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 September 30, 2011

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 October 31, 2011 was 64,886,876.

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, computation of the annual estimated effective tax rate at each interim period, projected capital expenditures and depreciation and amortization expense, future contractual obligations, the realization of deferred tax assets, including loss and credit carryforwards, the reversal of the deferred tax valuation allowance in future periods, future income tax expense, the estimated amount or timing of charges and savings related to the Company's restructuring plan, the reinvestment of the savings, the completion of the restructuring plan or the transition of the North American manufacturing and distribution operations, the recovery of the Company's business in Japan, as well as the return to profitability in 2012 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 those affecting the implementation of the Company's global operations strategy initiatives, the success of the Company's reorganization and reinvestment initiatives announced in June 2011, as well as 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—Apex—Backstryke—Ben Hogan—BH—Big Bertha—Black Series Tour Designs—Callaway—Callaway Golf—Callaway uPro GO—C Grind—Chev—Chev 18—Chevron Device—D.A.R.T.—Demonstrably Superior and Pleasingly Different—Diablo Edge-Diablo Forged—Diablo Octane—Dimple-in-Dimple—Divine—Eagle-ERC—Flying Lady—FTiZ—FT Performance—FT Tour—Fusion—Gems—Great Big Bertha—Heavenwood—Hogan—HX—HX Diablo—HX Diablo Tour—Hex Aerodynamics—Hex Black Tour— IMIX—Legacy—Legacy Aero—Legend—Marksman—Never Lay Up—Number One Putter in Golf—Odyssey—OptiFit—ORG.14—Razr Fit—Razr Hawk—Razr X—Razr XF—Razr X Forged—Razr X Muscleback—Razr X Tour—Rossie—S2H2—Sabertooth—Solaire—Steelhead—Strata—Stronomic—Sure-Out—Teron—TF design—Tech Series—Ti-Hot—Top-Flite—Top-Flite D2—Top-Flite XL—Tour Authentic—Tour i—Tour i(S)—Tour iX—Tour i(Z)—Trade In! Trade Up!—Tru Bore—uPro—uPro MX—VFT—War Bird—White Hot—White Hot Tour—White Hot XG—White Ice—World's Friendliest—XL7000—X-Act—XJ Series—XL Extreme—X-Series—X-Series Jaws—X-SPANN—Xtra Traction Technology—XTT—Xtra Width Technology—XWT-2-Ball.*

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CALLAWAY GOLF COMPANY

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

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,295	$ 55,043
Accounts receivable, net	147,528	144,643
Inventories	204,213	268,591
Deferred taxes, net	4,761	23,514
Income taxes receivable	5,229	10,235
Other current assets	28,212	41,703
Total current assets	454,238	543,729
Property, plant and equipment, net	119,653	129,601
Intangible assets, net	122,903	131,327
Goodwill	30,462	30,630
Deferred taxes, net	1,495	3,786
Other assets	36,999	36,939
Total assets	$ 765,750	$ 876,012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 105,783	$ 139,312
Accrued employee compensation and benefits	27,220	26,456
Accrued warranty expense	9,989	8,427
Deferred taxes	4,761	27
Income tax liability	336	944
Total current liabilities	148,089	175,166
Long-term liabilities:		
Income taxes payable	7,286	8,554
Deferred taxes, net	27,422	1,376
Long-term other	6,097	4,037
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 September 30, 2011 and December 31, 2010, respectively	14	14
Common stock, $.01 par value, 240,000,000 shares authorized, 66,340,695 and 66,317,049 shares issued at September 30, 2011 and December 31, 2010, respectively	663	663
Additional paid-in capital	264,461	264,235
Retained earnings	314,201	432,977
Accumulated other comprehensive income	12,732	13,564
Less: Grantor Stock Trust held at market value, 0 shares and 291,341 shares at September 30, 2011 and December 31, 2010, respectively	—	(2,351)
Less: Common Stock held in treasury, at cost, 1,453,819 shares and 1,910,646 shares at September 30, 2011 and December 31, 2010, respectively	(17,800)	(24,835)
Total Callaway Golf Company shareholders' equity	574,271	684,267
Non-controlling interest in consolidated entity (Note 10)	2,585	2,612
Total shareholders' equity	576,856	686,879
Total liabilities and shareholders' equity	$ 765,750	$ 876,012

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

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CALLAWAY GOLF COMPANY

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net sales	$173,243	$175,644	$ 732,656	$782,128
Cost of sales	125,857	126,593	458,927	472,156
Gross profit	47,386	49,051	273,729	309,972
Operating expenses:				
Selling expense	62,273	56,307	211,688	201,665
General and administrative expense	20,775	21,447	67,186	65,570
Research and development expense	8,501	9,265	26,196	27,231
Total operating expenses	91,549	87,019	305,070	294,466
Income (loss) from operations	(44,163)	(37,968)	(31,341)	15,506
Other expense, net	(3,570)	(2,449)	(8,377)	(5,582)
Income (loss) before income taxes	(47,733)	(40,417)	(39,718)	9,924
Income tax provision (benefit) (Note 3)	14,854	(22,100)	69,117	(3,527)
Net income (loss)	(62,587)	(18,317)	(108,835)	13,451
Dividends on convertible preferred stock	2,625	2,625	7,875	7,875
Net income (loss) allocable to common shareholders	$ (65,212)	$ (20,942)	$(116,710)	$ 5,576
Earnings (loss) per common share:				
Basic	$ (1.01)	$ (0.33)	$ (1.81)	$ 0.09
Diluted	$ (1.01)	$ (0.33)	$ (1.81)	$ 0.09
Weighted-average common shares outstanding:				
Basic	64,781	63,989	64,505	63,831
Diluted	64,781	63,989	64,505	64,319

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

CALLAWAY GOLF COMPANY

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net (loss) income	$(108,835)	$ 13,451
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	28,438	30,242
Impairment charge	5,413	—
Deferred taxes	51,660	(10,713)
Non-cash share-based compensation	8,879	7,547
(Gain) loss on disposal of long-lived assets (Note 4)	(7,196)	149
Changes in assets and liabilities:		
Accounts receivable, net	(4,582)	(11,462)
Inventories	63,886	(3,193)
Other assets	12,556	1,592
Accounts payable and accrued expenses	(35,332)	4,849
Accrued employee compensation and benefits	(630)	725
Accrued warranty expense	1,562	(518)
Income taxes receivable	3,925	18,911
Other liabilities	2,116	4,303
Net cash provided by operating activities	21,860	55,883
Cash flows from investing activities:		
Capital expenditures	(21,154)	(15,355)
Proceeds from sales of property, plant and equipment (Note 4)	18,287	—
Other investing activities	—	(2,595)
Net cash used in investing activities	(2,867)	(17,950)
Cash flows from financing activities:		
Issuance of common stock	2,198	2,954
Dividends paid	(9,819)	(9,800)
Credit facility origination fees	(2,467)	—
Other financing activities	(84)	(546)
Net cash used in financing activities	(10,172)	(7,392)
Effect of exchange rate changes on cash and cash equivalents	431	2,077
Net increase in cash and cash equivalents	9,252	32,618
Cash and cash equivalents at beginning of year	55,043	78,314
Cash and cash equivalents at end of period	$ 64,295	$110,932
Supplemental disclosures:		
Cash received/(paid) for income taxes, net	$ (1,352)	$ 11,309
Cash paid for interest and fees	$ 2,753	$ (443)
Dividends payable	$ 438	$ 438
Acquisition of treasury stock for minimum statutory withholding taxes	$ 1,587	$ 714
Purchases of capital expenditures unpaid at period end	$ 1,636	$ 1,846

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

CALLAWAY GOLF COMPANY

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Grantor Stock Trust	Treasury Stock		Non-controlling Interest	Total	Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount					Shares	Amount			
Balance, December 31, 2010	**1,400**	**$ 14**	**66,317**	**$ 663**	**$264,235**	**$ 432,977**	**$ 13,564**	**$(2,351)**	**(1,911)**	**$(24,835)**	**$ 2,612**	**$ 686,879**	
Acquisition of Treasury Stock for minimum statutory withholding taxes	—	—	—	—	—	—	—	—	(227)	(1,587)	—	(1,587)	
Compensatory stock and stock options	—	—	24	—	2,198	—	—	1,655	394	5,026	—	8,879	
Employee stock purchase plan	—	—	—	—	(2,032)	—	—	634	290	3,596	—	2,198	
Stock dividends	—	—	—	—	122	(122)	—	—	—	—	—	—	
Cash dividends	—	—	—	—	—	(9,819)	—	—	—	—	—	(9,819)	
Adjustment of Grantor Stock Trust shares to market	—	—	—	—	(62)	—	—	62	—	—	—	—	
Equity adjustment from foreign currency translation	—	—	—	—	—	—	(832)	—	—	—	—	(832)	$ (832)
Change in non-controlling interest	—	—	—	—	—	—	—	—	—	—	(340)	(340)	
Net income (loss)	—	—	—	—	—	(108,835)	—	—	—	—	313	(108,522)	(108,835)
Balance, September 30, 2011	**1,400**	**$ 14**	**66,341**	**$ 663**	**$264,461**	**$ 314,201**	**$ 12,732**	**$ —**	**(1,454)**	**$(17,800)**	**$ 2,585**	**$ 576,856**	**$ (109,667)**

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, 2010 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 September 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-08, “Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment” (“ASU 2011-08”). ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Although early adoption is permitted, the Company will adopt ASU 2011-08 as of January 1, 2012. Based on the Company’s evaluation of this ASU, the adoption of ASU 2011-08 will not have a material impact on the Company’s consolidated condensed financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income” (“ASU 2011-05”). This ASU amends the FASB Accounting Standards Codification to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 will be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Although early adoption is permitted, the Company will adopt ASU 2011-05 as of January 1, 2012. Based on the Company’s evaluation of this ASU, the adoption of ASU 2011-05 will only impact the presentation of comprehensive income on the Company’s consolidated condensed financial statements.

In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements” (“ASU 2011-04”). This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (together, the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments to this ASU are to be applied prospectively. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. Based on the Company’s evaluation of this ASU, the adoption of ASU 2011-04 will not have a material impact on the Company’s consolidated condensed financial statements.

2. Restructuring Initiatives

Global Operations Strategy

In the fourth quarter of 2006, the Company began the implementation of certain gross margin improvement initiatives. Since their inception and through the end of 2009, these initiatives primarily consisted of process improvements in the procurement of direct materials, including all components used in finished products, and the procurement of indirect goods and services as well as value engineering and automation to create efficiencies within the Company’s operational areas. In 2010, the Company began the implementation of the next phase of the gross margin improvement initiatives, which targets the restructuring and relocation of the Company’s manufacturing and distribution operations (the “Global Operations Strategy” or “GOS Initiatives”). The Company expects to complete the implementation of this phase of the gross margin improvement initiatives by the end of 2011.

During the third quarter of 2010, as part of the Company’s Global Operations Strategy, the Company announced the restructuring of its golf club and golf ball 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. It is estimated that this restructuring will be completed by the end of 2011. The Company intends to maintain limited manufacturing and distribution facilities in Carlsbad, California and Chicopee, Massachusetts.

As a result of this restructuring, the Company has recognized and will continue to recognize in 2011 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.

For the three and nine months ended September 30, 2011, in connection with this restructuring, the Company recorded pre-tax charges of $5,229,000 and $17,571,000, respectively, the majority of which was recognized within cost of sales, and of which $12,279,000 and $5,061,000 was absorbed by the Company’s golf clubs and golf balls segments, respectively. Charges related to corporate general and administrative expenses of $231,000 were excluded from the Company’s operating segments. Since the announcement of these restructuring initiatives through September 30, 2011, the Company has recognized total pre-tax charges of $32,387,000.

CALLAWAY GOLF COMPANY

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

In October 2011, in connection with the GOS Initiatives, the Company entered into an agreement with a third party to sublease one of the Company's buildings, which resulted in the recognition of net charges of approximately $3,800,000. As a result, the Company increased the total estimated charges related to its GOS Initiatives to approximately $40,000,000-$45,000,000. As of September 30, 2011, the total future estimated charges are $7,800,000, of which approximately $7,400,000 will be settled in cash and approximately $400,000 will be non-cash charges, and $6,700,000 and $1,100,000 will be absorbed by the golf clubs and golf balls segments, respectively. These estimated charges reflect the Company's best estimate as of the filing of this report based upon the Company's current plans. Any change in the Company's plans, or any delays, difficulties, or change in costs associated with the implementation of these initiatives, could affect the estimated amounts or timing of the charges.

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 this savings to be reinvested into the Callaway brand and more effective demand creation initiatives. In connection with the Reorganization and Reinvestment Initiatives, the Company expects to incur total pre-tax charges of approximately $15,000,000 to $20,000,000. The Company recognized $7,395,000 and $12,557,000 of these charges during the three and nine months ended September 30, 2011, respectively, and expects to incur a majority of the remaining charges during the fourth quarter of 2011.

CALLAWAY GOLF COMPANY

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

The table below depicts the activity and liability balances recorded as part of the Company's GOS and Reorganization and Reinvestment Initiatives as well as the current estimated future charges relating to these initiatives (in thousands). Amounts payable as of September 30, 2011 and December 31, 2010 were included in accounts payable and accrued expenses, and accrued employee compensation and benefits on the accompanying consolidated condensed balance sheets.

	GOS Initiatives			Reorganization and Reinvestment Initiatives	
	Workforce Reductions	Transition Costs	Asset Write-offs	Workforce Reductions	Total
Restructuring payable balance, December 31, 2010	$ 3,268	$ 384	$ —	$ —	$ 3,652
Charges to cost and expense	$ 2,142	$ 3,602	$ 785	—	$ 6,529
Non-cash items	—	—	(785)	—	(785)
Cash payments	(369)	(3,825)	—	—	(4,194)
Restructuring payable balance, March 31, 2011	$ 5,041	$ 161	$ —	$ —	$ 5,202
Charges to cost and expense	$ 1,999	$ 3,154	$ 660	$ 5,162	$ 10,975
Non-cash items	—	—	(660)	(1,746)	(2,406)
Cash payments	(1,095)	(3,220)	—	(1,950)	(6,265)
Restructuring payable balance, June 30, 2011	$ 5,945	$ 95	$ —	$ 1,466	$ 7,506
Charges to cost and expense	$ 1,038	$ 3,565	$ 626	$ 7,395	$ 12,624
Non-cash items	—	—	(626)	(380)	(1,006)
Cash payments	(3,260)	(3,615)	—	(4,357)	(11,232)
Restructuring payable balance, September 30, 2011	$ 3,723	$ 45	$ —	$ 4,124	$ 7,892
Total future charges estimated as of September 30, 2011	$ 1,000	$ 6,400	$ 400	$ 3,000	$ 10,800

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"). 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 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.

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

CALLAWAY GOLF COMPANY

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

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. As required under applicable accounting rules, the Company therefore accrues an amount for its estimate of additional tax liability, including interest and penalties, which the Company could potentially incur as a result of the ultimate resolution of the uncertain tax positions. The Company reviews and updates the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, completion of tax audits, the expiration of applicable statute of limitations, or upon occurrence of other events.

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 that the Company would be required to pay additional taxes. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained. 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 September 30, 2011, the liability for income taxes associated with uncertain tax positions was $9,876,000 and could be reduced by $4,341,000 of offsetting tax benefits associated with the correlative effects of potential transfer pricing adjustments as well as $1,066,000 of tax benefits associated with state income taxes. The net amount of $4,469,000, 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 carryforwards, 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. In evaluating whether a valuation allowance is required under such rules, the Company considers all available positive and negative evidence pertaining to the likelihood that the deferred tax asset will be realized, including prior operating results, its forecast of future taxable income, and the dates on which any deferred tax assets are expected to expire. Certain evidence such as the amount of taxable income or losses in recent years is given greater weight than forecasted future taxable income under the applicable accounting rules when making the required assessment of whether realization is likely. In evaluating whether the realization of the Company's U.S. deferred tax assets would be deemed likely under applicable accounting rules, the Company considered, among other things, the Company's taxable losses in the United States in each of the last two years and the Company's current projected taxable loss for the U.S. business for fiscal 2011. When evaluated in light of the applicable standards, this evidence suggested that the Company should establish a valuation allowance. As a result, during the nine months ended September 30, 2011, the Company recorded a $51,925,000 increase to income tax expense in order to establish a valuation allowance against its U.S. deferred tax assets, and also reversed certain pre-paid tax assets related to intercompany profits of $12,237,000 to income tax expense. 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, 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.

