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

Form 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period to

Commission file number 001-10962

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)

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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the Registrant's Common Stock, $.01 par value, as of June 30, 2012 was 65,102,277.

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 and liquidity, estimated unrecognized stock compensation expense, projected capital expenditures, projected amortization expense related to intangible assets, future contractual obligations, the realization of deferred tax assets, including loss and credit carry forwards, the reversal of the deferred tax valuation allowance in future periods, future income tax expense, the estimated savings and charges from the Cost Reduction Initiatives, the estimated savings and reinvestments related to the Company's Reorganization and Reinvestment Initiatives announced in 2011, the profitability of future products as well as implementing measures that will drive growth and profitability 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 if the information on which those estimates was based ultimately proves to be incorrect or as a result of certain risks and uncertainties, including changes in economic conditions, credit markets, or foreign currency exchange rates, the level of promotional activity in the marketplace, consumer acceptance and demand for the Company's products, future consumer discretionary purchasing activity (which can be significantly adversely affected by unfavorable economic or market conditions), delays, difficulties, changed strategies, or unanticipated factors including the general risks and uncertainties applicable to the Company and its business. For details concerning these and other risks and uncertainties, see Part I, Item IA, "Risk Factors" of our most recent Form 10-K as well as the Company's other reports 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. Except as required by law, the Company undertakes no obligation to update 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 distributing 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: Anypoint—Backstryke—Big Bertha—Black Series Tour Designs—Callaway—Callaway Golf—Callaway uPro GO—C Grind—Chev—Chev Air—Chev 18—Chevron Device—C-Tech—D.A.R.T.—Demonstrably Superior and Pleasingly Different—Diablo Edge—Diablo Forged—Diablo Octane—Divine—Eagle—ERC—Flip Face—FTiZ—FT Performance—FT Tour—Fusion—Gems—Great Big Bertha—Heavenwood—HX—HX Diablo—HX Diablo Tour—Hex Aerodynamics—Hex Black Tour— Hex Chrome—Hyper-Lite—IMIX—Ion X— Legacy—Legacy Aero—Legend—Marksman—Metal-X—Number One Putter in Golf—Odyssey—OptiFit—ORG.14—ProType—RAZR Fit—RAZR Hawk—RAZR X—RAZR XF—RAZR X Forged—RAZR X Muscleback—RAZR X Tour—Rossie—S2H2—Sabertooth—Solaire—Steelhead—Strata—Stronomic—Teron—Tech Series—Ti-Hot—Tour Authentic—Tour iX—Tour i(Z)—Trade In! Trade Up!—Tru Bore—uDesign—uPro—uPro MX—VFT—War Bird—White Hot—White Hot Tour—White Hot XG—White Ice—World's Friendliest—X-Act—XJ Series—X-SPANN—Xtra Traction Technology—XTT—Xtra Width Technology—XWT—2-Ball.*

CALLAWAY GOLF COMPANY

INDEX

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,986	$ 43,023
Accounts receivable, net	254,903	115,673
Inventories	215,794	233,070
Deferred taxes, net	3,955	4,029
Income taxes receivable	1,753	3,654
Other current assets	18,663	19,880
Total current assets	523,054	419,329
Property, plant and equipment, net	114,323	117,147
Intangible assets, net	99,998	121,935
Goodwill	29,128	29,203
Deferred taxes, net	1,392	1,386
Other assets	37,230	38,112
Total assets	$805,125	$ 727,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$113,762	$ 129,193
Accrued employee compensation and benefits	23,522	23,785
Accrued warranty expense	7,863	8,140
Deferred taxes	4,108	4,108
Income tax liability	1,129	2,558
Credit facility	70,150	—
Total current liabilities	220,534	167,784
Long-term liabilities:		
Income taxes payable	7,401	8,115
Deferred taxes, net	29,627	31,429
Long-term other	6,519	6,970
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, $.01 par value, 3,000,000 shares authorized, 1,400,000 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	14	14
Common stock, $.01 par value, 240,000,000 shares authorized, 66,397,199 and 66,340,695 shares issued at June 30, 2012 and December 31, 2011, respectively	664	663
Additional paid-in capital	263,764	265,067
Retained earnings	275,942	247,941
Accumulated other comprehensive income	13,003	14,071
Less: Common Stock held in treasury, at cost, 1,294,922 shares and 1,453,819 shares at June 30, 2012 and December 31, 2011, respectively	(15,252)	(17,800)
Total Callaway Golf Company shareholders' equity	538,135	509,956
Non-controlling interest in consolidated entity (Note 10)	2,909	2,858
Total shareholders' equity	541,044	512,814
Total liabilities and shareholders' equity	$805,125	$ 727,112

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

CALLAWAY GOLF COMPANY

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net sales	$281,123	$273,814	$566,221	$559,413
Cost of sales	170,470	171,152	331,197	333,070
Gross profit	110,653	102,662	235,024	226,343
Operating expenses:				
Selling expense	75,711	74,196	152,549	149,415
General and administrative expense	18,446	30,124	30,680	46,411
Research and development expense	6,930	8,498	14,403	17,695
Total operating expenses	101,087	112,818	197,632	213,521
Income (loss) from operations	9,566	(10,156)	37,392	12,822
Other expense, net	(4,571)	(3,427)	(887)	(4,807)
Income (loss) before income taxes	4,995	(13,583)	36,505	8,015
Provision for income taxes	2,196	45,483	1,904	54,263
Net income (loss)	2,799	(59,066)	34,601	(46,248)
Dividends on convertible preferred stock	2,625	2,625	5,250	5,250
Net income (loss) allocable to common shareholders	$ 174	$ (61,691)	$ 29,351	$ (51,498)
Earnings (loss) per common share:				
Basic	$ 0.00	$ (0.96)	$ 0.45	$ (0.80)
Diluted	$ 0.00	$ (0.96)	$ 0.41	$ (0.80)
Weighted-average common shares outstanding:				
Basic	65,060	64,425	65,021	64,365
Diluted	65,112	64,425	84,950	64,365

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

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$ 2,799	$ (59,066)	$ 34,601	$ (46,248)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(1,361)	2,980	(1,068)	5,329
Other comprehensive income (loss):	(1,361)	2,980	(1,068)	5,329
Comprehensive income (loss)	$ 1,438	$ (56,086)	$ 33,533	$ (40,919)

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

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 34,601	$ (46,248)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	18,234	19,191
Impairment charge	—	5,413
Deferred taxes	(1,746)	51,397
Non-cash share-based compensation	1,896	7,581
Gain and deferred gain amortization on disposal of long-lived assets	(975)	(6,752)
Gain on sale of intangible assets	(6,602)	—
Changes in assets and liabilities:		
Accounts receivable, net	(141,100)	(107,442)
Inventories	16,769	56,606
Other assets	690	5,095
Accounts payable and accrued expenses	(11,941)	(28,345)
Accrued employee compensation and benefits	(964)	9,095
Accrued warranty expense	(277)	3,555
Income taxes receivable/payable	522	3,051
Other liabilities	(387)	2,370
Net cash used in operating activities	(91,280)	(25,433)
Cash flows from investing activities:		
Capital expenditures	(14,115)	(14,089)
Proceeds from sale of property, plant and equipment	70	18,172
Proceeds from sale of intangible assets	26,861	—
Net cash provided by investing activities	12,816	4,083
Cash flows from financing activities:		
Issuance of common stock	—	1,160
Dividends paid	(6,554)	(6,542)
Proceeds from credit facilities, net	70,150	37,142
Other financing activities	69	129
Net cash provided by financing activities	63,665	31,889
Effect of exchange rate changes on cash and cash equivalents	(238)	950
Net (decrease) increase in cash and cash equivalents	(15,037)	11,489
Cash and cash equivalents at beginning of year	43,023	55,043
Cash and cash equivalents at end of period	$ 27,986	$ 66,532
Supplemental disclosures:		
Cash (paid) received for income taxes, net	$ (2,983)	$ 37
Cash paid for interest and fees	$ (2,355)	$ (216)
Dividends payable	$ 438	$ 438
Issuance of treasury stock from the settlement of compensatory stock awards	$ 3,244	$ 2,920
Acquisition of treasury stock for minimum statutory withholding taxes	$ (696)	$ (1,512)
Purchases of capital expenditures unpaid at period end	$ 727	$ 1,609

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

Table of Contents

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands)

	Callaway Golf Shareholders										
	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Non-controlling Interest	Total
	Shares	Amount	Shares	Amount				Shares	Amount		
Balance, December 31, 2011	1,400	$ 14	66,341	$ 663	$265,067	$247,941	$ 14,071	(1,454)	$(17,800)	$ 2,858	$512,814
Acquisition of treasury stock for minimum statutory withholding taxes	—	—	—	—	—	—	—	(108)	(696)	—	(696)
Compensatory stock and stock options	—	—	55	1	(1,349)	—	—	267	3,244	—	1,896
Stock dividends	—	—	1	—	46	(46)	—	—	—	—	—
Cash dividends	—	—	—	—	—	(6,554)	—	—	—	—	(6,554)
Equity adjustment from foreign currency translation	—	—	—	—	—	—	(1,068)	—	—	—	(1,068)
Net income	—	—	—	—	—	34,601	—	—	—	51	34,652
Balance, June 30, 2012	1,400	$ 14	66,397	$ 664	$263,764	$275,942	$ 13,003	(1,295)	$(15,252)	$ 2,909	$541,044

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

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by Callaway Golf Company (the "Company" or "Callaway Golf") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC. These consolidated condensed financial statements, in the opinion of management, include all adjustments necessary for the fair presentation of the financial position, results of operations and cash flows for the periods and dates presented. Interim operating results are not necessarily indicative of operating results for the full year.

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

Recent Accounting Standards

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 will be applied retrospectively and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this ASU is not expected to have a material impact on the Company's disclosures to the consolidated financial statements.

2. Restructuring Initiatives

Global Operations Strategy

In 2010, the Company began the implementation of its Global Operations Strategy Initiatives ("GOS Initiatives"), which targeted the restructuring and relocation of the Company's manufacturing and distribution operations. This restructuring, which is designed to add speed and flexibility to customer service demands, optimize efficiencies, and facilitate long-term gross margin improvements, includes the reorganization of the Company's manufacturing and distribution centers located in Carlsbad, California, Toronto, Canada, and Chicopee, Massachusetts, the creation of third-party logistics sites in Dallas, Texas and Toronto, Canada, as well as the establishment of a new production facility in Monterrey, Mexico. This restructuring was completed in 2011 and only nominal charges were incurred in 2012. The Company intends to maintain limited manufacturing and distribution facilities in Carlsbad, California and Chicopee, Massachusetts.

During the three and six months ended June 30, 2011, the Company recorded pre-tax charges of $5,813,000 and $12,342,000, respectively in connection with this restructuring. The majority of these charges were recognized within cost of sales, and $8,356,000 and $3,793,000 were absorbed by the Company's golf clubs and golf balls segments, respectively. Costs incurred during the first half of 2012 were de minimis. Charges related to corporate general and administrative expenses were excluded from the Company's operating segments. In the aggregate through December 31, 2011, the Company recognized total charges of $39,496,000 in connection with the GOS Initiatives.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The charges recognized under this restructuring include non-cash charges for the acceleration of depreciation on certain golf club and golf ball manufacturing equipment and cash charges related to severance benefits and transition costs, which consist primarily of consulting expenses, costs associated with redundancies during the start-up and training phase of the new production facility in Monterrey, Mexico, start-up costs associated with the establishment of third-party logistics sites, travel expenses, and costs associated with the transfer of inventory and equipment.

Reorganization and Reinvestment Initiatives

In June 2011, the Company announced that it was implementing certain restructuring initiatives (the "Reorganization and Reinvestment Initiatives") that involve (i) streamlining the Company's organization to reduce costs, simplify internal processes, and increase focus on the Company's consumers and retail partners, (ii) reorganizing the Company's organizational structure to place greater emphasis on global brand management and improve the effectiveness of the Company's key initiatives, and (iii) reinvesting in brand and demand creation initiatives to drive sales growth. The Company's restructuring plan is expected to result in annualized pre-tax savings of approximately $50,000,000 with up to half of the savings to be reinvested into the Callaway and Odyssey brands and more effective demand creation initiatives. The majority of these savings and reinvestments are expected to be realized in 2012.

During the quarter ended June 30, 2012, the Company recognized $283,000 of charges in connection with these initiatives of which $148,000 and $135,000 were recognized in cost of goods sold and operating expenses, respectively. Total charges absorbed by the Company's golf clubs and golf balls operating segments were $191,000 and $29,000, respectively. During the six months ended June 30, 2012, the Company recognized $720,000 of charges in connection with these initiatives of which $296,000 and $424,000 were recognized in cost of goods sold and operating expenses, respectively. Total charges absorbed by the Company's golf clubs and golf balls operating segments were $554,000 and $108,000, respectively. Charges related to corporate general and administrative expenses were excluded from the Company's operating segments. The Company expects future estimated charges of $183,000, to be settled in cash, during the balance of 2012.

Table of Contents

The table below depicts the activity and liability balances recorded as part of the GOS Initiatives and the Reorganization and Reinvestment Initiatives as well as the current estimated future charges relating to these initiatives (in thousands). Amounts payable as of June 30, 2012 are included in accrued employee compensation and benefits, and amounts payable at December 31, 2011 are included in accrued employee compensation and benefits and accounts payable and accrued expenses in the accompanying consolidated condensed balance sheets. The majority of the amounts payable as of June 30, 2012 will be paid during the balance of 2012.

	GOS Initiatives		Reorganization and Reinvestment Initiatives	
	Workforce Reductions	Transition Costs	Workforce Reductions	Total
Restructuring payable balance, December 31, 2011	$ 1,219	$ 55	$ 5,357	$ 6,631
Charges to cost and expense	—	21	442	463
Cash payments	(559)	(76)	(3,357)	(3,992)
Restructuring payable balance, March 31, 2012	$ 660	$ —	$ 2,442	$ 3,102
Charges to cost and expense	—	—	283	283
Cash payments	(159)	—	(1,675)	(1,834)
Restructuring payable balance, June 30, 2012	$ 501	$ —	$ 1,050	$ 1,551
Total future estimated charges as of June 30, 2012	$ —	$ —	$ 183	$ 183

Cost Reduction Initiatives

The Company has begun implementing additional cost-reduction initiatives (the “Cost Reduction Initiatives”). These initiatives are designed to streamline and simplify the Company’s organizational structure and change the manner in which the Company approaches and operates its business. The actions include a 12% reduction in workforce that impacts all regions and levels of the organization and include greater focus on the Company’s core product lines by licensing to third parties the rights to develop, manufacture and distribute certain non-core product lines (e.g. apparel and footwear). These initiatives are estimated to yield approximately $52,000,000 in annualized savings. In connection with these initiatives, the Company expects to incur total pre-tax charges of up to $36,000,000 to $42,000,000, of which less than 50% is expected to result in cash expenditures. The Company expects to incur these estimated charges over the following twelve months. These estimates are based upon current information and expectations, however, the amount or timing of these changes could vary as the Company further develops and implements these initiatives.

During the three and six months ended June 30, 2012, the Company recognized charges of $4,643,000 and $4,671,000, respectively, in connection with these initiatives. Amounts recognized in cost of goods sold and operating expenses totaled $937,000 and $3,706,000 during the three months ended June 30, 2012, respectively, and $961,000 and $3,710,000 during the six months ended June 30, 2012, respectively. Total charges absorbed by the Company’s golf clubs and golf balls operating segments were $1,667,000 and $324,000, respectively, for the three months ended June 30, 2012, and $1,686,000 and $333,000, respectively, for the six months ended June 30, 2012. Charges related to corporate general and administrative expenses were excluded from the Company’s operating segments.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The table below depicts the total charges recognized in 2012, the liability balances, and the current estimated future charges relating to the Cost Reduction Initiatives (in thousands). Amounts payable as of June 30, 2012 are included in accrued employee compensation and benefits on the accompanying consolidated condensed balance sheet.

	Cost Reduction Initiatives			
	Workforce Reductions	Transition Costs	Asset Write-offs	Total
Charges to cost and expense	$ 3,240	$ 707	$ 724	$ 4,671
Non-cash items	(240)	—	(724)	(964)
Cash payments	(542)	(707)	—	(1,249)
Restructuring payable balance, June 30, 2012	$ 2,458	$ —	$ —	$ 2,458
Total future estimated charges as of June 30, 2012[(1)]	$ 10,700	$ 5,300	$ 18,300	$ 34,300

(1) For purposes of this table, the Company used the middle of the range of future estimated charges.

In connection with the Company's Cost Reduction Initiatives, the Company is reorganizing its golf ball manufacturing supply chain. The Company is currently using only a small portion of its golf ball manufacturing facilities in Chicopee, Massachusetts and is exploring the possibility of selling those facilities. Because the Company intends to maintain manufacturing capabilities in Chicopee even if it sells the current facilities, the Company is also exploring alternative sites in the Chicopee area as well as the possibility of leasing back from potential buyers the portion of the facilities the Company is currently using. If the Company were to sell the facilities at less than their current carrying value, the Company would be required to recognize a charge equal to the amount by which the carrying value exceeds the sale price. The Company has included in the future estimated charges related to the Cost Reduction Initiatives summarized in the table above an estimate of potential charges relating to the reorganization of the golf ball manufacturing supply chain, including potential charges for the sale of the golf ball manufacturing facilities in Chicopee.

3. Income Taxes

The Company calculates its interim income tax provision in accordance with Accounting Standards Codification ("ASC") 270, "Interim Reporting," and ASC 740, "Accounting for Income Taxes" (together, "ASC 740"). In general, at the end of each interim period, the Company estimates the annual effective tax rate and applies that rate to its ordinary quarterly earnings. The tax expense or benefit related to significant, unusual, or extraordinary items is recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws, rates, or tax status is recognized in the interim period in which the change occurs.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment, including the expected operating income/loss for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained, or as the tax environment changes. For the three and six months ended June 30, 2012, the discrete method was used to calculate the Company's U.S. interim tax expense as the annual effective rate was not considered a reliable estimate of year-to-date income tax expense. Under the discrete method, the Company determines its U.S. tax expense based upon actual results as if the interim period were an annual period. The Company's full U.S. valuation allowance position, the tax effects related to the changes in indefinite life intangibles and the seasonality of the Company's business create results with significant variations in the customary relationship between income tax expense and pre-tax income for the interim periods. As a result, the use of the discrete method is more appropriate than the annual year effective tax rate method.

The Company is required to file federal and state tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could impact the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various federal, state, and international taxing authorities in the jurisdictions in which the Company files its returns. As part of these reviews, a taxing authority may disagree with respect to the tax positions taken by the Company ("uncertain tax positions") and, therefore, require the Company to pay additional taxes. In accordance with ASC 740, the Company accrues for the estimated additional amount of taxes for uncertain tax positions if it is more likely than not (50% likelihood) that the Company would be required to pay additional taxes. The accrual for uncertain tax positions can result in a difference between the estimated benefit recorded in the Company's consolidated condensed financial statements and the benefit taken or expected to be taken in the Company's income tax returns. This difference is generally referred to as an "unrecognized tax benefit." As of June 30, 2012, the liability for income taxes associated with uncertain tax positions was $9,286,000 and could be reduced by $3,808,000 of offsetting tax benefits associated with the correlative effects of potential transfer pricing adjustments as well as $1,089,000 of tax benefits associated with state income taxes. The net amount of $4,389,000, if recognized, would favorably affect the Company's consolidated condensed financial statements and effective income tax rate. The Company does not expect that unrecognized tax benefit liabilities will significantly increase or decrease during the next 12 months.

Deferred tax assets and liabilities result from temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are anticipated to be in effect at the time the differences are expected to reverse. The realization of the deferred tax assets, including loss and credit carry forwards, is subject to the Company generating sufficient taxable income during the periods in which the temporary differences become realizable. The Company establishes a valuation allowance against its deferred tax assets when required by applicable accounting rules, increasing income tax expense in the period that such allowance is established. During the second quarter of 2011, the Company evaluated whether the realization of its U.S. deferred tax assets would be deemed likely under applicable accounting rules, and considered, among other things, the Company's taxable losses in the United States from 2009 to 2011. When evaluated in light of the applicable standards, this evidence suggested that the Company should establish a valuation allowance. As a result, during 2011, the Company recorded a valuation allowance against its U.S. deferred tax assets. At each quarter end that a valuation allowance is maintained, as the U.S. deferred tax assets are adjusted upwards or downwards, the associated valuation allowance and income tax expense will be adjusted. If sufficient positive evidence arises in the future, such as a sustained return to profitability in the U.S. business, any existing valuation allowance could be reversed as appropriate, decreasing income tax expense in the period that such conclusion is reached. The Company has concluded that with respect to non-U.S. entities, there is sufficient positive evidence to conclude that realization of its deferred tax assets is deemed to be likely under applicable accounting rules, and no allowances have been established.

The non-cash charge to establish a valuation allowance does not have any impact on the Company's consolidated income from operations or cash flows, nor does such an allowance preclude the Company from using loss carry forwards or other deferred tax assets in the future, except as described below. Until the Company re-establishes a pattern of continuing profitability, U.S. income tax expense or benefit related to the recognition

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

of deferred tax assets in the consolidated condensed statement of operations for future periods will be offset by decreases or increases in the valuation allowance with no net effect on the consolidated condensed statement of operations.

Subsequent to the issuance of the consolidated financial statements for the period ended June 30, 2011, the Company identified that it had understated its long-term deferred tax liabilities. This understatement included amounts related to the tax treatment of certain depreciable assets, deductible stock options and deferred revenue related to gift cards all of which relate to periods prior to 2008. As a result of these corrections to the long-term deferred tax liabilities, the Company determined that it had overstated the amount of the valuation allowance recorded during the three and six months ended June 30, 2011 by $4,498,000. The Company corrected the consolidated condensed financial statements for the three and six months ended June 30, 2011 as follows (in thousands):

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Provision for income taxes	$ 49,981	$ 45,483	$ 58,761	$ 54,263
Net loss	$ (63,564)	$ (59,066)	$ (50,746)	$ (46,248)
Net loss allocable to common shareholders	$ (66,189)	$ (61,691)	$ (55,996)	$ (51,498)
Loss per common share basic and diluted	$ (1.03)	$ (0.96)	$ (0.87)	$ (0.80)

The Company does not believe the corrections above are material to the financial statements for the three and six months ended June 30, 2011, and they did not affect the net cash used in operating activities in the consolidated condensed statement of cash flows for the six months ended June 30, 2011.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. For the three months ended June 30, 2012 and 2011, the Company recognized approximately $28,000 and $41,000, respectively, of interest expense and penalties in the provision for income taxes. As of June 30, 2012 and December 31, 2011, the Company had accrued $980,000 and $890,000, respectively, before income tax benefit, for the payment of interest and penalties.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities in the following major jurisdictions:

Tax Jurisdiction	Years No Longer Subject to Audit
U.S. federal	2007 and prior
California (United States)	2006 and prior
Canada	2007 and prior
Japan	2007 and prior
South Korea	2008 and prior
United Kingdom	2007 and prior

Although the Company has set up a valuation allowance against the majority of its U.S. federal and state deferred tax assets, which include tax credits, net operating loss carry forwards ("NOLs") and other losses, such allowance does not preclude the Company from using the deferred tax assets in the future. However, the Company's ability to utilize the tax credits and losses to offset future taxable income may be limited significantly if the Company were to experience a cumulative change in ownership of the Company's stock by "5-percent shareholders" (as defined in Section 382 of the Internal Revenue Code of 1986, as amended) that exceeds 50 percentage points over a rolling three-year period. The determination of whether a Section 382 ownership change has occurred is complex and requires significant judgment. The extent to which the Company's ability to utilize the losses is limited as a result of such an ownership change depends on many variables, including the value of the Company's stock at the time of the ownership change. The Company does not believe there has been a cumulative increase in ownership by "5-percent shareholders" in excess of 50 percentage points during the three year period ended June 30, 2012, however, the Company continues to monitor changes in ownership. If such a cumulative increase did occur in any three year period and the Company were limited in the amount of losses it could use to offset taxable income, the Company's results of operations and cash flows would be adversely impacted.

4. Sale of Buildings

In March 2011, the Company completed the sale of three of its buildings located in Carlsbad, California, and entered into lease-back agreements for each building over a period of one to five years. The sale of these buildings was in connection with the Company's consolidation of its campus into a more efficient layout, and the relocation of the Company's golf club manufacturing facilities from Carlsbad, California to Monterrey, Mexico (see Note 2). The sale resulted in net proceeds of $18,079,000 and a net gain of $12,668,000, of which $6,170,000 was recognized in general and administrative expenses during the first quarter of 2011. Due to the lease-back arrangement, the Company deferred a portion of this gain in the amount of $6,498,000, which represents the sum of the net present value of the minimum future lease payments through the end of each respective lease term. During the three and six months ended June 30, 2012, the Company recognized $399,000 and $909,000, respectively, of this deferred gain in general and administrative expenses. The amortization of the deferred gain will offset future rent expense over the term of the leases which range from 1 to 5 years.

5. Preferred Stock Offering

In June 2009, the Company sold 1,400,000 shares of its 7.50% Series B Cumulative Perpetual Convertible Preferred Stock, $0.01 par value (the "preferred stock"). The Company received gross proceeds of $140,000,000 and incurred costs of $6,085,000, which were recorded as an offset to additional paid-in capital in the consolidated condensed statement of shareholders' equity. The terms of the preferred stock provide for a liquidation preference of $100 per share and cumulative dividends from the date of original issue at a rate of 7.50% per annum (equal to an annual rate of $7.50 per share), subject to adjustment in certain circumstances. As of June 30, 2012, the liquidation preference would have been $140,438,000. Dividends on the preferred stock are payable quarterly in arrears subject to declaration by the Board of Directors and compliance with the Company's line of credit and applicable law.

