At the request of the Borrower indicated by its signature below, the Lender acknowledges that its Commitment under the Bi-Lateral Agreement was terminated on November 10, 2003 (prior notice of such request being waived by the Lender) concurrently with the effectiveness of the Credit Agreement dated as of November 10, 2003 among the Borrower, Bank of America, N.A., as Agent, L/C Issuer and Swing Line Lender and the Lenders party thereto.

Please execute and return a copy of this letter to the undersigned by telefacsimile transmission to (619) 515-7524.

Sincerely yours,

BANK OF AMERICA, N.A.

By /s/ Susan J. Pepping

Susan J. Pepping
Senior Vice President

Confirmed and agreed:
CALLAWAY GOLF COMPANY

By: /s/ Bradley J. Holiday

Name: Bradley J. Holiday
Title: Sr. Exec. VP, CFO

Exhibit 21.1

SUBSIDIARY LIST	INCORPORATED
Callaway Golf Sales Company	California
Callaway Golf Shell Company	California
CGV, Inc.	California
All-American Golf LLC	California
Callaway Golf South Pacific Pty Ltd.	Australia
Callaway Golf Europe Ltd.	United Kingdom
Callaway Golf K.K.	Japan
Callaway Golf Korea Ltd.	Korea
Callaway Golf (Germany) GmbH	Germany
Callaway Golf Canada Ltd.	Canada
The Top-Flite Golf Company	Delaware

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following registration statements of Callaway Golf Company, (1) No. 333-43756, No. 333-52020, No. 33-85692, No. 33-50564, No. 33-56756, No. 33-67160, No. 33-73680, No. 33-98750, No. 333-242, No. 333-5719, No. 333-5721, No. 333-24207, No. 333-27089, No. 333-39095, No. 333-61889, No. 333-84716, No. 333-84724, No. 333-95601, and No. 333-95603 on Form S-8, and (2) No. 33-77024 on Form S-3, of our reports dated March 10, 2004, relating to the consolidated financial statements and financial statement schedule of Callaway Golf Company and subsidiaries as of and for the years ended December 31, 2003 and 2002 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the adoption of a new accounting principle and (ii) the application of procedures with respect to certain other disclosures related to the 2001 consolidated financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures) appearing in this Annual Report on Form 10-K of Callaway Golf Company for the year ended December 31, 2003.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
March 10, 2004

Exhibit 23.2

Note Regarding Arthur Andersen LLP

The Company was unable to obtain the consent of Arthur Andersen LLP to the incorporation by reference of its audit report that it issued in connection with its audit of the Company's consolidated financial statements for the year ended December 31, 2001 because Arthur Andersen LLP has ceased operations.

EXHIBIT 24.1

FORM OF POWER OF ATTORNEY

Each of Samuel H. Armacost, William C. Baker, Ronald S. Beard, John C. Cushman, III, Yotaro Kobayashi and Richard L. Rosenfield executed the following power of attorney, except that his name was inserted where "[name of director]" appears.

LIMITED POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that I, [NAME OF DIRECTOR], a member of the Board of Directors of Callaway Golf Company, a Delaware corporation (the "Company"), with its principal executive offices in Carlsbad, California, do hereby constitute, designate and appoint each of Steven C. McCracken and Bradley J. Holiday, each of whom are executive officers of the Company, as my true and lawful attorneys-in-fact, each with power of substitution, with full power to act without the other and on behalf of and as attorney for me, for the purpose of executing and filing with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and any and all amendments thereto, and to do all such other acts and execute all such other instruments which said attorney may deem necessary or desirable in connection therewith.

I have executed this Limited Power of Attorney effective as of March 5, 2003.

_____

[NAME OF DIRECTOR]

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ronald A. Drapeau, certify that:

1. I have reviewed this annual report on Form 10-K of Callaway Golf Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman and Chief
Executive Officer

Dated: March 10, 2004

A signed original of this Certification has been provided to Callaway Golf Company and will be retained by Callaway Golf Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Bradley J. Holiday, certify that:

1. I have reviewed this annual report on Form 10-K of Callaway Golf Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Senior Executive Vice President and
Chief Financial Officer

Dated: March 10, 2004

A signed original of this Certification has been provided to Callaway Golf Company and will be retained by Callaway Golf Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.1

CERTIFICATION PURSUANT
TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Callaway Golf Company, a Delaware corporation (the "Company"), does hereby certify with respect to the Annual Report of the Company on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission (the "10-K Report"), that:

(1) the 10-K Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the 10-K Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The undersigned have executed this Certification effective as of March 10, 2004.

/s/ RONALD A. DRAPEAU

Ronald A. Drapeau
Chairman and Chief Executive Officer

/s/ BRADLEY J. HOLIDAY

Bradley J. Holiday
Senior Executive Vice President and
Chief Financial Officer

A signed original of this Certification has been provided to Callaway Golf Company and will be retained by Callaway Golf Company and furnished to the Securities and Exchange Commission or its staff upon request.