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

As a result of the establishment of the valuation allowance against its U.S. deferred tax assets, the Company does not recognize a tax benefit on taxable losses generated in the U.S. Furthermore, income taxes related to intercompany profits generated from sales in the U.S. to the Company's foreign subsidiaries that would typically impact the statement of operations in periods with no valuation allowance are no longer deferred and amounts previously accumulated as prepaid tax expense are charged to the provision for income taxes in the statement of operations. The reversal of the prepaid tax asset is included in the determination of the annual estimated effective tax rate resulting in $12,237,000 of tax expense for the three and nine months ended September 30, 2011. The Company expects to incur tax expense of $9,308,000 during the fourth quarter of 2011 as the remaining prepaid taxes are charged to the provision for income taxes.

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2010, the Company identified that it had understated its long-term deferred tax liabilities by approximately $8,967,000 in its consolidated financial statements as of December 31, 2010 and in certain prior periods. This understatement relates to the tax treatment of certain intangible assets, certain depreciable assets, deductible stock options and deferred revenue related to gift cards all of which relate to periods prior to 2008. Accordingly, the Company corrected the accompanying consolidated condensed balance sheet as of December 31, 2010, which resulted in a decrease to retained earnings of $9,428,000 and an increase to additional paid-in capital of $461,000, with corresponding decreases of $879,000 and $8,088,000 to short-term and long-term deferred tax assets. These corrections do not impact the Company's consolidated statements of operations previously reported in the Company's consolidated financial statements for each of the three years in the period ended December 31, 2010 included in its 2010 Form 10-K. The Company does not believe the foregoing corrections are material to such financial statements. The effect of these corrections on the Company's December 31, 2010 balance sheet are summarized as follows (in thousands):

	December 31, 2010	
	As Previously Reported	As Corrected
Deferred tax assets, net (current)	$ 24,393	$ 23,514
Deferred tax assets, net (non-current)	$ 11,874	$ 3,786
Additional paid-in capital	$ 263,774	$ 264,235
Retained earnings	$ 442,405	$ 432,977

CALLAWAY GOLF COMPANY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
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As a result of the corrections to long-term deferred tax liabilities for certain depreciable assets, deductible stock options and deferred revenue related to gift cards, 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 will prospectively correct the consolidated condensed financial statements for the three and six months ended June 30, 2011 as follows (in thousands):

	June 30, 2011	
	As Previously Reported	As Corrected
Deferred tax assets, net (current)	$ 4,761	$ 5,723
Deferred tax assets, net (non-current)	$ 1,624	$ 4,452
Deferred tax liabilities, net (current)	$ 7,018	$ 6,621
Deferred tax liabilities, net (non-current)	$ 25,582	$ 25,271
Additional paid-in capital	$ 266,783	$ 267,244
Retained earnings	$ 379,739	$ 383,776

	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.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. For the three and nine months ended September 30, 2011, the Company recognized approximately $41,000 and $180,000, respectively, of interest expense and penalties in the provision for income taxes. As of September 30, 2011 and December 31, 2010, the Company had accrued $828,000 and $648,000, 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)	2004 and prior
Massachusetts (United States)	2007 and prior
Australia	2006 and prior
Canada	2006 and prior
Japan	2007 and prior
South Korea	2008 and prior
United Kingdom	2006 and prior
Thailand	2008 and prior

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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 carryforwards ("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 increase 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. Although the Company's ownership has changed significantly during the three-year period ended September 30, 2011 (due in significant part to the Company's June 2009 preferred stock offering), the Company does not believe there has been a cumulative increase in ownership by "5-percent shareholders" in excess of 50 percentage points during that period. 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 ongoing building consolidation project aimed at consolidating the Company's 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 nine months ended September 30, 2011, the Company recognized $511,000 and $1,021,000, 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.

5. Preferred Stock Offering

On June 15, 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 September 30, 2011, 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.

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The Company may also elect, on or prior to June 15, 2012, to mandatorily convert some or all of the preferred stock into shares of the Company's common stock if the closing price of the Company's common stock has exceeded 150% of the conversion price for at least 20 of the 30 consecutive trading days ending the day before the Company sends the notice of mandatory conversion. If the Company elects to mandatorily convert any preferred stock, it will make an additional payment on the preferred stock equal to the aggregate amount of dividends that would have accrued and become payable through and including June 15, 2012, less any dividends already paid on the preferred stock. As of September 30, 2011, this amount would have been $7,437,500.

On or after June 20, 2012, 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.

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, potential shares related to the Employee Stock Purchase Plan ("ESPP") 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"). Dilutive securities related to the ESPP are calculated by dividing the average withholdings during the period by 85% of the market value of the Company's common stock at the end of the period.

The preferred stock is generally convertible into shares of common stock and earns cumulative dividends from the date of original issue at an initial rate of 7.50% per annum. In accordance with ASC 260, dividends on cumulative preferred stock are subtracted from net income to calculate net income allocable to common shareholders in the basic earnings per share calculation. For the three and nine months ended September 30, 2011 and 2010, the Company declared $2,625,000 and $7,875,000, respectively, in dividends to preferred shareholders.

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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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Earnings (loss) per common share—basic				
Net income (loss)	$(62,587)	$(18,317)	$(108,835)	$13,451
Less: Preferred stock dividends	(2,625)	(2,625)	(7,875)	(7,875)
Net income (loss) allocable to common shareholders	$(65,212)	$(20,942)	$(116,710)	$ 5,576
Weighted-average common shares outstanding—basic	64,781	63,989	64,505	63,831
Basic earnings (loss) per common share	$ (1.01)	$ (0.33)	$ (1.81)	$ 0.09
Earnings (loss) per common share—diluted				
Net income (loss)	$(65,212)	$(20,942)	$(116,710)	$ 5,576
Weighted-average common shares outstanding—basic	64,781	63,989	64,505	63,831
Options, restricted stock and other dilutive securities	—	—	—	488
Weighted-average common shares outstanding—diluted	64,781	63,989	64,505	64,319
Diluted earnings (loss) per common share	$ (1.01)	$ (0.33)	$ (1.81)	$ 0.09

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 September 30, 2011 and 2010, dilutive securities outstanding totaling approximately 30,583,000 and 30,307,000 shares, respectively, including preferred stock of 19,858,000, were excluded from the calculations. For the nine months ended September 30, 2011 and 2010, dilutive securities outstanding totaling approximately 30,790,000 and 29,758,000 shares, respectively, including preferred stock of 19,858,000, were excluded from the calculations.

7. Inventories

Inventories are summarized below (in thousands):

	September 30, 2011	December 31, 2010
Inventories:		
Raw materials	$ 41,291	$ 48,804
Work-in-process	650	1,585
Finished goods	162,272	218,202
	$ 204,213	$ 268,591

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)	September 30, 2011 Gross	September 30, 2011 Accumulated Amortization	September 30, 2011 Net Book Value	December 31, 2010 Gross	December 31, 2010 Accumulated Amortization	December 31, 2010 Net Book Value
Non-Amortizing:							
Trade name, trademark and trade dress and other	NA	$ 108,834	$ —	$ 108,834	$ 114,247	$ —	$ 114,247
Amortizing:							
Patents	2-16	36,459	28,308	8,151	36,459	26,405	10,054
Developed technology and other	1-9	12,387	6,469	5,918	12,387	5,361	7,026
Total intangible assets		$ 157,680	$ 34,777	$ 122,903	$ 163,093	$ 31,766	$ 131,327

Aggregate amortization expense on intangible assets was approximately $1,000,000 and $3,011,000 for the three and nine months ended September 30, 2011, respectively. Amortization expense related to intangible assets at September 30, 2011 in each of the next five fiscal years and beyond is expected to be incurred as follows (in thousands):

Remainder of 2011	$ 1,148
2012	3,449
2013	2,560
2014	1,881
2015	1,844
2016	1,834
Thereafter	1,353
	$14,069

Goodwill at September 30, 2011 and December 31, 2010 was $30,462,000 and $30,630,000, respectively. The decrease in goodwill during the three and nine months ended September 30, 2011 of $990,000 and $168,000, respectively, was due to foreign currency fluctuations.

During the second quarter of 2011, the Company conducted an impairment test on its goodwill and intangible assets, including the trade names, trademarks and other intangible assets the Company acquired in 2003 as part of the Top-Flite acquisition. The fair value of the Company's intangible assets was calculated by taking the expected future cash flows of those assets over their estimated useful lives and discounting the cash flows based upon an appropriate discount rate. The discounted cash flow analysis was based upon management's best estimates relating to the Company's intangible assets such as (i) forecasted sales, (ii) estimated royalty rates, (iii) estimated long-term growth rates, and (iv) the discount rate. In calculating the expected future cash flows from the trade names and trademarks acquired as part of the Top-Flite acquisition, the Company considered the continued negative impact of a trend in the golf industry where premium branded competitor golf balls are being sold through the mass market channel as well as a recent increase of in-house brands being sold in the sporting goods and mass market channels. This increase in premium branded and in-house balls in these retail channels over the past two years as well as the fact that the Company's business in the United States has not recovered and returned to profitability as management had previously projected has negatively impacted sales of Top-Flite branded golf balls more than previously estimated. Management believed this competitive pressure in these retail channels would abate over time as the economy began to improve. However, the Company has concluded that this practice appears more permanent in nature, and has therefore reduced its estimates of the amount of future cash flows that will be generated from these intangible assets accordingly.

In completing the impairment analysis, the Company determined that the discounted expected cash flows from the trade names and trademarks associated with the Top-Flite acquisition was $5,413,000 less than the carrying value of those assets. As a result, the Company recorded an impairment charge of $5,413,000 during the second quarter of 2011, which is reflected in general and administrative expenses in the accompanying statement of operations for the nine months ended September 30, 2011.

During the third quarter of 2011, the Company's market capitalization continued to decline below its recorded book value. In response to this indicator, the Company also performed impairment testing on the Company's recorded goodwill and certain intangible assets during the current period, which was based on internal cash flow estimates discounted at an appropriate interest rate, as discussed above. Based on the results of the impairment testing, no impairment was identified. If the current economic and market conditions continue to decline, the Company's business may be further adversely affected, which could result in an impairment of goodwill or other intangible assets in the future.

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 $20,600,000 of preferred shares of TopGolf and has entered into a Preferred Partner Agreement with TopGolf in which the Company was granted 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 September 30, 2011 and December 31, 2010.

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 September 30, 2011 and December 31, 2010, 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 and $2,188,000 was outstanding as of September 30, 2011 and December 31, 2010, respectively. The Company recorded the loan in other long-term assets in the accompanying consolidated condensed balance sheets as of September 30, 2011 and December 31, 2010.

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 increase in the provision for future warranty claims during the nine months ended September 30, 2011 is primarily due to the product withdrawal of the uPro MX, the latest version of the Company’s GPS devices. The following table provides a reconciliation of the activity related to the Company’s reserve for warranty expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning balance	$11,982	$ 9,390	$ 8,427	$ 9,449
Provision	1,938	2,344	10,123	6,658
Claims paid/costs incurred	(3,931)	(2,803)	(8,561)	(7,176)
Ending balance	$ 9,989	$ 8,931	$ 9,989	$ 8,931

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 $210,000,000, comprised of a $175,000,000 U.S. facility (of which $20,000,000 is available for letters of credit) and a $35,000,000 Canadian facility (of which $5,000,000 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 $500,000 at September 30, 2011. The amounts outstanding under the ABL Facility are secured by certain assets, including inventory and accounts receivable, of the Company’s U.S. and Canadian legal entities.

As of September 30, 2011, the Company had no borrowings outstanding under the ABL Facility and had $64,295,000 of cash and cash equivalents. The maximum amount of Consolidated Funded Indebtedness, including borrowings under the ABL Facility, that could have been outstanding on September 30, 2011, was approximately $88,000,000. Average outstanding borrowings during the three and nine months ended September 30, 2011 were $8,143,000 and $33,089,000, respectively. 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.

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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 interest rate applicable to outstanding loans under the U.S. facility is based on a calculation of either the U.S. Prime Rate or the British Bankers Association LIBOR Rate as published by Reuters ("LIBOR") plus an applicable margin of 1.00% to 2.75%. The interest rate applicable to outstanding loans under the Canadian facility is based on a calculation of either the Base Rate publicly announced by Bank of America Canada or Canada's Prime Rate plus a margin of 1.00% to 2.75%. At September 30, 2011, the Company's interest rate applicable to its outstanding loans under the ABL Facility was 4.75%.

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 and 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.

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 September 30, 2011, the Company was in compliance with these restrictions and the other terms of the ABL Facility.

The origination fees incurred in connection with the ABL Facility as of September 30, 2011 totaled $2,525,000, which are included in other assets in the accompanying consolidated condensed balance sheet, and will be amortized into interest expense over the term of the ABL Facility agreement. Unamortized origination fees were $2,399,000 as of September 30, 2011, of which $504,000 was included in other current assets and $1,895,000 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.

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, including the matters specifically described below, 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.

Set forth below is a description of certain litigation to which the Company is a party.

The 2006 Pro V1 Golf Ball Patent Infringement Litigation

On February 9, 2006, the Company filed a complaint in the United States District Court in Delaware (Case No. C.A. 06-91) asserting patent infringement claims against the Acushnet Company, a wholly-owned subsidiary of Fortune Brands, alleging that Acushnet's Titleist Pro V1 family of golf balls infringed nine claims contained in four golf ball patents owned by the Company. The Company prevailed in a December 2007 jury trial on 8 of the 9 patent claims asserted against Acushnet. In November 2008, the Delaware District Court entered a permanent injunction prohibiting continued sales of the infringing Pro V1 golf balls by Acushnet. In August 2009, the United States Court of Appeals for the Federal Circuit reversed and remanded the case for a new trial. The case was retried and on March 29, 2010, a jury found that the claims in the patents asserted by the Company against Acushnet were invalid. On April 21, 2011, the District Court in Delaware denied, in part, the Company's motion for judgment as a matter of law and denied the Company's motion for a new trial. The Company has appealed the District Court's rulings to the Court of Appeals for the Federal Circuit, Appeal No. 2011-1407.

In 2006 Acushnet filed requests for reexamination of the patents asserted by the Company in the United States Patent and Trademark Office ("PTO"). On March 9, 2011, the Board of Patent Appeals and Interferences ("BPAI") affirmed an examiner's rejection of the patents, relying on evidence submitted by Acushnet in its requests for reexamination. On April 11, 2011, the Company asked the BPAI to reconsider its decision. On September 24, 2011, the BPAI denied the Company's request for reconsideration. The Company has appealed the BPAI's decision to the Federal Circuit, Appeal Nos. 2011-1622, 2011-1623, 2011-1624, and 2011-1625. The Company has asserted in the 2006 Pro V1 Golf Ball Patent Litigation described above that Acushnet breached a 1996 settlement agreement by filing the requests for reexamination of the asserted patents in the PTO. On January 13, 2011, the District Court in Delaware entered an order finding Acushnet breached the 1996 settlement agreement by filing the reexamination requests in the PTO. Damages for Acushnet's breach of the 1996 settlement agreement have not yet been determined by the Court or by a jury.

On March 15, 2011, the Company filed suit against the Director of the PTO in the United States District Court for the Eastern District of Virginia, Case No. 1:11 cv 266, seeking a court order vacating, holding unlawful, and setting aside the PTO's orders in the reexamination proceedings initiated by Acushnet. Among other things, the Company has alleged that the PTO's refusal to vacate or stay the reexamination proceedings—in

CALLAWAY GOLF COMPANY

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the face of the Delaware court's order determining that the PTO proceedings were initiated in breach of the 1996 settlement agreement—exceeded the PTO's jurisdiction and authority and was arbitrary, capricious, and otherwise contrary to law. On July 27, 2011, the Court granted the PTO's motion for summary judgment, holding that the PTO's actions were not arbitrary, capricious or contrary to the law. The Company has appealed the Court's decision to the Federal Circuit, Appeal No. 2011-1551.

The 2009 Pro V1 Golf Ball Patent Litigation

After the District Court in Delaware issued a permanent injunction barring further sales of the infringing Pro V1 golf balls in November 2008, Acushnet introduced a new version of those golf balls. On March 3, 2009, the Company filed a complaint in the United States District Court for the District of Delaware, Case No. C.A. 09131, asserting claims against Acushnet for patent infringement with regard to the new balls. Specifically, the complaint asserts that two golf ball patents owned by the Company and acquired from Top-Flite are infringed by the new versions of the Pro V1 golf balls introduced in 2009. Acushnet has filed requests for reexamination with the PTO challenging the validity of the two patents asserted by the Company in the 2009 litigation. The PTO has issued final office actions rejecting the claims of the two patents and the Company has appealed those rejections to the BPAI.