The preferred stock is generally convertible at any time at the holder's option into common stock of the Company at an initial conversion rate of 14.1844 shares of Callaway's common stock per share of preferred stock, which is equivalent to an initial conversion price of approximately $7.05 per share. Based on the initial conversion rate, approximately 19,900,000 shares of common stock would be issuable upon conversion of all of the outstanding shares of preferred stock.

The Company, at its option, may redeem the preferred stock, in whole or in part, at a price equal to 100% of the liquidation preference, plus all accrued and unpaid dividends. The preferred stock has no maturity date and has no voting rights prior to conversion into the Company's common stock, except in limited circumstances.

Table of Contents

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

6. Earnings per Common Share

Earnings per common share, basic, is computed by dividing net income less preferred stock dividends (i.e., net income allocable to common shareholders) by the weighted-average number of common shares outstanding for the period. Earnings per common share, diluted, is computed by dividing net income by the weighted-average number of common and potentially dilutive common equivalent shares outstanding for the period. Weighted-average common shares outstanding—diluted is the same as weighted-average common shares outstanding—basic in periods when a net loss is reported, or in periods when diluted earnings (loss) per share is more favorable than basic earnings (loss) per share.

Dilutive securities include the common stock equivalents of convertible preferred stock, options granted pursuant to the Company's stock option plans and outstanding restricted stock units granted to employees and non-employees (see Note 14). Dilutive securities are included in the calculation of diluted earnings per common share using the treasury stock method in accordance with ASC Topic 260, "Earnings per Share" ("ASC 260").

The following table summarizes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, and reconciles the weighted-average common shares used in the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Earnings (loss) per common share—basic				
Net income (loss)	$ 2,799	$ (59,066)	$ 34,601	$ (46,248)
Less: Preferred stock dividends	(2,625)	(2,625)	(5,250)	(5,250)
Net income (loss) allocable to common shareholders	$ 174	$ (61,691)	$ 29,351	$ (51,498)
Weighted-average common shares outstanding—basic	65,060	64,425	65,021	64,365
Basic earnings (loss) per common share	$ 0.00	$ (0.96)	$ 0.45	$ (0.80)
Earnings (loss) per common share—diluted				
Net income (loss)	$ 174	$ (61,691)	$ 34,601	$ (51,498)
Weighted-average common shares outstanding—basic	65,060	64,425	65,021	64,365
Preferred stock weighted-average shares outstanding	—	—	19,858	—
Options, restricted stock and other dilutive securities	52	—	71	—
Weighted-average common shares outstanding—diluted	65,112	64,425	84,950	64,365
Diluted earnings (loss) per common share	$ 0.00	$ (0.96)	$ 0.41	$ (0.80)

Options with an exercise price in excess of the average market value of the Company's common stock during the period have been excluded from the calculation as their effect would be antidilutive. Additionally, potentially dilutive securities were excluded from the computation in periods in which a net loss is reported as their effect would be antidilutive. For the three months ended June 30, 2012 and 2011, dilutive securities outstanding totaling approximately 29,100,000 and 30,902,000 shares, respectively, (including preferred stock of 19,858,000) were excluded from the calculations as their effect would have been antidilutive. For the six months ended June 30, 2012 and 2011 dilutive securities outstanding totaling approximately 9,353,000 and 30,893,000 (including preferred stock of 19,858,000), respectively, were excluded from the calculations as their effect would have been antidilutive.

7. Inventories

Inventories are summarized below (in thousands):

	June 30, 2012	December 31, 2011
Inventories:		
Raw materials	$ 52,289	$ 46,976
Work-in-process	727	1,286
Finished goods	162,778	184,808
	$215,794	$ 233,070

8. Goodwill and Intangible Assets

In accordance with ASC Topic 350, “Intangibles—Goodwill and Other,” the Company’s goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. The Company performs an impairment analysis on its goodwill and intangible assets at least annually and whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. The following sets forth the intangible assets by major asset class (dollars in thousands):

	Useful Life (Years)	June 30, 2012 Gross	June 30, 2012 Accumulated Amortization	June 30, 2012 Net Book Value	December 31, 2011 Gross	December 31, 2011 Accumulated Amortization	December 31, 2011 Net Book Value
Non-Amortizing:							
Trade name, trademark and trade dress and other	NA	$ 88,590	$ —	$ 88,590	$ 108,834	$ —	$ 108,834
Amortizing:							
Patents	2-16	36,459	29,982	6,477	36,459	28,908	7,551
Developed technology and other	1-9	12,487	7,556	4,931	12,387	6,837	5,550
Total intangible assets		$ 137,536	$ 37,538	$ 99,998	$ 157,680	$ 35,745	$ 121,935

Aggregate amortization expense on intangible assets was approximately $1,793,000 and $2,010,000 for the six months ended June 30, 2012 and 2011. Amortization expense related to intangible assets at June 30, 2012 in each of the next five fiscal years and beyond is expected to be incurred as follows (in thousands):

Remainder of 2012	$ 1,757
2013	2,560
2014	1,882
2015	1,844
2016	1,834
2017	846
Thereafter	685
	$11,408

Goodwill at June 30, 2012 and December 31, 2011 was $29,128,000 and $29,203,000, respectively. The decrease in goodwill during the six months ended June 30, 2012 of $75,000 was due to foreign currency fluctuations. Gross goodwill before impairments at June 30, 2012 and December 31, 2011 was $30,248,000 and $30,323,000, respectively.

In March 2012, in an effort to simplify the Company's operations and increase focus on the Company's core Callaway and Odyssey business, the Company sold certain assets related to the Top-Flite brand, including world-wide trademarks and service marks for net cash proceeds of $19,900,000. In addition, in February 2012, the Company completed the sale of the Ben Hogan brand including all trademarks, service marks and certain other intellectual property for net cash proceeds of $6,961,000. At the time of sale, the net book value of the Top-Flite and Ben Hogan assets totaled $20,244,000 and were included with the net identifiable assets of the Company's golf ball operating segment. During the six months ended June 30, 2012, the Company recognized a pre-tax net gain of $6,602,000 in general and administrative expenses in the accompanying consolidated condensed statement of operations related to the sale of these two brands.

9. Investments

Investment in TopGolf International, Inc.

The Company has an investment in TopGolf International, Inc. ("TopGolf"), the owner and operator of TopGolf entertainment centers. In connection with this investment, the Company owns $20,699,000 of preferred shares of TopGolf and has a Preferred Partner Agreement with TopGolf in which the Company has preferred signage rights, rights as the preferred supplier of golf products used or offered for use at TopGolf facilities at prices no less than those paid by the Company's customers, preferred retail positioning in the TopGolf retail stores, access to consumer information obtained by TopGolf, and other rights incidental to those listed.

The Company's ownership interest in TopGolf is less than 20%. In addition, the Company does not have the ability to significantly influence the operating and financing activities and policies of TopGolf. Accordingly, the Company's investment in TopGolf is accounted for at cost in accordance with ASC Topic 325, "Investments—Other," and is included in other long-term assets in the accompanying consolidated condensed balance sheets as of June 30, 2012 and December 31, 2011.

10. Non-Controlling Interest

Investment in Qingdao Suntech Sporting Goods Limited Company

The Company has a Golf Ball Manufacturing and Supply Agreement with Qingdao Suntech Sporting Goods Limited Company ("Suntech"), where Suntech manufactures and supplies certain golf balls solely for and to the Company. In connection with the agreement, the Company provides Suntech with golf ball raw materials, packing materials, molds, tooling, as well as manufacturing equipment in order to carry out the manufacturing and supply obligations set forth in the agreement. Suntech provides the personnel as well as the facilities to effectively perform these manufacturing and supply obligations. Due to the nature of the arrangement, as well as the controlling influence the Company has in the Suntech operations, the Company is required to consolidate the financial results of Suntech in its consolidated condensed financial statements as of June 30, 2012 and December 31, 2011, in accordance with ASC Topic 810, "Consolidations."

Suntech is a wholly-owned subsidiary of Suntech Mauritius Limited Company ("Mauritius"). The Company has entered into a loan agreement with Mauritius in order to provide working capital for Suntech. In connection with this loan agreement, the Company loaned Mauritius a total of $3,200,000 of which $1,988,000 was outstanding as of both June 30, 2012 and December 31, 2011. The Company recorded the loan in other long-term assets in the accompanying consolidated condensed balance sheets as of June 30, 2012 and December 31, 2011.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

11. Product Warranty

The Company has a stated two-year warranty policy for its golf clubs, although the Company sometimes honors warranty claims after the two-year stated warranty period at the Company's discretion. 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. The decrease in the provision for future warranty claims during the three and six months ended June 30, 2012 is primarily due to increased reserves in 2011 as a result of the product withdrawal of the uPro MX GPS device in 2011. The following table provides a reconciliation of the activity related to the Company's reserve for warranty expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Beginning balance	$ 8,262	$ 8,646	$ 8,140	$ 8,427
Provision	1,919	6,234	3,773	8,185
Claims paid/costs incurred	(2,318)	(2,898)	(4,050)	(4,630)
Ending balance	$ 7,863	$11,982	$ 7,863	$11,982

12. Financing Arrangements

The Company has a Loan and Security Agreement with Bank of America N.A. (as amended, the "ABL Facility") which provides a senior secured asset-based revolving credit facility of up to $230,000,000, comprised of a $158,333,000 U.S. facility (of which $20,000,000 is available for letters of credit), a $31,667,000 Canadian facility (of which $5,000,000 is available for letters of credit) and a $40,000,000 United Kingdom facility (of which $2,000,000 is available for letters of credit), in each case subject to borrowing base availability under the applicable facility. The aggregate amount outstanding under the Company's letters of credit was $3,355,000 at June 30, 2012. The amounts outstanding under the ABL Facility are secured by certain assets, including inventory and accounts receivable, of the Company's U.S., Canadian and U.K. legal entities.

As of June 30, 2012, the Company had $70,150,000 outstanding under the ABL Facility and had $27,986,000 of cash and cash equivalents. The Company's seasonality, as well as the timing of product launches will affect the level of borrowings against the Company's credit facilities. Generally, during the first quarter, the Company will rely more heavily on its credit facilities to fund operations as cash inflows from operations typically increase during the second and third quarters as a result of cash collections from customers. During 2012, the Company shifted its product launches to the first quarter. In the prior year, products were launched earlier in the fourth quarter of 2010. As such, the cash conversion cycle also shifted to later in the current year as compared to the prior year, which resulted in higher borrowings outstanding at June 30, 2012 compared to June 30, 2011. The maximum amount of Consolidated Funded Indebtedness (as defined by the ABL Facility), including borrowings under the ABL Facility, that could have been outstanding on June 30, 2012, was approximately $170,423,000. Average outstanding borrowings during the six months ended June 30, 2012 were $76,674,000. Amounts borrowed under the ABL Facility may be repaid and borrowed as needed. The entire outstanding principal amount (if any) is due and payable at maturity on June 30, 2016.

The interest rate applicable to outstanding loans under the ABL Facility fluctuates depending on the Company's trailing-twelve month EBITDA (as defined by the ABL Facility) combined with the Company's "availability ratio" (as defined below). The Company's "availability ratio" is the ratio, expressed as a percentage of (a) the average daily availability under the ABL Facility to (b) the sum of the Canadian, the U.K. and the U.S. borrowing bases, as adjusted. All applicable margins will be permanently reduced by 0.25% if EBITDA, as defined in the ABL Facility, meets or exceeds $25,000,000 over any trailing twelve-month period, and will be permanently reduced by an additional 0.25% if EBITDA meets or exceeds $50,000,000 over any trailing twelve-month period. At June 30, 2012, the Company's interest rate applicable to its outstanding loans under the ABL Facility was 4.75%.

In addition, the ABL Facility provides for monthly fees ranging from 0.375% to 0.5% of the unused portion of the ABL Facility, depending on the prior month's average daily balance of revolver loans and stated amount of letters of credit relative to lenders' commitments.

The ABL Facility includes certain restrictions including, among other things, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. As of June 30, 2012, the Company was in compliance with all covenants of the ABL Facility. Additionally, the Company will be subject to compliance with a fixed charge coverage ratio covenant during, and continuing 30 days after, any period in which the Company's borrowing base availability falls below $25,000,000. The Company's borrowing base was above $25,000,000 during the six months ended June 30, 2012, and as such was not subject to compliance with the fixed charge coverage ratio.

The origination fees incurred in connection with the ABL Facility totaled $4,133,000, which will be amortized into interest expense over the term of the ABL Facility agreement. Unamortized origination fees as of June 30, 2012 and December 31, 2011 were $3,490,000 and $3,194,000, respectively, of which $873,000 and $650,000, respectively, was included in other current assets and $2,618,000 and $2,275,000, respectively, in other long-term assets in the accompanying consolidated condensed financial statements.

13. Commitments and Contingencies

Legal Matters

The Company is subject to routine legal claims, proceedings, and investigations incident to its business activities, including claims, proceedings, and investigations relating to commercial disputes and employment matters. The Company also receives from time to time information claiming that products sold by the Company infringe or may infringe patent, trademark, or other intellectual property rights of third parties. One or more such 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, which also 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 is occasionally subject to non-routine claims, proceedings, or investigations.

The Company regularly assesses such matters to determine the degree of probability that the Company will incur a loss as a result of such matters as well as the range of possible loss. An estimated loss contingency is accrued in the Company's financial statements if it is probable the Company will incur a loss and the amount of the loss can be reasonably estimated. The Company reviews all claims, proceedings, and investigations at least quarterly and establishes or adjusts any accruals for such matters to reflect the impact of negotiations, settlements, advice of legal counsel, and other information and events pertaining to a particular matter. All legal costs associated with such matters are expensed as incurred.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Historically, the claims, proceedings and investigations brought against the Company, individually, and in the aggregate, have not had a material adverse effect upon the consolidated results of operations, cash flows, or financial position of the Company. The Company believes that it has valid legal defenses to the matters currently pending against the Company. These matters are inherently unpredictable and the resolutions of those matters are subject to many uncertainties and the outcomes are not predictable with assurance. Consequently, management is unable to estimate the ultimate aggregate amount of monetary loss, amounts covered by insurance, or the financial impact that will result from such matters. Management believes that the final resolution of the current matters pending against the Company, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated financial position. It is possible, however, that the Company's results of operations or cash flows could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Unconditional Purchase Obligations

During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase commitments for production materials, endorsement agreements with professional golfers and other endorsers, employment and consulting agreements, and intellectual property licensing agreements pursuant to which the Company is required to pay royalty fees. It is not possible to determine the amounts the Company will ultimately be required to pay under these agreements as they are subject to many variables including performance-based bonuses, reductions in payment obligations if designated minimum performance criteria are not achieved, the Company's sales levels, and severance arrangements. As of June 30, 2012, the Company has entered into many of these contractual agreements with terms ranging from one to six years. The minimum obligation that the Company is required to pay under these agreements is $84,220,000 over the next six years. In addition, 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 that are undocumented except for an invoice. Such unconditional purchase 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 total. Future purchase commitments as of June 30, 2012, are as follows (in thousands):

Remainder of 2012	$49,505
2013	24,530
2014	8,845
2015	674
2016	463
2017	203
Thereafter	—
	$84,220

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 product 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 the goods and services provided to the Company or 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 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 guarantees 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 under the commitments and guarantees described above will have a material effect on the Company's financial condition. The fair value of indemnities, commitments and guarantees that the Company issued during the six months ended June 30, 2012 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

In addition, the Company has made contractual commitments to each of its officers and certain other employees providing for severance payments, including salary continuation, upon the termination of employment 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 interest, the contracts also generally provide for certain protections in the event of an actual or threatened change in control of the Company. These protections include the payment of certain severance benefits, such as salary continuation, upon the termination of employment following a change in control.

14. Share-Based Employee Compensation

As of June 30, 2012, the Company had one shareholder approved stock plan under which shares were available for equity-based awards: the Callaway Golf Company Amended and Restated 2004 Incentive Plan. From time to time, the Company grants stock options, restricted stock units, phantom stock units, stock appreciation rights and other awards under this plan.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The table below summarizes the amounts recognized in the financial statements for the three and six months ended June 30, 2012 and 2011 for share-based compensation, including expense for phantom stock units and cash settled stock appreciation rights granted to employees (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Cost of sales	$ 67	$ 180	$ 147	$ 343
Operating expenses	944	5,640	3,729	8,191
Total cost of employee share-based compensation included in income (loss), before income tax	1,011	5,820	3,876	8,534
Amount of income tax recognized in earnings	(389)	(2,383)	(1,492)	(3,284)
Amount charged against net income (loss)	$ 622	$ 3,437	$ 2,384	$ 5,250
Impact on net income per common share:				
Basic	$ (0.01)	$ (0.05)	$ (0.04)	$ (0.08)
Diluted	$ (0.01)	$ (0.05)	$ (0.03)	$ (0.08)

Stock Options

During the six months ended June 30, 2012 and 2011, the Company granted 5,000 and 1,731,000 shares underlying stock options, respectively, at a weighted average grant-date fair value of $2.63 and $2.94 per share, respectively. There were no stock options granted during the second quarter of 2012 and 2011. Total compensation expense recognized for stock options during the three and six months ended June 30, 2012 was $621,000 and $1,056,000, respectively. During the three and six months ended June 30, 2011, the Company recognized $962,000 and $1,817,000, respectively.

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The table below summarizes the weighted average Black-Scholes fair value assumptions used in the valuation of stock options granted during the six months ended June 30, 2012 and 2011.

	Six Months Ended June 30,	
	2012	2011
Dividend yield	1.2%	1.4%
Expected volatility	50.6%	48.5%
Risk free interest rate	0.8%	2.0%
Expected life	4.9 years	5.0 years

Restricted Stock Units

During the three months ended June 30, 2012 and 2011, the Company granted 83,000 and 58,000 shares underlying restricted stock units, respectively, at a weighted average grant-date fair value of $6.01 and $6.94 per share, respectively. The Company granted 383,000 and 61,000 shares underlying restricted stock units during the six months ended June 30, 2012 and 2011, respectively, at a weighted average grant-date fair value of $6.38 and $7.01 per share, respectively. Total compensation expense recognized for restricted stock units during the three months ended June 30, 2012 and 2011 was $488,000 and $688,000, respectively. Total compensation expense recognized

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

for restricted stock units during the six months ended June 30, 2012 and 2011 was $839,000 and $1,328,000, respectively. At June 30, 2012, the Company had $3,063,000 of total unrecognized compensation expense related to non-vested shares granted to employees and non-employees related to restricted stock units. The amount of unrecognized compensation expense noted above does not necessarily represent the amount that will ultimately be realized by the Company in its consolidated condensed statement of operations due to the application of forfeiture rates.

Phantom Stock Units

Phantom stock units ("PSUs") are a form of share-based awards that are indexed to the Company's common stock and are settled in cash. PSUs are accounted for as liabilities and are remeasured based on the closing price of the Company's common stock at the end of each interim period through the settlement date of the awards. PSUs vest over two and three year periods and compensation expense is recognized on a straight-line basis over these vesting periods.

During the three and six months ended June 30, 2012, the Company granted 117,000 and 401,000 shares underlying PSUs, respectively, at a weighted average grant date fair value of $5.60 and $6.37 per share, respectively. During the three months ended June 30, 2011, the Company granted 679,000 shares underlying PSUs with a grant date fair value of $7.51 per share. There were no PSUs granted during the second quarter of 2011. At June 30, 2012 and 2011, the fair value of total PSUs outstanding was $2,084,000 and $8,313,000, respectively.

Compensation expense recognized for PSUs outstanding was $138,000 and $995,000, during the three and six months ended June 30, 2012, respectively, and $1,216,000 and $1,633,000 during the three and six month ended June 30, 2011, respectively. In connection with the PSUs, at June 30, 2012 and December 31, 2011, the Company accrued $1,162,000 and $1,325,000, respectively, in accrued employee compensation and benefits, and $923,000 and $594,000, respectively, in long-term other liabilities in the accompanying consolidated condensed balance sheets.

Stock Appreciation Rights

During the three and six months ended June 30, 2012, the Company granted 289,000 and 3,400,000 of cash settled stock appreciation rights ("SARs"), respectively, at a weighted average grant date fair value of $1.78 and $2.07 per share, respectively. The Company records compensation expense for SARs based on the estimated fair value using the Black Scholes option-pricing model. SARs are remeasured based on a revised Black Scholes value at each interim reporting period until they reach the expected term date. The Company reversed $236,000 and recognized $985,000 in compensation expense related to these awards during the three and six months ended June 30, 2012. The Company accrued $922,000 and $321,000 at June 30, 2012 and December 31, 2011, respectively, in accrued employee compensation and benefits in the accompanying consolidated condensed balance sheets. At June 30, 2012, the Company accrued $385,000 in long-term other liabilities in the accompanying consolidated condensed balance sheet. There was no accrual in long-term other liabilities at December 31, 2011.

In connection with an employment agreement with a former executive officer of the Company, the Company was contractually obligated to grant $11,730,000 in the form of various share-based awards over the service period stipulated in the agreement. As a result, the total contractual obligation related to these equity awards was recognized on a straight-line basis over the contract term. In connection with the resignation of the executive officer in June 2011, the Company recognized a total of $2,852,000 and $3,551,000 during the three and six months ended June 30, 2011, respectively.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

15. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability (the exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Assets and liabilities carried at fair value are classified using a three-tier hierarchy based upon observable and unobservable inputs as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The carrying values of cash and cash equivalents (Level 1), trade accounts receivable (Level 3) and trade accounts payable and accrued expenses (Level 3) are reasonable estimates of fair value due to the short-term maturities of these instruments.

The following table summarizes the valuation of the Company's foreign currency exchange contracts by the above pricing levels as of the valuation dates listed (in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Value	Observable market based inputs (Level 2)	Carrying Value	Observable market based inputs (Level 2)
Foreign currency derivative instruments—asset position	$ 1,957	$ 1,957	$ 2,514	$ 2,514
Foreign currency derivative instruments—liability position	1,289	1,289	3,746	3,746

The fair value of the Company's foreign currency exchange contracts is determined based on observable inputs that are corroborated by market data. Foreign currency derivatives on the balance sheet are recorded at fair value with changes in fair value recorded in the statement of operations. See Note 16 below for further information on foreign currency exchange contracts.

Nonrecurring Fair Value Measurements

The Company measures certain assets at fair value on a nonrecurring basis at least annually or when certain indicators are present. These assets include property, plant and equipment, goodwill and non-amortizing intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the three and six months ended June 30, 2012 and 2011, the Company did not have any significant assets or liabilities that were measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

16. Derivatives and Hedging

The Company accounts for its foreign currency exchange contracts in accordance with ASC Topic 815, "Derivatives and Hedging" ("ASC 815"). ASC 815 requires the recognition of all derivatives as either assets or liabilities on the balance sheet, the measurement of those instruments at fair value and the recognition of 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. In addition, it requires enhanced disclosures regarding derivative instruments and hedging activities to better convey the purpose of derivative use in terms of the risks the Company is intending to manage, specifically about (a) how and why the Company uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under ASC 815, and (c) how derivative instruments and related hedged items affect the Company's financial position, financial performance, and cash flows.

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In the normal course of business, the Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries, including certain balance sheet exposures (payables and receivables denominated in foreign currencies). In addition, the Company is exposed to gains and losses resulting from the translation of the operating results of the Company's international subsidiaries into U.S. dollars for financial reporting purposes. As part of its strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses derivative financial instruments in the form of foreign currency forward contracts and put and call option contracts ("foreign currency exchange contracts") to hedge transactions that are denominated primarily in British Pounds, Euros, Japanese Yen, Canadian Dollars, Australian Dollars and Korean Won. Foreign currency exchange contracts are used only to meet the Company's objectives of minimizing variability in the Company's operating results arising from foreign currency exchange rate movements. The Company does not enter into foreign currency exchange contracts for speculative purposes. Foreign currency exchange contracts usually mature within twelve months from their inception.

The Company did not designate any foreign currency exchange contracts as derivatives that qualify for hedge accounting under ASC 815. At June 30, 2012 and December 31, 2011, the notional amounts of the Company's foreign currency exchange contracts used to hedge the exposures discussed above were approximately $186,097,000 and $165,533,000, respectively, of which $85,637,000 and $131,311,000, respectively, represent contracts used to hedge exposures in operating results from the translation of revenues and expenses of the Company's international subsidiaries into U.S. dollars and $100,460,000 and $34,222,000, respectively, represents contracts used to hedge balance sheet exposures denominated in foreign currencies. The Company estimates the fair values of foreign currency exchange contracts based on pricing models using current market rates, and records all derivatives on the balance sheet at fair value with changes in fair value recorded in the statement of operations.

The following table summarizes the fair value of derivative instruments by contract type as well as the location of the asset and/or liability on the consolidated condensed balance sheets at June 30, 2012 and December 31, 2011 (in thousands):

	Asset Derivatives			
	June 30, 2012		December 31, 2011	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency exchange contracts	Other current assets	$ 1,957	Other current assets	$ 2,514

	Liability Derivatives			
	June 30, 2012		December 31, 2011	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency exchange contracts	Accounts payable and accrued expenses	$ 1,289	Accounts payable and accrued expenses	$ 3,746

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The following table summarizes the location of gains and losses in the consolidated condensed statements of operations that were recognized during the three months ended June 30, 2012 and 2011, respectively, in addition to the derivative contract type (in thousands):

Derivatives not designated as hedging instruments	Location of gain (loss) recognized in income on derivative instruments	Amount of Gain (Loss) Recognized in Income on Derivative Instruments — Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Foreign currency exchange contracts	Other income (expense)	$(2,200)	$(5,716)	$3,485	$(7,054)

The net realized and unrealized contractual net gains recognized for the three and six months ended June 30, 2012 were used to offset actual foreign currency transactional losses of $1,506,000 and $2,692,000, respectively. The net realized and unrealized contractual net losses recognized for the three and six months ended June 30, 2011 were used to offset actual foreign currency transactional gains of $2,479,000 and $2,544,000, respectively.