On March 3, 2009, Acushnet filed a complaint in the United States District Court for the District of Delaware, Case No. C.A. 09-130, asserting claims against the Company for patent infringement. Specifically, Acushnet asserts that the Company's sale of the Company's Tour golf balls infringe nine Acushnet golf ball patents. Acushnet then dropped one of the patents, but expanded its infringement contentions to allege that seven other models of the Company's golf balls, using the Company's patented HX surface geometry, infringe five of the Acushnet patents asserted in its suit. Acushnet is seeking damages and an injunction to prevent alleged infringement by the Company. The case was consolidated for discovery and pretrial with the Company's March 3, 2009 case against Acushnet, described above.

On February 25, 2011, the District Court in Delaware entered an order temporarily staying the 2009 cases pursuant to the stipulation of the parties. On May 6, 2011, the parties requested, and the District Court agreed, to temporarily continue the stay of the 2009 cases. The stay is still in place.

Corporate Trade Inc. Litigation

On January 19, 2009, the Company filed suit in the Superior Court for the County of San Diego, Case No. 37-2009-00050363-CU-BC-NC, against Corporate Trade Inc. ("CTI") seeking damages for breach of contract and for declaratory relief based on the asserted use and transfer of corporate trade credits to the Company in connection with the purchase of assets from Top-Flite in 2003. On January 26, 2009, CTI filed its own suit in the United States District Court for the Southern District of New York, Case No. 09CV0698, asserting claims for breach of contract, account stated and unjust enrichment, and seeking damages of approximately $8,900,000. On February 26, 2009, CTI removed the Company's San Diego case to the United States District Court for the Southern District of California. On March 1, 2010, the San Diego case was transferred to the Southern District of New York where it was consolidated with the New York case. Discovery has concluded and expert reports have been exchanged. No trial date has been set.

Unconditional Purchase Obligations

During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase orders 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. In addition, the Company has made contractual commitments to each of its officers and certain other employees (see further discussion below). 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.

As of September 30, 2011, the Company has entered into many of these contractual agreements with terms ranging from one to four years. The minimum obligation that the Company is required to pay under these agreements is $83,190,000 over the next four 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 minimum contractual commitments as of September 30, 2011 are as follows (in thousands):

Remainder of 2011	$46,459
2012	22,550
2013	11,485
2014	2,596
Thereafter	100
	$83,190

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to the Company’s customers and licensees in connection with the use, sale and/or license of Company products, (ii) indemnities to various lessors in connection with facility leases for certain claims arising from such facilities or leases, (iii) indemnities to vendors and service providers pertaining to 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 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. Also, in connection with the uPlay acquisition in December 2008, the Company could be required to pay an additional purchase price, not to exceed $10,000,000, based on a percentage of earnings generated from the sale of uPlay products over a period of three years ending on December 31, 2011. As of September 30, 2011, based on the Company’s preliminary assessment of certain performance indicators in connection with the sale of uPlay products, the probability of the Company paying this additional purchase price obligation at the end of the three year period ending December 31, 2011, is remote.

The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum amount of future payments the Company could be obligated to make. Historically, costs incurred to settle claims related to indemnities have not been material to the Company’s financial position, results of operations or cash flows. In addition, the Company believes the likelihood is remote that material payments will be required under the indemnities, commitments and guarantees described above. The fair value of indemnities, commitments and guarantees that the Company issued during the three and nine months ended September 30, 2011 was not material to the Company's financial position, results of operations or cash flows.

Employment Contracts

The Company has entered into employment contracts with certain of the Company's officers. These contracts generally provide for severance benefits, including salary continuation, if employment is terminated by the Company for convenience or by the officer for substantial cause. For the nine months ended September 30, 2011, the Company recognized $12,557,000 in severance benefits in connection with the Reorganization and Reinvestment Initiatives announced in June 2011 (see Note 2). In addition, in order to assure that the officers would continue to provide independent leadership consistent with the Company's best interests in the event of an actual or threatened change in control of the Company, the contracts also generally provide for certain protections in the event of such a change in control. These protections include the payment of certain severance benefits, including salary continuation, upon the termination of employment following a change in control.

14. Share-Based Employee Compensation

As of September 30, 2011, the Company had the following two shareholder approved stock plans under which shares were available for equity-based awards: the Callaway Golf Company Amended and Restated 2004 Incentive Plan (the "2004 Plan") and the 2001 Non-Employee Directors Stock Incentive Plan (the "2001 Directors Plan"). From time to time, the Company grants stock options, restricted stock units and other awards under these two plans.

The table below summarizes the amounts recognized in the financial statements for the three and nine months ended September 30, 2011 and 2010 for share-based compensation, including expense for phantom stock units and stock appreciation rights granted to employees (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cost of sales	$ 185	$ 240	$ 528	$ 680
Operating expenses	1,066	3,381	9,257	9,392
Total cost of employee share-based compensation included in income (loss), before income tax	1,251	3,621	9,785	10,072
Amount of income tax recognized in earnings	(482)	(1,271)	(3,767)	(3,367)
Amount charged against net income (loss)	$ 769	$ 2,350	$ 6,018	$ 6,705
Impact on net income (loss) per common share:				
Basic	$ (0.01)	$ (0.04)	$ (0.09)	$ (0.11)
Diluted	$ (0.01)	$ (0.04)	$ (0.09)	$ (0.10)

In connection with the Reorganization and Reinvestment Initiatives announced in June 2011 (see Note 2), the Company recognized $650,000 and $3,571,000 during the three and nine months ended September 30, 2011, respectively, in stock compensation expense as a result of the contractual acceleration of the vesting of certain stock options, restricted stock units and phantom stock units.

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Stock Options

The Company granted 1,731,000 and 1,239,000 shares underlying stock options during the nine months ended September 30, 2011 and 2010, respectively, at a weighted average grant-date fair value of $2.94 and $2.84 per share, respectively. The Company did not grant stock options during the three months ended September 30, 2011. The number of shares underlying stock options granted during the three months ended September 30, 2010 was nominal.

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 nine months ended September 30, 2011 and the three and nine months ended September 30, 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011(1)	2010	2011	2010
Dividend yield	—	1.6%	1.4%	1.1%
Expected volatility	—	47.1%	48.5%	46.2%
Risk free interest rate	—	1.8%	2.0%	2.2%
Expected life	—	4.9 years	5.0 years	4.7 years

(1) No shares were granted during the quarter ended September 30, 2011

Restricted Stock Units

The Company granted 61,000 and 505,000 shares underlying restricted stock units during the nine months ended September 30, 2011 and 2010, respectively, at a weighted average grant-date fair value of $7.01 and $7.64, respectively. There were no restricted stock units granted during the three months ended September 30, 2011 and 2010. At September 30, 2011, the Company had $1,951,000 of total unrecognized compensation expense related to non-vested shares granted to employees and non-employees under the Company’s share-based payment plans 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. As such, 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 first quarter of 2011, the Company granted 679,000 shares of PSUs with a grant date fair value of $5,100,000. At September 30, 2011, the fair value of total PSUs outstanding was $5,811,000. For the three months ended September 30, 2011, the Company reversed compensation expense of $74,000 related to outstanding PSUs and recognized expense of $1,076,000 in the comparable period for the previous year. Compensation expense recognized for PSUs outstanding over the nine months ended September 30, 2011 and 2010 was $2,395,000 and $2,526,000, respectively. In connection with the PSUs, at September 30, 2011 and December 31, 2010, the Company accrued $1,790,000 and $2,281,000, respectively, in employee compensation

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expense and benefits, and $1,528,000 and $1,519,000, respectively, in long-term other in the accompanying consolidated condensed balance sheets.

Stock Appreciation Rights

During the three months ended September 30, 2011, the Company granted 500,000 of cash settled Stock Appreciation Rights ("SARs"). The Company records compensation expense for SARs based on the estimated fair value on the date of grant using the Black Scholes option-pricing model. SARs are subsequently remeasured at each interim reporting period based on a revised Black Scholes value. Upon vesting, the fair value of the SARs will be equal to the intrinsic value. As of September 30, 2011, the Company recognized $25,900 in compensation expense related to these awards with the corresponding accrual in accrued employee compensation and benefits in the accompanying consolidated condensed balance sheet at September 30, 2011.

15. Fair Value of Financial Instruments

The Company's foreign currency exchange contracts are measured and reported on a fair value basis in accordance with ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"). ASC 820 defines fair value 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. ASC 820 requires the classification of assets and liabilities carried at fair value 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 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):

	September 30, 2011		December 31, 2010	
	Carrying Value	Observable market based inputs (Level 2)	Carrying Value	Observable market based inputs (Level 2)
Foreign currency derivative instruments—asset position	$ 3,588	$ 3,588	$ 1,786	$ 1,786
Foreign currency derivative instruments—liability position	$ 5,090	$ 5,090	$11,775	$ 11,775

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. 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 nine months ended September 30, 2011, certain non-amortizing intangible assets were written down to their implied fair value, resulting in an impairment charge of $5,413,000 (Note 8). The implied fair value was based on significant unobservable inputs, and as a result, the fair value measurement was classified as Level 3.

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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.

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 September 30, 2011 and December 31, 2010, the notional amounts of the Company’s foreign currency exchange contracts used to hedge the exposures discussed above were approximately $169,354,000 and $314,190,000, respectively, of which $108,852,000 and $217,770,000, 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 $60,502,000 and $96,420,000, 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.

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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 September 30, 2011 and December 31, 2010 (in thousands):

	Asset Derivatives			
	September 30, 2011		December 31, 2010	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency exchange contracts	Other current assets	$ 3,588	Other current assets	$ 1,786

	Liability Derivatives			
	September 30, 2011		December 31, 2010	
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	$ 5,090	Accounts payable and accrued expenses	$ 11,775

The following table summarizes the location of gains and losses in the consolidated condensed statements of operations that were recognized during the three and nine months ended September 30, 2011 and 2010, respectively, in addition to the derivative contract type (in thousands):

		Amount of Loss Recognized in Income on Derivative Instruments			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives not designated as hedging instruments under SFAS No. 133	Location of loss recognized in income on derivative instruments	2011	2010	2011	2010
Foreign currency exchange contracts	Other expense	$(709)	$ (12,349)	$(7,763)	$(12,170)

In addition, during the three months ended September 30, 2011 and 2010, the Company recognized $2,508,000 and $8,361,000, respectively, in foreign currency transactional net losses and gains, respectively, and $36,000 and $4,396,000 in foreign currency transactional net gains during the nine months ended September 30, 2011 and 2010, 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, Top-Flite and Ben Hogan 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 and Top-Flite golf balls. There are no significant intersegment transactions.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales				
Golf clubs[1]	$140,503	$140,323	$600,570	$637,579
Golf balls[1]	32,740	35,321	132,086	144,549
	$173,243	$175,644	$732,656	$782,128
Income (loss) before provision for income taxes				
Golf clubs[1][2]	$ (23,941)	$ (18,644)	$ 19,058	$ 55,718
Golf balls[1][2]	(6,637)	(4,423)	(4,638)	3,314
Reconciling items[3]	(17,155)	(17,350)	(54,138)	(49,108)
	$ (47,733)	$ (40,417)	$ (39,718)	$ 9,924
Additions to long-lived assets				
Golf clubs	$ 4,583	$ 8,389	$ 15,807	$ 14,958
Golf balls	2,509	341	5,930	835
	$ 7,092	$ 8,730	$ 21,737	$ 15,793

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

(2) The Company has been actively implementing certain initiatives targeted at improving gross margins (see Note 2). In connection with these initiatives, during the three months ended September 30, 2011, the Company's golf clubs segment absorbed $916,000 less in pre-tax charges compared to the same period in 2010, and the Company's golf balls segment recognized $1,003,000 in incremental pre-tax charges compared to the same period in 2010. During the nine months ended September 30, 2011, the Company's golf clubs and golf balls segments absorbed incremental pre-tax charges of $5,484,000 and $4,554,000, respectively, compared to the same period in the prior year.

(3) Represents corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. The reconciling items include (i) pre-tax charges of $7,395,000 and $12,557,000, for the three and nine months ended September 30, 2011, respectively, in connection with the Reorganization and Reinvestment Initiatives (see Note 2), (ii) the recognition of a pre-tax gain of $6,170,000 during the nine months ended September 31, 2011 in connection with the sale of certain buildings (see Note 4), and (iii) a pre-tax impairment charge of $5,413,000 during the nine months ended September 30, 2011 in connection with certain trademarks and trade names (see Note 8).

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 apparel, golf footwear, golf bags, gloves, eyewear and other golf-related accessories, including 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, Top-Flite and Ben Hogan woods, hybrids, irons, wedges and putters 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. 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. As a result of the continued weakening trend of the U.S. dollar in 2011, the translation of foreign currency exchange rates had a net positive impact on the Company's financial results during the first nine months of 2011.

Executive Summary

The Company's 2011 results continue to reflect the impact of a challenging golf market as well as an unfavorable shift in the competitive landscape driven by the success of certain competitor products launched this year. These factors, among other things, resulted in a 6% decline in sales and a 300 basis point decline in gross margins for the first nine months of 2011 compared to the same period in the prior year. These declines were partially offset by the positive effects of changes in foreign currency rates on sales and gross margins during the period. Additionally, the Company's operating expenses for the first nine months of 2011 increased $10.6 million to 42% of net sales compared to 38% of net sales for the first nine months of 2010. This increase in operating expenses was primarily due to charges related to the Company's restructuring initiatives announced in June 2011 as discussed below in more detail as well as the unfavorable effect of changes in foreign currency rates.

The Company's net income during the first nine months of 2011 decreased to a net loss of $108.8 million from net income of $13.5 million during the comparable period of 2010, and earnings per share decreased to a loss of $1.81 per share for the first nine months of 2011 compared to earnings per share of $0.09 for the same period in 2010. These results were negatively affected by certain significant charges including (i) the establishment of a $51.9 million non-cash deferred tax valuation allowance related to the Company's U.S. deferred tax assets; (ii) increased investment of $9.9 million in the Company's Global Operations Strategy Initiatives (the "GOS Initiatives"), including the reorganization of the Company's manufacturing and distribution operations; (iii) $12.6 million of charges related to the restructuring initiatives announced in June 2011 (the "Reorganization and Reinvestment Initiatives"); and (iv) a $5.4 million non-cash impairment charge related to its Top-Flite assets. These charges were partially offset by a $6.2 million gain on the sale of buildings sold during the first quarter of 2011.

In June 2011, in response to the challenging market conditions and the Company's performance, the Company announced a restructuring plan that involved personnel changes at all levels of the organization and a reevaluation of business processes. The restructuring was designed to deliver annualized pre-tax savings of approximately $50 million with the Company reinvesting approximately half that amount in brand and marketing initiatives for 2012. During the third quarter of 2011, the Company completed substantially all of the personnel changes and has reorganized the Company to provide for increased focus on the different product categories and regions of the Company's business with the intent to achieve sustained profitability in each area. Growth in revenue is an essential part of this strategy, particularly in the Company's core products.

Management believes that the increased investment in brand and demand creation initiatives will generate higher sales which together with savings from its Reorganization and Reinvestment Initiatives, the continued strength of the Company's brands in the marketplace, the new technology embedded in the Company's 2012 products, and anticipated increased efficiency in its supply and distribution operations resulting from the completion of the Company's GOS Initiatives this year should result in a much improved 2012 for the Company. While a full recovery will take more than a year, management believes that the actions taken in 2011 will result in a return to profitability in 2012.

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Three-Month Periods Ended September 30, 2011 and 2010

Net sales for the third quarter of 2011 decreased $2.4 million (1%) to $173.2 million compared to $175.6 million in the third quarter of 2010. This decrease was primarily due to a decline in golf ball sales combined with relatively flat sales of golf clubs. The decline in golf ball sales was primarily due to a planned reduction in golf ball model introductions during 2011. Although the Company's total golf club sales remained relatively flat, there was a $10.4 million decline in irons sales, offset by a $14.4 million increase in driver sales during the third quarter of 2011 compared to the same period of the prior year. The Company's net sales by operating segment are presented below (dollars in millions):

	Three Months Ended September 30,		Growth/(Decline)	
	2011	2010(1)	Dollars	Percent
Net sales:				
Golf clubs	$ 140.5	$ 140.3	$ 0.2	0%
Golf balls	32.7	35.3	(2.6)	(7)%
	$ 173.2	$ 175.6	$ (2.4)	(1)%

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

For further discussion of each operating segment's results, see "Golf Club and Golf Ball Segments Results for the Three Months Ended September 30, 2011 and 2010" below.

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

	Three Months Ended September 30,		Growth/(Decline)	
	2011	2010	Dollars	Percent
Net sales:				
United States	$ 73.9	$ 76.2	$ (2.3)	(3)%
Europe	25.4	23.4	2.0	9%
Japan	41.8	36.7	5.1	14%
Rest of Asia	17.5	21.5	(4.0)	(19)%
Other countries	14.6	17.8	(3.2)	(18)%
	$ 173.2	$ 175.6	$ (2.4)	(1)%

Net sales in the United States decreased $2.3 million (3%) to $73.9 million during the third quarter of 2011 compared to the same period in the prior year. The Company's sales in regions outside of the United States remained flat at $99.3 million for the third quarter of 2011 and 2010. The Company's sales in Japan were favorably impacted by the launch of Legacy Black irons and woods in that region during the third quarter of 2011. The Company's reported net sales in regions outside the United States in the third quarter of 2011 were favorably affected by the translation of foreign currency sales into U.S. dollars based upon 2011 exchange rates. If 2010 exchange rates were applied to 2011 reported sales in regions outside the U.S. and all other factors were held constant, net sales in such regions would have been $7.0 million less than reported in the third quarter of 2011.

For the third quarter of 2011, gross profit decreased $1.7 million to $47.4 million from $49.1 million in the third quarter of 2010. Gross profit as a percentage of net sales ("gross margin") decreased to 27% in the third quarter of 2011 compared to 28% in the third quarter of 2010. The decrease in gross margin was primarily attributable to a decrease in production volumes which resulted in unfavorable absorption of fixed costs, as well as increased raw material costs used in the production of golf balls. These decreases were partially offset by a favorable shift in sales to higher margin Razr family of products in 2011 compared to sales of lower margin Big

Bertha Diablo and X-22 and X-24 product lines in 2010 combined with the favorable effect of foreign currency exchange rates during the third quarter of 2011 compared to the same period of the prior year. See “Segment Profitability” below for further discussion of gross margins.

Selling expenses increased by $6.0 million to $62.3 million (36% of net sales) in the third quarter of 2011 compared to $56.3 million (32% of net sales) in the comparable period of 2010. The dollar increase was primarily due to charges of $3.5 million in connection with the Reorganization and Reinvestment Initiatives (See Note 2 to the Notes to Consolidated Condensed Financial Statements), in addition to a $2.5 million increase in advertising and promotional expenses.

General and administrative expenses decreased by $0.6 million to $20.8 million (12% of net sales) in the third quarter of 2011 compared to $21.4 million (12% of net sales) in the comparable period of 2010. The decrease was primarily due to a $3.4 million decrease in employee related expenses, partially offset by charges of $2.2 million in connection with the Reorganization and Reinvestment Initiatives.

Research and development expenses decreased by $0.8 million to $8.5 million (5% of net sales) in the third quarter of 2011 compared to $9.3 million (5% of net sales) in the comparable period of 2010.

Other expense increased by $1.1 million to $3.6 million in the third quarter of 2011 compared to $2.5 million in the comparable period of 2010. This increase was primarily due to a $1.3 million decrease in interest income, partially offset by a $0.7 million increase in net foreign currency gains in the third quarter of 2011 compared to the third quarter of 2010.

The Company’s provision for income taxes totaled $14.9 million for the third quarter of 2011, compared to an income tax benefit of $22.1 million for the comparable period of 2010. During the second quarter of 2011, the Company established a valuation allowance against its U.S. deferred tax assets, which also resulted in the reversal of certain pre-paid tax assets in the third quarter of 2011 of $12.3 million related to intercompany profits. The Company expects to recognize a negative annual effective tax rate for 2011 due to the impacts of (i) the establishment of a valuation allowance against net U.S. deferred tax assets, (ii) the reversal of prepaid tax assets that will impact the effective tax rate, and (iii) the recognition of tax expense calculated on foreign pretax income. Due to the effects of its deferred tax asset valuation allowance, the Company’s effective tax rate for the third quarter of 2011 is not comparable to the effective tax rate for the third quarter of 2010 as the Company’s income tax amount is not directly correlated to the amount of its pretax loss.

Net loss for the third quarter of 2011 increased to $62.6 million compared to $18.3 million in the comparable period of 2010. Diluted losses per share increased to $1.01 per share on 64.8 million weighted average shares outstanding in the third quarter of 2011 compared to $0.33 on 64.0 million weighted average shares outstanding in the third quarter of 2010. The Company’s net loss per share for the third quarter of 2011 was negatively affected by $0.19 per share related to the reversal of certain prepaid tax assets in the third quarter of 2011 of $12.3 million related to intercompany profits, and $0.07 per share related to after-tax charges of $4.5 million in connection with the Reorganization and Reinvestment Initiatives.

Golf Clubs and Golf Balls Segments Results for the Three Months Ended September 30, 2011 and 2010

Golf Clubs Segment

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

	Three Months Ended September 30,		Growth/(Decline)	
	2011	2010(1)	Dollars	Percent
Net sales:				
Woods	$ 41.5	$ 27.1	$ 14.4	53%
Irons	38.2	48.6	(10.4)	(21)%
Putters	15.1	15.9	(0.8)	(5)%
Accessories and other	45.7	48.7	(3.0)	(6)%
	$ 140.5	$ 140.3	$ 0.2	0%

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

The $14.4 million (53%) increase in net sales of woods to $41.5 million for the quarter ended September 30, 2011 was primarily due to an increase in average selling prices and sales volume. The increase in average selling prices was primarily due to a favorable shift in product mix from sales of moderately priced drivers and fairway woods during the third quarter of 2010 to sales of more premium statement drivers and fairway woods during the third quarter of 2011 combined with less closeout activity during the current year. The increase in sales volume was primarily due to favorable consumer acceptance of the current year Razr Hawk drivers and fairway woods compared to the FT drivers and fairway woods in the prior year, as well as the current quarter launch of the Legacy Black woods products in the Asian markets.

The $10.4 million (21%) decrease in net sales of irons to $38.2 million for the quarter ended September 30, 2011 was primarily attributable to a decline in sales volume partially offset by an increase in average selling prices. The decline in sales volume was primarily due to the prior year launch of the X-24 Hot irons in May of 2010 with no comparable new irons launch during the same period of 2011 as well as a decline in sales volumes of Legacy irons due to the fact that the Company launched two Legacy iron models in the spring of 2010 compared to the current year single model launch of the Legacy Black irons in September 2011. The increase in average selling prices resulted from the current year launch of the more premium Razr X irons compared to the prior year launch of the more moderately priced Big Bertha Diablo irons and the value-priced X-24 Hot irons.

The $0.8 million (5%) decrease in net sales of putters to $15.1 million for the quarter ended September 30, 2011 was primarily attributable to a decline in sales volume partially offset by an increase in average selling prices. The decrease in sales volume resulted primarily from fewer new putter models offered during the third quarter of 2011 compared to the same period in the prior year as well as an unfavorable shift in the competitive landscape driven by the success of certain competitor products launched this year. The increase in average selling prices was attributable to a decrease in closeout activity during the third quarter of 2011 compared to the same period in the prior year.

The $3.0 million (6%) decrease in net sales of accessories and other products to $45.7 million for the quarter ended September 30, 2011 was primarily driven by a decline in sales of packaged sets as well as a decline in sales of GPS devices, primarily due to the withdrawal of the Company’s MX GPS devices as a result of inconsistent product performance, as well as a decline in sales of gloves. These decreases were partially offset by an increase in footwear sales during the quarter.

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Golf Balls Segment

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

	Three Months Ended September 30,		Decline	
	2011	2010(1)	Dollars	Percent
Net sales:				
Golf balls	$ 32.7	$ 35.3	$ (2.6)	(7)%

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

The $2.6 million (7%) decrease in net sales of golf balls to $32.7 million for the quarter ended September 30, 2011 was primarily due to a decrease in sales volume combined with relatively flat average selling prices. The decrease in sales volume was primarily due to a decline in sales of Callaway Tour balls due to no new Tour ball launch in 2011 as well as a decline in sales volumes of Top-Flite range balls.

Segment Profitability

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

	Three Months Ended September 30,		Growth/(Decline)	
	2011	2010(1)	Dollars	Percent
Income (loss) before income taxes				
Golf clubs(2)	$ (23.9)	$ (18.6)	$ (5.3)	(29)%
Golf balls(2)	(6.6)	(4.4)	(2.2)	(50)%
Reconciling items(3)	(17.2)	(17.4)	0.2	1%
	$ (47.7)	$ (40.4)	$ (7.3)	(18)%

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

(2) In connection with the final phase of the Company's GOS Initiatives (See Note 2 to the Notes to Consolidated Condensed Financial Statements), during the three months ended September 30, 2011, the Company's golf clubs segment absorbed $0.9 million less in pre-tax charges compared to the same period in the prior year, and the Company's golf balls segment recognized $1.0 million in incremental pre-tax charges compared to the same period in the prior year.

(3) Reconciling items represent corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. For the quarter ended September 30, 2011, the reconciling items include pre-tax charges of $7.4 million in connection with the Reorganization and Reinvestment Initiatives.

Pre-tax loss in the Company's golf clubs operating segment increased to $23.9 million for the third quarter of 2011 from $18.6 million for the comparable period in the prior year. This increase in loss before income taxes was primarily driven by a decrease in net sales as discussed above combined with a decrease in gross margin and an increase in marketing expenses. The decrease in gross margin was primarily driven by a decrease in production volumes which resulted in an unfavorable absorption of fixed costs. This decrease was partially offset by (i) a favorable shift in higher margin product mix due to sales of the Razr family of products in 2011 compared to sales of lower margin Big Bertha Diablo family of products in 2010, and (ii) cost savings resulting from the Company's GOS Initiatives, including cost reductions on golf club components costs as a result of improved product designs and sourcing of lower cost raw materials as well as reductions on club conversion costs generated from labor savings on clubs produced in the Company's new manufacturing facility in Monterrey, Mexico.

Pre-tax loss in the Company's golf balls operating segment increased to $6.6 million for the third quarter of 2011 from $4.4 million for the comparable period in the prior year. This increase in pre-tax loss was primarily attributable to the decrease in net sales as discussed above combined with a decrease in gross margin primarily due to a decrease in production volumes which resulted in an unfavorable absorption of fixed costs, and increased raw material costs used in the production and procurement of golf balls.

Nine-Month Periods Ended September 30, 2011 and 2010

Net sales for the nine months ended September 30, 2011 decreased $49.4 million (6%) to $732.7 million compared to $782.1 million for the same period in the prior year 2010. This decrease was primarily due to a decline in sales in the Company's golf clubs and golf balls segments, as noted below (dollars in millions):

	Nine Months Ended September 30,		Decline	
	2011	2010(1)	Dollars	Percent
Net sales				
Golf clubs	$ 600.6	$ 637.6	$ (37.0)	(6)%
Golf balls	132.1	144.5	(12.4)	(9)%
	$ 732.7	$ 782.1	$ (49.4)	(6)%

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

For further discussion of each operating segment's results, see "Golf Club and Golf Ball Segments Results for the Nine Months Ended September 30, 2011 and 2010" below.

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

	Nine Months Ended September 30,		Growth/(Decline)	
	2011	2010	Dollars	Percent
Net sales:				
United States	$ 357.8	$ 389.6	$ (31.8)	(8)%
Europe	114.4	107.1	7.3	7%
Japan	108.1	120.3	(12.2)	(10)%
Rest of Asia	68.6	70.8	(2.2)	(3)%
Other countries	83.8	94.3	(10.5)	(11)%
	$ 732.7	$ 782.1	$ (49.4)	(6)%

Net sales in the United States decreased $31.8 million (8%) to $357.8 million during the first nine months of 2011 compared to the same period in the prior year. As mentioned above, this decrease was primarily due to the timing of planned product launches as well as an unfavorable shift in the competitive landscape driven by the success of certain competitor products launched this year. The Company's sales in regions outside of the United States decreased $17.6 million (5%) to $374.9 million during the first nine months of 2011 compared to the same period in 2010. This decrease was largely caused by a decline of $12.2 million in sales in Japan primarily as a result of the earthquake and tsunami in that region in March 2011. These decreases were partially offset by increases in sales in Europe and in the Company's emerging markets (China, Southeast Asia and India). The Company's reported net sales in regions outside the United States during the first nine months of 2011 were favorably affected by the translation of foreign currency sales into U.S. dollars based upon 2011 exchange rates. If 2010 rates were applied to 2011 reported sales in regions outside the U.S. and all other factors were held constant, net sales in such regions would have been $26.3 million less than reported during the nine months ended September 30, 2011.

For the first nine months of 2011, gross profit decreased $36.2 million to $273.7 million from $310.0 million in the comparable period of 2010. Gross profit as a percentage of net sales ("gross margin") decreased to 37% in the first nine months of 2011 compared to 40% in the comparable period of 2010. The decrease in gross margin was primarily attributable to (i) a decrease in production volumes which resulted in unfavorable absorption of fixed costs, (ii) the recognition of certain costs in connection with the final phase of the Company's GOS Initiatives, and (iii) a decline in sales in Japan which generally have the highest gross margins of the Company's sales. These decreases were partially offset by (i) cost reductions on golf club components costs as well as reductions on club conversion costs primarily related to the Company's GOS Initiatives and (ii) a reduction of close out activity across most product categories. See "Segment Profitability" below for further discussion of gross margins.

Selling expenses increased by $10.0 million to $211.7 million (29% of net sales) in the first nine months of 2011 compared to $201.7 million (26% of net sales) in the comparable period of 2010. The dollar increase was primarily due to increases of $6.4 million in advertising and promotional activities and $3.6 million in charges related to the Reorganization and Reinvestment Initiatives.

General and administrative expenses increased by $1.6 million to $67.2 million (9% of net sales) in the first nine months of 2011 compared to $65.6 million (8% of net sales) in the comparable period of 2010. The dollar increase was primarily due to charges of $7.4 million related to the Reorganization and Reinvestment Initiatives, in addition to a $5.4 million impairment charge recognized in June 2011 related to a reduction in the fair value of certain intangible assets acquired in 2003 as part of the Top-Flite Acquisition. These increases were partially offset by a $6.2 million net gain recognized in connection with the sale of three of the Company's buildings in March 2011, in addition to a $4.9 million decrease in employee related expenses.

Research and development expenses decreased by $1.0 million to $26.2 million (4% of net sales) in the first nine months of 2011 compared to $27.2 million (3% of net sales) in the comparable period of 2010.

Other expense increased by $2.8 million to $8.4 million in the first nine months of 2011 compared to $5.6 million in the comparable period of 2010. This increase was primarily attributable to a $2.3 million decrease in interest income.

The Company's provision for income taxes totaled $69.1 million for the first nine months of 2011, compared to an income tax benefit of $3.5 million for the comparable period of 2010. During the nine months ended September 30, 2011, the Company recorded tax expense of $51.9 million in order to establish a valuation allowance against its U.S. deferred tax assets, which also resulted in the reversal of certain pre-paid tax assets of $12.3 million related to intercompany profits. The Company expects to recognize a negative annual effective tax rate for 2011 due to the impacts of (i) the establishment of a valuation allowance against net U.S. deferred tax assets, (ii) the reversal of prepaid tax assets that will impact the effective tax rate, and (iii) the recognition of tax expense calculated on foreign pretax income. Due to the effects of its deferred tax asset valuation allowance, the Company's effective tax rate for the nine months ended September 30, 2011 is not comparable to the effective tax rate for the nine months ended September 30, 2010 as the Company's income tax amount is not directly correlated to the amount of its pretax income.

Net income for the first nine months of 2011 decreased to a net loss of $108.8 million compared to net income of $13.5 million in the comparable period of 2010. Diluted earnings per share decreased to losses per share of $1.81 on 64.5 million weighted average shares outstanding in the first nine months of 2011 compared to earnings per share of $0.09 on 64.3 million diluted weighted average shares outstanding in the first nine months of 2010. Losses per share in 2011 were negatively affected by incremental decreases of $0.81 per share related to charges of $51.9 million in connection with an adjustment to the deferred tax asset valuation allowance, $0.19 per share related to the reversal of certain prepaid tax assets in the first nine months of 2011 of $12.3 million related to intercompany profits, and $0.12 per share related to after-tax charges of $7.7 million in connection with the Reorganization and Reinvestment Initiatives, $0.10 per share related to after-tax charges of $6.0 million related to the final phase of the Company's GOS Initiatives, and $0.05 per share related to after-tax charges of $3.3 million for an impairment charge recognized in June 2011 related to a reduction in the book value of certain intangible assets acquired in 2003 as part of the Top-Flite Acquisition. These decreases were partially offset by an increase of $0.07 per share related to a $4.1 million after-tax gain recognized in connection with the sale of certain buildings during the first quarter of 2011.