17. Segment Information

The Company has two operating segments that are organized on the basis of products, which are segregated between golf clubs and golf balls. The golf clubs segment consists primarily of Callaway Golf woods, hybrids, irons, wedges and putters as well as Odyssey putters, other golf-related accessories, including uPro GPS on-course measurement devices, royalties from licensing of the Company's trademarks and service marks as well as sales of pre-owned golf clubs. The golf balls segment consists primarily of Callaway Golf balls and Top-Flite golf balls until the sale of the Top-Flite brand in March 2012 (see Note 8). There are no significant intersegment transactions.

The table below contains information utilized by management to evaluate its operating segments for the interim periods presented (in thousands):

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Net sales				
Golf clubs	$231,285	$219,081	$473,837	$460,067
Golf balls	49,838	54,733	92,384	99,346
	$281,123	$273,814	$566,221	$559,413
Income (loss) before provision for income taxes				
Golf clubs(1)(2)	$ 17,953	$ 12,308	$ 50,595	$ 41,613
Golf balls(1)(2)	4,162	1,085	5,739	3,385
Reconciling items(3)	(17,120)	(26,976)	(19,829)	(36,983)
	$ 4,995	$ (13,583)	$ 36,505	$ 8,015
Additions to long-lived assets				
Golf clubs	$ 5,208	$ 6,126	$ 12,715	$ 11,224
Golf balls	56	1,321	239	3,421
	$ 5,264	$ 7,447	$ 12,954	$ 14,645

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

(1) Certain prior period amounts were reclassified to conform with the current year presentation.

(2) The Company's golf clubs and golf balls operating segments absorbed the following pre-tax charges:
- $1,667,000 and $324,000, respectively, in connection with the Company's Cost Reduction Initiatives during the three months ended June 30, 2012;
- $1,686,000 and $333,000, respectively, in connection with the Company's Cost Reduction Initiatives during the six months ended June 30, 2012;
- $3,816,000 and $2,031,000, respectively, in connection with the final phase of the Company's GOS Initiatives during the three months ended June 30, 2011; and
- $8,356,000 and $3,793,000, respectively, in connection with the final phase of the Company's GOS Initiatives during the six months ended June 30, 2011.

(3) Reconciling items represent corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. The reconciling items include the following pre-tax items;
- Pre-tax charges of $2,652,000 in connection with the Cost Reduction Initiatives in both the three and six months ended June 30, 2012;
- A pre-tax gain of $6,602,000 in connection with the sale of the Top-Flite and Ben Hogan brands during the six months ended June 30, 2012;
- Pre-tax charges of $5,162,000 in connection with the Company's Reorganization and Reinvestment Initiatives in both the three and six months ended June 30, 2011;
- A pre-tax impairment charge of $5,413,000 in connection with certain trademarks and trade names in both the three and six months ended June 30, 2011; and
- A pre-tax gain of $6,170,000 in connection with the sale of certain buildings during the six months ended June 30, 2011.

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

The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and the related notes that appear elsewhere in this report. See also "Important Notice to Investors" on page 2 of this report.

Results of Operations

Overview of Business and Seasonality

The Company designs, manufactures and sells high quality golf clubs and golf balls and also sells golf-related accessories, including golf bags, golf gloves and uPro GPS on-course measurement devices. 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 golf products are designed for golfers of all skill levels, both amateur and professional.

The Company has two operating segments that are organized on the basis of products, namely the golf clubs segment and golf balls segment. The golf clubs segment consists primarily of Callaway Golf woods, hybrids, irons, and wedges as well as Odyssey putters. This segment also includes other golf-related accessories described above and royalties from licensing of the Company's trademarks and service marks as well as sales of pre-owned golf clubs. The golf balls segment consists primarily of Callaway Golf and Top-Flite golf balls, until the sale of the Top-Flite brand in March 2012 (see Note 8). As discussed in Note 17 "Segment Information" to the Notes to Consolidated Condensed Financial Statements, the Company's operating segments exclude a significant amount of corporate general administrative expenses and other income (expense) not utilized by management in determining segment profitability.

In most of the regions where the Company does business, the game of golf is played primarily on a seasonal basis. Weather conditions generally restrict golf from being played year-round, except in a few markets, with many of the Company's on-course customers closing for the cold weather months. The Company's business is therefore also subject to seasonal fluctuations. In general, during the first quarter, the Company begins selling its products into the golf retail channel for the new golf season. This initial sell-in generally continues into the second quarter. The Company's second quarter sales are significantly affected by the amount of reorder business of the products sold during the first quarter. The Company's third quarter sales are generally dependent on reorder business but are generally less than the second quarter as many retailers begin decreasing their inventory levels in anticipation of the end of the golf season. The Company's fourth quarter sales are generally less than the other quarters due to the end of the golf season in many of the Company's key markets. However, fourth quarter sales can be affected from time to time by the early launch of product introductions related to the new golf season of the subsequent year. This seasonality, and therefore quarter to quarter fluctuations, can be affected by many factors, including the timing of new product introductions. In general, however, because of this seasonality, a majority of the Company's sales and most, if not all, of its profitability generally occurs during the first half of the year.

Approximately half of the Company's business is conducted outside of the United States and is conducted in currencies other than the U.S. dollar. As a result, changes in foreign currency rates can have a significant effect on the Company's financial results. The Company enters into foreign currency exchange contracts to mitigate the effects of changes in foreign currency rates. While these foreign currency exchange contracts can mitigate the effects of changes in foreign currency rates, they do not eliminate those effects, which can be significant. These effects include (i) the translation of results denominated in foreign currency into U.S. dollars for reporting purposes, (ii) the mark-to-market adjustments of certain intercompany balance sheet accounts denominated in foreign currencies, and (iii) the mark-to-market adjustments on the Company's foreign currency exchange contracts. In general, the Company's overall financial results are affected positively by a weaker U.S. dollar and are affected negatively by a stronger U.S. dollar as compared to the foreign currencies in which the Company conducts its business. The impact of the translation of sales denominated in foreign currencies into U.S. dollars had a net negative impact on the Company's financial results during the first six months of 2012.

Executive Summary

The Company's overall financial results improved during the first half of 2012 compared to the first half of 2011. Although the Company's net sales remained relatively constant, the Company's gross margins, operating expenses, and earnings improved. The Company also made progress on many of its strategic initiatives that are being implemented to enable the Company to focus on its core business. These initiatives included (i) the sale of the Top-Flite and Ben Hogan brands, (ii) the licensing of the Company's North American apparel business and footwear business, and (iii) significant changes in senior management, including new hires to oversee the Company's global marketing and global operations organizations. Additionally, the Company recently announced its Cost Reduction Initiatives, which are designed to streamline and simplify the Company's organizational structure and change the manner in which the Company approaches and operates its business. These actions include a 12% reduction in workforce that impacted all regions and levels of the organization, support the Company's plans to streamline operations, and sharpen the focus placed on the Company's core product lines of the Callaway and Odyssey brands.

The Company's sales for the six months ended June 30, 2012 increased to $566.2 million, with increases in sales of accessories and other products, putters and woods, offset by decreased sales in irons, and value golf balls. Regionally, during the six months ended June 30, 2012 compared to the same period in the prior year, the Company's sales in the United States and Japan increased, while sales in Canada and Korea decreased. One of the Company's primary objectives going forward will be to address the loss of market share in the irons product category, which contributed to the decrease in irons sales during the first half of 2012.

For the first half of 2012, the Company's gross margin increased to 42% compared to 40% for the same period in 2011. The increase in gross margin was primarily attributable to the Company's completion of its global operations strategy initiatives in December 2011. During the first half of 2011, gross margin was negatively affected by $12.1 million of costs (or 220 basis points) in connection with these initiatives. Gross margin was adversely impacted this year by increased closeout activity within the putters, woods and irons product categories as well as higher club component costs due to more expensive technology incorporated into the Company's new RAZR Fit product line.

The Company's operating expenses improved to $197.6 million during the first half of 2012 compared to $213.5 million during the same period in the prior year despite incremental investment in brand and demand creation initiatives. The improvement in operating expenses is primarily due to a decrease in employee costs resulting primarily from a decline in personnel related to the Company's 2011 Reorganization and Reinvestment Initiatives partially offset by increased spending on marketing and advertising. The Company's operating expenses for the first half of 2012 include a $6.6 million gain on the sale of the Top-Flite and Ben Hogan brands, as well as $3.7 million of charges associated with the Cost Reduction Initiatives. The Company's operating expenses for the first half of 2011 include a gain of $6.2 million related to the sale of three buildings as well as $5.2 million of restructuring costs related to the 2011 Reorganization and Reinvestment Initiatives and a $5.4 million non-cash impairment charge related to the Company's Top-Flite assets.

Net income for the first half of 2012 increased to $34.6 million compared to a loss of $46.2 million in the comparable period in 2011. Diluted earnings per share increased to $0.41 in the first half of 2012 compared to a loss of $0.80 in the comparable period of 2011. The Company's net income and earnings per share for the first half of 2012 compared to the same period in 2011 benefited not only from the increase in sales and gross margins and improvement in operating expenses discussed above but also from a $52.4 million improvement in income taxes due to the establishment in the second quarter of 2011 of a $52.8 million non-cash deferred tax valuation allowance related to the Company's U.S. deferred tax assets and a $3.9 million increase in other income resulting from an increase in net foreign currency gains.

Although the Company's financial results for the first six months of 2012 improved over the same period in 2011, management is not satisfied with the pace at which the Company's financial performance and market position are recovering. As a result, management is taking action to accelerate the pace of recovery, with its recently announced Cost Reduction Initiatives which will better align the Company's cost structure with its current business levels. Estimated costs associated with these actions are expected to be up to $36.0 to $42.0 million over the next 12 months and are expected to generate approximately $52.0 million in annual savings. Management believes that these actions, together with its renewed focus on its core Callaway Golf and Odyssey brands, and changes the Company is making to its sales and marketing strategy will position the Company for sales growth and improved profitability in 2013 and beyond.

Three-Month Periods Ended June 30, 2012 and 2011

Net sales for the second quarter of 2012 increased to $281.1 million compared to $273.8 million in the second quarter of 2011. This increase was primarily due to the successful second quarter launch of the Company's Metal X putter platform as well as increased sales of packaged sets, GPS devices and golf bags. These increases were offset by a decline in sales of woods, golf balls and irons and wedges primarily due to lower average selling prices in the woods category, the sale of the Top-Flite brand, which negatively impacted golf ball sales, and declines in market share in the irons category. The Company's net sales by operating segment are presented below (dollars in millions):

	Three Months Ended June 30,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
Golf clubs	$ 231.3	$ 219.1	$ 12.2	6%
Golf balls	49.8	54.7	(4.9)	(9)%
	$ 281.1	$ 273.8	$ 7.3	3%

For further discussion of each operating segment's results, see "Golf Club and Golf Ball Segments Results" below.

Net sales information by region is summarized as follows (dollars in millions):

	Three Months Ended June 30,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
United States	$ 142.3	$ 138.6	$ 3.7	3%
Europe	43.4	42.9	0.5	1%
Japan	37.0	28.7	8.3	29%
Rest of Asia	26.6	27.6	(1.0)	(4)%
Other countries	31.8	36.0	(4.2)	(12)%
	$ 281.1	$ 273.8	$ 7.3	3%

Net sales in the United States increased $3.7 million (3%) to $142.3 million during the second quarter of 2012 compared to the same period in the prior year. The Company's sales in regions outside of the United States increased $3.6 million to $138.8 million for the second quarter of 2012 compared to $135.2 million in the same quarter of 2011. This increase was largely due to an increase in sales in Japan due to the earthquake and tsunami in March 2011 which negatively impacted sales in that region in the prior year. This increase was partially offset by a decline in sales in Canada and Korea during the second quarter of 2012. The Company's reported net sales in regions outside the United States in 2012 were unfavorably affected by the translation of foreign currency sales into U.S. dollars based upon 2011 exchange rates. If 2011 exchange rates were applied to 2012 reported sales in regions outside the U.S. and all other factors were held constant, net sales in such regions would have been $3.0 million higher than reported in the second quarter of 2012.

For the second quarter of 2012, gross profit increased $8.0 million to $110.7 million from $102.7 million in the second quarter of 2011. Gross profit as a percentage of net sales ("gross margin") increased to 39% in the second quarter of 2012 compared to 37% in the second quarter of 2011. The increase in gross margin was primarily attributable to the Company's completion of its global operations strategy initiatives ("GOS") in December 2011. During the second quarter of 2011, gross margin was negatively affected by $5.8 million of costs (or 2.1 margin points) in connection with these initiatives. This increase was partially offset by an increase in club component costs due to a combination of more expensive premium materials and technology incorporated into the 2012 new product line, combined with increased closeout activity in 2012 within the irons and woods categories on products in the second year of their product life cycles. See "Segment Profitability" below for further discussion of gross margins.

Selling expenses increased by $1.5 million to $75.7 million (27% of net sales) in the second quarter of 2012 compared to $74.2 million (27% of net sales) in the comparable period of 2011. The dollar increase was primarily due to a $4.6 million increase in advertising and promotional expenses, which is consistent with the Company's Reorganization and Reinvestment Initiatives announced in June 2011, partially offset by a $2.2 million decrease in employee costs primarily as a result of a decline in headcount period over period offset by the reversal of accrued incentive compensation expense during the second quarter of 2011.

General and administrative expenses decreased by $11.7 million to $18.4 million (7% of net sales) in the second quarter of 2012 compared to $30.1 million (11% of net sales) in the comparable period of 2011. The dollar decrease was primarily due to a $5.6 million decrease in employee costs primarily due to reductions in severance charges and headcount period over period resulting from the 2011 Restructuring and Reorganization Initiatives. In addition, the Company recognized a $5.4 million impairment charge during the second quarter of 2011 related to a reduction in fair value of certain intangible assets acquired in 2003 as part of the Top-Flite acquisition. These decreases were partially offset by the reversal of accrued incentive compensation expense during the second quarter of 2011.

Research and development expenses decreased by $1.6 million to $6.9 million (2% of net sales) in the second quarter of 2012 compared to $8.5 million (3% of net sales) in the comparable period of 2011 primarily due to reductions in employee headcount period over period partially offset by the reversal of accrued incentive compensation expense during the second quarter of 2011.

Other expense increased to $4.6 million in the second quarter of 2012 compared to $3.4 million in the comparable period of 2011 due to an increase in interest expense combined with an increase in net foreign currency losses in the second quarter of 2012 compared to the same period in 2011.

The Company's provision for income taxes decreased to $2.2 million for the second quarter of 2012 compared to $45.5 million for the comparable period of 2011. During the second quarter of 2011, the Company recorded tax expense of $52.8 million in order to establish a valuation allowance against its U.S. deferred tax assets. Due to the effects of this deferred tax asset valuation allowance, the Company's effective tax rate for the second quarter of 2012 is not comparable to the effective tax rate for the second quarter of 2011 as the Company's income tax amount is not directly correlated to the amount of its pretax income.

Net income for the second quarter of 2012 increased to $2.8 million compared to a net loss of $59.1 million in the comparable quarter of 2011. Diluted earnings per share increased to break-even in the second quarter of 2012 compared to a loss per share of $0.96 in the comparable period of 2011. The Company's net income for the second quarter of 2012 and 2011 includes the following charges (in millions):

	Three Months Ended June 30,	
	2012	2011
Pre-tax charges related to the Cost Reduction Initiatives	$ (4.7)	$ —
Pre-tax charges related to the Reorganization and Reinvestment Initiatives	—	(5.2)
Pre-tax impairment charges	—	(5.4)
Pre-tax GOS charges	—	(5.8)
Income tax provision[1]	(2.2)	(45.5)
Total charges	$ (6.9)	$ (61.9)

(1) The Company's income tax provision for 2012 and 2011 is affected by a valuation allowance against the Company's U.S. deferred tax assets and is therefore not directly correlated to the amount of its pretax income. See Note 3 "Income Taxes" to the Notes to Consolidated Condensed Financial Statements included in this Form 10-Q.

Golf Clubs and Golf Balls Segments Results for the Three Months Ended June 30, 2012 and 2011

Golf Clubs Segment

Net sales information by product category is summarized as follows (dollars in millions):

	Three Months Ended June 30,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
Woods	$ 58.6	$ 65.3	$ (6.7)	(10)%
Irons	57.8	61.1	(3.3)	(5)%
Putters	38.9	23.8	15.1	63%
Accessories and other	76.0	68.9	7.1	10%
	$ 231.3	$ 219.1	$ 12.2	6%

The $6.7 million (10%) decrease in net sales of woods to $58.6 million for the quarter ended June 30, 2012 was primarily due to a decrease in both sales volume and average selling prices. The decrease in sales volume was primarily due to a decline in hybrid club sales combined with no new Legacy woods launch during the second quarter of 2012. The decrease in average selling prices was primarily due to an increase in driver closeout activity which was almost entirely offset by an increase in fairway woods average selling prices combined with an overall favorable shift in sales mix with fewer sales of lower priced hybrids.

The $3.3 million (5%) decrease in net sales of irons to $57.8 million for the quarter ended June 30, 2012 was primarily attributable to a decline in average selling prices partially offset by an increase in sales volume. The decline in average selling prices was primarily due to increased discounting of certain irons products during the second quarter of 2012 compared to the same quarter in the prior year combined with an unfavorable shift in product mix from sales of higher priced RAZR X irons during the second quarter of 2011 to sales of the more moderately priced Diablo Edge R and RAZR X HL irons during the second quarter of 2012. The increase in sales volumes was primarily due to the later planned launch timing of the current year RAZR X HL irons which were launched later during the first quarter in 2012 compared to the prior year RAZR X irons which were launched in the fourth quarter of 2010, resulting in higher re-order activity during the second quarter of 2012 compared to the same quarter in 2011.

The $15.1 million (63%) increase in net sales of putters to $38.9 million for the quarter ended June 30, 2012 was primarily attributable to an increase in sales volume partially offset by a slight decline in average selling prices. The increase in sales volume was due to the current quarter launch of the Metal X platform of putters as well as an increase in sale of mid and long putters. The decline in average selling prices was largely attributable to increased closeout activity in preparation for the Metal X launch.

The $7.1 million (10%) increase in net sales of accessories and other products to $76.0 million for the quarter ended June 30, 2012 was primarily driven by an increase in sales of (i) packaged sets due to the current year launch of new Callaway Jr. sets and Top-Flite packaged sets; (ii) GPS devices due to the current quarter launch of the Company's new MX+ GPS device; and (iii) an increase in sales of golf bags. These increases were partially offset by a slight decline in sales of headwear and footwear during the second quarter of 2012 compared to the comparable period in the prior year.

Golf Balls Segment

Net sales information for the golf balls segment is summarized as follows (dollars in millions):

	Three Months Ended June 30,		Decline	
	2012	2011	Dollars	Percent
Net sales:				
Golf balls	$ 49.8	$ 54.7	$ (4.9)	(9)%

The $4.9 million (9%) decrease in net sales of golf balls to $49.8 million for the quarter ended June 30, 2012 was primarily due to a decrease in sales volume partially offset by an increase in average selling prices. The decrease in sales volume was primarily due to a decline in sales of Top-Flite balls primarily resulting from the sale of the Top-Flite brand in March 2012, combined with no new Top-Flite ball launch in 2012. The increase in average selling prices was due to a favorable shift in sales mix from lower priced Top-Flite balls to higher priced Callaway golf balls combined with the successful current year launch of the HX Chrome and HX Black Tour balls during the six months ended June 30, 2012.

Segment Profitability

Profitability by operating segment is summarized as follows (dollars in millions):

	Three Months Ended June 30,		Growth	
	2012	2011(1)	Dollars	Percent
Income (loss) before income taxes:				
Golf clubs(2)	$ 18.0	$ 12.3	$ 5.7	46%
Golf balls(2)	4.2	1.0	3.2	320%
Reconciling items(3)	(17.2)	(26.9)	9.7	36%
	$ 5.0	$ (13.6)	$ 18.6	137%

(1) Certain prior period amounts were reclassified to conform with the current year presentation.
(2) In connection with the Company's Cost Reduction Initiatives, during the three months ended June 30, 2012, the Company's golf clubs and golf balls segments absorbed pre-tax charges of $1.7 million and $0.3 million, respectively. In connection with the final phase of the Company's GOS Initiatives, during the three months ended June 30, 2011, the Company's golf clubs and golf balls segments absorbed $3.8 million and $2.0 million, respectively, in pre-tax charges related to these initiatives. The Company completed the final phase of the GOS initiatives in December 2011. See Note 2 "Restructuring Initiatives" to the Notes to Consolidated Condensed Financial Statements for details regarding the initiatives referenced herein.
(3) Reconciling items represent corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. For the second quarter of 2012, the

reconciling items include pre-tax charges of $2.7 million in connection with the Cost Reduction Initiatives (see Note 2 “Restructuring Initiatives” in the Notes to Consolidated Condensed Financial Statements). For the second quarter of 2011, the reconciling items include (i) a pre-tax impairment charge of $5.4 million in connection with certain trademarks and trade names, and (ii) a pre-tax charge of $5.2 million in connection with the Company’s Reorganization and Reinvestment Initiatives (see Note 8 “Goodwill and Intangible Assets” and Note 2 “Restructuring Initiatives”, respectively, in the Notes to Consolidated Condensed Financial Statements).

Pre-tax income in the Company’s golf clubs operating segment increased to $18.0 million for the second quarter of 2012 from $12.3 million for the comparable period in the prior year. This increase was primarily driven by an increase in net sales as discussed above combined with a slight increase in gross margin and a decrease in operating expenses. The slight increase in gross margin was primarily driven by the Company’s completion of its GOS initiatives in December 2011. During the second quarter of 2011, the golf clubs segment absorbed $3.8 million of costs in connection with these initiatives. This increase was partially offset by (i) an increase in club component costs due to a combination of more expensive premium materials and technology incorporated into the 2012 product introductions; and (ii) an increase in close-out activity on older Legacy irons, RAZR Hawk line of drivers and fairway woods, and RAZR X family of irons.

Pre-tax income in the Company’s golf balls operating segment increased to $4.2 million for the second quarter of 2012 from $1.0 million for the comparable period in the prior year. This increase was primarily attributable to an increase in gross margin, partially offset by the decrease in net sales as discussed above. The increase in gross margin was primarily due to the Company’s completion of its GOS initiatives in December 2011. During the first quarter of 2011, the golf balls segment absorbed $2.0 million of costs in connection with these initiatives. In addition, gross margins were favorably impacted by an increase in average selling prices due to the current year launch of the premium Hex Black Tour golf ball, with no comparable launch in the prior year. As mentioned above, golf ball net sales were negatively impacted by the sale of Top-Flite and Ben Hogan brands. The Company completed the sale of its Top-Flite and Ben Hogan brands during the first quarter of 2012. In recent years, sales of Top-Flite and Ben Hogan branded golf balls have represented approximately 25% of the Company’s total golf ball annual sales. However the Company is in the process of implementing strategies to replace a portion of these sales with more profitable future products.

Six-Month Periods Ended June 30, 2012 and 2011

Net sales for the six months ended June 30, 2012 increased $6.8 million to $566.2 million compared to $559.4 million for the same period in 2011. This increase was primarily due to an increase in sales of the Company’s accessories and other products due to increased sales of packaged sets, GPS devices and apparel, an increase in putter sales due to the second quarter launch of the Company’s new Metal X putter platform and a slight increase in woods sales resulting from the introduction of the Company’s RAZR X Black and RAZR Fit woods during the first quarter of 2012 compared to the prior year launch of the Diablo Octane woods during the fourth quarter of 2010. These increases were partially offset by declines in sales of irons, which primarily resulted from declines in market share in the irons category. The Company’s net sales by operating segment are presented below (dollars in millions):

	Six Months Ended June 30,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
Golf clubs	$ 473.8	$ 460.1	$ 13.7	3%
Golf balls	92.4	99.3	(6.9)	(7)%
	$ 566.2	$ 559.4	$ (6.8)	1%

For further discussion of each operating segment's results, see "Golf Club and Golf Ball Segments Results" below.

Net sales information by region is summarized as follows (dollars in millions):

	Six Months Ended June 30,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
United States	$ 292.0	$ 283.9	$ 8.1	3%
Europe	86.1	89.1	(3.0)	(3)%
Japan	79.2	66.3	12.9	19%
Rest of Asia	44.6	51.1	(6.5)	(13)%
Other foreign countries	64.3	69.0	(4.7)	(7)%
	$ 566.2	$ 559.4	$ 6.8	1%

Net sales in the United States increased $8.1 million (3%) to $292.0 million during the first half of 2012 compared to the same period in the prior year. As mentioned above, this increase was primarily due to the timing of planned product launches primarily in the putter's category. The Company's sales in regions outside of the United States decreased $1.3 million to $274.2 million for the first half of 2012 compared to $275.5 million in the same period in 2011. This decrease was largely caused by a decline in sales in Canada of $6.2 million and Korea of $5.4 million during the first half of 2012. This was offset by an increase in sales in Japan due to the earthquake and tsunami in March 2011 which negatively impacted sales in that region in the prior year. The Company's reported net sales in regions outside the United States in 2012 were unfavorably affected by the translation of foreign currency sales into U.S. dollars based upon 2011 exchange rates. If 2011 exchange rates were applied to 2012 reported sales in regions outside the U.S. and all other factors were held constant, net sales in such regions would have been $2.7 million higher than reported during the six months ended June 30, 2012.