Golf Clubs and Golf Balls Segments Results for the Nine Months Ended September 30, 2011 and 2010

Golf Clubs Segment

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

	Nine Months Ended September 30,		Growth/(Decline)	
	2011	2010(1)	Dollars	Percent
Net sales:				
Woods	$ 187.8	$ 184.7	$ 3.1	2%
Irons	169.4	177.0	(7.6)	(4)%
Putters	67.7	87.6	(19.9)	(23)%
Accessories and other	175.7	188.3	(12.6)	(7)%
	$ 600.6	$ 637.6	$ (37.0)	(6)%

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

The $3.1 million (2%) increase in net sales of woods to $187.8 million for the nine months ended September 30, 2011 was primarily due to an increase in average selling prices partially offset by decrease in sales volume. The increase in average selling prices was primarily due to a favorable shift in product mix from sales of moderately priced drivers and fairway woods during the first nine months of 2010 to sales of more premium drivers during the first nine months of 2011 combined with less closeout activity during the nine months ended September 30, 2011 compared to the same period of the prior year. This increase in average selling prices was partially offset by the introduction of Razr Hawk fairway woods at a lower average selling price in 2011 compared to FT-iz fairway woods which were launched in 2010. The decrease in sales volume was primarily due to the earlier launch timing of the 2011 Diablo Octane drivers and fairway woods, which were launched early in the fourth quarter of 2010 compared to the prior year launch of Diablo Edge drivers and fairway woods during the first quarter of 2010.

The $7.6 million (4%) decrease in net sales of irons to $169.4 million for the nine months ended September 30, 2011 was primarily attributable to a decline in sales volume partially offset by an increase in average selling prices. The decline in sales volume was primarily due to the prior year launch of the X-24 Hot and X-20 NG irons during the first half of 2010 with no comparable new irons launch during the same period of 2011 as well as a decline in sales of wedge products due to fewer models offered during 2011 compared to the same period in the prior year. The increase in average selling prices primarily resulted from the current year launch of the more premium Razr X irons compared to the prior year launch of the more moderately priced Big Bertha Diablo irons and the value-priced X-24 Hot and X-20 NG irons.

The $19.9 million (23%) decrease in net sales of putters to $67.7 million for the nine months ended September 30, 2011 was primarily attributable to a decline in sales volume partially offset by an increase in average selling prices. The decrease in sales volume resulted primarily from fewer new putter models offered during the first nine months of 2011 compared to the same period in the prior year as well as an unfavorable shift in the competitive landscape driven by the success of certain competitor products launched this year. The increase in average selling prices was attributable to a decrease in closeout activity during the first nine months of 2011 compared to the same period in 2010. In addition, putter sales were negatively affected by an overall decline in the category in the U.S.

The $12.6 million (7%) decrease in net sales of accessories and other products to $175.7 million for the nine months ended September 30, 2011 was primarily attributable to a decline in sales of the Company’s GPS devices as well as a decline in sales of packaged sets, gloves, headwear and accessories. These decreases were partially offset by an increase in sales of the Company’s footwear and apparel primarily due to closeout activity with certain retailers during the nine months ended September 30, 2011.

Golf Balls Segment

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010(1)	Decline Dollars	Decline Percent
Net sales:				
Golf balls	$ 132.1	$ 144.5	$ (12.4)	(9)%

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

The $12.4 million (9%) decrease in net sales of golf balls to $132.1 million for the nine months ended September 30, 2011 is primarily due to a decrease in sales volume partially offset by an increase in average selling prices. The decrease in sales volume was driven by a decline in sales of Callaway brand premium golf ball models that were launched in the first quarter of 2010, in addition to a planned reduction in Callaway golf ball models during 2011. The increase in average selling prices was primarily related to an increase in the price of the Company's range balls compared to the same period in the prior year as well as a favorable shift in product mix from sales of lower priced TopFlite golf balls during the first nine months of 2010 to sales of higher priced Callaway branded golf balls during the same period in 2011.

Segment Profitability

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010(1)	Decline Dollars	Decline Percent
Income (loss) before income taxes				
Golf clubs(2)	$ 19.1	$ 55.7	$ (36.6)	(66)%
Golf balls(2)	(4.6)	3.3	(7.9)	(239)%
Reconciling items(3)	(54.2)	(49.1)	(5.1)	(10)%
	$ (39.7)	$ 9.9	$ (49.6)	(501)%

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

(2) In connection with the final phase of the GOS Initiatives, the Company's golf clubs and golf balls segments absorbed incremental pre-tax charges of $5.5 million and $4.6 million, respectively, during the nine months ended September 30, 2011 compared to the same period in the prior year.

(3) Reconciling items represent corporate general and administrative expenses and other income (expense) not included by management in determining segment profitability. For the nine months ended September 30, 2011, the reconciling items include (i) a pre-tax charge of $12.6 million in connection with the Reorganization and Reinvestment Initiatives, (ii) a pre-tax impairment charge of $5.4 million in connection with certain trademarks and trade names (see Note 8 "Goodwill and Intangible Assets" to the Notes to Consolidated Condensed Financial Statements), and (iii) a pre-tax gain of $6.2 million in connection with the sale of certain buildings (see Note 4 "Sale of Buildings" to the Notes to Consolidated Condensed Financial Statements).

Pre-tax income in the Company's golf clubs operating segment decreased to $19.1 million for the first nine months of 2011 from $55.7 million for the comparable period in the prior year. This decrease was primarily attributable to the decrease in net sales as discussed above combined with a decrease in gross margin and an increase in marketing expenses. The decrease in gross margin was primarily driven by incremental charges of $5.5 million of costs incurred in connection with the final phase of the Company's GOS Initiatives during the first nine months of 2011. Gross margin was also negatively impacted by (i) a decrease in production volumes which resulted in an unfavorable absorption of fixed costs, and (ii) the decline in sales in Japan which generally have the highest gross margins of the Company's sales. These decrease were partially offset by (i) cost savings resulting from the Company's GOS Initiatives including cost reductions on golf club components costs as a result of improved product designs and sourcing of lower cost raw materials as well as reductions on club conversion costs generated from labor savings on clubs produced in the Company's new manufacturing facility in Monterrey, Mexico, and (ii) a decrease in close-out activity.

Pre-tax income in the Company's golf balls operating segment decreased to a pre-tax loss of $4.6 million for the first nine months of 2011 from pre-tax income of $3.3 million for the comparable period in the prior year. This decrease was primarily attributable to the decrease in net sales as discussed above combined with a decrease in gross margin primarily driven by incremental charges of $4.6 million of costs incurred in connection with the final phase of the Company's GOS Initiatives during the first nine months of 2011. Gross margin was also negatively impacted by (i) a decrease in production volumes which resulted in unfavorable absorption of fixed costs, (ii) an increase in raw material costs used in the production and procurement of golf balls, and (iii) promotional activity for Tour iS and Tour iZ golf balls.

Financial Condition

The Company's cash and cash equivalents increased $9.3 million (17%) to $64.3 million at September 30, 2011, from $55.0 million at December 31, 2010. Most of this increase was due to the general seasonality of the Company's business. Generally, during the first quarter, the Company will rely more heavily on its credit facilities to fund operations as cash inflows from operations begin to increase during the second and third quarters as a result of cash collections from customers. During the nine months ended September 30, 2011, the Company generated cash flows from operating activities of $21.9 million. The Company used a portion of this cash as well as proceeds from the sale of property and equipment of $18.3 million (primarily from the sale of three of its buildings in Carlsbad, California) to fund capital expenditures of $21.2 million and pay dividends of $9.8 million during the nine months ended September 30, 2011. The Company concluded the quarter ended September 30, 2011 with no balance outstanding under its asset-based credit facility. 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 asset-backed line of credit 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 September 30, 2011, the Company's net accounts receivable increased $2.9 million to $147.5 million from $144.6 million as of December 31, 2010. The increase in accounts receivable reflects the general seasonality of the business. The Company's net accounts receivable decreased by $4.9 million as of September 30, 2011 compared to the Company's net accounts receivable as of September 30, 2010. This decrease was primarily attributable to the decrease in net sales in the third quarter of 2011 compared to the third quarter of 2010.

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 inventory decreased $64.4 million to $204.2 million as of September 30, 2011 compared to $268.6 million as of December 31, 2010 and decreased $25.6 million compared to the balance as of September 30, 2010. This decrease was driven primarily by the build up of inventory levels at the end of September 2010, to support the launch of certain new products in November of 2010. There is no similar product launch planned for the current year. Net inventories as a percentage of the trailing twelve months net sales decreased to 22.2% as of September 30, 2011 compared to 23.7% as of September 30, 2010.

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 $210.0 million, comprised of a $175.0 million U.S. facility (of which $20.0 million is available for letters of credit) and a $35.0 million Canadian facility (of which $5.0 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 $0.5 million at September 30, 2011. The amounts outstanding under the ABL Facility are secured by certain assets, including inventory and accounts receivable, of the Company's U.S. and Canadian legal entities.

As of September 30, 2011, the Company had no borrowings outstanding under the ABL Facility and had $64.3 million of cash and cash equivalents. The maximum amount of Consolidated Funded Indebtedness, including borrowings under the ABL Facility, that could have been outstanding on September 30, 2011, was approximately $88.0 million. Average outstanding borrowings during the three and nine months ended September 30, 2011 were $8.1 million and $33.1 million, respectively. 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 interest rate applicable to outstanding loans under the U.S. facility is based on a calculation of either the U.S. Prime Rate or the British Bankers Association LIBOR Rate as published by Reuters ("LIBOR") plus an applicable margin of 1.00% to 2.75%. The interest rate applicable to outstanding loans under the Canadian facility is based on a calculation of either the Base Rate publicly announced by Bank of America Canada or Canada's Prime Rate plus a margin of 1.00% to 2.75%. At September 30, 2011, the Company's interest rate applicable to its outstanding loans under the ABL Facility was 4.75%.

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 and 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.

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 September 30, 2011, the Company was in compliance with these restrictions and the other terms of the ABL Facility.

The origination fees incurred in connection with the ABL Facility as of September 30, 2011 totaled $2.5 million, which are included in other assets in the accompanying consolidated condensed balance sheet, and will be amortized into interest expense over the term of the ABL Facility agreement. Unamortized origination fees were $2.4 million as of September 30, 2011, of which $0.5 million was included in other current assets and $1.9 million 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 September 30, 2011 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)	$ 83.2	$ 46.5	$ 34.0	$ 2.7	$ —
Dividends on convertible preferred stock(2)	7.4	7.4	—	—	—
Operating leases(3)	40.1	14.1	13.6	8.6	3.8
Uncertain tax contingencies(4)	9.9	1.2	1.7	3.3	3.7
Total	$140.6	$ 69.2	$ 49.3	$ 14.6	$ 7.5

(1) During the normal course of its business, the Company enters into agreements to purchase goods and services, including purchase orders 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 may elect, on or prior to June 15, 2012, to mandatorily convert some or all of the preferred stock into shares of the Company's common stock if the closing price of the Company's common stock has exceeded 150% of the conversion price for at least 20 of the 30 consecutive trading days ending the day before the Company sends the notice of mandatory conversion. Given these factors, if the Company elects to mandatorily convert any preferred stock, it will make a payment on the preferred stock equal to the aggregate amount of dividends that would have accrued and become payable through and including June 15, 2012, less any dividends already paid on preferred stock (see Note 5 to the Consolidated Condensed Financial Statements—"Preferred Stock Offering" in this Form 10-Q). The amounts included in the table above represent the Company's total commitment to pay preferred dividends through June 15, 2012 should it opt to mandatorily convert any preferred stock. However, if the preferred stock were to remain outstanding subsequent to June 15, 2012, the Company would be required to continue to pay dividends subject to the terms and conditions of the preferred stock. These additional dividends are not reflected in this table.

(3) 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.

(4) 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 upon the termination of employment. 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. Also, in connection with the uPlay acquisition in December 2008, the Company could be required to pay an additional purchase price of up to $10.0 million based on a percentage of earnings generated from the sale of uPlay products over a period of three years ending on December 31, 2011. As of September 30, 2011, based on the Company's preliminary assessment of certain performance indicators in connection with the sale of uPlay products, the probability of the Company paying this additional purchase price obligation at the end of the three year period ending December 31, 2011, is remote.

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 three months ended September 30, 2011 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 credit facilities), general economic trends, foreign currency exchange rates, the recovery in Japan, 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".)

Capital Resources

The Company does not currently have any material commitments for capital expenditures. The Company expects to have capital expenditures of approximately $30.0 million for the year ending December 31, 2011.

Off-Balance Sheet Arrangements

At September 30, 2011, the Company had total outstanding commitments on non-cancelable operating leases of approximately $40.1 million related to certain warehouse, distribution and office facilities, vehicles as well as office equipment. Lease terms range from 1 to 8 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, 2010.

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 September 30, 2011 and December 31, 2010, the notional amounts of the Company's foreign currency exchange contracts used to hedge the exposures discussed above were approximately $169.4 million and $314.2 million, respectively. At September 30, 2011 and December 31, 2010, 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 September 30, 2011 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 $18.1 million at September 30, 2011. 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 nine 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 September 30, 2011, 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 September 30, 2011, 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.

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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, 2010, 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, 2010, as supplemented by the Company’s Form 10-Q for the three months ended March 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 September 30, 2011, the Company repurchased 12,000 shares of its common stock at an average cost per share of $6.39 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 September 30, 2011, the Company remained authorized to repurchase up to an additional $73.6 million of its common stock under this program.

The following table summarizes the purchases by the Company under its repurchase programs during the third quarter of 2011 (in thousands, except per share data):

	Three Months Ended September 30, 2011			
	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
July 1, 2011—July 31, 2011	10	$ 6.56	10	$ 73,585
August 1, 2011—August 31, 2011	2	$ 5.21	2	$ 73,577
September 1, 2011—September 30, 2011	—	$ —	—	$ 73,577
Total	12	$ 6.39	12	$ 73,577

Item 3. ***Defaults upon Senior Securities***

None.

Item 4. ***[Removed and Reserved]***

Item 5. ***Other Information***

None.

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	Notice of Grant and Agreement for Stock Appreciation Right, by and between Callaway Golf Company and Anthony S. Thornley effective September 1, 2011, 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 September 2, 2011 (file no. 1-10962).
10.2	Director's Service Agreement, effective as of December 1, 2002, as amended, by and between Callaway Golf Company and Neil Howie.†
10.3	Executive Entrustment Agreement, effective as of March 1, 2008, as amended, by and between Callaway Golf Company and Alex Boezeman.†
10.4	Contract of Employment, effective as of October 19, 2009, as amended, by and between Callaway Golf Company and Leighton Richards.†
10.5	Officer Employment Agreement, effective as of May 1, 2011, by and between Callaway Golf Company and Joseph Urzetta.†
31.1	Certification of Anthony S. Thornley 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 Anthony S. Thornley 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.

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: November 2, 2011

EXHIBIT INDEX

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Exhibit 10.2

Dated 1 December 2002
as revised effective 1 March 2008

CALLAWAY GOLF EUROPE LTD.
(as the “Company”)

NEIL HOWIE
(as “Executive”)

DIRECTOR’S SERVICE AGREEMENT

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THIS AGREEMENT is made on the day of 1 December 2002 and revised effective 1 March 2008

BETWEEN:

(1) **Callaway Golf Europe Ltd.,** a company incorporated in the United Kingdom, whose registered office is at Unit A27, Barwell Business Park, Leatherhead Road, Chessington, Surrey KT9 2NY, Great Britain (registered no. 2756321), (the “Company”), a wholly owned subsidiary of Callaway Golf Company, a Delaware corporation (“Callaway Golf”);

(2) **Neil Howie**, of 3 The Curnicks, Chiseldon, Wiltshire, SN4 OLE (the “Executive”);

IT IS AGREED THAT:

1. Definitions

In this Agreement, the following expressions shall have the following meanings:

“Board” the board of directors of the Company or a duly constituted committee of the board of directors;

“Compensation Payment” means a sum calculated as follows:

$$\frac{A \times £B}{365}$$

“A” is (i) the number of days of the Executive’s notice of termination of employment to which he is entitled under Clause 2.1 below, OR (ii) where the notice period has already commenced, the number of days of such notice period which remain outstanding;

“B” is the Executive’s annual base salary referred to in Clause 5.1 below on the date when he is notified in writing by the Company that it will be making him a Compensation Payment. For the avoidance of doubt, this shall not include the value of any benefits, bonus/incentive, commission, sickness or holiday entitlement which would have accrued to the Executive had he been employed until the expiry of his notice entitlement under Clause 2.1 below;

“Control” has the meaning ascribed by Section 416 Taxes Act 1988 (as amended);

"Effective Date"	means 1 December 2002, as revised effective 1 March 2008;
"Employment"	means the Executive's employment in accordance with the terms and conditions of this Agreement;
"Group Company"	means the Company, Callaway Golf Company, any holding company of the Company and any subsidiary of the Company or Callaway Golf or of any such holding company (with holding company and subsidiary having the meanings ascribed to them by section 736 of the Companies Act 1985);
"Immediate Relatives"	shall include husband, wife, common law spouse, children, brothers, sisters, cousins, aunts, uncles, parents, grandparents, and the aforesaid relatives by marriage;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Companies issued from time to time by the London Stock Exchange and any other code or guidelines issued governing the conduct of directors, including, but not limited to, Callaway Golf's Code of Conduct and Ethics Policy, in that regard as the Company may from time to time adopt or issue;
"Securities"	any shares, debentures (whether or not secured), warrants or options to purchase any shares or debentures;
"Recognised Investment Exchange"	has the meaning given to it by section 207 of the Financial Services Act 1986;
"Termination Date"	shall mean the date upon which the Executive's employment with the Company terminates;
"Policy on Avoiding Insider Trading"	Callaway Golf's Policy on Avoiding Insider Trading, as may be amended from time to time.

2. Appointment

The Company shall employ the Executive and the Executive shall serve the Company as Managing Director on and subject to the terms and conditions specified herein or in such capacity to which he may be lawfully assigned by the Board from time to time.

The Company agrees that the Board of Directors of the Company shall appoint Executive as a Director of the Company, with the title "Managing Director." It is anticipated that the above steps shall be completed and that Executive shall begin his tenure as a member of the Board of Directors and Managing Director of the Company on 1 January 2003.

2.1 Either party may terminate the Employment by giving to the other twelve (12) months' notice in writing, subject to earlier termination under Clause 15 below.

2.2 On 31 December 2008, and on each 31 December thereafter, the term of this Agreement shall be automatically extended one (1) year through 31 December of the following year, so long as (i) Executive is still employed by the Company pursuant to this Agreement; (ii) this Agreement is in full force and effect; (iii) Executive is not in breach of this Agreement and (iv) neither party has given twelve (12) months' notice of termination of employment in writing pursuant to Clause 2.1.

2.3 The Executive's period of continuous employment began on July 23, 1998.

2.4 The Company's normal retirement age is 65. When the Executive reaches age 65 the Company's Retirement Policy set out in the Company's Handbook, shall apply to the Executive.

3. Duties

3.1 The Executive shall be employed in the post of Managing Director in which capacity he shall devote all his time, attention and skill to his duties hereunder, and shall at all times act in the interests of the Company and its Group Companies, and shall faithfully and diligently perform such duties and exercise such powers consistent therewith as may from time to time be assigned to or vested in him by the Board or the Company.

3.2 The Company reserves the right to assign to the Executive (i) duties of a different nature either additional to or instead of those referred to in Clause 3.1 above, it being understood that he will not be assigned duties which he cannot reasonably perform; and (ii) a title other than Managing Director. The Company reserves the right to require that the Executive shares his responsibilities with another employee of the Company of similar status to him.

3.3 The Executive shall report directly to the Senior Vice President, International, Callaway Golf, and member of the Board, or to such person as the Chairman of the Company shall designate, and obey the reasonable and lawful orders of the Senior Vice President, International, Callaway Golf, and/or the Board, given by or with the authority of the Board, and shall comply with all the Company's rules, regulations, policies and procedures from time to time in force.

3.4 The Executive shall promptly provide the Board with all such information as it may require in connection with the business or affairs of the Company and of any other Group Company for which he is required to perform duties.

3.5 The Executive may be required in pursuance of his duties to perform services not only for the Company but also for any Group Company and, without further remuneration (except as otherwise agreed), to accept any such office or position with the Company, as the Board or the Company may from time to time reasonably require. The Company may at its sole discretion assign the Executive's employment to any Group Company on the same terms and conditions as set out herein.

3.6 The Executive's working hours at the office shall be 8.00 am to 5.30 pm Monday to Friday, and such additional hours (without further remuneration) as are necessary for the proper performance of his duties of employment.

3.7 The Executive's normal place of work shall be the Company's principal United Kingdom office or such other location at which the Company may from time to time require the Executive to base himself. The Executive agrees to travel (both within and outside of the United Kingdom) as may be required for the proper performance of his duties and of the Employment.

3.8 The Executive shall not without the prior written consent of the Board either

3.8.1 incur on behalf of the Company or any Group Company any capital expenditure in excess of such sum as may be authorised from time to time; or

3.8.2 enter into, on behalf of the Company or any Group Company, any commitment, agreement, arrangement which (a) is outside its or their normal course of business, or (b) is outside his normal duties, or (c) contains unusual or onerous terms.

4. Other Interests

4.1 During the period of the Employment the Executive shall devote his full time and attention to his duties hereunder and shall not (without the prior written consent of the Board) directly or indirectly either on his own account or on behalf of any other person, company, business entity or other organisation:

4.1.1 (i) engage in, or (ii) be concerned with, or (iii) provide services to, (whether as an employee, officer, director, agent, partner, consultant or otherwise), or (iv) have any financial or other interest in, any other business; or

4.1.2 accept any other engagement or public office;

PROVIDED THAT the Executive may hold for investment purposes an interest (as defined be Schedule 13 of the Companies Act 1985) of up to 5% in nominal value or (in the case of securities not having any nominal value) in number or class of securities, in any class of securities in a company which is quoted on any Recognised Investment Exchange provided that the company which issued the Securities does not carry on a business which is similar to or competitive with any business for the time being carried on by any Company within the Group.

4.2 Subject to any written regulations issued by the Company which are applicable to him, neither the Executive nor his Immediate Relatives, nor any company or business entity in which he or they are interested, shall be entitled to receive or obtain directly or indirectly any discount, rebate, or other benefit in respect of any business transacted (whether or not by the Executive) by or on behalf of the Company or any Group Company. If the Executive, he or they did directly or indirectly obtain any such discount, rebate, or other benefit the Executive shall forthwith account to the Company or the applicable Group Company for the amount received or value of the benefit so obtained.

4.3 The Executive confirms that he has disclosed fully to the Company all circumstances in respect of which there is, or there might be, a conflict of interest between the Company or any Group Company, and the Executive or his Immediate Relatives, and he agrees to disclose fully and in writing to the Company any such circumstances which may arise during the Employment.

4.4 For the purposes of Clauses 4.1, 4.3 and 4.5, the provisions of S.324-328 Companies Act 1985 (as amended) shall apply for determining whether the Executive has an interest in any Securities.

4.5 The Executive undertakes that he will:

4.5.1 at all times comply with the Model Code and the Policy on Avoiding Insider Trading;

4.5.2 immediately inform the Company Secretary of any dealings in the Company's shares which the Executive, or any person connected with the Executive (within the meaning of s.346 Companies Act 1985) has or proposes to have.

5. Remuneration

5.1 Effective 1 December 2002, the Company agreed to pay Executive a base salary of £160,000 per annum; effective 1 March 2004, Executive's base salary increased to £180,000; effective 1 January 2005, Executive's base salary increased to £189,000; effective 1 March 2006, Executive's base salary increased to £196,000; effective 1 March 2007, Executive's base salary increased to £201,500; effective 1 March 2008, Executive's base salary increased to £208,553. Base salary is payable monthly in arrears by equal installments. For subsequent years, the Board will review the Executive's salary annually without any undertaking by the Company that the Executive's salary shall be automatically increased. There will be no salary review after notice of termination of employment has been given in accordance with Clause 2.1.

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 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.

5.3 The remuneration specified in Clauses 5.1 and 5.2 above shall be inclusive of all fees and other remuneration to which the Executive may be entitled as an officer of the Company or of any Group Company.

6. Expenses

The Company shall reimburse (or procure the reimbursement of) to the Executive (against receipts or other satisfactory evidence) all reasonable business expenses properly and reasonably incurred and defrayed by him in the course of the Employment, subject to the Company's rules and policies relating to expenses.

7. Deductions

The Company shall be entitled at any time during the Employment, or in any event on its termination, to deduct from the Executive's remuneration hereunder any monies due from him to the Company including but not limited to any outstanding loans, advances, relocation expenses, the cost of repairing any damage or loss to the Company's property caused by him (and of recovering the same), excess holiday, any sums due from him under Clause 9.5 below and any other monies owed by him to the Company.

8. Pension and Other Benefits

8.1 The Executive shall be eligible to participate in the Company's Group Personal Pension Scheme ("the "Scheme") subject to the terms and conditions of the trust deed and rules governing the Scheme from time to time in force and to any Inland Revenue or other applicable limits. Details of the Scheme can be obtained from the Human Resources Department. The Company reserves the right to terminate, or substitute another pension scheme for, the Scheme. There is no contracting-out certificate in force for the Employment in relation to the State Earnings Related Pension Scheme.

8.2 The Executive shall be eligible to participate in any private health insurance scheme obtained by the Company subject to the terms and conditions of such scheme from time to time in force. Details of the scheme can be obtained from the Human Resources Department. The Company reserves the right to terminate or substitute another scheme for such scheme or to amend the scale of benefits of the scheme including the level of benefits. If any scheme provider (including but not limited to any insurance company) refuses for any reason (whether based on its own interpretation of the terms of the insurance policy or otherwise) to provide any benefits to the Executive, the Company shall not be liable to provide any such benefits itself or any compensation in lieu thereof.

8.3 Any actual or prospective loss of entitlement to private medical insurance benefits shall not limit or prevent the Company from exercising its right to terminate the Employment in accordance with Clauses 2 or 15 hereof.

8.4 With effect from 25 July 2006, the Company will provide the Executive with a car allowance in the amount of £875.00 per month, less all deductions the Company is required by law to make, in order that the Executive can lease a car. The car shall be maintained in accordance with the Company's established policy on leased automobiles. In the event of termination of the Executive's Employment, either voluntarily or involuntarily, the Company shall assume the Executive's liability under the lease as of the effective date of termination. The Executive shall ensure that any automobile lease he may enter into allows for the assignment of the lease to a third party.

9. Sickness Benefit

9.1 In case of sickness or other incapacity for work, the Executive must comply with the Company's rules, from time to time in force, regarding sickness notification and doctor's certificates, details of which can be obtained from the Human Resources Department.

9.2 The Company reserves the right to require the Executive to undergo a medical examination by a doctor or consultant nominated by it, in which event the costs of such examination will be paid by the Company.

9.3 The Executive shall be entitled to such Company Sick Pay as is prescribed from time to time in the Company's Handbook, and subject to the Company's rules and policies relating to sickness absence from time to time in force.

9.4 Any outstanding or prospective entitlement to Company Sick Pay or private medical insurance cover shall not prevent the Company from exercising its right to terminate the Employment in accordance with Clauses 2 or 15 hereof.

9.5 If the illness, accident or other incapacity shall be, or appear to be, caused by actionable negligence of a third party in respect of which damages are or may be recoverable, the Executive shall immediately notify the Board of that fact and of any claim compromise, settlement or judgment made or awarded in connection with it. The Executive shall also give to the Board all particulars the Board may reasonably require and shall, if required by the Board, refund all or such part of the sums paid to or for the benefit of him by way of salary, bonus or benefits during the relevant period as the Board may reasonably determine. The amount to be refunded shall not, however, exceed the amount of damages or compensation and interest thereon recovered by the Executive, less any unrecovered costs borne by him in connection with the recovery of such damages or compensation, and shall not exceed the total remuneration paid to him by way of salary, bonus and benefits in respect of the period of such illness, accident or other incapacity.

10. Holidays

10.1 The Executive shall be entitled to receive his normal remuneration for all Bank and Public holidays normally observed in England and a further 25 working days' holiday in each holiday year (the period from 1 January to 31 December). The Executive may only take his holiday at such times as are agreed with the Senior Vice President, International, Callaway Golf.

10.2 The right to paid holiday will accrue pro-rata during each holiday year of the Employment. In the holiday years in which the Employment commences or terminates the entitlement to holiday shall accrue on a pro rata basis for each complete month of service.

10.3 The Company reserves the right, at its sole discretion, to require the Executive to take all or part of any outstanding holiday during any notice period or to make payment in lieu thereof although the Executive will have no right to a payment in lieu if the Employment is terminated under Clause 15.

10.4 Up to five (5) days holiday entitlement for one holiday year may be taken in the subsequent holiday year if taken in full before 31 March. Failure to take holiday entitlement before 31 March in the subsequent holiday year will lead to forfeiture of any accrued holiday not taken without any right to payment in lieu thereof.

<u>11.</u> **<u>Reasonableness of Restrictions</u>**

The Executive recognises that, whilst performing his duties for the Company, he will have access to and come into contact with trade secrets and confidential information belonging to the Company or to Group Companies and will obtain personal knowledge of and influence over its or their customers and/or employees. The Executive therefore agrees that the restrictions contained or referred to in Clauses 12 and 14 and Schedule 1 are reasonable and necessary to protect the legitimate business interests of the Company and its Group Companies both during and after the termination of his employment.

<u>12.</u> **<u>Confidentiality</u>**

12.1 The Executive shall neither during the Employment (except in the proper performance of his duties or if authorised by the Board or required by law) nor at any time (without limit) after the termination thereof, directly or indirectly:

12.1.1 use for his own purposes or those of any other person, company, business entity or other organisation whatsoever; or

12.1.2 disclose to any person, company, business entity or other organisation whatsoever;

any trade secrets or confidential information relating or belonging to the Company or its Group Companies including but not limited to any such information relating to customers, customer lists or requirements, price lists or pricing structures, sales and marketing information, business plans or dealings, employees or officers, source codes and computer systems, software, financial information and plans, designs, formulae, prototypes, product lines, services, research activities, any document marked ‘Confidential’ (or with a similar expression), or any information which the Executive has been told is confidential or which he might reasonably expect the Company would regard as confidential, or any information which has been given to the Company or Group Company in confidence by customers, suppliers or other persons.

12.2 The Executive shall not at any time during the continuance of his employment with the Company make any notes or memoranda relating to any matter within the scope of the Company’s business, dealings or affairs otherwise than for the benefit of the Company or any Group Company.

12.3 The obligations contained in Clause 12.1 and 12.2 shall cease to apply to any information or knowledge which:

12.3.1 may subsequently come into the public domain after the termination of employment other than by way of unauthorised disclosure (whether or not by the Executive);

12.3.2 the Executive is entitled to disclose under the Public Interest Disclosure Act 1998 provided the Executive has first fully complied with the Company's procedures relating to such external disclosures.

12.4 The Executive shall not make or communicate any statement (whether written or oral) to any representative of the press, television, radio, or other media and shall not write any article for the press or otherwise for publication on any matter connected with or relating to the business of the Company without obtaining the prior approval through the Senior Vice President, International, Callaway Golf. The Executive understands that it is the policy of Callaway Golf that only the Chief Executive Officer, President, Senior Vice President, Global Press and Public Relations of Callaway Golf and their specific designees may speak to the press or media about Callaway Golf or its business, and agrees not to interfere with Callaway Golf's press and public relations by violating this policy.

12.5 The Company may at any time during the Employment require the Executive to deliver up to it immediately all documents (including all notes, original documents, extracts and summaries thereof), discs and other information storing medium relating to the business or affairs of the Company or any Group Company which he obtained or made whilst an employee of the Company. This obligation shall include all copies and reproductions of the same, however made.

13. Copyright, Inventions and Patents

13.1 All records, documents, papers (including copies and summaries thereof) and other copyright protected works made or acquired by the Executive in the course of the Employment shall, together with all the worldwide copyright and design rights in all such works, be and at all times remain the absolute property of the Company or a Group Company.

13.2 The Executive hereby irrevocably and unconditionally waives all rights granted by Chapter IV of Part I of the Copyright, Designs and Patents Act 1988 that vest in him (whether before, on or after the date hereof) in connection with his authorship of any copyright works in the course of his employment with the Company, wherever in the world enforceable, including without limitation the right to be identified as the author of any such works and the right not to have any such works subjected to derogatory treatment.

13.3 The Company and the Executive acknowledge and accept the provisions of Sections 39 to 42 of the Patents Act 1977 ("the Act") relating to the ownership of employees' inventions and the compensation of employees for certain inventions respectively.

13.4 The Executive acknowledges and agrees that, by virtue of the nature of his duties and the responsibility arising, he has a special obligation to further the interests of the Company within the meaning of Section 39(1)(b) of the Act.

13.5 Any invention, development, process, plan, design, formula, specification, program or other matter or work whatsoever (collectively "the Inventions") made, developed or discovered by the Executive, either alone or in concert, during the course of the Executive's duties of employment for the Company shall forthwith be disclosed to the Company and, subject to Section 39 of the Act, shall belong to and be the absolute property of the Company or a Group Company.