For the first six months of 2012, gross profit increased $8.7 million to $235.0 million from $226.3 million in the comparable period of 2011. Gross profit as a percentage of net sales ("gross margin") increased to 42% in the first six months of 2012 compared to 40% in the comparable period of 2011. The increase in gross margin was primarily attributable to the Company's completion of its global operations strategy initiatives ("GOS") in December 2011. During the first six months of 2011, gross margin was negatively affected by $12.1 million of costs (or 2.2 margin points) in connection with these initiatives. These increases were partially offset by (i) an increase in closeout activity within the putters, woods and irons product categories, and (ii) an increase in club component costs due to a combination of more expensive premium materials and technology incorporated into the 2012 new product line. See "Segment Profitability" below for further discussion of gross margins.

Selling expenses increased by $3.1 million to $152.5 million (27% of net sales) in the first six months of 2012 compared to $149.4 million (27% of net sales) in the comparable period of 2011. The dollar increase was primarily due to increases of $9.0 million in advertising and promotional activities, which is consistent with the Company's Reorganization and Reinvestment Initiatives announced in June 2011, partially offset by a $5.9 million decrease in employee costs primarily as a result of a decline in headcount period over period.

General and administrative expenses decreased by $15.7 million to $30.7 million (5% of net sales) in the first six months of 2012 compared to $46.4 million (8% of net sales) in the comparable period of 2011. The dollar decrease was primarily due to (i) an $8.4 million decrease in employee costs primarily as a result of reductions in severance charges and headcount period over period resulting from the 2011 Restructuring and Reorganization Initiatives, (ii) the recognition of a $6.6 million net gain from the sale of the Company's Top-Flite and Ben Hogan brands during the first quarter of 2012, (iii) a $5.4 million impairment charge recognized in June 2011 on certain intangible assets related to the Top-Flite acquisition in 2003, and (iv) a $1.1 million decrease in legal expenses. These decreases were partially offset by a $6.2 million net gain recognized in March 2011 in connection with the sale of three of the Company's buildings.

Research and development expenses decreased by $3.3 million to $14.4 million in the first six months of 2012 compared to $17.7 million in the comparable period of 2011. As a percentage of sales, research and development expenses remained constant at 3% during the first six months of 2012 and 2011. The dollar decrease was primarily due to a $1.9 million decrease in employee costs primarily as a result of a decline in headcount period over period.

Other expense decreased by $3.9 million to $0.9 million in the first six months of 2012 compared to $4.8 million in the comparable period of 2011. This decrease was primarily attributable to an increase in net foreign currency gains partially offset by an increase in interest expense.

The Company's provision for income taxes totaled $1.9 million for the first six months of 2012, compared to $54.3 million for the comparable period of 2011. During the second quarter of 2011, the Company recorded tax expense of $52.8 million in order to establish a valuation allowance against its U.S. deferred tax assets. Due to the effects of its deferred tax asset valuation allowance, the Company's effective tax rate for the six months ended June 30, 2012 is not comparable to the effective tax rate for the six months ended June 30, 2011 as the Company's income tax amount is not directly correlated to the amount of its pretax income.

Net income for the first six months of 2012 increased to $34.6 million from a net loss of $46.2 million in the comparable period of 2011. Diluted earnings per share increased to $0.41 in the first six months of 2012 compared to losses per share of $0.80 in the first six months of 2011. The Company's net income for the first six months of 2012 and 2011 includes the following charges and gains (in millions):

	Six Months Ended June 30,	
	2012	2011
Pre-tax gain on the sale of Top-Flite and Ben Hogan brands	$ 6.6	$ —
Pre-tax charges related to the Cost Reduction Initiatives	(4.7)	—
Pre-tax gain on the sale of buildings	—	6.2
Pre-tax charges related to the Reorganization and Reinvestment Initiatives	—	(5.2)
Pre-tax impairment charges	—	(5.4)
Pre-tax GOS charges	—	(12.3)
Income tax provision(1)	(1.9)	(54.3)
Total charges	$ —	$ (71.0)

(1) The Company's income tax provision for 2012 and 2011 is affected by a valuation allowance against the Company's U.S. deferred tax assets and is therefore not directly correlated to the amount of its pretax income. See Note 3 "Income Taxes" to the Notes to Consolidated Condensed Financial Statements included in this Form 10-Q.

Golf Clubs and Golf Balls Segments Results for the Six Months Ended June 30, 2012 and 2011

Golf Clubs Segment

Net sales information by product category is summarized as follows (dollars in millions):

	Six Months Ended June 30,		Growth/(Decline)	
	2012	2011	Dollars	Percent
Net sales:				
Woods	$ 149.3	$ 146.3	$ 3.0	2%
Irons	116.1	131.2	(15.1)	(12)%
Putters	62.9	52.6	10.3	20%
Accessories and other	145.5	130.0	15.5	12%
	$ 473.8	$ 460.1	$ 13.7	3%

The $3.0 million (2%) increase in net sales of woods to $149.3 million for the six months ended June 30, 2012 was primarily due to an increase in average selling prices partially offset by a decline in sales volume. The increase in average selling prices primarily resulted from an increase in fairway woods average selling prices due to the current year launch of the RAZR Fit fairway woods at a higher selling price than the RAZR Hawk fairway woods launched in the prior year, combined with less closeout activity for drivers and fairway woods during the six months ended June 30, 2012 compared to the same period in the prior year. Average selling prices were also positively impacted by a favorable shift in sales mix resulting from less sales of lower priced hybrids in 2012. The decrease in sales volume was primarily due to a decline in hybrid club sales combined with no new Legacy woods launch during the first half of 2012.

The $15.1 million (12%) decrease in net sales of irons to $116.1 million for the six months ended June 30, 2012 was primarily attributable to a decline in average selling prices combined with a decline in sales volume. The decline in average selling prices was primarily due to an unfavorable shift in product mix from sales of higher priced RAZR X models in the prior year to sales of more moderately priced Diablo Edge R and RAZR X HL irons models during the first half of 2012. The Company’s average selling prices were also negatively impacted by increased discounting during the first half of 2012 compared to the same period in the prior year. The decline in sales volume was primarily due to declines in market share resulting from less favorable consumer acceptance of the irons models launched in the current year compared to the strong performance of RAZR X launched in 2011.

The $10.3 million (20%) increase in net sales of putters to $62.9 million for the six months ended June 30, 2012 was primarily due to an increase in sales volume partially offset by a decline in average selling prices. The increase in sales volume was due to the second quarter launch of the Metal X platform of putters as well as an increase in sales of mid and long putters. The decline in average selling prices was largely attributable to increased closeout activity in preparation for the Metal X platform launch.

The $15.5 million (12%) increase in net sales of accessories and other products to $145.5 million for the six months ended June 30, 2012 was primarily driven by an increase in sales of; (i) packaged sets due to the current year launch of the new Callaway Jr. sets and Top-Flite packaged sets; (ii) apparel primarily due to the sale of apparel in Europe and South Pacific beginning during the second quarter of 2011; (iii) GPS devices due to the current quarter launch of the Company’s new MX+ GPS device; and (iii) an increase in sales of golf bags. These increases were partially offset by a decline in sales of footwear and headwear during the first half of 2012 compared to the same period in the prior year.

Golf Balls Segment

Net sales information for the golf balls segment is summarized as follows (dollars in millions):

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Decline Dollars	Decline Percent
Net sales:				
Golf balls	$ 92.4	$ 99.3	$ (6.9)	(7)%

The $6.9 million (7%) decrease in net sales of golf balls to $92.4 million for the six months ended June 30, 2012 was primarily due to a decrease in sales volume partially offset by an increase in average selling prices. The decrease in sales volume was primarily due to a decline in sales of Top-Flite balls primarily resulting from the sale of the Top-Flite brand in March 2012, combined with no new Top-Flite ball launch in 2012. The increase in average selling prices was due to a favorable shift in sales mix from lower priced Top-Flite balls to higher priced Callaway golf balls.

Segment Profitability

Profitability by operating segment is summarized as follows (dollars in millions):

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Growth Dollars	Growth Percent
Income before income taxes				
Golf clubs(1)(2)	$ 50.6	$ 41.6	$ 9.0	22%
Golf balls(1)(2)	5.7	3.4	2.3	68%
Reconciling items(3)	(19.8)	(37.0)	17.2	46%
	$ 36.5	$ 8.0	$ 28.5	356%

(1) Certain prior period amounts were reclassified to conform with the current year presentation.

(2) In connection with the Company's Cost Reduction Initiatives, during the six months ended June 30, 2012, the Company's golf clubs and golf balls segments absorbed pre-tax charges of $1.7 million and $0.3 million, respectively. In connection with the final phase of the Company's GOS Initiatives, during the six months ended June 30, 2011, the Company's golf clubs and golf balls segments absorbed $8.4 million and $3.8 million, respectively, in pre-tax charges related to these initiatives. The Company completed the final phase of the GOS initiatives in December 2011, and as such, the charges incurred in 2012 were nominal. See Note 2 "Restructuring Initiatives" to the Notes to Consolidated Condensed Financial Statements for details regarding the initiatives referenced herein.

(3) Reconciling items represent corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. For the first six months of 2012, the reconciling items include (i) pre-tax charges of $2.7 million in connection with the Cost Reduction Initiatives (see Note 2 "Restructuring Initiatives" in the Notes to Consolidated Condensed Financial Statements), and (ii) a pre-tax gain of $6.6 million in connection with the sale of the Top-Flite and Ben Hogan brands (see Note 8 "Goodwill and Intangible Assets" in the Notes to Consolidated Condensed Financial Statements). For the first six months of 2011, the reconciling items include (i) a pre-tax impairment charge of $5.4 million in connection with certain trademarks and trade names (see Note 8 "Goodwill and Intangible Assets" in the Notes to Consolidated Condensed Financial Statements), (ii) pre-tax charges of $5.2 million in connection with the Company's Reorganization and Reinvestment Initiatives (see Note 2 "Restructuring Initiatives" in the Notes to Consolidated Condensed Financial Statements) and, a pre-tax gain of $6.2 million in connection with the sale of certain buildings (see Note 4 "Sale of Buildings" in the Notes to Consolidated Condensed Financial Statements).

Pre-tax income in the Company’s golf clubs operating segment increased to $50.6 million for the first six months of 2012 from $41.6 million for the comparable period in the prior year. This increase was primarily attributable to the increase in net sales as discussed above. Although gross margin was flat period over period, gross margin was favorably affected by the Company’s completion of its GOS initiatives in December 2011. During the first six months of 2011, the golf clubs segment absorbed $8.4 million of costs in connection with these initiatives. This increase was offset by (i) an increase in close-out activity on older White Ice family of putters in anticipation of the current year launch of the Metal X platform, as well as price reductions on RAZR Hawk woods, older Legacy irons, and the RAZR X family of irons, and (ii) an increase in club component costs due to a combination of more expensive premium materials and technology incorporated into the 2012 new product introductions.

Pre-tax income in the Company’s golf balls operating segment increased to $5.7 million for the first six months of 2012 from $3.4 million for the comparable period in the prior year. This increase was primarily attributable to an increase in gross margin partially offset by a decrease in net sales as discussed above. Gross margin was favorably affected by the Company’s completion of its GOS initiatives in December 2011. During the first six months of 2011, the golf balls segment absorbed $3.8 million of costs in connection with these initiatives. In addition, gross margins were favorably impacted by an increase in average selling prices due to the current year launch of the premium Hex Black Tour golf ball, with no comparable launch in the prior year. As mentioned above, golf ball net sales were negatively impacted by the sale of the Top-Flite and Ben Hogan brands. The Company completed the sale of its Top-Flite and Ben Hogan brands during the first quarter of 2012. In recent years, sales of Top-Flite and Ben Hogan branded golf balls have represented approximately 25% of the Company’s total golf ball annual sales. However the Company is in the process of implementing strategies to replace these sales by reinvesting the proceeds from the sale of the Top-Flite and Ben Hogan brands into more profitable future products.

Financial Condition

The Company’s cash and cash equivalents decreased $15.0 million to $28.0 million at June 30, 2012, from $43.0 million at December 31, 2011. The levels of cash and cash equivalents fluctuate with the seasonality of the Company’s business and are affected by the timing of product launches. Generally, during the first quarter, the Company will rely more heavily on its credit facility to fund operations as cash inflows from operations begin to increase during the second quarter as a result of cash collections from customers. During the six months ended June 30, 2012, the Company used its cash and cash equivalents, net proceeds of $26.9 million from the sale of the Top-Flite and Ben Hogan brands, and borrowings from its credit facility to fund $91.3 million of cash used in operating activities in addition to $14.1 million in capital expenditures. Management expects to fund the Company’s future operations from cash provided by its operating activities combined with borrowings from its credit facility, as deemed necessary (see further information on the Company’s credit line below).

The Company’s accounts receivable balance fluctuates throughout the year as a result of the general seasonality of the Company’s business. The Company’s accounts receivable balance will generally be at its highest during the first and second quarters and decline significantly during the third and fourth quarters as a result of an increase in cash collections and lower sales. As of June 30, 2012, the Company’s net accounts receivable increased $139.2 million to $254.9 million from $115.7 million as of December 31, 2011. The increase in accounts receivable reflects the general seasonality of the business and was primarily attributable to net sales of $281.1 million during the second quarter of 2012 compared to net sales of $153.9 million during the fourth quarter of 2011. The Company’s net accounts receivable increased by $1.4 million as of June 30, 2012 compared to the Company’s net accounts receivable as of June 30, 2011. This increase was primarily attributable to an increase in net sales during the second quarter of 2012 compared to the same period in the prior year.

The Company’s inventory balance also fluctuates throughout the year as a result of the general seasonality of the Company’s business. Generally, the Company’s buildup of inventory levels begins during the fourth quarter and continues heavily into the first quarter as well as into the beginning of the second quarter in order to meet demand during the height of the golf season. Inventory levels start to decline toward the end of the second quarter and are at their lowest during the third quarter. Inventory levels are also impacted by the timing of new product launches. The Company's net inventory decreased $17.3 million to $215.8 million as of June 30, 2012 compared to $233.1 million as of December 31, 2011. The Company's net inventory increased slightly by $0.5 million as of June 30, 2012 compared to the Company's net inventory as of June 30, 2011. Net inventories as a percentage of the trailing twelve months net sales increased to 24.2% as of June 30, 2012 compared to 23.3% as of June 30, 2011. This increase was driven primarily by an increase in golf accessories inventory.

Liquidity and Capital Resources

Sources of Liquidity

The Company has a Loan and Security Agreement with Bank of America N.A. (as amended, the "ABL Facility") which provides a senior secured asset-based revolving credit facility of up to $230.0 million, comprised of a $158.3 million U.S. facility (of which $20.0 million is available for letters of credit), a $31.7 million Canadian facility (of which $5.0 million is available for letters of credit) and a $40.0 million United Kingdom facility (of which $2.0 million is available for letters of credit), in each case subject to borrowing base availability under the applicable facility. The aggregate amount outstanding under the Company's letters of credit was $3.4 million at June 30, 2012. The amounts outstanding under the ABL Facility are secured by certain assets, including inventory and accounts receivable, of the Company's U.S., Canadian and U.K. legal entities.

As of June 30, 2012, the Company had $70.2 million outstanding under the ABL Facility and had $28.0 million of cash and cash equivalents. The Company's seasonality, as well as the timing of product launches will affect the level of borrowings against the Company's credit facilities. Generally, during the first quarter, the Company will rely more heavily on its credit facilities to fund operations as cash inflows from operations typically increase during the second and third quarters as a result of cash collections from customers. During 2012, the Company shifted its product launches to the first quarter. In the prior year, products were launched earlier in the fourth quarter of 2010. As such, the cash conversion cycle also shifted to later in the current year as compared to the prior year, which resulted in higher borrowings outstanding at June 30, 2012 compared to June 30, 2011. The maximum amount of Consolidated Funded Indebtedness (as defined by the ABL Facility), including borrowings under the ABL Facility, that could have been outstanding on June 30, 2012, was approximately $170.4 million. Average outstanding borrowings during the six months ended June 30, 2012 was $76.7 million. Amounts borrowed under the ABL Facility may be repaid and borrowed as needed. The entire outstanding principal amount (if any) is due and payable at maturity on June 30, 2016.

The interest rate applicable to outstanding loans under the ABL Facility fluctuates depending on the Company's trailing-twelve month EBITDA (as defined by the ABL Facility) combined with the Company's "availability ratio" (as defined below). The Company's "availability ratio" is the ratio, expressed as a percentage, of (a) the average daily availability under the ABL Facility to (b) the sum of the Canadian, the U.K. and the U.S. borrowing bases, as adjusted. All applicable margins will be permanently reduced by 0.25% if EBITDA, as defined in the ABL Facility, meets or exceeds $25.0 million over any trailing twelve-month period, and will be permanently reduced by an additional 0.25% if EBITDA meets or exceeds $50.0 million over any trailing twelve-month period. At June 30, 2012, the Company's interest rate applicable to its outstanding loans under the ABL Facility was 4.75%.

In addition, the ABL Facility provides for monthly fees ranging from 0.375% to 0.5% of the unused portion of the ABL Facility, depending on the prior month's average daily balance of revolver loans and stated amount of letters of credit relative to lenders' commitments.

The ABL Facility includes certain restrictions including, among other things, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. As of June 30, 2012 the Company was in compliance with all covenants of the ABL Facility. Additionally, the Company will be subject to compliance with a fixed charge coverage ratio covenant during, and continuing 30 days after, any period in which the Company's borrowing base availability falls below $25.0 million. The Company's borrowing base was above $25.0 million during the six months ended June 30, 2012, and as such was not subject to compliance with the fixed charge coverage ratio.

The origination fees incurred in connection with the ABL Facility totaled $4.1 million, which will be amortized into interest expense over the term of the ABL Facility agreement. Unamortized origination fees as of June 30, 2012 and December 31, 2011 were $3.5 million and $3.2 million, respectively, of which $0.9 million and $0.7 million, respectively, was included in other current assets and $2.63 million and $2.3 million, respectively, in other long-term assets in the accompanying consolidated condensed financial statements

Other Significant Cash and Contractual Obligations

The following table summarizes certain significant cash obligations as of June 30, 2012 that will affect the Company's future liquidity (in millions):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Unconditional purchase obligations[1]	$ 84.2	$ 49.5	$ 33.4	$ 1.1	$ 0.2
Operating leases[2]	30.4	11.8	12.3	5.2	1.1
Uncertain tax contingencies[3]	9.3	0.4	1.7	4.2	3.0
Total	$123.9	$ 61.7	$ 47.4	$ 10.5	$ 4.3

(1) During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase commitments for production materials, endorsement agreements with professional golfers and other endorsers, employment and consulting agreements, and intellectual property licensing agreements pursuant to which the Company is required to pay royalty fees. It is not possible to determine the amounts the Company will ultimately be required to pay under these agreements as they are subject to many variables including performance-based bonuses, reductions in payment obligations if designated minimum performance criteria are not achieved, and severance arrangements. The amounts listed approximate minimum purchase obligations, base compensation, and guaranteed minimum royalty payments the Company is obligated to pay under these agreements. The actual amounts paid under some of these agreements may be higher or lower than the amounts included. In the aggregate, the actual amount paid under these obligations is likely to be higher than the amounts listed as a result of the variable nature of these obligations. In addition, 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 that are undocumented except for an invoice. Such unconditional purchase 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.

(2) The Company leases certain warehouse, distribution and office facilities, vehicles and office equipment under operating leases. The amounts presented in this line item represent commitments for minimum lease payments under non-cancelable operating leases.

(3) Amount represents total uncertain income tax positions. For further discussion see Note 3 "Income Taxes" to the Consolidated Condensed Financial Statements in this Form 10-Q.

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 the goods or services provided to the Company or 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 each of its officers and certain other employees providing for severance payments, including salary continuation, upon the termination of employment 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 interest, the contracts also generally provide for certain protections in the event of an actual or threatened change in control of the Company. These protections include the payment of certain severance benefits, such as salary continuation, upon the termination of employment following a change in control.

The Company also has 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 guarantees 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 payments under the commitments and guarantees described above will have a material effect on the Company's financial condition. The fair value of indemnities, commitments and guarantees that the Company issued during the six months ended June 30, 2012 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 "Commitments and Contingencies" to the Notes to Consolidated Condensed Financial Statements and "Legal Proceedings" in Item 1 of Part II in this Form 10-Q.

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 current or future financing facilities, will be sufficient to finance current operating requirements, required capital expenditures, contractual obligations and commercial commitments, for at least the next 12 months. There can be no assurance, however, that future industry-specific or other developments (including noncompliance with the financial covenants under its ABL Facility), general economic trends, foreign currency exchange rates, or other matters will not adversely affect the Company's operations or its ability to meet its future cash requirements (see above, "Sources of Liquidity".)

As of June 30, 2012, a significant portion of the Company's total cash and short-term investments is held outside of the U.S. In addition to settling intercompany balances during the normal course of operations, the Company may repatriate funds from its foreign subsidiaries. The Company has not, nor does it anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with its domestic debt service requirements. As such, the Company considers the undistributed earnings of its foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. If in the future the Company decides to repatriate such foreign earnings, it would need to accrue and pay incremental U.S. federal and state income tax, reduced by the current amount of available U.S. federal and state net operating loss and tax credit carry forwards.

Capital Resources

The Company does not currently have any material commitments for capital expenditures. The Company expects to have capital expenditures of approximately $25.0 million to $30.0 million for the year ending December 31, 2012.

Off-Balance Sheet Arrangements

At June 30, 2012, the Company had total outstanding commitments on non-cancelable operating leases of approximately $30.4 million related to certain warehouse, distribution and office facilities, vehicles as well as office equipment. Lease terms range from 1 to 6 years expiring at various dates through February 2018, with options to renew at varying terms.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Form 10-K for the fiscal year ended December 31, 2011.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

The Company uses derivative financial instruments for hedging purposes to limit its exposure to changes in foreign currency exchange rates. Transactions involving these financial instruments are with creditworthy 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 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 gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries, including certain balance sheet exposures (payables and receivables denominated in foreign currencies) (see Note 16 "Derivatives and Hedging" to the Notes to Consolidated Condensed Financial Statements). In addition, the Company is exposed to gains and losses resulting from the translation of the operating results of the Company's international subsidiaries into U.S. dollars for financial reporting purposes. As part of its strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses derivative financial instruments in the form of foreign currency forward contracts and put and call option contracts ("foreign currency exchange contracts") to hedge transactions that are denominated primarily in British Pounds, Euros, Japanese Yen, Canadian Dollars, Australian Dollars and Korean Won. 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.

Foreign currency exchange contracts are used only to meet the Company's objectives of offsetting gains and losses from foreign currency exchange exposures with gains and losses from the contracts used to hedge them in order to reduce volatility of earnings. The extent to which the Company's hedging activities mitigate the effects of changes in foreign currency exchange rates varies based upon many factors, including the amount of transactions being hedged. The Company generally only hedges a limited portion of its international transactions. The Company does not enter into foreign currency exchange contracts for speculative purposes. Foreign currency exchange contracts generally mature within twelve months from their inception.

The Company does not designate foreign currency exchange contracts as derivatives that qualify for hedge accounting under ASC 815, "Derivatives and Hedging." As such, changes in the fair value of the contracts are recognized in earnings in the period of change. At June 30, 2012 and December 31, 2011, the notional amounts of the Company's foreign currency exchange contracts used to hedge the exposures discussed above were approximately $186.1 million and $165.5 million, respectively. At June 30, 2012 and December 31, 2011, there were no outstanding foreign exchange contracts designated as cash flow hedges for anticipated sales denominated in foreign currencies.

As part of the Company's risk management procedure, a sensitivity analysis model is used to measure the 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 sensitivity analysis model quantifies the estimated potential effect of unfavorable movements of 10% in foreign currencies to which the Company was exposed at June 30, 2012 through its foreign currency exchange contracts.

The estimated maximum one-day loss from the Company's foreign currency exchange contracts, calculated using the sensitivity analysis model described above, is $20.2 million at June 30, 2012. The Company believes that such a hypothetical loss from its foreign currency exchange contracts would be partially offset by increases in the value of the underlying transactions being hedged.

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.

Interest Rate Fluctuations

The Company is exposed to interest rate risk from its ABL Facility. Outstanding borrowings under the ABL Facility accrue interest as described in Note 12 to the Company's Consolidated Condensed Financial Statements in this Form 10-Q and in "Sources of Liquidity" above. As part of the Company's risk management procedures, a sensitivity analysis was performed to determine the impact of unfavorable changes in interest rates on the Company's cash flows. The sensitivity analysis quantified that the incremental expense incurred by an increase of 10% in interest rates would be nominal over a six month period.

Item 4. ***Controls and Procedures***

Disclosure Controls and Procedures. 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, as of June 30, 2012, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under 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.

Changes in Internal Control over Financial Reporting. During the quarter ended June 30, 2012, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The information set forth in Note 13 "Commitments and Contingencies," to the Consolidated Condensed Financial Statements included in Part I, Item 1, of this Quarterly Report, is incorporated herein by this reference.

Item 1A. *Risk Factors*

Certain Factors Affecting Callaway Golf Company

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2011, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the "Risk Factors"). There are no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2011 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company's stock.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

Stock Purchases:

In November 2007, the Board of Directors authorized a repurchase program (the "November 2007 repurchase program") for the Company to repurchase shares of its common stock up to a maximum cost to the Company of $100.0 million, which will remain in effect until completed or otherwise terminated by the Board of Directors.

During the three months ended June 30, 2012, the Company repurchased 17,100 shares of its common stock at an average cost per share of $5.52 under the November 2007 repurchase program. The Company received these shares to settle taxes paid on behalf of holders of restricted stock units. As of June 30, 2012, the Company remained authorized to repurchase up to an additional $72.9 million of its common stock under this program.

The following table summarizes the purchases by the Company under its repurchase programs during the second quarter of 2012 (in thousands, except per share data):

	Three Months Ended June 30, 2012			
	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet Be Purchased Under the Programs
April 1, 2012—April 30, 2012	—	$ —	—	$ 72,975
May 1, 2012—May 31, 2012	6	$ 5.45	35	$ 72,941
June 1, 2012—June 30, 2012	11	$ 5.56	59	$ 72,881
Total	17	$ 5.52	94	$ 72,881

Item 3. *Defaults upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

None

Item 5. *Other Information*

None.

Table of Contents

Item 6. ***Exhibits***

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 Commission on July 1, 1999 (file no. 1-10962).
3.2	Fifth Amended and Restated Bylaws, as amended and restated as of November 18, 2008, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on November 21, 2008 (file no. 1-10962).
3.3	Amended and Restated Certificate of Designation for 7.50% Series B Cumulative Perpetual Convertible Preferred Stock, incorporated herein by this reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on March 5, 2010 (file no. 1-10962).
4.1	Form of Specimen Stock Certificate for Common Stock, incorporated herein by this reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the Commission on September 15, 2009 (file no. 1-10962).
4.2	Form of Specimen Stock Certificate for 7.50% Series B Cumulative Perpetual Convertible Preferred Stock, incorporated herein by this reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, as filed with the Commission on September 15, 2009 (file no. 1-10962).
10.1	Third Amendment to Director's Service Agreement, entered into as of May 1, 2012, by and between Callaway Golf Company and Neil Howie. †
10.2	Fourth Amendment to Executive Entrustment Agreement, entered into as of May 1, 2012, by and between Callaway Golf Company and Alex Boezeman.†
10.3	Fifth Amendment to Contract of Employment, entered into as of May 1, 2012, by and between Callaway Golf Company and Leighton Richards.†
10.4	Officer Employment Agreement, effective as of May 1, 2012, by and between Callaway Golf Company and Bradley J. Holiday, incorporated herein by this reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on May 7, 2012 (file no. 1-10962).
10.5	Officer Employment Agreement, effective as of April 25, 2012, by and between Callaway Golf Company and Mark Leposky.†
10.6	Officer Employment Agreement, effective as of June 1, 2012, by and between Callaway Golf Company and Brian Lynch.†
10.7	Form of Non-Employee Director Phantom Stock Unit Grant Agreement.†
10.8	First Amendment to Second Amended and Restated Loan and Security Agreement, dated as of June 11, 2012, among Callaway Golf Company and certain of its subsidiaries, and Bank of America, N.A., as administrative agent and as security trustee for certain other lenders party thereto.†
31.1	Certification of Oliver G. Brewer, III 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 of Oliver G. Brewer, III and Bradley J. Holiday pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

101.1	XBRL Instance Document*
101.2	XBRL Taxonomy Extension Schema Document*
101.3	XBRL Taxonomy Extension Calculation Linkbase Document*
101.4	XBRL Taxonomy Extension Definition Linkbase Document*
101.5	XBRL Taxonomy Extension Label Linkbase Document*
101.6	XBRL Taxonomy Extension Presentation Linkbase Document*

(†) Included with this Report.

* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

Table of Contents

SIGNATURES

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

CALLAWAY GOLF COMPANY

By: /S/ MARLO M. CORMIER PLATZ

Marlo M. Cormier Platz
Vice President and
Chief Accounting Officer

Date: August 2, 2012

EXHIBIT INDEX

Exhibit	Description
10.1	Third Amendment to Director's Service Agreement, entered into as of May 1, 2012, by and between Callaway Golf Company and Neil Howie.
10.2	Fourth Amendment to Executive Entrustment Agreement, entered into as of May 1, 2012, by and between Callaway Golf Company and Alex Boezeman.
10.3	Fifth Amendment to Contract of Employment, entered into as of May 1, 2012, by and between Callaway Golf Company and Leighton Richards.
10.5	Officer Employment Agreement, effective as of April 25, 2012, by and between Callaway Golf Company and Mark Leposky.
10.6	Officer Employment Agreement, effective as of June 1, 2012, by and between Callaway Golf Company and Brian Lynch.
10.7	Form of Non-Employee Director Phantom Stock Unit Grant Agreement.
10.8	First Amendment to Second Amended and Restated Loan and Security Agreement, dated as of June 11, 2012, among Callaway Golf Company and certain of its subsidiaries, and Bank of America, N.A., as administrative agent and as security trustee for certain other lenders party thereto.
31.1	Certification of Oliver G. Brewer, III 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 of Oliver G. Brewer, III and Bradley J. Holiday pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	XBRL Instance Document*
101.2	XBRL Taxonomy Extension Schema Document*
101.3	XBRL Taxonomy Extension Calculation Linkbase Document*
101.4	XBRL Taxonomy Extension Definition Linkbase Document*
101.5	XBRL Taxonomy Extension Label Linkbase Document*
101.6	XBRL Taxonomy Extension Presentation Linkbase Document*

* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

THIRD AMENDMENT TO DIRECTOR'S SERVICE AGREEMENT

This Third Amendment to Director's Service Agreement ("Third Amendment") is entered into as of 01 January 2012 by and between **Callaway Golf Europe Ltd.**, a company incorporated in the United Kingdom (the "Company"), and **Neil Howie** ("Executive").

A. The Company and the Executive are parties to that certain Director's Service Agreement with an effective date of 1 December 2002 as revised effective 1 March 2008, as amended 30 April 2010 and 15 March 2011 (collectively the "Agreement").

B. The Company and the Executive desire to amend the Agreement in the manner set forth herein.

C. The Company is prepared to grant, and the Executive is prepared to receive, an increase in the Executive's bonus target percentage, as described below, as consideration for such amendment.

NOW, THEREFORE, the Company and the Executive agree as follows:

1. Clause 5.2 – Remuneration. Clause 5.2 of the Agreement is amended to read as follows:

"5.2 The Executive may also be eligible to be considered for a discretionary bonus payable in accordance with the Company's general policies and practices regarding executive bonuses as they may exist from time to time. Executive's bonus target percentage is fifty-five percent (55%) of Executive's annual base salary. Executive will not be paid any bonus unless he is an employee of the Company and has not given or received notice as at the date of payment of such bonus. Any annual bonus earned pursuant to an applicable bonus plan shall be payable in the first quarter of the following year."

2. But for the amendments contained herein, and any other written amendments properly executed by the parties, the Agreement shall otherwise remain unchanged.

IN WITNESS WHEREOF, the Company and the Executive have caused this Third Amendment to be executed effective as of the date set forth above.

EXECUTED by the parties as a deed

Executed as a Deed by	)	
CALLAWAY GOLF EUROPE LTD.,	)	/s/ Bradley J. Holiday
a United Kingdom corporation	)	Bradley J. Holiday, Director
		/s/ Brian P. Lynch
		Bryan P. Lynch, Secretary
Executed as a Deed	)	
NEIL HOWIE	)	/s/ Neil Howie
in the presence of:	)	Neil Howie

______________________	Signature of witness
______________________	Name of witness
______________________	Address of witness
______________________	
______________________	
______________________	Occupation of witness

FOURTH AMENDMENT TO
EXECUTIVE ENTRUSTMENT AGREEMENT

This Fourth Amendment to Executive Entrustment Agreement ("Fourth Amendment") is entered into effective January 1, 2012, by and between **Callaway Golf K.K.**, a company organized and existing under the laws of Japan (the "Company") and **Alex Boezeman** ("Director").

A. The Company and Director are parties to that certain Executive Entrustment Agreement entered into as of March 1, 2008, as amended March 20, 2009, March 20, 2010 and March 20, 2011 (collectively the "Agreement").

B. The Company and Director desire to amend the Agreement pursuant to Section 14 of the Agreement.

NOW, THEREFORE, in consideration of the foregoing and other consideration, the value and sufficiency of which are acknowledged, the Company and Director agree as follows:

1. <u>Compensation</u>. Section 3.2 of the Agreement is amended to read as follows:

> "3.2 Annual Bonus. The Company shall provide the Director an opportunity to earn an annual bonus based upon participation in the Company's applicable bonus plan as it may or may not exist from time to time, subject to the approval of a general meeting of shareholders of the Company. The Director's bonus target percentage is fifty-five percent (55%) of the Director's annual base salary. Any annual bonus earned pursuant to an applicable bonus plan shall be payable in the first quarter of the following year."

2. But for the amendments contained herein, and any other written amendments properly executed by the parties, the Agreement shall otherwise remain unchanged.

IN WITNESS WHEREOF, the parties have executed this Fourth Amendment on the dates set forth below, to be effective as of the date first set forth above.

DIRECTOR	**COMPANY**
	Callaway Golf K.K.
/s/ Alex Boezeman	By: /s/ Bradley J. Holiday
Alex Boezeman	Bradley J. Holiday, Director
Dated: April 6, 2012	Dated: May 1, 2012

Exhibit 10.3

CALLAWAY GOLF SOUTH PACIFIC PTY LTD

A subsidiary of Callaway Golf Company

ACN 094 768 359 ABN 26 094 768 359

CONFIDENTIAL

Leighton Richards
c/o Callaway Golf South Pacific Pty Ltd.

Re: <u>Fifth Amendment to Contract of Employment / Effective 01 January 2012</u>

Dear Leighton:

This Fifth Amendment to Contract of Employment ("Fifth Amendment") is entered into effective 01 January 2012 between you and Callaway Golf South Pacific Pty Ltd ("Callaway") pursuant to Clause 22 of the Contract of Employment entered into between the parties as of 21 October 2009, as amended (collectively, the "Contract"), and amends the terms and conditions of the Contract as follows:

1. **Schedule 1**. Clause 5, "Annual Bonus", of Schedule 1 to the Contract is revised as stated in Schedule 1 attached to this Fifth Amendment, which supersedes and replaces Schedule 1 to the Contract in its entirety.

2. **Counterparts/Signature**. This Fifth Amendment may be signed in one or more counterparts, each of which will be deemed an original, but all of which together shall constitute one and the same instrument. A facsimile or electronic signature shall be deemed to have the same force and effect as an original signature.

3. But for the amendments contained herein, and any other written amendments properly executed by the parties, the Contract shall otherwise remain unchanged.

Sincerely,

/s/ Bradley J. Holiday

Bradley J. Holiday, Director
Callaway Golf South Pacific Pty Ltd.

Dated: May 1, 2012

I have read, understand and accept the terms of this Fifth Amendment to Contract of Employment with Callaway.

/s/ Leighton Richards
Leighton Richards

Dated: April 26, 2012

Attachment: Schedule 1

Schedule 1

(Revised per Fifth Amendment to Contract of Employment)

1. **Position Title –** Effective 01 August 2011, Managing Director, Southeast Asia and South Pacific, Callaway Golf South Pacific Pty Ltd. (“Callaway”).

2. **Reporting –** You will report to the Board of Directors of Callaway, which has provided that your direct report relationship shall be to the President and Chief Executive Officer of Callaway Golf Company, or as may be otherwise designated by the Board of Callaway (by way of members other than yourself).

3. **Base Salary –** Effective 01 August 2011, AU$280,000 annually (prorated for any partial years of employment).

4. **Vehicle Lease and Allowance** - Effective 01 January 2012

Employee’s annual vehicle allowance is $25,000 total (in addition to annual base salary), payable as follows:

<u>Novated Vehicle Lease</u>: Callaway shall pay Employee’s vehicle lease payments in the amount of $14,060.52 annually directly to the leasing company (the “Lessor”); payments to the Lessor shall be made in equal increments on a monthly basis. Any fringe benefit tax associated with this novated lease payment by Callaway to Lessor shall be paid by Callaway (not to exceed $13,000 annually without the prior written consent of the CFO of Callaway Golf Company).

Upon termination of Employee’s employment with Callaway, all costs related to the vehicle lease shall be the responsibility of Employee as of the date of termination. Should the vehicle lease referenced herein terminate, this clause shall become null and void.

<u>Fuel and Maintenance Costs</u>: Callaway shall provide Employee $10,939.48 per annum for the following:

1. **Petrol**: By way of a Company-issued fuel card, up to $5,200.00 annually for petrol costs associated with Callaway business usage, to be reconciled at year end. Any unused portion of the $5,200 shall be paid out to Employee following year-end reconciliation in his next regularly scheduled pay cheque and will be taxable to Employee as income.
2. **Maintenance & Insurance**: An amount of $5,739.48 annually for vehicle general maintenance and insurance, payable in equal instalments fortnightly to Employee in his regular pay cheque, less required withholding and taxes.

Employee shall provide Callaway with a Vehicle Log Book which meets the standards of the Australian Taxation Office within the first fringe benefit tax year and shall comply with the requirements of Callaway’s policies on vehicle leases and allowances, as may be modified from time to time.

5. **Annual Bonus –** Effective 01 January 2012, Callaway shall provide you an opportunity to earn an annual bonus based upon participation in Callaway’s applicable bonus plan as it may or may not exist from time to time. The bonus target percentage is forty percent (40%) of your annual Base Salary. Any annual bonus earned pursuant to an applicable bonus plan shall be payable in the first quarter of the following year. You acknowledge and agree that any bonus that Callaway may choose to pay, or not to pay, is completely discretionary, and that there may be times when no bonus is paid. You will not be paid any bonus unless you are an employee of Callaway and have not received notice, nor given notice, as of the date of payment of such bonus. The amount of any bonus paid to you by Callaway will be inclusive of any superannuation that may be payable on that bonus from time to time.

Exhibit 10.5

CALLAWAY GOLF COMPANY
OFFICER EMPLOYMENT AGREEMENT

This Officer Employment Agreement ("Agreement") is entered into as of April 25, 2012 (the "Effective Date") by and between **Callaway Golf Company**, a Delaware corporation, (the "Company") and **Mark Leposky** ("Employee").

1. **TERM**. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing April 25, 2012 and terminating on April 30, 2013. On May 1, 2013, and on May 1 each year thereafter, the Agreement shall renew for an additional one year term unless the Company provides notice to the Employee that it is not renewing the Agreement. Upon non-renewal of the Agreement, Employee will become an employee at will unless the Agreement is terminated as provided in Section 7 below. At all times during the term of this Agreement, Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

2. **TITLE**. Employee shall serve as Senior Vice President, Global Operations, of the Company. Employee's duties shall be the usual and customary duties of the offices in which Employee serves. Employee shall report to the Chief Executive Officer, or such other person as the Chief Executive Officer shall designate from time to time. The Board of Directors and/or the Chief Executive Officer of the Company may change employee's title, position and/or duties at any time.

3. **SERVICES TO BE EXCLUSIVE**. Employee agrees to devote Employee's full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors, its Chief Executive Officer or their designee. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company, Employee will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community or charitable activities, or from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company.

4. **COMPENSATION**.

(a) Base Salary. In accordance with the Company's usual review and pay practices, the Company agrees to pay Employee a base salary of no less than $375,000.00 per year (prorated for any partial years of employment), payable in equal installments on regularly scheduled Company pay dates. Employee agrees that the Company may increase Employee's base salary without requiring an amendment of this Agreement through the use of a Personnel Action Notice.

(b) Annual Incentive. The Company shall provide Employee an opportunity to earn an annual incentive payment based upon participation in the Company's applicable incentive plan as it may or may not exist from time to time. Employee's incentive target percentage is fifty-five percent (55%) of Employee's annual base salary. Any annual incentive payment earned pursuant to an applicable incentive plan shall be payable in the first quarter of the following year.

(c) Long Term Incentive. The Company shall provide Employee an opportunity to participate in the Company's applicable long term incentive program as it may or may not exist from time to time.

5. **EXPENSES AND BENEFITS**.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4, the Company shall reimburse Employee for all reasonable, customary and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses in accordance with the policies and procedures set by the Company from time to time for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision and direction of the Company and its Chief Executive Officer.

(b) Paid Time Off. Employee shall accrue paid time off in accordance with the terms and conditions of the Company's Paid Time Off Program, as stated in the Company's Employee Handbook, and as may be modified from time to time. Subject to the maximum accrual permitted under the Paid Time Off Program, Employee shall accrue paid time off at the rate of twenty-five (25) days per year. The time off may be taken any time during the year subject to prior approval by the Company. The Company reserves the right to pay Employee for unused, accrued benefits in lieu of providing time off in accordance with the Company's policies with respect to unused Paid Time Off.

(c) Insurance/Death Benefit. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide the following:

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

(ii) Subject to all applicable laws, and satisfaction of the conditions set forth below, Employee may be eligible for an additional disability benefit if Employee becomes permanently disabled. Permanent Disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of six (6) months or more on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three (3) qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. In the event that Employee is declared permanently disabled (the "Permanent Disability Date"), then Employee shall be entitled to (i) any compensation accrued and unpaid as of the Permanent Disability Date; (ii) a cash payment based on the incentive payment Employee would have received in light of the Company's actual performance as measured against the requirements of the annual incentive plan and pro-rated to the date of Employee's Permanent Disability Date; (iii) a lump sum payment equal to six (6) months of Employee's then current base salary at the same rate as in effect on the Permanent Disability Date; (iv) the vesting of all unvested long-term incentive compensation awards (e.g., SARs, stock options, and other long-term equity-based incentive awards) held by Employee that would have vested had Employee continued to perform services pursuant to this Agreement for a period of twelve (12) months from the Permanent Disability Date; (v) subject to Subsection 7(b)(ii) below, the payment of premiums owed for COBRA insurance benefits for a period of twelve (12) months from the Permanent Disability Date; and (vi) no other payments. The payment of the benefits described in (i) and (iii) of this subsection, as well as any vested time-based long-term incentive compensation awards described in (iv) of this subsection, shall be made as soon as administratively practicable following the Permanent Disability Date, but in no event later than seventy (70) days after the Permanent Disability Date; the payment of any benefits described in (ii) of this subsection, as well as any performance-based long-term incentive compensation awards described in (iv) of this subsection, shall be paid after the completion of the relevant performance period and the evaluation of whether, and the degree to which, the performance criteria have been met. The payment of this benefit shall not eliminate Employee's right to permanent disability insurance benefits if the Employee so qualifies, and shall not eliminate the right of the Company to terminate Employee's employment (e.g., a termination for substantial cause pursuant to Subsection 7(e)) without any further payment pursuant to this Agreement. Employee agrees that the Company shall be entitled to take as an offset against any amounts to be paid pursuant to this subsection any amounts received by Employee pursuant to disability or other insurance or similar income sources provided by the Company; and

(iii) Employee shall receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever Employee directs, in an amount equal to four and sixty-five hundredths (4.65) times Employee's base salary, not to exceed a maximum of $1,500,000.00 in coverage, provided that Employee completes the required health statement and application and that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions.

(iv) In the event of Employee's death, all outstanding unvested service-based full value long-term incentive awards (e.g., restricted stock units and phantom stock units) held by Employee shall immediately vest.

(d) Retirement. Employee shall be permitted to participate in the Company's 401(k) retirement investment plan pursuant to the terms of such plan, as the same may be modified from time to time, to the extent such plan is offered to other officers of the Company.

(e) Financial Planning, Annual Executive Physical, Golf Expense Reimbursement Program and Other Perquisites. To the extent the Company provides financial, tax and estate planning and related services, annual executive physicals, golf expense reimbursements, or any other perquisites and personal benefits to other officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

6. **TAXES**. Employee acknowledges that Employee is responsible for all taxes, including imputed income taxes related to Employee's compensation and benefits, except for those taxes for which the Company is obligated to pay under applicable law or regulation. Employee agrees that the Company may withhold from Employee's compensation any amounts that the Company is required to withhold under applicable law or regulation.

7. **TERMINATION OF EMPLOYMENT**.

(a) Termination by the Company Without Substantial Cause, or by Employee for Good Reason or Non-Renewal. Employee's employment under this Agreement may be terminated by the Company at any time without substantial cause. Employee's employment under this Agreement may also be terminated by Employee for Good Reason or Non-Renewal. "Good Reason" shall mean a material breach of this Agreement by the Company. "Non-Renewal" shall mean if the Company gives notice of non-renewal of this Agreement, as described in Section 1 above, and offers Employee a new or amended written employment agreement that is not on substantially the same or better terms as this Agreement. In the event of a termination by the Company Without Substantial Cause, or by Employee for Good Reason or Non-Renewal, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) a cash payment based on the annual incentive payment Employee would have received in the then-current year in light of the Company's actual performance as measured against the requirements of the annual incentive plan, pro-rated to the date of Employee's termination (the "Pro-Rata Incentive Plan Payment"); and (iii) the vesting of all unvested long-term incentive compensation awards (e.g., SARs, stock options, and other long-term equity-based incentive awards) held by Employee that would have vested had Employee continued to perform services pursuant to this Agreement for a period of twelve (12) months from the date of termination; provided that any unvested long-term incentive compensation awards that are subject to performance-based vesting will vest only if, and to the degree that, the performance goals are satisfied. The payment of the benefits described in (i) of this subsection as well as any vested time-based long-term incentive compensation awards described in (iii) of this subsection shall be made as soon as administratively practicable following the date of termination. The payment of any benefits described in (ii) of this subsection as well as any performance-based long-term incentive compensation awards described in (iii) of this subsection shall be paid after the completion of the relevant performance period and the evaluation of whether, and the degree to which, the performance criteria have been met. In addition to the foregoing and subject to the provisions thereof, Employee shall be eligible to receive Special Severance as described in Subsection 7(b) and Incentive Payments as described in Subsection 7(c).

(i) Conditions on Termination by Employee for Good Reason or Non-Renewal. In the event that Employee seeks to terminate this Agreement for Good Reason or Non-Renewal, the following notice procedures shall apply:

1. Good Reason - Within ninety (90) days of the date Employee knows, or should have known, that Employee is entitled to terminate this Agreement for Good Reason, as defined above, Employee shall notify the Company in writing of the Good Reason and Employee's intent to terminate the Agreement no earlier than thirty (30) days later. Company shall then have thirty (30) days to cure the condition underlying Employee's notice or inform Employee, in writing, of its intent not to do so. If Company fails to cure the condition, or states that it does not intend to attempt to cure the condition underlying Employee's notice, then Employee shall then have the right to terminate for Good Reason no later than ninety (90) days following the expiration of the cure period or the written statement of intent not to cure.

2. Non-Renewal – At least sixty (60) days prior to the expiration of this Agreement, the Company shall notify Employee in writing of Non-Renewal, as defined above. Within thirty (30) days of delivery of the written notice of Non-Renewal, the Company shall provide Employee with a new or amended employment agreement or inform Employee in writing that it does not intend to offer Employee a new employment agreement. Employee shall then have the option, for forty-five (45) days following expiration of the Agreement, to notify the Company, in writing, of Employee's intent to terminate Employee's employment for Non-Renewal.

(b) Special Severance. In the event of a termination pursuant to Subsection 7(a) of this Agreement, Special Severance shall consist of a total amount equal to 0.500 times the sum of Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twelve (12) months from the date of termination. Employee shall also be entitled to the payment of premiums owed for COBRA and/or CalCOBRA insurance benefits and the continuation of the financial, tax and estate planning services (on the then-existing terms and conditions) through the period during which Employee is receiving Special Severance. In addition, the Company shall offer to provide, at Company expense, up to one (1) year of outplacement services through a professional outplacement firm of the Company's choosing.

(i) Conditions on Receiving Special Severance. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to Employee's continued compliance with the terms and conditions of Sections 8 and 11; Employee's continued forbearance from directly, indirectly or in any other way, disparaging the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfering with the Company's press, public and media relations; and Employee's execution, prior to receiving any Special Severance, of an effective release in the form attached hereto as Exhibit B within the time period set forth therein (but in no event later than sixty (60) days after the date of termination of employment). Additionally, none of the Special Severance benefits will be paid or otherwise delivered prior to the effective date of the release, so that amounts otherwise payable prior to the release effective date will accrue and be paid as soon as administratively practicable, except as required by Subsection 7(h) below. Employee agrees that payment of Special Severance pursuant to this subsection shall be in lieu of, and not in addition to, any other payment that Employee might otherwise be entitled to, including, but not limited to, payments under any state or federal Worker Adjustment and Retraining Notification Act, any similar statute, or as provided for under common law.

(ii) Payment in lieu of COBRA. Notwithstanding anything else to the contrary, if the Company determines, in its sole discretion, that the Company cannot provide COBRA premium benefits under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall, in lieu thereof, pay Employee a taxable cash amount, which payment shall be made if Employee has elected health care continuation coverage (the "Health Care Benefit Payment"). If applicable, the Health Care Benefit Payment shall be paid in a single lump sum as soon as administratively practicable following the effective date of the release signed by Employee, but in no event later than seventy (70) days after the date of termination of employment or the Permanent Disability Date, as applicable. The Health Care Benefit Payment shall be equal to the amount that the Company would have otherwise paid for COBRA insurance premiums (at the level of healthcare benefits Employee and Employee's dependents are enrolled in as of the termination date) calculated based on the premium for the first month of coverage.