13.6 With respect to those rights in the Inventions which do not belong to the Company or any Group Company pursuant to Clause 13.5 but which were made (wholly or partly, either alone or in concert) using the Company's or any Group Company's equipment, or (wholly or partly, either alone or in concert) using information obtained during the course of the Executive's employment, or else are Inventions which are or may be relevant to or related to the Company's or a Group Company's existing or future business (collectively "Executive Rights"), the Executive at the request and cost of the Company (and notwithstanding the termination of his employment) shall forthwith license or assign (as determined by the Company) to the Company or a Group Company the Executive Rights and shall deliver to the Company all documents and other materials relating to the Inventions. The Company shall pay to the Executive such compensation for the licence or assignment as the Company shall determine in its absolute discretion, subject to Section 40 of the Act.

13.7 The Executive shall at the request and cost of the Company (and notwithstanding the termination of his employment) sign and execute all such documents and do all such acts as the Company may reasonably require:

13.7.1 to apply for and obtain in the sole name of the Company or a Group Company alone (unless the Company otherwise directs) patent, registered design, or other protection of any nature whatsoever in respect of the Inventions in any country throughout the world and, when so obtained or vested, to renew and maintain the same;

13.7.2 to resist any objection or opposition to obtaining, and any petitions or applications for revocation of, any such patent, registered design or other protection;

13.7.3 to bring any proceedings for infringement of any such patent, registered design or other protection; and

13.7.4 otherwise to give effect to the assignments, waivers and licences contemplated under this Clause 13.

13.8 The Company or a Group Company shall decide, in its sole discretion, whenever to apply for patent, registered design or other protection in respect of the Inventions and reserves the right to work any of the Inventions as a secret process in which event the Executive shall observe the obligations relating to confidential information which are contained in Clause 12 of this Agreement.

<u>14.</u> **<u>Post-Termination Covenants</u>**

14.1 The Executive agrees that he will observe the post-termination obligations set out in Schedule 1 hereto.

14.2 The Executive agrees that in the event of receiving from any person, company, business entity or other organisation an offer of employment either during the continuance of the Agreement or during the continuance in force of any of the restrictions set out in Schedule 1 annexed hereto, he will forthwith provide to such person, company, business entity or other organisation making such an offer of employment a full and accurate copy of the restrictions set out in Clauses 12 and 14 hereof, and Schedule 1 annexed hereto.

15. Termination

15.1 Notwithstanding Clause 2, the Company may terminate the Employment at any time with immediate effect, with or without notice, if the Executive shall at any time:

15.1.1 be guilty of dishonesty, or other gross misconduct, or gross incompetence or wilful neglect of duty, or commit any other serious breach of this Agreement; or

15.1.2 act in any manner (whether in the course of his duties or otherwise) which is likely to bring him, the Company or any Group Company into disrepute or prejudice the interests of the Company or any Group Company; or

15.1.3 be declared bankrupt, apply for or have made against him a receiving order under Section 286 Insolvency Act 1986, or have any order made against him to reach a voluntary arrangement as defined by Section 253 of that Act; or

15.1.4 resign as a director of the Company or any Group Company (without the Board's written consent); or

15.1.5 be or become of unsound mind; or

15.1.6 for an aggregate period of 120 days or more in any period of twelve (12) consecutive months be incapable of performing his duties hereunder by reason of ill health or other incapacity (whether accidental or otherwise); or

15.1.7 be guilty of continuing unsatisfactory conduct or poor performance of his duties, after having received a written warning from the Company relating to the same; or

15.1.8 be convicted of an indictable offence; or

15.1.9 be or become prohibited by law from being a director; or

15.1.10 directly or indirectly advise or participate or act in concert (within the meaning of the City Code on Take-Overs and Mergers) with any person who makes or is considering making any offer for the issued share capital of the Company or any Group Company; or

15.1.11 break any part of the Model Code or Policy on Avoiding Insider Trading.

Any delay by the Company in exercising such right to termination shall not constitute a waiver thereof. This Clause 15.1 shall not restrict any other right the Company may have (whether at common law or otherwise) to terminate the Employment summarily.

15.2 On termination of the Employment, the Executive shall forthwith return to the Company in accordance with its instructions all equipment, correspondence, records, specifications, software, models, notes, reports and other documents and any copies thereof and any other property belonging to the Company or its Group Companies (including but not limited to the Company car, keys, credit cards, samples, equipment and passes) which are in his possession or under his control. The Executive shall, if so required by the Company, confirm in writing his compliance with his obligations under this Clause 15.2.

15.3 The Executive agrees that the Company may at its absolute discretion:

15.3.1 give to the Executive a Compensation Payment in lieu of all or any part of any notice of termination of employment (whether given by the Executive or the Company) (to which, for the avoidance of doubt, the Executive shall have no entitlement unless and until the Company notifies the Executive in writing of its decision to make the Compensation Payment to him) which may, at the Company's discretion, be paid on a monthly basis and will be subject to such deductions of income tax and national insurance as the Company is required by law to make. No further payment under Clause 15.3.1 will be made to the Executive if (i) the Company has reasonable grounds to believe that the Executive has breached any of the terms of this Agreement which survive the termination of employment, including but not limited to Schedule 1; or (ii) the Executive has commenced alternative employment or the provision of services without being in breach of any of the restrictions in Schedule 1 of this Agreement. The Executive shall inform the Company as soon as he becomes aware that he will, or may, breach the provisions of Schedule 1 or commence such employment or the provision of such services; and/or

15.3.2 require the Executive not to attend work and/or not to undertake all or any of his duties hereunder during all or any part of either any period of notice (whether given by the Executive or the Company), PROVIDED ALWAYS that the Company shall continue to pay the Executive's salary and provide private health insurance and make contributions to pension in accordance with the rules of any scheme. The Executive will remain an employee during any such period and will remain bound by:

15.3.2.1 the Executive's duty to act in the best interests of the Company;

15.3.2.2 the mutual obligation of trust and confidence;

15.3.2.3 the Executive's implied duties of good faith and fidelity;

15.3.2.4 the Executive's obligations under clauses 4,12,13,14,16 and Schedule 1 of this Agreement;

15.3.2.5 the Executive's duty to comply with the lawful and reasonable instructions of the Company.

The Executive must not undertake any other work or business activities of any kind without the prior written consent of the Company. The Executive must remain available or be contactable during normal business hours to provide such assistance to the Company as it may reasonably need from time to time.

15.4 The Company shall have the right to suspend the Executive on full pay pending any investigation into any potential dishonesty, gross misconduct or any other circumstances which may give rise to a right to the Company to terminate pursuant to Clause 15.1 above.

15.5 The termination of the Employment shall be without prejudice to any right the Company may have in respect of any breach by the Executive of any of the provisions of this Agreement which may have occurred prior to such termination.

15.6 The Executive agrees that he will not at any time after the termination of the Employment represent himself as still having any connection with the Company or any Group Company, save as a former employee for the purpose of communicating with prospective employers or complying with any applicable statutory requirements.

<u>16.</u> **<u>Directorships</u>**

16.1 The Executive's duties as a director of the Company or any other Group Company are subject to the Articles of Association or comparable governing documents of the relevant company for the time being.

16.2 At a time agreed with the Company, the Executive shall resign in writing from all directorships, trusteeships and other offices he may hold from time to time with the Company or any Group Company without compensation for loss of office in the event of:

16.2.1 the termination of his employment; or

16.2.2 either the Company or the Executive serving on the other notice of termination of the Employment; or

16.2.3 the Company exercising its rights under Clause 15.4 above.

16.3 In the event of the Executive failing to comply with his obligations under Clause 16.2 above, he hereby irrevocably and unconditionally authorises the Company to appoint some person in his name and on his behalf to sign or execute any documents and/or do all things necessary requisite to give effect to such resignations as referred to in Clause 16.2 above.

17. Waiver of Rights

It is acknowledged that the Executive may, during the Employment, be granted rights upon the terms and subject to the conditions of the rules from time to time of the Company's Group Personal Pension Scheme or any other profit sharing, share incentive, share option, bonus or phantom option scheme operated by the Company or any Group Company with respect to shares in the Company or any Group Company. If, on termination of the Employment, whether lawfully or in breach of contract, the Executive loses any of the rights or benefits under such scheme (including rights or benefits which the Executive would not have lost had the Employment not been terminated) the Executive shall not be entitled, by way of compensation for unlawful termination of employment, loss of office or otherwise, to any compensation for the loss of any rights or loss of profits under any such scheme.

18. Rights Upon a Change in Control

18.1 The Executive may terminate the Employment by giving one (1) month's notice in writing, such notice to be given within twelve (12) months after any Change in Control (as defined in Schedule 2) if, in his reasonable opinion, his employment is materially and adversely affected during the twelve (12) month period after the Change in Control and the Company is unable to offer the Executive alternative employment on terms and conditions which, taken as a whole, are "at least equal to" the terms of this Agreement.

18.2 If the Executive gives notice pursuant to this Clause 18 or if the Executive's employment is terminated by the Company without "good reason" during the twelve (12) month period after any Change in Control, then he will be entitled to receive from the Company a sum equal to salary (as at the Change in Control) (excluding bonus, commission or the value of any benefits) that the Executive would have received for twelve (12) months (the "Severance Payment").

18.3 Entitlement to receive the Severance Payment is conditional upon the Executive signing (and his legal adviser countersigning) an effective compromise agreement, which confirms that all contractual and statutory claims that the Executive may have against the Company (and/or any Group Company) are compromised, on terms to be proposed by the Company.

18.4 For the purpose of this clause, "**good reason**" shall mean where the Executive ceases to be an employee of the Company by reason of:

18.4.1 termination by the Company in accordance with Clause 15 hereof;

18.4.2 unsatisfactory conduct or poor performance; or

18.4.3 injury, disability or ill health (as determined by the Board).

19. Dismissal, Disciplinary and Grievance Procedures

The Dismissal, Disciplinary and Grievance Procedures set out in the Company's Handbook shall apply to the Executive.

20. Data Protection

The Company’s Data Protection policy shall apply to the Executive.

21. Miscellaneous

21.1 The various provisions and sub-provisions of this Agreement and the Schedules attached hereto are severable and if any provision or sub-provision is held to be unenforceable by any court of competent jurisdiction then such unenforceability shall not affect the enforceability of the remaining provisions or sub-provisions in this Agreement or Schedules.

21.2 The Executive represents and warrants that he is not prevented by any agreement, arrangement, contract, understanding, Court Order or otherwise, which in any way directly or indirectly restricts or prohibits him from fully performing the duties of the Employment, or any of them, in accordance with the terms and conditions of this Agreement.

21.3 Any notice to be given hereunder may be delivered (a) in the case of the Company by first class post addressed to its Registered Office for the time being and (b) in the case of the Executive, either to him personally or by first class post to his last known address.

21.4 Notices served by post shall be deemed served on the fifth business day after the date of posting. For the purposes of this Clause 21.4, “business day” means a day on which banks are open for business in the place of both the posting and the address of the notice.

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

22. Construction

22.1 The provisions of Schedules 1 and 2 hereto and any additional terms endorsed in writing by or on behalf of the parties hereto shall be read and construed as part of this Agreement and shall be enforceable accordingly.

22.2 The benefit of each agreement and obligation of the Executive under Clauses 12, 14 and Schedule 1 hereto of this Agreement may be assigned to and enforced by all successors and assignees for the time being of the Company and its Group Companies and such agreements and obligations shall operate and remain binding notwithstanding the termination of this Agreement. Executive may not assign his rights, benefits, obligations or other interests in this Agreement, it being understood that this Agreement and the Employment are personal to the Executive.

22.3 Any reference in this Agreement to an Act of Parliament shall be deemed to include any statutory modification or re-enactment thereof.

22.4 A person who is not a party to this Agreement shall not have any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

23. Prior Agreements

This Agreement cancels and is in substitution for all previous letters of engagement, agreements and arrangements (whether oral or in writing) relating to the subject-matter hereof between the Company and the Executive, specifically, the Statement of Terms and Conditions of Employment entered into 1 September 2002 between the Executive and the Company, all of which shall be deemed to have been terminated by mutual consent. This Agreement made between the Executive and the Company constitutes the entire terms and conditions of the Executive's employment and no waiver or modification thereof shall be valid unless in writing, signed by the parties and only to the extent therein set forth.

24. Governing Law and Jurisdiction

This Agreement is governed by and construed in accordance with the laws of England. The parties hereto submit to the exclusive jurisdiction of the English Courts.

EXECUTED by the parties as a deed

Executed as a Deed by	)	______________________
CALLAWAY GOLF EUROPE LTD.,	)	Thomas T. Yang, Director
a United Kingdom corporation	)	
		______________________
		Bradley J. Holiday, Director
Executed as a Deed	)	
NEIL HOWIE	)	______________________
in the presence of:	)	Neil Howie
______________________		Signature of witness
______________________		Name of witness
______________________		Address of witness
______________________		
______________________		Occupation of witness

SCHEDULE 1 – POST TERMINATION COVENANTS

1. **Definitions**

For the purposes of this Schedule 1**,** the following words and cognate expressions shall have the meanings set out below:

1.1 “Board” shall have the meaning set out in the Agreement attached hereto, and shall include its successors in title and assigns (as applicable).

1.2 “Company” shall have the meaning set out in the Agreement attached hereto, and shall include their successors in title and assigns (as applicable).

1.3 “Restricted Employee” means any person who was employed by (i) the Company or (ii) any Group Company, for at least three months prior to and on the Termination Date and:

1.3.1 with whom the Executive had material contact or dealings in performing his duties of his employment; or

1.3.2 who had material contact with customers or suppliers of the Company in performing his or her duties of employment with the Company or any Group Company (as applicable); and

1.3.3 who was a member of the management team of the Company or any Group Company (as applicable);

1.4 “Customer” shall mean any person, firm, company or other organisation whatsoever to whom the Company has supplied goods or services.

1.5 “Group Company” shall have the meaning set out in the Agreement attached hereto, and shall include its successors in title and assigns (as applicable).

1.6 “Prohibited Area” means:

1.6.1 the United Kingdom; and

1.6.2 any other country in the world where, on the Termination Date, the Company develops, sells, supplies, manufactures or researches its products or services or where the Company is intending, within three months following the Termination Date to develop, sell, supply or manufacture its products or services and in respect of which the Executive has been responsible (whether alone or jointly with others), concerned or active on behalf of the Company during any part of the twelve (12) months immediately preceding the Termination Date.

1.7 “Prospective Customer” shall mean any person, firm, company or other organisation with whom the Company has had any negotiations or material discussions regarding the possible supply of goods or services by the Company.

1.8 The “Relevant Period” shall mean the lesser of:

1.8.1 The six (6) months, in relation to Clause 2 of Schedule 1, and the twelve (12) months, in relation to Clauses 3, 4 and 5 of Schedule 1, immediately following the Termination Date;

1.8.2 the period specified in sub-clause 1.8.1 above less the number of days on which the Executive has been required by the Company (pursuant to Clause 15.3.2 of the Agreement) both not to attend at work and not to perform any duties of employment.

1.9 “Supplier” means any person, company, business entity or other organisation whatsoever who:

1.9.1 has supplied goods or services to the Company during any part of the twelve (12) months immediately preceding the Termination Date; or

1.9.2 has agreed prior to the Termination Date to supply goods or services to the Company to commence at any time in the twelve (12) months following the Termination Date; or

1.9.3 as at the Termination Date, supplies goods or services to the Company under an exclusive contract or arrangement between that Supplier and the Company.

1.10 “Termination Date” shall have the meaning set out in the Agreement hereto.

2. Non-Competition

The Executive hereby agrees that he shall not (without the consent in writing of the Board) for the Relevant Period within the Prohibited Area and whether on his own behalf or in conjunction with or on behalf or any other person, firm, company or other organisation (and whether as an employee, director, principal, agent, consultant or in any other capacity whatsoever,) in competition with the Company be directly or indirectly (i) employed or engaged in, or (ii) perform services in respect of, or (iii) have any financial interest in, or (iv) be otherwise concerned with:

2.1 the research into, development, manufacture, supply or marketing of any product which is of the same or similar type to any product researched, or developed, or manufactured, or supplied, or marketed by the Company during the twelve (12) months immediately preceding the Termination Date;

2.2 the research into, development, manufacture, supply or marketing of any product which is to the same or a similar type to any product which the Company was (as at the Termination Date) proposed to launch within twelve (12) months of the Termination Date;

2.3 the development or provision of any services (including but not limited to technical and product support, or consultancy or customer services) which are of the same or similar type to any services provided by the Company during the twelve (12) months immediately preceding the Termination Date;

2.4 the development or provision of any services (including but not limited to technical and product support or consultancy or customer services) which are of the same or similar type to any services which the Company was (as at the Termination Date) proposing to launch within twelve (12) months of the Termination Date.