(c) Incentive Payments. In the event of a termination pursuant to Subsection 7(a) of this Agreement, Employee shall also be offered the opportunity to receive Incentive Payments in a total amount equal to 0.500 times the sum of Employee's most recent annual base salary and target incentive, payable in equal installments on the same pay schedule in effect at the time of termination over a period of twelve (12) months from the date of termination.

(i) Terms and Conditions for Incentive Payments. Employee may receive Incentive Payments so long as Employee chooses not to engage (whether as an owner, employee, agent, consultant, or in any other capacity) in any business or venture that competes with the business of the Company or any of its affiliates. If Employee chooses to engage in such activities, then the Company shall have no obligation to make further Incentive Payments commencing upon the date which Employee chooses to do so.

(ii) Sole Consideration. Employee and the Company agree and acknowledge that the sole and exclusive consideration for the Incentive Payments is Employee's forbearance as described in Subsection 7(c)(i) above. In the event that Subsection 7(c)(i) is deemed unenforceable or invalid for any reason, then the Company will have no obligation to make Incentive Payments for the period of time during which it has been deemed unenforceable or invalid. The obligations and duties of this Subsection 7(c) shall be separate and distinct from the other obligations and duties set forth in this Agreement, and any finding of invalidity or unenforceability of this Subsection 7(c) shall have no effect upon the validity or invalidity of the other provisions of this Agreement.

(d) Treatment of Special Severance and Incentive Payments. Any Special Severance and Incentive Payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements.

(e) Termination by the Company for Substantial Cause or by Employee Without Good Reason. Employee's employment under this Agreement may be terminated immediately and at any time by the Company for substantial cause or by Employee without good reason. In the event of such a termination, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean Employee's (1) failure to substantially perform Employee's duties; (2) material breach of this Agreement; (3) misconduct, including but not limited to, use or possession of illegal drugs during work and/or any other action that is damaging or detrimental in a significant manner to the Company; (4) conviction of, or plea of guilty or *nolo contendere* to, a felony; or (5) failure to cooperate with, or any attempt to obstruct or improperly influence, any investigation authorized by the Board of Directors or any governmental or regulatory agency.

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

(g) Other. Except for the amounts specifically provided pursuant to this Section 7, Employee shall not be entitled to any further compensation, incentive, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to these Sections shall not be treated as damages, but as compensation to which Employee may be entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee pursuant to this Section 7 any amounts earned by Employee in other employment after termination of Employee's employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 7 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Compliance with Section 409A. Each installment of severance benefits is a separate "payment" for purposes of Section 409A of the Internal Revenue Code of 1986 and the regulations governing Section 409A (collectively "Section 409A"), and the severance benefits are intended to satisfy the exemptions under Section 409A. It is intended that if Employee is a "specified employee" within the meaning of Section 409A at the time of a separation from service, then, to the extent necessary, the severance benefits will not be paid until at least six (6) months after separation from service.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate Employee's office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

(j) Forfeiture.

(i) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of the intentional misconduct or gross negligence of the Employee, with any financial reporting requirement under the United States securities laws, then the Employee shall forfeit and reimburse the Company for all of the following: (i) any incentive or incentive compensation paid based upon such erroneously stated financial information, (ii) any incentive or incentive compensation or equity compensation received by Employee during the twelve (12) month period following the earlier of the first public issuance or filing with the SEC of the financial document embodying the financial reporting requirement, (iii) any profits realized from the sale of Company securities during that same twelve (12) month period, (iv) if Employee is terminated or has been terminated, the right to receive Special Severance and Incentive Payments, and (v) if Employee is terminated or has been terminated, any unvested and/or unexercised long-term incentive compensation awards.

(ii) If the Employee is one of the persons subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 (i.e. the Chief Executive Officer or Chief Financial Officer) and the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct (within the meaning of said Section 304, but other than as a result of Employee's intentional misconduct or gross negligence, which is governed by the preceding subsection), with any financial reporting requirement under the United States securities laws, then the Employee shall forfeit and reimburse the Company for all of the following: (i) any incentive or incentive compensation or equity compensation received by Employee during the twelve (12) month period following the earlier of the first public issuance or filing with the SEC of the financial document embodying the financial reporting requirement and (ii) any profits realized from the sale of Company securities during that same twelve (12) month period.

(iii) Employee acknowledges that Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, among other things, requires the United States Securities and Exchange Commission to direct the national securities exchanges to prohibit the continued listing of the securities of an issuer unless the issuer develops and implements a policy providing, among other things, for the recovery of certain erroneously awarded compensation. Upon the Company's adoption of such a policy, Employee agrees that this Agreement shall be automatically amended without any further consideration to incorporate the recovery provisions set forth in the policy. Upon the request of the Company, Employee agrees without further consideration to execute an amendment evidencing the incorporation of said provisions into this Agreement.

(iv) No forfeiture or recovery of compensation under this subsection (j) shall constitute an event giving rise to Employee's right to terminate this Agreement for Good Reason.

8. **OTHER EMPLOYEE DUTIES AND OBLIGATIONS**.

In addition to any other duties and obligations set forth in this Agreement, Employee shall be obligated as follows:

(a) Compliance. Employee shall be required to comply with all policies and procedures of the Company as such shall be adopted, modified or otherwise established by the Company from time to time, including, but not limited to, the Company's Code of Conduct. While employed by the Company pursuant to this Agreement, or while receiving severance, incentive or other payments or consideration from the Company following termination of this Agreement, Employee shall disclose in writing to the Company's General Counsel any conviction of, or plea of guilty or *nolo contendere* to, a felony.

(b) Trade Secrets and Confidential Information.

(i) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, the designs, inventions and innovations and related plans, strategies and applications which Employee develops during the term of this Agreement in connection with the work performed by Employee for the Company and/or its affiliates; and third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(ii) While employed by the Company, Employee will have access to and become familiar with Trade Secrets and Confidential Information. Employee acknowledges that Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Employee agrees that Employee will not, at any time, whether during or subsequent to Employee's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Employee is compelled to make disclosure by governmental process. In the event Employee believes that Employee is legally required to disclose any Trade Secrets or Confidential Information, Employee shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(iii) Employee agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require.

(iv) The provisions of this Subsection 8(b) shall survive the termination of this Agreement and shall be binding upon Employee in perpetuity.

(c) Assignment of Rights.

(i) As used in this Agreement, "Designs, Inventions and Innovations," whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company's and/or its affiliates' products.

(ii) As a material part of the terms and understandings of this Agreement, Employee agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Employee, alone or with anyone else, in connection with the work performed by Employee for the Company during Employee's employment with the Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(iii) Employee agrees to disclose in writing to the President of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Employee develops, conceives and/or reduces to practice in connection with any work performed by Employee for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Employee shall disclose all Designs, Inventions and Innovations to the Company, even if Employee does not believe that Employee is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign Employee's interest in such Design, Invention or Innovation to the Company. If the Company and Employee disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

(iv) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or Trade Secrets and Confidential Information, except those Designs, Inventions or Innovations that either relate at the time of conception or reduction to practice to the Company's and/or its affiliates' business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or result from any work performed by Employee for the Company and/or its affiliates.

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

(vi) The provisions of this Subsection 8(c) shall survive the termination of this Agreement and shall be binding upon Employee in perpetuity.

(d) Competing Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company, Employee will not, directly or indirectly (whether as employee, agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which conflicts with Employee's duties under this Agreement, including services that are directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(e) Other Employees. Except as may be required in the performance of Employee's duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment. This obligation shall remain in effect while Employee is employed by the Company and for a period of one (1) year thereafter.

(f) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(g) Conflict of Interest. While employed by the Company, Employee shall comply with all Company policies regarding actual or apparent conflicts of interest with respect to Employee's duties and obligations to the Company.

(h) Non-Disparagement. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them.

(i) Surrender of Equipment, Books and Records. Employee understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Employee remove from the Company's facilities any of the Company's and/or its affiliates' equipment, books, records, documents, lists or any copies of the same without the Company's permission, nor shall Employee make any copies of the Company's and/or its affiliates' books, records, documents or lists for use outside the Company's office except as specifically authorized by the Company. Employee shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Employee's employment with the Company.

(j) Disclosure Of Others' Confidential Information. It is the understanding of both the Company and Employee that Employee shall not divulge to the Company and/or its affiliates any confidential information or trade secrets belonging to others, including Employee's former employers, specifically TaylorMade. Employee shall report to the General Counsel of the Company any effort by any employee of the Company to elicit from Employee any such confidential information or trade secrets. Consistent with the foregoing, Employee also affirmatively represents that Employee has returned all documents and/or computer files containing TaylorMade's confidential information and trade secrets to TaylorMade. Employee agrees that failure to comply with these obligations by Employee shall be grounds for immediate termination of this Agreement for cause pursuant to Section 7(e) above.

9. **RIGHTS UPON A CHANGE IN CONTROL.**

(a) Notwithstanding anything in this Agreement to the contrary, if upon or at any time during the term of this Agreement there is a Termination Event (as defined below) that occurs within one (1) year following any Change in Control (as defined in Exhibit A), Employee shall be treated as if Employee had been terminated by the Company without substantial cause pursuant to Subsection 7(a).

(b) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of Employee's death, or any of the factors enumerated in Subsection 7(e) providing for termination by the Company for substantial cause:

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

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

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

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

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

(c) Special Severance in the Event of a Termination Pursuant to Section 9. In the event of a termination pursuant to Section 9 of this Agreement, then Special Severance shall consist of a total amount equal to 1.000 times the sum of the Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twenty-four (24) months from the date of termination. All such Special Severance shall be subject to the provisions of Subsection 7(b).

(d) Incentive Payments in the Event of a Termination Pursuant to Section 9. In the event of a termination pursuant to Section 9 of this Agreement, Employee shall be offered the opportunity to receive Incentive Payments in a total amount equal to 1.000 times the sum of Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twenty-four (24) months from the date of termination. All such Incentive Payments shall be subject to the provisions of Subsection 7(c).

(e) To the extent that any or all of the payments and benefits provided for in this Agreement and pursuant to any other agreements with Employee constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code (the "Code") and, but for this Section 9, would be subject to the excise tax imposed by Section 4999 of the Code, then the aggregate amount of such payments and benefits shall be reduced by the minimum amounts necessary to equal one dollar less than the amount which would result in such payments and benefits being subject to such excise tax. The reduction, unless the employee elects otherwise, shall be in such order that provides employee with the greatest after-tax amount possible. All determinations required to be made under this Section 9, including whether a payment would result in a parachute payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm agreed to by the Company and Employee. The Company shall pay the cost of the accounting firm, and the accounting firm shall provide detailed supporting calculations both to the Company and the Employee. The determination of the accounting firm shall be final and binding upon the Company and the Employee, except that if, as a result of subsequent events or conditions (including a subsequent payment or the absence of a subsequent payment or a determination by the Internal Revenue Service or applicable court), it is determined that the excess parachute payments, excise tax or any reduction in the amount of payments and benefits, is or should be other than as determined initially, an appropriate adjustment shall be made, as applicable, to reflect the final determination.

10. **MISCELLANEOUS.**

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

(b) Entire Understanding. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. As of the Effective Date, except as otherwise explicitly provided herein, this Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

(c) Notices. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to Employee at the address currently on file with the Company, and to the Company at:

Company: Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008
Attn: Michael J. Rider
Senior Vice President, General Counsel

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

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

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

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

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

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

(i) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

11. **IRREVOCABLE ARBITRATION OF DISPUTES.**

(a) Employee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes.

(b) Employee and the Company agree that the arbitrator shall have the authority to issue provisional relief. Employee and the Company further agree that each has the right, pursuant to California Code of Civil Procedure section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.

(c) Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.

(d) The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.

(e) The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure Section 1286, et seq.

(f) It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery only to those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to at least one (1) deposition and shall have access to essential documents and witnesses as determined by the arbitrator.

(g) The provisions of this Section shall survive the termination of the Agreement and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 11 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

/s/ ML (Employee) ***/s/ CC (Company)***

12. **COOPERATION**. At the request of the Company, Employee agrees to cooperate with the Company's reasonable requests for assistance removing Employee's name from corporate boards, other corporate documents, bank accounts and the like, including, but not limited to, signing documents and taking other action as requested by the Company. By taking such actions in response to the request of the Company, Employee is not forfeiting any right to indemnity or defense that may be afforded to Employee under Delaware or other applicable laws.

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

EMPLOYEE	**COMPANY**
	Callaway Golf Company, a Delaware corporation
/s/ Mark Leposky	By: /s/ Chris Carroll
Mark Leposky	Chris Carroll
	Senior Vice President, Global Human Resources

EXHIBIT A

CHANGE IN CONTROL

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

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

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

3. Consummation by the Company of the sale, lease, exchange or other disposition, in one transaction or a series of transactions, by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

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

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

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of complete liquidation or dissolution of the Company.

EXHIBIT B

RELEASE OF CLAIMS – GENERAL RELEASE

This Release of Claims – General Release (“Release”) is effective as of the date provided for in Section 10 below, and is made by and between (“Employee”), pursuant to the Officer Employment Agreement (the “Agreement”) to which this document is attached, and **Callaway Golf Company** (the “Company”), a Delaware corporation. This Release is entered into in light of the fact that Employee’s employment with the Company will terminate and Employee will be eligible to receive Special Severance pursuant to Section 7 of the Agreement.

1. <u>Consideration</u>. In consideration for the payment of Special Severance, Employee agrees to the terms and provisions set forth in this Release.

2. <u>Release</u>.

(a) Employee hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and each and every past, present and future officer, director, employee, representative and attorney of the Company, its, predecessors, successors, subsidiaries, affiliates and benefit plans, and their successors and assigns (collectively referred to herein as the “Releasees”), from any, every, and all charges, complaints, claims, causes of action, and lawsuits of any kind whatsoever, including, to the extent permitted under the law, all claims which Employee has against the Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Employee’s employment by the Company, including, but not limited to, harassment, discrimination, retaliation, failure to progressively discipline Employee, termination of employment, violation of state and/or federal wage and hour laws, violations of any notice requirement, violations of the California Labor Code, or breach of any employment agreement, together with any and all other claims Employee now has or may have against the Releasees through and including Employee’s date of termination from the Company, provided, however, that Employee does not waive or release the right to enforce the Agreement, the right to enforce any stock option, restricted stock, retirement, welfare or other benefit plan, agreement or arrangement, or any rights to indemnification or reimbursement, whether pursuant to charter and by-laws of the Company or its affiliates, applicable state laws, D&O insurance policies, or otherwise. EMPLOYEE ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT EMPLOYEE IS WAIVING ANY RIGHT TO RECOVERY AGAINST RELEASEES BASED ON STATE OR FEDERAL AGE, SEX, PREGNANCY, RACE, COLOR, NATIONAL ORIGIN, MARITAL STATUS, RELIGION, VETERAN STATUS, DISABILITY, SEXUAL ORIENTATION, MEDICAL CONDITION OR OTHER ANTI-DISCRIMINATION LAWS, INCLUDING, WITHOUT LIMITATION, TITLE VII, THE AMERICANS WITH DISABILITIES ACT, THE CALIFORNIA FAIR HOUSING AND EMPLOYMENT ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE FAMILY MEDICAL RIGHTS ACT, THE CALIFORNIA FAMILY RIGHTS ACT OR BASED ON THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OR THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, ALL AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY EMPLOYEE OR A GOVERNMENTAL AGENCY.

(b) Employee understands that rights or claims under the Age Discrimination in Employment Act of 1967 (29 U.S.C. § 621, *et seq.*) that may arise after the date this Release is executed are not waived. Nothing in this Release shall be construed to prohibit Employee from exercising Employee’s right to file a charge with the Equal Employment Opportunity Commission or from participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission.

(c) Employee understands and agrees that if Employee files such a charge, the Company has the right to raise the defense that the charge is barred by this Release.

3. Section 1542 of Civil Code. Employee also waives all rights under Section 1542 of the Civil Code of the State of California. Section 1542 provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

4. Governing Law. This Release shall be construed and enforced in accordance with the internal laws of the State of California.

5. Binding Effect. This Release shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

6. Irrevocable Arbitration of Disputes.

(a) Employee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Release, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes.

(b) Employee and the Company agree that the arbitrator shall have the authority to issue provisional relief. Employee and the Company further agree that each has the right, pursuant to California Code of Civil Procedure Section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.

(c) Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.

(d) The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.

(e) The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure Section 1286, et seq.

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

(g) The provisions of this Section shall survive the termination of the Release and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 6 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ *(Employee)* **______ *(Company)***

7. Counterparts. This Release may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

8. Advice of Counsel. The Company hereby advises Employee in writing to discuss this Release with an attorney before executing it. Employee further acknowledges that the Company will provide Employee twenty-one (21) days within which to review and consider this Release before signing it. Should Employee decide not to use the full twenty-one (21) days, then Employee knowingly and voluntarily waives any claims that he was not in fact given that period of time or did not use the entire twenty-one (21) days to consult an attorney and/or consider this Release.

9. Right to Revoke. The parties acknowledge and agree that Employee may revoke this Release for up to seven (7) calendar days following Employee’s execution of this Release and that it shall not become effective or enforceable until the revocation period has expired. The parties further acknowledge and agree that such revocation must be in writing addressed to Michael J. Rider, Senior Vice President, General Counsel, Callaway Golf Company, 2180 Rutherford Road, Carlsbad, California 92008, and received no later than midnight on the seventh day following the execution of this Release by Employee. If Employee revokes this Release under this section, it shall not be effective or enforceable, and Employee will not receive the consideration described in Section 1 above.

10. Effective Date. If Employee does not revoke this Release in the timeframe specified in Section 9 above, the Release shall become effective at 12:01 a.m. on the eighth day after it is fully executed by the parties.

11. Severability. In the event any provision or provisions of this Release is or are held invalid, the remaining provisions of this Release shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Release on the dates set forth below, to be effective as of the date set forth in Section 10 above.

Employee	**Company**
	Callaway Golf Company, a Delaware corporation

EXHIBIT ONLY – DO NOT SIGN AT THIS TIME

______________________________	By: ______________________________
[Employee's Name]	[Authorized Signature]
Dated: ______________________________	Dated: ______________________________

CALLAWAY GOLF COMPANY
OFFICER EMPLOYMENT AGREEMENT

This Officer Employment Agreement ("Agreement") is entered into as of June 1, 2012 (the "Effective Date") by and between **Callaway Golf Company**, a Delaware corporation, (the "Company") and **Brian P. Lynch** ("Employee").

1. **TERM**. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the period commencing June 1, 2012 and terminating on April 30, 2013. On May 1, 2013, and on May 1 each year thereafter, the Agreement shall renew for an additional one year term unless the Company provides notice to the Employee that it is not renewing the Agreement. Upon non-renewal of the Agreement, Employee will become an employee at will unless the Agreement is terminated as provided in Section 7 below. At all times during the term of this Agreement, Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

2. **TITLE**. Employee shall serve as Senior Vice President, General Counsel and Corporate Secretary, of the Company. Employee's duties shall be the usual and customary duties of the offices in which Employee serves. Employee shall report to the Chief Executive Officer, or such other person as the Chief Executive Officer shall designate from time to time. The Board of Directors and/or the Chief Executive Officer of the Company may change employee's title, position and/or duties at any time.

3. **SERVICES TO BE EXCLUSIVE**. Employee agrees to devote Employee's full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors, its Chief Executive Officer or their designee. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company, Employee will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community or charitable activities, or from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from Employee's work for the Company.

4. **COMPENSATION**.

(a) Base Salary. In accordance with the Company's usual review and pay practices, the Company agrees to pay Employee a base salary of no less than $300,000.00 per year (prorated for any partial years of employment), payable in equal installments on regularly scheduled Company pay dates. Employee agrees that the Company may increase Employee's base salary without requiring an amendment of this Agreement through the use of a Personnel Action Notice.

(b) Annual Incentive. The Company shall provide Employee an opportunity to earn an annual incentive payment based upon participation in the Company's applicable incentive plan as it may or may not exist from time to time. Employee's incentive target percentage is forty percent (40%) of Employee's annual base salary. Any annual incentive payment earned pursuant to an applicable incentive plan shall be payable in the first quarter of the following year.

(c) Long Term Incentive. The Company shall provide Employee an opportunity to participate in the Company's applicable long term incentive program as it may or may not exist from time to time.

5. **EXPENSES AND BENEFITS**.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4, the Company shall reimburse Employee for all reasonable, customary and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses in accordance with the policies and procedures set by the Company from time to time for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision and direction of the Company and its Chief Executive Officer.

(b) Paid Time Off. Employee shall accrue paid time off in accordance with the terms and conditions of the Company's Paid Time Off Program, as stated in the Company's Employee Handbook, and as may be modified from time to time. Subject to the maximum accrual permitted under the Paid Time Off Program, Employee shall accrue paid time off at the rate of twenty-five (25) days per year. The time off may be taken any time during the year subject to prior approval by the Company. The Company reserves the right to pay Employee for unused, accrued benefits in lieu of providing time off in accordance with the Company's policies with respect to unused Paid Time Off.

(c) Insurance/Death Benefit. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide the following:

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

(ii) Subject to all applicable laws, and satisfaction of the conditions set forth below, Employee may be eligible for an additional disability benefit if Employee becomes permanently disabled. Permanent Disability shall be defined as Employee's failure to perform or being unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of six (6) months or more on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three (3) qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the two other physicians jointly. In the event that Employee is declared permanently disabled (the "Permanent Disability Date"), then Employee shall be entitled to (i) any compensation accrued and unpaid as of the Permanent Disability Date; (ii) a cash payment based on the incentive payment Employee would have received in light of the Company's actual performance as measured against the requirements of the annual incentive plan and pro-rated to the date of Employee's Permanent Disability Date; (iii) a lump sum payment equal to six (6) months of Employee's then current base salary at the same rate as in effect on the Permanent Disability Date; (iv) the vesting of all unvested long-term incentive compensation awards (e.g., SARs, stock options, and other long-term equity-based incentive awards) held by Employee that would have vested had Employee continued to perform services pursuant to this Agreement for a period of twelve (12) months from the Permanent Disability Date; (v) subject to Subsection 7(b)(ii) below, the payment of premiums owed for COBRA insurance benefits for a period of twelve (12) months from the Permanent Disability Date; and (vi) no other payments. The payment of the benefits described in (i) and (iii) of this subsection, as well as any vested time-based long-term incentive compensation awards described in (iv) of this subsection, shall be made as soon as administratively practicable following the Permanent Disability Date, but in no event later than seventy (70) days after the Permanent Disability Date; the payment of any benefits described in (ii) of this subsection, as well as any performance-based long-term incentive compensation awards described in (iv) of this subsection, shall be paid after the completion of the relevant performance period and the evaluation of whether, and the degree to which, the performance criteria have been met. The payment of this benefit shall not eliminate Employee's right to permanent disability insurance benefits if the Employee so qualifies, and shall not eliminate the right of the Company to terminate Employee's employment (e.g., a termination for substantial cause pursuant to Subsection 7(e)) without any further payment pursuant to this Agreement. Employee agrees that the Company shall be entitled to take as an offset against any amounts to be paid pursuant to this subsection any amounts received by Employee pursuant to disability or other insurance or similar income sources provided by the Company; and

(iii) Employee shall receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever Employee directs, in an amount equal to four and two tenths (4.20) times Employee's base salary, not to exceed a maximum of $1,500,000.00 in coverage, provided that Employee completes the required health statement and application and that Employee's physical condition does not prevent Employee from qualifying for such insurance coverage under reasonable terms and conditions.

(iv) In the event of Employee's death, all outstanding unvested service-based full value long-term incentive awards (e.g., restricted stock units and phantom stock units) held by Employee shall immediately vest.

(d) Retirement. Employee shall be permitted to participate in the Company's 401(k) retirement investment plan pursuant to the terms of such plan, as the same may be modified from time to time, to the extent such plan is offered to other officers of the Company.

(e) Financial Planning, Annual Executive Physical, Golf Expense Reimbursement Program and Other Perquisites. To the extent the Company provides financial, tax and estate planning and related services, annual executive physicals, golf expense reimbursements, or any other perquisites and personal benefits to other officers generally from time to time, such services and perquisites shall be made available to Employee on the same terms and conditions.

6. **TAXES**. Employee acknowledges that Employee is responsible for all taxes, including imputed income taxes related to Employee's compensation and benefits, except for those taxes for which the Company is obligated to pay under applicable law or regulation. Employee agrees that the Company may withhold from Employee's compensation any amounts that the Company is required to withhold under applicable law or regulation.

7. **TERMINATION OF EMPLOYMENT**.

(a) Termination by the Company Without Substantial Cause, or by Employee for Good Reason or Non-Renewal. Employee's employment under this Agreement may be terminated by the Company at any time without substantial cause. Employee's employment under this Agreement may also be terminated by Employee for Good Reason or Non-Renewal. "Good Reason" shall mean a material breach of this Agreement by the Company. "Non-Renewal" shall mean if the Company gives notice of non-renewal of this Agreement, as described in Section 1 above, and offers Employee a new or amended written employment agreement that is not on substantially the same or better terms as this Agreement. In the event of a termination by the Company Without Substantial Cause, or by Employee for Good Reason or Non-Renewal, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) a cash payment based on the annual incentive payment Employee would have received in the then-current year in light of the Company's actual performance as measured against the requirements of the annual incentive plan, pro-rated to the date of Employee's termination (the "Pro-Rata Incentive Plan Payment"); and (iii) the vesting of all unvested long-term incentive compensation awards (e.g., SARs, stock options, and other long-term equity-based incentive awards) held by Employee that would have vested had Employee continued to perform services pursuant to this Agreement for a period of twelve (12) months from the date of termination; provided that any unvested long-term incentive compensation awards that are subject to performance-based vesting will vest only if, and to the degree that, the performance goals are satisfied. The payment of the benefits described in (i) of this subsection as well as any vested time-based long-term incentive compensation awards described in (iii) of this subsection shall be made as soon as administratively practicable following the date of termination. The payment of any benefits described in (ii) of this subsection as well as any performance-based long-term incentive compensation awards described in (iii) of this subsection shall be paid after the completion of the relevant performance period and the evaluation of whether, and the degree to which, the performance criteria have been met. In addition to the foregoing and subject to the provisions thereof, Employee shall be eligible to receive Special Severance as described in Subsection 7(b) and Incentive Payments as described in Subsection 7(c).

(i) Conditions on Termination by Employee for Good Reason or Non-Renewal. In the event that Employee seeks to terminate this Agreement for Good Reason or Non-Renewal, the following notice procedures shall apply:

1. Good Reason - Within ninety (90) days of the date Employee knows, or should have known, that Employee is entitled to terminate this Agreement for Good Reason, as defined above, Employee shall notify the Company in writing of the Good Reason and Employee's intent to terminate the Agreement no earlier than thirty (30) days later. Company shall then have thirty (30) days to cure the condition underlying Employee's notice or inform Employee, in writing, of its intent not to do so. If Company fails to cure the condition, or states that it does not intend to attempt to cure the condition underlying Employee's notice, then Employee shall then have the right to terminate for Good Reason no later than ninety (90) days following the expiration of the cure period or the written statement of intent not to cure.

2. Non-Renewal – At least sixty (60) days prior to the expiration of this Agreement, the Company shall notify Employee in writing of Non-Renewal, as defined above. Within thirty (30) days of delivery of the written notice of Non-Renewal, the Company shall provide Employee with a new or amended employment agreement or inform Employee in writing that it does not intend to offer Employee a new employment agreement. Employee shall then have the option, for forty-five (45) days following expiration of the Agreement, to notify the Company, in writing, of Employee's intent to terminate Employee's employment for Non-Renewal.

(b) Special Severance. In the event of a termination pursuant to Subsection 7(a) of this Agreement, Special Severance shall consist of a total amount equal to 0.500 times the sum of Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twelve (12) months from the date of termination. Employee shall also be entitled to the payment of premiums owed for COBRA and/or CalCOBRA insurance benefits and the continuation of the financial, tax and estate planning services (on the then-existing terms and conditions) through the period during which Employee is receiving Special Severance. In addition, the Company shall offer to provide, at Company expense, up to one (1) year of outplacement services through a professional outplacement firm of the Company's choosing.

(i) Conditions on Receiving Special Severance. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance pursuant to this Agreement shall be subject to Employee's continued compliance with the terms and conditions of Sections 8 and 11; Employee's continued forbearance from directly, indirectly or in any other way, disparaging the Company, its officers or employees, vendors, customers, products or activities, or otherwise interfering with the Company's press, public and media relations; and Employee's execution, prior to receiving any Special Severance, of an effective release in the form attached hereto as Exhibit B within the time period set forth therein (but in no event later than sixty (60) days after the date of termination of employment). Additionally, none of the Special Severance benefits will be paid or otherwise delivered prior to the effective date of the release, so that amounts otherwise payable prior to the release effective date will accrue and be paid as soon as administratively practicable, except as required by Subsection 7(h) below. Employee agrees that payment of Special Severance pursuant to this subsection shall be in lieu of, and not in addition to, any other payment that Employee might otherwise be entitled to, including, but not limited to, payments under any state or federal Worker Adjustment and Retraining Notification Act, any similar statute, or as provided for under common law.

(ii) Payment in lieu of COBRA. Notwithstanding anything else to the contrary, if the Company determines, in its sole discretion, that the Company cannot provide COBRA premium benefits under this Agreement without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall, in lieu thereof, pay Employee a taxable cash amount, which payment shall be made if Employee has elected health care continuation coverage (the "Health Care Benefit Payment"). If applicable, the Health Care Benefit Payment shall be paid in a single lump sum as soon as administratively practicable following the effective date of the release signed by Employee, but in no event later than seventy (70) days after the date of termination of employment or the Permanent Disability Date, as applicable. The Health Care Benefit Payment shall be equal to the amount that the Company would have otherwise paid for COBRA insurance premiums (at the level of healthcare benefits Employee and Employee's dependents are enrolled in as of the termination date) calculated based on the premium for the first month of coverage.

(c) Incentive Payments. In the event of a termination pursuant to Subsection 7(a) of this Agreement, Employee shall also be offered the opportunity to receive Incentive Payments in a total amount equal to 0.500 times the sum of Employee's most recent annual base salary and target incentive, payable in equal installments on the same pay schedule in effect at the time of termination over a period of twelve (12) months from the date of termination.

(i) Terms and Conditions for Incentive Payments. Employee may receive Incentive Payments so long as Employee chooses not to engage (whether as an owner, employee, agent, consultant, or in any other capacity) in any business or venture that competes with the business of the Company or any of its affiliates. If Employee chooses to engage in such activities, then the Company shall have no obligation to make further Incentive Payments commencing upon the date which Employee chooses to do so.

(ii) Sole Consideration. Employee and the Company agree and acknowledge that the sole and exclusive consideration for the Incentive Payments is Employee's forbearance as described in Subsection 7(c)(i) above. In the event that Subsection 7(c)(i) is deemed unenforceable or invalid for any reason, then the Company will have no obligation to make Incentive Payments for the period of time during which it has been deemed unenforceable or invalid. The obligations and duties of this Subsection 7(c) shall be separate and distinct from the other obligations and duties set forth in this Agreement, and any finding of invalidity or unenforceability of this Subsection 7(c) shall have no effect upon the validity or invalidity of the other provisions of this Agreement.

(d) Treatment of Special Severance and Incentive Payments. Any Special Severance and Incentive Payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements.

(e) Termination by the Company for Substantial Cause or by Employee Without Good Reason. Employee's employment under this Agreement may be terminated immediately and at any time by the Company for substantial cause or by Employee without good reason. In the event of such a termination, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. "Substantial cause" shall mean Employee's (1) failure to substantially perform Employee's duties; (2) material breach of this Agreement; (3) misconduct, including but not limited to, use or possession of illegal drugs during work and/or any other action that is damaging or detrimental in a significant manner to the Company; (4) conviction of, or plea of guilty or *nolo contendere* to, a felony; or (5) failure to cooperate with, or any attempt to obstruct or improperly influence, any investigation authorized by the Board of Directors or any governmental or regulatory agency.

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

(g) Other. Except for the amounts specifically provided pursuant to this Section 7, Employee shall not be entitled to any further compensation, incentive, damages, restitution, relocation benefits, or other severance benefits upon termination of employment. The amounts payable to Employee pursuant to these Sections shall not be treated as damages, but as compensation to which Employee may be entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee pursuant to this Section 7 any amounts earned by Employee in other employment after termination of Employee's employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 7 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Compliance with Section 409A. Each installment of severance benefits is a separate "payment" for purposes of Section 409A of the Internal Revenue Code of 1986 and the regulations governing Section 409A (collectively "Section 409A"), and the severance benefits are intended to satisfy the exemptions under Section 409A. It is intended that if Employee is a "specified employee" within the meaning of Section 409A at the time of a separation from service, then, to the extent necessary, the severance benefits will not be paid until at least six (6) months after separation from service.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to require Employee to vacate Employee's office or otherwise remain off the Company's premises and to cease any and all activities on the Company's behalf without such action constituting a termination of employment or a breach of this Agreement.

(j) Forfeiture.

(i) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of the intentional misconduct or gross negligence of the Employee, with any financial reporting requirement under the United States securities laws, then the Employee shall forfeit and reimburse the Company for all of the following: (i) any incentive or incentive compensation paid based upon such erroneously stated financial information, (ii) any incentive or incentive compensation or equity compensation received by Employee during the twelve (12) month period following the earlier of the first public issuance or filing with the SEC of the financial document embodying the financial reporting requirement, (iii) any profits realized from the sale of Company securities during that same twelve (12) month period, (iv) if Employee is terminated or has been terminated, the right to receive Special Severance and Incentive Payments, and (v) if Employee is terminated or has been terminated, any unvested and/or unexercised long-term incentive compensation awards.

(ii) If the Employee is one of the persons subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 (i.e. the Chief Executive Officer or Chief Financial Officer) and the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct (within the meaning of said Section 304, but other than as a result of Employee's intentional misconduct or gross negligence, which is governed by the preceding subsection), with any financial reporting requirement under the United States securities laws, then the Employee shall forfeit and reimburse the Company for all of the following: (i) any incentive or incentive compensation or equity compensation received by Employee during the twelve (12) month period following the earlier of the first public issuance or filing with the SEC of the financial document embodying the financial reporting requirement and (ii) any profits realized from the sale of Company securities during that same twelve (12) month period.

(iii) Employee acknowledges that Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, among other things, requires the United States Securities and Exchange Commission to direct the national securities exchanges to prohibit the continued listing of the securities of an issuer unless the issuer develops and implements a policy providing, among other things, for the recovery of certain erroneously awarded compensation. Upon the Company's adoption of such a policy, Employee agrees that this Agreement shall be automatically amended without any further consideration to incorporate the recovery provisions set forth in the policy. Upon the request of the Company, Employee agrees without further consideration to execute an amendment evidencing the incorporation of said provisions into this Agreement.

(iv) No forfeiture or recovery of compensation under this subsection (j) shall constitute an event giving rise to Employee's right to terminate this Agreement for Good Reason.

8. **OTHER EMPLOYEE DUTIES AND OBLIGATIONS**.

In addition to any other duties and obligations set forth in this Agreement, Employee shall be obligated as follows:

(a) Compliance. Employee shall be required to comply with all policies and procedures of the Company as such shall be adopted, modified or otherwise established by the Company from time to time, including, but not limited to, the Company's Code of Conduct. While employed by the Company pursuant to this Agreement, or while receiving severance, incentive or other payments or consideration from the Company following termination of this Agreement, Employee shall disclose in writing to the Company's Chief Executive Officer any conviction of, or plea of guilty or *nolo contendere* to, a felony.

(b) Trade Secrets and Confidential Information.

(i) As used in this Agreement, the term "Trade Secrets and Confidential Information" means information, whether written or oral, not generally available to the public, regardless of whether it is suitable to be patented, copyrighted and/or trademarked, which is received from the Company and/or its affiliates, either directly or indirectly, including but not limited to concepts, ideas, plans and strategies involved in the Company's and/or its affiliates' products, the processes, formulae and techniques disclosed by the Company and/or its affiliates to Employee or observed by Employee, the designs, inventions and innovations and related plans, strategies and applications which Employee develops during the term of this Agreement in connection with the work performed by Employee for the Company and/or its affiliates; and third party information which the Company and/or its affiliates has/have agreed to keep confidential.

(ii) While employed by the Company, Employee will have access to and become familiar with Trade Secrets and Confidential Information. Employee acknowledges that Trade Secrets and Confidential Information are owned and shall continue to be owned solely by the Company and/or its affiliates. Employee agrees that Employee will not, at any time, whether during or subsequent to Employee's employment by the Company and/or its affiliates, use or disclose Trade Secrets and Confidential Information for any competitive purpose or divulge the same to any person other than the Company or persons with respect to whom the Company has given its written consent, unless Employee is compelled to make disclosure by governmental process. In the event Employee believes that Employee is legally required to disclose any Trade Secrets or Confidential Information, Employee shall give reasonable notice to the Company prior to disclosing such information and shall assist the Company in taking such legally permissible steps as are reasonable and necessary to protect the Trade Secrets or Confidential Information, including, but not limited to execution by the receiving party of a non-disclosure agreement in a form acceptable to the Company.

(iii) Employee agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require.

(iv) The provisions of this Subsection 8(b) shall survive the termination of this Agreement and shall be binding upon Employee in perpetuity.

(c) Assignment of Rights.

(i) As used in this Agreement, “Designs, Inventions and Innovations,” whether or not they have been patented, trademarked, or copyrighted, include, but are not limited to designs, inventions, innovations, ideas, improvements, processes, sources of and uses for materials, apparatus, plans, systems and computer programs relating to the design, manufacture, use, marketing, distribution and management of the Company’s and/or its affiliates’ products.

(ii) As a material part of the terms and understandings of this Agreement, Employee agrees to assign to the Company all Designs, Inventions and Innovations developed, conceived and/or reduced to practice by Employee, alone or with anyone else, in connection with the work performed by Employee for the Company during Employee’s employment with the Company, regardless of whether they are suitable to be patented, trademarked and/or copyrighted.

(iii) Employee agrees to disclose in writing to the President of the Company any Design, Invention or Innovation relating to the business of the Company and/or its affiliates, which Employee develops, conceives and/or reduces to practice in connection with any work performed by Employee for the Company, either alone or with anyone else, while employed by the Company and/or within twelve (12) months of the termination of employment. Employee shall disclose all Designs, Inventions and Innovations to the Company, even if Employee does not believe that Employee is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign Employee’s interest in such Design, Invention or Innovation to the Company. If the Company and Employee disagree as to whether or not a Design, Invention or Innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

(iv) Pursuant to California Labor Code Section 2870, the obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation to the extent such obligation would conflict with any state or federal law. The obligation to assign as provided in this Agreement does not apply to any Design, Invention or Innovation that Employee developed entirely on Employee’s own time without using the Company’s equipment, supplies, facilities or Trade Secrets and Confidential Information, except those Designs, Inventions or Innovations that either relate at the time of conception or reduction to practice to the Company’s and/or its affiliates’ business, or actual or demonstrably anticipated research of the Company and/or its affiliates; or result from any work performed by Employee for the Company and/or its affiliates.

(v) Employee agrees that any Design, Invention and/or Innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company’s request, at no expense to Employee, Employee shall execute any and all proper applications for patents, copyrights and/or trademarks, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all Designs, Inventions and Innovations belonging to the Company.

(vi) The provisions of this Subsection 8(c) shall survive the termination of this Agreement and shall be binding upon Employee in perpetuity.

(d) Competing Business. To the fullest extent permitted by law, Employee agrees that, while employed by the Company, Employee will not, directly or indirectly (whether as employee, agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which conflicts with Employee’s duties under this Agreement, including services that are directly or indirectly in competition with the business of the Company or any of its affiliates, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company or any of its affiliates. For purposes of this section, the ownership of interests in a broadly based mutual fund shall not constitute ownership of the stocks held by the fund.

(e) Other Employees. Except as may be required in the performance of Employee’s duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company or any of its affiliates to terminate such employment. This obligation shall remain in effect while Employee is employed by the Company and for a period of one (1) year thereafter.

(f) Suppliers. While employed by the Company, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company or any of its affiliates to diminish or cease furnishing such goods, services or credit.

(g) Conflict of Interest. While employed by the Company, Employee shall comply with all Company policies regarding actual or apparent conflicts of interest with respect to Employee’s duties and obligations to the Company.

(h) Non-Disparagement. While employed by the Company, and for one (1) year thereafter, Employee shall not in any way undertake to harm, injure or disparage the Company, its officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them.

(i) Surrender of Equipment, Books and Records. Employee understands and agrees that all equipment, books, records, customer lists and documents connected with the business of the Company and/or its affiliates are the property of and belong to the Company. Under no circumstances shall Employee remove from the Company’s facilities any of the Company’s and/or its affiliates’ equipment, books, records, documents, lists or any copies of the same without the Company’s permission, nor shall Employee make any copies of the Company’s and/or its affiliates’ books, records, documents or lists for use outside the Company’s office except as specifically authorized by the Company. Employee shall return to the Company and/or its affiliates all equipment, books, records, documents and customer lists belonging to the Company and/or its affiliates upon termination of Employee’s employment with the Company.

9. **RIGHTS UPON A CHANGE IN CONTROL.**

(a) Notwithstanding anything in this Agreement to the contrary, if upon or at any time during the term of this Agreement there is a Termination Event (as defined below) that occurs within one (1) year following any Change in Control (as defined in Exhibit A), Employee shall be treated as if Employee had been terminated by the Company without substantial cause pursuant to Subsection 7(a).

(b) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of Employee's death, or any of the factors enumerated in Subsection 7(e) providing for termination by the Company for substantial cause:

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

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

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

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

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

(c) Special Severance in the Event of a Termination Pursuant to Section 9. In the event of a termination pursuant to Section 9 of this Agreement, then Special Severance shall consist of a total amount equal to 1.000 times the sum of the Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twenty-four (24) months from the date of termination. All such Special Severance shall be subject to the provisions of Subsection 7(b).

(d) Incentive Payments in the Event of a Termination Pursuant to Section 9. In the event of a termination pursuant to Section 9 of this Agreement, Employee shall be offered the opportunity to receive Incentive Payments in a total amount equal to 1.000 times the sum of Employee's most recent annual base salary and annual target incentive, payable in equal installments on the same pay schedule as in effect at the time of termination over a period of twenty-four (24) months from the date of termination. All such Incentive Payments shall be subject to the provisions of Subsection 7(c).

(e) To the extent that any or all of the payments and benefits provided for in this Agreement and pursuant to any other agreements with Employee constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code (the "Code") and, but for this Section 9, would be subject to the excise tax imposed by Section 4999 of the Code, then the aggregate amount of such payments and benefits shall be reduced by the minimum amounts necessary to equal one dollar less than the amount which would result in such payments and benefits being subject to such excise tax. The reduction, unless the employee elects otherwise, shall be in such order that provides employee with the greatest after-tax amount possible. All determinations required to be made under this Section 9, including whether a payment would result in a parachute payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized accounting firm agreed to by the Company and Employee. The Company shall pay the cost of the accounting firm, and the accounting firm shall provide detailed supporting calculations both to the Company and the Employee. The determination of the accounting firm shall be final and binding upon the Company and the Employee, except that if, as a result of subsequent events or conditions (including a subsequent payment or the absence of a subsequent payment or a determination by the Internal Revenue Service or applicable court), it is determined that the excess parachute payments, excise tax or any reduction in the amount of payments and benefits, is or should be other than as determined initially, an appropriate adjustment shall be made, as applicable, to reflect the final determination.

10. **MISCELLANEOUS.**

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

(b) Entire Understanding. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. As of the Effective Date, except as otherwise explicitly provided herein, this Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

(c) Notices. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to Employee at the address currently on file with the Company, and to the Company at:

Company: Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008
Attn: Chief Executive Officer

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

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

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

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

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

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

(i) Counterparts. This Agreement may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

11. **IRREVOCABLE ARBITRATION OF DISPUTES.**

(a) Employee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes.

(b) Employee and the Company agree that the arbitrator shall have the authority to issue provisional relief. Employee and the Company further agree that each has the right, pursuant to California Code of Civil Procedure section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.

(c) Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.

(d) The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years' experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.

(e) The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure Section 1286, et seq.

(f) It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery only to those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to at least one (1) deposition and shall have access to essential documents and witnesses as determined by the arbitrator.

(g) The provisions of this Section shall survive the termination of the Agreement and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 11 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

/s/ BL (Employee) ***/s/ CC (Company)***

12. **COOPERATION**. At the request of the Company, Employee agrees to cooperate with the Company's reasonable requests for assistance removing Employee's name from corporate boards, other corporate documents, bank accounts and the like, including, but not limited to, signing documents and taking other action as requested by the Company. By taking such actions in response to the request of the Company, Employee is not forfeiting any right to indemnity or defense that may be afforded to Employee under Delaware or other applicable laws.

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

EMPLOYEE	**COMPANY**
	Callaway Golf Company, a Delaware corporation
/s/ Brian P. Lynch	By: /s/ Chris Carroll
Brian P. Lynch	Chris Carroll
	Senior Vice President, Global Human Resources

EXHIBIT A

CHANGE IN CONTROL

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

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

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

3. Consummation by the Company of the sale, lease, exchange or other disposition, in one transaction or a series of transactions, by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

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

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

4. Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of complete liquidation or dissolution of the Company.

EXHIBIT B

RELEASE OF CLAIMS – GENERAL RELEASE

This Release of Claims – General Release ("Release") is effective as of the date provided for in Section 10 below, and is made by and between (“Employee”), pursuant to the Officer Employment Agreement (the "Agreement") to which this document is attached, and **Callaway Golf Company** (the "Company"), a Delaware corporation. This Release is entered into in light of the fact that Employee's employment with the Company will terminate and Employee will be eligible to receive Special Severance pursuant to Section 7 of the Agreement.

1. Consideration. In consideration for the payment of Special Severance, Employee agrees to the terms and provisions set forth in this Release.

2. Release.

(a) Employee hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, subsidiaries, affiliates and benefit plans, and each and every past, present and future officer, director, employee, representative and attorney of the Company, its, predecessors, successors, subsidiaries, affiliates and benefit plans, and their successors and assigns (collectively referred to herein as the "Releasees"), from any, every, and all charges, complaints, claims, causes of action, and lawsuits of any kind whatsoever, including, to the extent permitted under the law, all claims which Employee has against the Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Employee's employment by the Company, including, but not limited to, harassment, discrimination, retaliation, failure to progressively discipline Employee, termination of employment, violation of state and/or federal wage and hour laws, violations of any notice requirement, violations of the California Labor Code, or breach of any employment agreement, together with any and all other claims Employee now has or may have against the Releasees through and including Employee's date of termination from the Company, provided, however, that Employee does not waive or release the right to enforce the Agreement, the right to enforce any stock option, restricted stock, retirement, welfare or other benefit plan, agreement or arrangement, or any rights to indemnification or reimbursement, whether pursuant to charter and by-laws of the Company or its affiliates, applicable state laws, D&O insurance policies, or otherwise. EMPLOYEE ALSO SPECIFICALLY AGREES AND ACKNOWLEDGES THAT EMPLOYEE IS WAIVING ANY RIGHT TO RECOVERY AGAINST RELEASEES BASED ON STATE OR FEDERAL AGE, SEX, PREGNANCY, RACE, COLOR, NATIONAL ORIGIN, MARITAL STATUS, RELIGION, VETERAN STATUS, DISABILITY, SEXUAL ORIENTATION, MEDICAL CONDITION OR OTHER ANTI-DISCRIMINATION LAWS, INCLUDING, WITHOUT LIMITATION, TITLE VII, THE AMERICANS WITH DISABILITIES ACT, THE CALIFORNIA FAIR HOUSING AND EMPLOYMENT ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE FAMILY MEDICAL RIGHTS ACT, THE CALIFORNIA FAMILY RIGHTS ACT OR BASED ON THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OR THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, ALL AS AMENDED, WHETHER SUCH CLAIM BE BASED UPON AN ACTION FILED BY EMPLOYEE OR A GOVERNMENTAL AGENCY.

(b) Employee understands that rights or claims under the Age Discrimination in Employment Act of 1967 (29 U.S.C. § 621, *et seq.*) that may arise after the date this Release is executed are not waived. Nothing in this Release shall be construed to prohibit Employee from exercising Employee's right to file a charge with the Equal Employment Opportunity Commission or from participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission.

(c) Employee understands and agrees that if Employee files such a charge, the Company has the right to raise the defense that the charge is barred by this Release.

3. Section 1542 of Civil Code. Employee also waives all rights under Section 1542 of the Civil Code of the State of California. Section 1542 provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

4. Governing Law. This Release shall be construed and enforced in accordance with the internal laws of the State of California.

5. Binding Effect. This Release shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

6. Irrevocable Arbitration of Disputes.

(a) Employee and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Release, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. This includes, but is not limited to, alleged violations of federal, state and/or local statutes, claims based on any purported breach of duty arising in contract or tort, including breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, violation of any statutory, contractual or common law rights, but excluding workers' compensation, unemployment matters, or any matter falling within the jurisdiction of the state Labor Commissioner. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes.

(b) Employee and the Company agree that the arbitrator shall have the authority to issue provisional relief. Employee and the Company further agree that each has the right, pursuant to California Code of Civil Procedure Section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.

(c) Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.

(d) The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years' experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.

(e) The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure Section 1286, et seq.

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

(g) The provisions of this Section shall survive the termination of the Release and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 6 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______ ***(Employee)*** ______ ***(Company)***

7. Counterparts. This Release may be executed in one or more counterparts which, when fully executed by the parties, shall be treated as one agreement.

8. Advice of Counsel. The Company hereby advises Employee in writing to discuss this Release with an attorney before executing it. Employee further acknowledges that the Company will provide Employee twenty-one (21) days within which to review and consider this Release before signing it. Should Employee decide not to use the full twenty-one (21) days, then Employee knowingly and voluntarily waives any claims that he was not in fact given that period of time or did not use the entire twenty-one (21) days to consult an attorney and/or consider this Release.

9. Right to Revoke. The parties acknowledge and agree that Employee may revoke this Release for up to seven (7) calendar days following Employee's execution of this Release and that it shall not become effective or enforceable until the revocation period has expired. The parties further acknowledge and agree that such revocation must be in writing addressed to the Chief Executive Officer, Callaway Golf Company, 2180 Rutherford Road, Carlsbad, California 92008, and received no later than midnight on the seventh day following the execution of this Release by Employee. If Employee revokes this Release under this section, it shall not be effective or enforceable, and Employee will not receive the consideration described in Section 1 above.

10. Effective Date. If Employee does not revoke this Release in the timeframe specified in Section 9 above, the Release shall become effective at 12:01 a.m. on the eighth day after it is fully executed by the parties.

11. Severability. In the event any provision or provisions of this Release is or are held invalid, the remaining provisions of this Release shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Release on the dates set forth below, to be effective as of the date set forth in Section 10 above.

Employee	**Company**
	Callaway Golf Company, a Delaware corporation
	EXHIBIT ONLY – DO NOT SIGN AT THIS TIME
______________________________	By: ______________________________
[Employee's Name]	[Authorized Signature]
Dated: ______________________	Dated: ______________________

Callaway Golf Company	*Recipient:*
Non-Employee Director	*Effective Grant Date:*
Phantom Stock Unit Grant	*Number of Units:*

CALLAWAY GOLF COMPANY, a Delaware corporation (the "**Company**"), has elected to grant to you, the Recipient named above, a Phantom Stock Unit award subject to the restrictions and on the terms and conditions set forth below, in consideration for your services to the Company. Terms not otherwise defined in this Phantom Stock Unit Grant Agreement ("**Agreement**") will have the meanings ascribed to them in the Callaway Golf Company Amended and Restated 2004 Incentive Plan (the "**Plan**").

1. <u>**Governing Plan**</u>. The Phantom Stock Unit award is granted outside the Plan, but it is subject in all respects to the applicable provisions of the Plan, which are incorporated herein by this reference, as if it were granted under the Plan. In the case of any conflict between the provisions of the Plan and this Agreement, the provisions of the Plan will control.

2. <u>**Grant of Phantom Stock Unit**</u>. Effective as of the Effective Grant Date identified above, the Company has granted and issued to the Recipient the Number of Phantom Stock Units identified above (the "**PSU**"), representing an unfunded, unsecured promise of the Company to make a cash payment in the future, subject to the claims of the Company's creditors and the terms, conditions and restrictions set forth in this Agreement. Each PSU will represent the right to a cash payment upon vesting equal to the Fair Market Value of one share of the Company's Common Stock. The number of PSUs shall be adjusted in accordance with Section 15 of the Plan. Nothing contained in this Agreement, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind or a fiduciary relationship between Recipient and the Company or any other person.

3. <u>**Restrictions on the PSU**</u>. The PSU is subject to the following restrictions:

(a) <u>**No Transfer**</u>. The PSU may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered until a cash payment is actually made, and any additional requirements or restrictions contained in this Agreement have been satisfied, terminated or waived by the Company in writing.

(b) <u>**Cancellation of Unvested PSUs**</u>. In the event Recipient ceases to provide "Continuous Service" (as defined below) for any reason before the PSU vests pursuant to <u>paragraph 4</u> and the restrictions set forth in <u>paragraph 3</u> expire, this award shall be cancelled with respect to any then unvested portion of the PSU and no additional PSUs shall vest; provided, however, that the Board of Directors or a designated Board committee (the "**Board**") may, in its discretion, determine not to cancel and void all or part of such unvested award, in which case the Board may impose whatever conditions it considers appropriate with respect to such portion of the unvested award.

For purposes of this Agreement, "**Continuous Service**" means that the Recipient's service with the Company or its "parent" or "subsidiary" as such terms are defined in Rule 405 of the Securities Act (each an "**Affiliate**" and together

"**Affiliates**"), whether as an employee, director or consultant, is not interrupted or terminated. The Board shall have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition of Affiliate. A change in the capacity in which the Recipient renders service to the Company or an Affiliate as an employee, consultant or director or a change in the entity for which the Recipient renders such service, provided that there is no interruption or termination of the Recipient's service with the Company or an Affiliate, shall not terminate a Recipient's Continuous Service. For example, a change in status from a non-employee director of the Company to a consultant or to an employee of the Company or one of its subsidiaries shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board, in its sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any approved leave of absence, including sick leave, military leave or any other personal leave.

4. **Lapse of Restrictions**. The restrictions imposed under paragraph 3 will lapse and expire, and the PSU will vest, in accordance with the following:

(a) **Vesting Schedule**. Subject to earlier cancellation, and subject to the accelerated vesting provisions, if any, set forth in any agreement between Recipient and the Company or its Affiliate, as the same may be amended, modified, extended or renewed from time to time, the restrictions imposed under paragraph 3 will lapse and be removed, and the PSU shall vest, with respect to the number of PSUs set forth below in accordance with the vesting schedule set forth below (the "**Vesting Schedule**"):

Number of PSUs	**Date Restrictions Lapse**

The Board, however, may, in its discretion, accelerate the Vesting Schedule (in which case, the Board may impose whatever conditions it considers appropriate on the accelerated portion).

In addition, the restrictions imposed under paragraph 3 will automatically lapse and be removed, and the PSU shall vest, immediately prior to any Change in Control, if the Recipient is providing Continuous Service to the Company or its Affiliate at that time, provided, however, that the Board, in its sole discretion, may provide that such restrictions do not automatically lapse, and the PSU shall not vest, immediately prior to any such Change in Control, and instead provide that the PSU shall continue under the same terms and conditions or shall continue under the same terms and conditions with respect to shares of a successor company to which the PSU value may become tied in connection with a Change in Control. Notwithstanding the foregoing, if the Board elects to provide that such restrictions do not lapse, and PSU does not vest, in connection with a Change in Control and Recipient's Continuous Service is terminated for any reason within one year following such Change in Control, then such restrictions shall lapse and be removed, and PSU shall vest, immediately upon such termination of Continuous Service. For purposes hereof, "Change in Control" shall have the meaning set forth in Exhibit A attached hereto.

(b) **Effect of Vesting**. As soon as administratively practicable after vesting, but in no case later than twenty (20) business days after vesting, the Company will deliver to Recipient a cash payment for each vested phantom stock unit equal to the Fair Market Value on the vesting date of one share of the Company's Common Stock.

(c) **Payment of Taxes**. If applicable, upon vesting and/or issuance of a cash payment in accordance with the foregoing, the Company and/or its Affiliate shall withhold all applicable tax-related items legally payable by Recipient from such cash payment, his or her wages or other cash compensation paid to Recipient by the Company and/or Affiliate equal to the amount of the total withholding tax obligation.

5. **No Dividend Equivalents**. If a cash dividend is paid with respect to shares of Common Stock, Recipient shall not be credited with additional PSUs as dividend equivalent payments.

6. **Nature of Grant**. In accepting the grant, Recipient acknowledges that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of the PSU is voluntary and occasional and does not create any contractual or other right to receive future grants of PSUs, or benefits in lieu of PSUs, even if PSUs have been granted repeatedly in the past, and all decisions with respect to future PSU grants, if any, will be at the sole discretion of the Company;

(c) Recipient's participation in the Plan shall not create a right to Continued Service with the Company or an Affiliate and shall not interfere with the ability the Company or an Affiliate to terminate Recipient's service relationship at any time with or without cause;

(d) Recipient is voluntarily participating in the Plan;

(e) the PSU is an extraordinary benefit and is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or an Affiliate;

(f) the future value of the PSU is unknown and cannot be predicted with certainty; and

(g) in consideration of the grant of the PSU, no claim or entitlement to compensation or damages shall arise from termination of the PSU or diminution in value of the PSU resulting from termination of Recipient's Continuous Service by the Company or an Affiliate (for any reason whatsoever) and Recipient irrevocably releases the Company and its Affiliates from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing this Agreement, Recipient shall be deemed irrevocably to have waived his or her entitlement to pursue such claim.

7. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to the PSU and participation in the Plan or future PSUs that may be granted under the Plan by electronic means or to request Recipient consent to participate in the Plan by electronic means. Recipient hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

8. **Taxable Event**. **The Recipient acknowledges that the issuance of the cash payment upon the PSU vesting will have significant tax consequences to the Recipient and Recipient is hereby advised to consult with Recipient's own tax advisors concerning such tax consequences.**

9. **Amendment**. This Agreement may be amended only by a writing executed by the Company and Recipient which specifically states that it is amending this Agreement. Notwithstanding the foregoing, this Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to Recipient, and provided that no such amendment adversely affecting Recipient's rights hereunder may be made without Recipient's written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to Recipient, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change will be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

10. **Miscellaneous**.

(a) The rights and obligations of the Company under this Agreement will be transferable by the Company to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) Recipient agrees upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of this Agreement.

(c) Recipient acknowledges that the PSU award granted to Recipient under the Plan is subject to all general Company policies as amended from time to time.

11. **Severability**. The provisions of this Agreement shall be deemed to be severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or any circumstance, is held to be invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severed, and in lieu thereof there shall automatically be added as part of this Agreement a suitable and equitable provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision.

12. **<u>Governing Law</u>**. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware and applicable federal law.

13. **<u>Irrevocable Arbitration of Disputes</u>**.

(a) **You and the Company agree that any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, that cannot be resolved by mutual agreement of the parties shall be submitted to binding arbitration. The parties agree that arbitration is the parties' only recourse for such claims and hereby waive the right to pursue such claims in any other forum, unless otherwise provided by law. Any court action involving a dispute which is not subject to arbitration shall be stayed pending arbitration of arbitrable disputes.**

(b) **You and the Company agree that the arbitrator shall have the authority to issue provisional relief. You and the Company further agree that each has the right, pursuant to California Code of Civil Procedure section 1281.8, to apply to a court for a provisional remedy in connection with an arbitrable dispute so as to prevent the arbitration from being rendered ineffective.**

(c) **Any demand for arbitration shall be in writing and must be communicated to the other party prior to the expiration of the applicable statute of limitations.**

(d) **The arbitration shall be administered by JAMS pursuant to its Employment Arbitration Rules and Procedures. The arbitration shall be conducted in San Diego by a former or retired judge or attorney with at least 10 years experience in employment-related disputes, or a non-attorney with like experience in the area of dispute, who shall have the power to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The parties must mutually agree on the arbitrator. If the parties cannot agree on the arbitrator after their best efforts, an arbitrator will be selected from JAMS pursuant to its Employment Arbitration Rules and Procedures. The Company shall pay the costs of the arbitrator's fees.**

(e) **The arbitration will be decided upon a written decision of the arbitrator stating the essential findings and conclusions upon which the award is based. The arbitrator shall have the authority to award damages, if any, to the extent that they are available under applicable law(s). The arbitration award shall be final and binding, and may be entered as a judgment in any court having competent jurisdiction. Either party may seek review pursuant to California Code of Civil Procedure section 1286, et seq.**

(f) **It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is**

expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery only to those matters clearly relevant to the dispute. However, at a minimum, each party will be entitled to at least one (1) deposition and shall have access to essential documents and witnesses as determined by the arbitrator.

(g) The provisions of this Section shall survive the expiration or termination of the Agreement, and shall be binding upon the parties.

THE PARTIES HAVE READ SECTION 13 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

______(Company) ***______ (Recipient)***

14. **<u>Data Privacy</u>**. *Recipient hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this document by and among, as applicable, the Company and its Affiliates for the exclusive purpose of implementing, administering and managing Recipient's participation in the Plan.*

Recipient understands that the Company and its Affiliates may hold certain personal information about Recipient, including, but not limited to, Recipient's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all PSUs or any entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in Recipient's favor, for the purpose of implementing, administering and managing the Plan ("Data"). Recipient understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these Data recipients may be located in Recipient's country or elsewhere, and that the Data recipients' country may have different data privacy laws and protections than Recipient's country. Recipient understands that he or she may request a list with the names and addresses of any potential third parties to whom the Data may be transferred by contacting the local human resources representative. Recipient authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing Recipient's participation in the Plan. Recipient understands that Data will be held only as long as is necessary to implement, administer and manage Recipient's participation in the Plan. Recipient understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, without cost, by contacting in writing the local human resources representative. Recipient understands, however, that refusing or withdrawing consent may affect Recipient's ability to participate in the Plan. For more information on the consequences of refusal to consent or withdrawal of consent, Recipient understands that he or she may contact the local human resources representative.

IN WITNESS WHEREOF, the Company and Recipient have executed this Agreement effective as of the Effective Grant Date.

CALLAWAY GOLF COMPANY	RECIPIENT
By: ______________________	______________________

EXHIBIT A

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

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

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

(c) Consummation by the Company of the sale, lease, exchange or other disposition (in one transaction or a series of related transactions) by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

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

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

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

Exhibit 10.8

FIRST AMENDMENT TO SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS **FIRST AMENDMENT TO SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT** (this "Amendment"), dated as of June 11, 2012, is entered into by and among the Lenders (as defined below) signatory hereto, **BANK OF AMERICA, N.A.**, as administrative agent and as security trustee for the Lenders (in such capacity, "Agent"), **CALLAWAY GOLF COMPANY,** a Delaware corporation ("Parent"), **CALLAWAY GOLF SALES COMPANY**, a California corporation ("Callaway Sales"), **CALLAWAY GOLF BALL OPERATIONS, INC.**, a Delaware corporation ("Callaway Operations", and together with Parent and Callaway Sales, collectively, "U.S. Borrowers"), **CALLAWAY GOLF CANADA LTD.**, a Canada corporation ("Canadian Borrower"), **CALLAWAY GOLF EUROPE LTD.**, a company organized under the laws of England (registered number 02756321) ("U.K. Borrower" and together with the U.S. Borrowers and the Canadian Borrower, collectively, "Borrowers"), and the other Obligors party hereto.

RECITALS

A. Borrowers, the other Obligors party thereto, Agent, and the financial institutions signatory thereto from time to time (each a "Lender" and collectively the "Lenders") have previously entered into that certain Second Amended and Restated Loan and Security Agreement dated as of December 22, 2011 (as amended, supplemented, restated and modified from time to time, the "Loan Agreement"), pursuant to which the Lenders have made certain loans and financial accommodations available to Borrowers. Terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

B. Obligors have requested that Agent and the Required Lenders amend the Loan Agreement, which Agent and the Required Lenders are willing to do pursuant to the terms and conditions set forth herein.

C. Obligors are entering into this Amendment with the understanding and agreement that, except as specifically provided herein, none of Agent's or any Lender's rights or remedies as set forth in the Loan Agreement or any of the other Loan Documents are being waived or modified by the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Amendments to Loan Agreement.

(a) The following definitions are hereby added to Section 1.1 of the Loan Agreement in their proper alphabetical order:

"2012 Acquisition: as defined in Section 10.2.2(j)."

"2012 Debt: as defined in the definition of Excluded Stock Repurchase."

"2012 Debt Reserve: a reserve established by Agent in an initial amount not to exceed the net proceeds of the 2012 Debt received by Parent (after giving effect to all fees, expenses, premiums and other amounts paid by any Obligor in connection therewith or in connection with any Preferred Stock Repurchases made substantially contemporaneously with the incurrence of such Debt and excluding, for the avoidance of doubt, any 2012 Debt that is exchanged for Parent's outstanding 7.50% Series B Cumulative Perpetual Convertible Preferred Stock). The 2012 Debt Reserve: (a) shall be reduced on a dollar for dollar basis for any amounts expended in connection with any Preferred Stock Repurchases made in accordance with **Section 10.2.6(h)**; and (b) may be reduced from time to time upon Parent's written request; provided, however, that once reduced, the 2012 Debt Reserve may not be increased. The parties agree that the 2012 Debt Reserve (x) shall never be less than zero (-0-), and (y) shall be included in the calculation of the U.S. Availability Reserve."

"First Amendment Effective Date: June 11, 2012."

(b) The definition of "Excluded Stock Repurchases" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Excluded Stock Repurchases: any: (a) Preferred Stock Repurchases, and (b) repurchases or redemptions of the Parent's common stock to the extent consummated when the Parent does not have any outstanding 7.50% Series B Cumulative Perpetual Convertible Preferred Stock, $0.01 par value; provided, however, that the aggregate amount under clauses (a) and (b) which shall be deemed Excluded Stock Repurchases shall not exceed $140,000,000 (the "Excluded Repurchase Cap"); provided further, however, that if Parent has incurred at least $100,000,000 of Debt under **Section 10.2.3(m)** within three hundred sixty five days (365) days of the First Amendment Effective Date or such later date as may be agreed by the Administrative Agent with the consent of the Required Lenders (the "2012 Debt"), the Excluded Repurchase Cap shall be $160,000,000."

(c) Section 10.2.2 of the Loan Agreement is hereby amended by:

(i) deleting the "and" at the end of clause (g) thereof,

(ii) amending and restating the beginning of clause (h) thereof through and including the defined term "Investment Cap" (it being understood that everything after the defined term "Investment Cap" shall remain in effect unless otherwise expressly provided below):

"so long as no Event of Default has occurred and is continuing or would result therefrom, any other Investments (other than an Acquisition) in an aggregate amount not to exceed $25,000,000 during the term of the Agreement (such limitation, the "Investment Cap");"

(iii) deleting the "." at the end of clause (h) thereof;

(iv) adding the following new clauses (i) and (j) thereto:

"(i) Investments by a U.S. Domiciled Obligor in any Subsidiary that is not a Borrower or Guarantor to the extent such Investments are in the form of a transfer of assets (other than any Collateral) of such U.S. Domiciled Obligor so long as: (A) such assets are in existence as of the First Amendment Effective Date, and (B) such assets are predominantly used in connection with the golf ball manufacturing operations of Parent; and

(j) Investments by a U.S. Domiciled Obligor in connection with an Acquisition in an aggregate amount not to exceed $5,000,000 (the "2012 Acquisition"), provided that (x) all of the conditions set forth in the definition of "Permitted Acquisition" shall have been satisfied (other than the condition in clause (i)(D) of the provisos to each of clauses (e) and (h) in the definition of "Permitted Acquisition") and (y) for the avoidance of doubt, the 2012 Acquisition shall not count towards the Acquisition Cap."

(d) Section 10.2.6 of the Loan Agreement is hereby amended by:

(i) deleting the "and" at the end of clause (d) thereof,

(ii) deleting the "." at the end of clause (e) thereof and inserting a ";" in lieu thereof, and

(iii) adding the following new clauses (f), (g), and (h) thereto:

"(f) so long as no Event of Default has occurred and is continuing or would result therefrom, Parent may make cash payments in lieu of issuance of fractional shares in connection with the conversion of any convertible stock or debt securities of Parent, in an aggregate amount not to exceed $5,000,000 for all such payments;

(g) so long as no Event of Default has occurred and is continuing or would result therefrom, Parent may make Preferred Stock Repurchases to the extent (i) such Preferred Stock Repurchases are made solely using the proceeds of Debt incurred under **Section 10.2.3(m)** or made in the form of exchanges for such debt, and (ii) such Preferred Stock Repurchases are made substantially contemporaneously with the incurrence of such Debt; and

(h) Parent may make Preferred Stock Repurchases so long as: (i) no Event of Default has occurred and is continuing or would result therefrom, and (ii) the amount expended in connection with any such Preferred Stock Repurchase does not exceed the 2012 Debt Reserve in effect immediately prior to giving effect to any such expenditures."

2. Amendment Fees. The U.S. Borrowers shall pay to Agent, for the benefit of each Lender who executes and delivers this Amendment on or before the date hereof, a non-refundable amendment fee equal to 0.10% of the aggregate amount of each such Lender's Commitment, which amendment fees shall be fully earned and due and payable on the date hereof.

3. Effectiveness of this Amendment. The following shall have occurred before this Amendment is effective:

(a) Amendment. Agent shall have received this Amendment, executed by Agent, each Obligor and the Required Lenders in a sufficient number of counterparts for distribution to all parties.

(b) Amendment Fee Letter. Agent shall have received an Amendment Fee Letter, in form and substance satisfactory to Agent, executed by U.S. Borrowers.

(c) Representations and Warranties. The representations and warranties set forth herein must be true and correct.

(d) No Default. No event has occurred and is continuing that constitutes an Event of Default.

(e) Other Required Documentation. All other documents and legal matters in connection with the transactions contemplated by this Amendment shall have been delivered or executed or recorded and shall be in form and substance satisfactory to Agent.

4. Representations and Warranties. Each Obligor represents and warrants as follows:

(a) Authority. Each Obligor has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Loan Documents (as amended or modified hereby) to which it is a party. The execution, delivery and performance by each Obligor of this Amendment have been duly approved by all necessary corporate action and no other corporate proceedings are necessary to consummate such transactions.

(b) Enforceability. This Amendment has been duly executed and delivered by each Obligor. This Amendment and each Loan Document to which any Obligor is a party (as amended or modified hereby) is the legal, valid and binding obligation of such Obligor, enforceable against such Obligor in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability, and is in full force and effect.

(c) Representations and Warranties. The representations and warranties contained in each Loan Document to which any Obligor is a party (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof as though made on and as of the date hereof.

(d) Due Execution. The execution, delivery and performance of this Amendment are within the power of each Obligor, have been duly authorized by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restrictions binding on any Obligor.

(e) No Default. No event has occurred and is continuing that constitutes an Event of Default.

5. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the internal laws of the State of New York, without giving effect to any conflict of law principles (but giving effect to Section 5-1401 of the New York General Obligation Law and Federal laws relating to national banks). The consent to forum and judicial reference provisions set forth in Section 14.15 of the Loan Agreement are hereby incorporated in this Amendment by reference.

6. Counterparts. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telefacsimile or a substantially similar electronic transmission shall have the same force and effect as the delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or a substantially similar electronic transmission shall also deliver an original executed counterpart, but the failure to do so shall not affect the validity, enforceability or binding effect of such agreement.

7. Reference to and Effect on the Loan Documents.

(a) Upon and after the effectiveness of this Amendment, each reference in the Loan Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Loan Agreement, and each reference in the other Loan Documents to “the Loan Agreement”, “thereof” or words of like import referring to the Loan Agreement, shall mean and be a reference to the Loan Agreement as modified and amended hereby.

(b) Except as specifically amended above, the Loan Agreement and all other Loan Documents are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed and shall constitute the legal, valid, binding and enforceable obligations of Obligors to Agent and the Lenders.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Agent or any Lender under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

(d) To the extent that any terms and conditions in any of the Loan Documents shall contradict or be in conflict with any terms or conditions of the Loan Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Loan Agreement as modified or amended hereby.

8. Ratification. Each Obligor hereby restates, ratifies and reaffirms each and every term and condition set forth in the Loan Agreement, as amended hereby, and the Loan Documents effective as of the date hereof.

9. Estoppel. To induce Lenders to enter into this Amendment and to continue to make advances to Borrowers under the Loan Agreement, each Obligor hereby acknowledges and agrees that, as of the date hereof, there exists no right of offset, defense, counterclaim or objection in favor of any Obligor as against Agent or any Lender with respect to the Obligations.

10. Integration. This Amendment, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

11. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first above written.

OBLIGORS:

CALLAWAY GOLF COMPANY,
a Delaware corporation

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Senior Executive Vice President and CFO

CALLAWAY GOLF SALES COMPANY,
a California corporation

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Director

CALLAWAY GOLF BALL OPERATIONS, INC.,
a Delaware corporation

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Director

CALLAWAY GOLF CANADA LTD.,
a Canada corporation

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Director

CALLAWAY GOLF EUROPE LTD.,
a company organized under the laws of England and Wales

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Director

CALLAWAY GOLF INTERACTIVE, INC.
a Texas corporation

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Director

CALLAWAY GOLF INTERNATIONAL SALES COMPANY,
a California corporation

By: /s/ Bradley J. Holiday
Name: Bradley J. Holiday
Title: Director and President

CALLAWAY GOLF EUROPEAN HOLDING COMPANY LIMITED,
a company limited by shares incorporated under the laws of England and Wales

By: /s/ Neil Howie
Name: Neil Howie
Title: Director

AGENT AND LENDERS

BANK OF AMERICA, N.A., as Agent and as a Lender

By: /s/ Monirah J. Masud
Name: Monirah J. Masud
Title: SVP

BANK OF AMERICA, N.A.
(acting through its Canada branch), as a Canadian Lender

By: /s/ Medina Sales De Andrade
Name: Medina Sales De Andrade
Title: Vice President

BANK OF AMERICA, N.A.
(acting through its London branch), as a U.K. Lender

By: /s/ Monirah J. Masud
Name: Monirah J. Masud
Title: SVP

UBS LOAN FINANCE LLC,
as a U.S. Lender and a U.K. Lender

By: /s/ Mary E. Evans
Name: Mary E. Evans
Title: Associate Director Banking Products Services, US

By: /s/ Irja R. Orsa
Name: Irja R. Orsa
Title: Associate Director Banking Products Services, US

UBS AG CANADA BRANCH,
as a Canadian Lender

By: /s/ Mary E. Evans
Name: Mary E. Evans
Title: Associate Director Banking Products Services, US

By: /s/ Irja R. Orsa
Name: Irja R. Orsa
Title: Associate Director Banking Products Services, US

WELLS FARGO BANK, N.A.,
as a U.S. Lender

By: /s/ Thomas Forbath
Name: Thomas Forbath
Title: Vice President

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA, as a Canadian Lender

By: /s/ Katherine Kilbourne
Name: Katherine Kilbourne
Title: EVP

WELLS FARGO BANK, N.A.
(London Branch), as a U.K. Lender

By: /s/ Anja Best
Name: Anja Best
Title: Senior Vice President

SUNTRUST BANK,
as a U.S. Lender and as a Canadian Lender

By: /s/ Preston McDonald
Name: Preston McDonald
Title: Vice President

Exhibit 31.1

CERTIFICATION

I, Oliver G. Brewer, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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/ Oliver G. Brewer, III

Oliver G. Brewer, III
President and Chief Executive Officer

Dated: August 2, 2012

Exhibit 31.2

CERTIFICATION

I, Bradley J. Holiday, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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: August 2, 2012

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 Quarterly Report of the Company on Form 10-Q for the quarterly period ended June 30, 2012, as filed with the Securities and Exchange Commission (the "10-Q Report"), that:

(1) the 10-Q 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-Q 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 August 2, 2012.

/S/ OLIVER G. BREWER, III
Oliver G. Brewer, III
President and Chief Executive Officer

/S/ BRADLEY J. HOLIDAY
Bradley J. Holiday
Senior Executive Vice President and
Chief Financial Officer