PROVIDED ALWAYS that the provision of this Clause 2 shall apply only in respect of products or services with which the Executive was either personally concerned or for which he was responsible whilst employed by the Company during the twelve (12) months immediately preceding the Termination Date.

The provisions of this Clause 2 shall not, at any time following the Termination Date, prevent the Executive (i) from holding shares or other capital not amounting to more than 5% of the total issued share capital of any company, listed on a Recognised Share Exchange or (ii) from being employed in, or providing services to, any part of a business (which does not fall within the scope of paragraphs 2.1 to 2.4 above) being operated by another company, firm of other business entity, even though another part of the business of such company, firm or other business entity (with which the Executive is not directly or indirectly concerned or employed) does fall within the scope of paragraphs 2.1 to 2.4 above.

3. Non-Solicitation of Customers

The Executive hereby agrees that he shall not for the Relevant Period whether on his own behalf or in conjunction with or on behalf of any person, company, business entity or other organisation (and whether as an employee, director, principal, agent, consultant or in any other capacity whatsoever), directly or indirectly (i) solicit or, (ii) assist in soliciting, or (iii) accept, or (iv) facilitate the acceptance of, or (v) deal with, in competition with the Company, the custom or business of any Customer or Prospective Customer:

3.1 with whom the Executive has had material contact or dealings on behalf of the Company during the twelve (12) months immediately preceding the Termination Date; or

3.2 for whom the Executive was, in a client management capacity on behalf of the Company, directly responsible (on his own or in conjunction with other individuals) during the twelve (12) months immediately preceding the Termination Date.

4. Non-Solicitation of Restricted Employees

The Executive hereby agrees that he will not for the Relevant Period either on his own behalf or in conjunction with or on behalf of any other person, company, business entity, or other organisation (and whether as an employee, principal, agent, consultant or in any other capacity whatsoever), directly or indirectly:

4.1 (i) induce, or (ii) solicit, or (iii) entice or (iv) procure, any person who is a Restricted Employee to leave the Company’s or any Group Company’s employment (as applicable) where that person is a Restricted Employee on the Termination Date;

4.2 be personally involved to a material extent in (i) accepting into employment or (ii) otherwise engaging or using the services of, any person who is a Restricted Employee on the Termination Date.

5. Interference with Suppliers

The Executive hereby agrees that he shall not for the Relevant Period, in relation to any contract or arrangement which the Company has with any Supplier for the exclusive or preferential supply of goods or services to the Company and/or to its Group Companies, for the duration of such contract or arrangement, whether on his own behalf or in conjunction with or on behalf of any person, company, business entity or other organisation, (and whether as an employee, director, agent, principal, consultant or in any other capacity whatsoever), directly or indirectly:

5.1 interfere with the supply of goods or services to the Company from any Supplier;

5.2 induce any Supplier of goods or services to the Company to cease or decline to supply such goods or services in the future.

6. Group Companies

6.1 The provisions of Clauses 6.2 and 6.3 below shall only apply in respect of those Group Companies (i) to whom the Executive gave his services, or (ii) for whom he was responsible, or (iii) with whom he was otherwise concerned, in the twelve (12) months immediately preceding the Termination Date.

6.2 Clauses 1, 2, 3, 4 and 5 in this Schedule 1 shall apply as though references to the “Group Company” were substituted for references to the “Company”. The obligations undertaken by the Executive pursuant to this Schedule 1 shall, with respect to each Group Company, constitute a separate and distinct covenant and the invalidity or unenforceability of any such covenant shall not affect the validity or enforceability of the covenants in favour of the Company or any other Group Company.

6.3 In relation to each Group Company referred to in Clauses 6.1 and 6.2 above, the Company contracts as trustee and agent for the benefit of each such Group Company. The Executive agrees that, if required to do so by the Company, he will enter into covenants in the same terms as those set out in Clauses 1, 2, 3, 4 and 5 hereof directly with all or any of such Group Companies, mutatis mutandis. If the Executive fails, within seven days of receiving such a request from the Company, to sign the necessary documents to give effect to the foregoing, the Company shall be entitled, and is hereby irrevocably and unconditionally authorised by the Executive, to execute all such documents as are required to give effect to the foregoing, on his behalf.

SCHEDULE 2 – 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, but excluding Callaway Golf Company and its affiliates and any employee benefit or stock ownership plan of Callaway Golf Company or its affiliates, and also excluding an underwriter or underwriting syndicate that has acquired Callaway Golf 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 of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of Callaway Golf 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 Callaway Golf Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of Callaway Golf Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf Company of the sale or other disposition by Callaway Golf Company of all or substantially all of Callaway Golf Company's assets or a reorganization or merger or consolidation of Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of Callaway Golf Company or its successor; or

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

FIRST AMENDMENT TO DIRECTOR'S SERVICE AGREEMENT

This First Amendment to Director's Service Agreement ("First Amendment") is made effective as of 30 April 2010 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 (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, a new benefit, as described in Clause 3 below, as consideration for such amendment.

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

1. Clause 2 – Appointment. Clause 2, paragraph 1 of the Agreement shall reflect that the Executive shall serve the Company as "Managing Director and President."

2. Clause 5 – Remuneration. By way of confirmation, Clause 5.1 of the Agreement reflects that the Executive's current salary is £208,553.

3. Clause 8 – Pension and Other Benefits. Clause 8 of the Agreement is amended to add a new sub-section 8.5, as follows:

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

4. 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 First 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.,	)	______________________________
a United Kingdom corporation	)	Thomas T. Yang, Director
		______________________________
		Bradley J. Holiday, Director
Executed as a Deed	)	
NEIL HOWIE	)	______________________________
in the presence of:	)	Neil Howie
______________________________		Signature of witness
______________________________		Name of witness
______________________________		Address of witness
______________________________		
______________________________		
______________________________		
______________________________		Occupation of witness

SECOND AMENDMENT TO DIRECTOR'S SERVICE AGREEMENT

This Second Amendment to Director's Service Agreement ("Second Amendment") is entered into as of 15 March 2011 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 (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 remuneration, as described below, as consideration for such amendment.

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

1. Clause 5.1 – Remuneration. Clause 5.1 of the Agreement is amended to state that, effective 1 March 2011, the Company agrees to pay Executive an annual base salary of £211,681 (prorated for any partial years of employment), payable monthly in arrears by equal installments.

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 Second 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.	)	______________________
a United Kingdom corporation)	)	Thomas T. Yang, Director
		______________________
		Bradley J. Holiday, Director
Executed as a Deed	)	
NEIL HOWIE	)	______________________
in the presence of:	)	Neil Howie
______________________		Signature of witness
______________________		Name of witness
______________________		Address of witness
______________________		
______________________		
______________________		Occupation of witness

EXECUTIVE ENTRUSTMENT AGREEMENT

THIS EXECUTIVE ENTRUSTMENT AGREEMENT (this “Agreement”) is made as of the March 1, 2008,

BY AND BETWEEN

Callaway Golf K.K., a company organized and existing under the laws of Japan with its registered head office located at Shin-Onarimon, Building 1F, 6-17-19 Shinbashi, Minato-ku, Tokyo, 105-0004, Japan (the “Company”), a wholly-owned subsidiary of Callaway Golf Company, a Delaware USA corporation (“Callaway Golf Company”);

and

Alex Boezeman, an individual residing at 4-5-7 Akasaka, Minato-ku, Tokyo 107-0052, Japan (the “Director”).

WHEREAS

A. The Company wishes to engage the Director to perform certain services on its behalf pursuant to the terms and conditions of this Agreement.

B. The Director desires to be engaged by the Company to perform such services pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. ACCEPTANCE AND NATURE OF POSITION

1.1 Engagement

The Company hereby engages the Director to serve as its Director and Representative Director pursuant to the terms and conditions of this Agreement (the “Engagement”).

The Director shall perform all the duties and work associated with the foregoing position, together with such other responsibilities in Japan and greater Asia as may be reasonably requested by the Board of Directors. Director agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that during his Engagement, Director 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 Director 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 Director’s work for the Company.

1.2 Scope of Authority

As a Director of the Company, the Director shall generally perform his duties and deal with third parties in accordance with the written guidelines and instructions of the Company.

2. TERM

The term of the Engagement under this Agreement shall commence on March 1, 2008 and run through the current elected term as a Director, March 20, 2009. Thereafter it may be renewed as agreed between the parties.

3. COMPENSATION

3.1 Salary

The Company shall pay to the Director an annual gross salary of JPY 35,535,000, subject to the approval of a general meeting of shareholders of the Company.

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 forty percent (40%) 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.

3.3 Withholding

The Company may, in accordance with applicable Japanese laws and regulations, withhold any required amounts from the Director's remuneration and remit such amounts to the applicable authorities or agencies with respect to national income tax and local income/inhabitants tax.

3.4 Legal and Other Professional Fees

The Company shall bear legal fees and other professional fees reasonably incurred by the Director to the extent such fees are necessitated by cause attributable to the Company, if such specific fees are authorized by the Company prior to being incurred.

4. EXPENSES AND BENEFITS

4.1 Reasonable and Necessary Expenses

In addition to the compensation provided for in Article 3 hereof, the Company shall reimburse the Director for all reasonable, customary, and necessary expenses incurred in the performance of the Director's duties hereunder. The Director shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company’s Board of Directors.

4.2 Benefits

The Director shall be entitled to participate in the Company’s standard health insurance, life insurance and disability insurance plans, and other social benefits generally available to the Company’s Directors, as the same may be modified from time to time.

5. ANNUAL VACATION

The Director shall be entitled to twenty (20) days of paid vacation each year. The vacation may be taken any time during the year subject to prior approval by either the Company’s Board of Directors or its designee, such approval to be granted or denied in the sole discretion of either the Company’s Board of Directors or its designee, as applicable. Unused days of annual vacation may be carried over to the next year only, after which they will lapse if not used. No compensation will be paid to the Director for any days of accrued, unused vacation upon retirement or termination of his Engagement under this Agreement.

6. DILIGENT PERFORMANCE

During his Engagement, the Director shall faithfully and diligently perform such duties and exercise such powers in relation to the Company as are specified herein and as may from time to time be duly vested in him by the Company. The Director shall perform his duties with a good manager’s care so as to embody and enhance the Company’s reputation for excellence.

7. OTHER DUTIES AND OBLIGATIONS

7.1 Other Business

To the fullest extent permitted by law, the Director agrees that, during the term of the Engagement, the Director will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which conflicts with the Director’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.

7.2 Company Employees

Except as may be required in the performance of his duties hereunder, the Director 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 during the term of the Engagement and for a period of one (1) year thereafter.

7.3 Suppliers

During the term of the Engagement, and for one (1) year thereafter, the Director 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.

7.4 Conflict of Interest

During the term of the Engagement, the Director shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to the Director's duties and obligations to the Company.

7.5 Non-Interference

During the term of the Engagement, and for one (1) year thereafter, the Director shall not in any way undertake to harm, injure or disparage the Company and/or its affiliates, their officers, directors, employees, agents, affiliates, vendors, products, or customers, or their successors, or in any other way exhibit an attitude of hostility toward them. The Director understands that it is the policy of the Company that only the Chief Executive Officer and the Vice President, Public Relations of Callaway Golf Company, and their specific designees, may speak to the press or media about the Company or its business, and agrees not to interfere with the Company’s press and public relations by violating this policy.

8. NON-DISCLOSURE

8.1 Non-Disclosure

The Director shall not disclose to any third party or use for any purpose, except as authorized hereunder or by the Company, or for the benefit of any person or entity other than the Company any information with respect to the Company or any of its related companies which has been confidentially communicated to him or which has become known to him during the Engagement. This secrecy obligation shall survive the termination of this Agreement and shall remain in effect with respect to each item of confidential information known to the Director until (i) that information becomes generally known to the public or (ii) expiration of a five (5) year period after the termination of this Agreement, whichever is earlier.

8.2 Business Information

Business information of any kind and in whatever form, including personal notes relating to business activities, shall be treated as confidential information. The Director shall not be permitted to make any copies or extracts of any customer and/or transaction related documents, programs, data, drawings, calculations or statistics, nor to use those or any other business information of the Company other than in the best interests of the Company.

8.3 Return of Business Information

Upon termination of the Engagement, the Director shall immediately return to the Company all business information relating to the Company or its related companies, and any copies or other reproductions thereof, then in the Director’s possession.

9. DIRECTOR INDEMNIFICATION

The Director shall defend, indemnify and hold the Company, its related companies and the respective officers, directors, employees and agents of the Company and its related companies harmless against any and all claims, actions, suits, proceedings, losses, damages, liabilities, costs and expenses arising from or attributable to any of the following:

9.1 Any allegation that the Director's execution, delivery and performance of this Agreement conflicts with, or constitutes a breach or default of, any obligation of the Director to any other person, firm or entity;

9.2 Any breach or default by the Director of any of the provisions of this Agreement or of any of the Director's fiduciary obligations to the Company; or

9.3 Any willful misconduct or negligence of the Director in the performance of his/her obligations under this Agreement, and any and all personal liabilities of the Director;

The Director’s obligations under this Article 9 shall survive the termination of this Agreement for any reason whatsoever.

10. COMPANY INDEMNIFICATION

The Company shall indemnify the Director and hold the Director harmless from and against any and all claims, threats, suits (whether instituted by the Company or any other person or entity), damages, penalties, liabilities, costs and expenses incurred, suffered or expended by or threatened against the Director with respect to any action or inaction taken in the course of the Director’s duties as a Director of the Company based upon the instructions or guidelines of the Board of Directors, except (i) where there is any breach or default by the Director of any of the provisions of this Agreement or of any of the Director's fiduciary obligations to the Company; (ii) where due to the willful misconduct or negligence of the Director, and (iii) for any and all personal liabilities of the Director.

11. TERMINATION

11.1 Termination at the Company's Convenience

The Director's Engagement under this Agreement may be terminated immediately by the Company at its convenience at any time. In the event of a termination by the Company for its convenience, the Director shall be entitled to receive the immediate vesting of all unvested long-term incentive compensation awards held by the Director that would have vested had the Director remained engaged pursuant to this Agreement for a period of twelve (12) months from the date of such termination[1]. In addition to the foregoing and subject to the provisions thereof, the Director shall be entitled to Special Severance as described in Section 11.11 and Incentive Payments as described in Section 11.12.

11.2 Termination by the Director by Resignation

The Director may voluntarily resign from the Engagement by providing six (6) months' notice of his intention to do so, in writing and in advance. In the event of a voluntary termination by the Director, the Director shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; and (ii) no other severance. The Company, at its exclusive and absolute discretion, may unilaterally waive all or part of such notice of resignation. In the event of exercising such waiver, the Company shall not be responsible to Director for any payments, severance, notice, or pay in lieu of notice to the date of the six (6) month notice period.

11.3 Termination by the Director for Good Reason

The Director may terminate his Engagement immediately for good reason at any time. In the event of a termination for good reason, the Director shall be entitled to receive the immediate vesting of all unvested long-term incentive compensation awards held by the Director that would have vested had he remained engaged pursuant to this Agreement for a period of twelve (12) months from the date of such termination[1]. In addition to the foregoing and subject to the provisions thereof, the Director shall be eligible to receive Special Severance as described in Section 11.11 and Incentive Payments as described in Section 11.12. "Good Reason" shall mean a material breach of this Agreement by the Company.

11.4 Termination for Non-Renewal

If this Agreement is not renewed pursuant to its terms, and provided that the Company has not offered the Director a new agreement (as director, employee, contractor, or otherwise) on substantially the same or better terms, the Director's Engagement is terminated, and the Director shall be entitled to receive the immediate vesting of all unvested long-term incentive compensation awards held by the Director that would have vested had the Director remained engaged pursuant to this Agreement for a period of twelve (12) months from the date of such termination[1]. In addition to the foregoing and subject to the provisions thereof, the Director shall

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1 Note: Performance Cash Units that may vest pursuant to this section will not be paid unless, and then only to the extent that, the performance criteria underlying such awards has been satisfied. As a result, any potential payment related to the accelerated vesting of such Performance Cash Units will be paid following the completion of the relevant performance period and the evaluation of whether the performance criteria have been met, and any such payment will be made to the Director at the same time other participants receive payment.

1 Note: Performance Cash Units that may vest pursuant to this section will not be paid unless, and then only to the extent that, the performance criteria underlying such awards has been satisfied. As a result, any potential payment related to the accelerated vesting of such Performance Cash Units will be paid following the completion of the relevant performance period and the evaluation of whether the performance criteria have been met, and any such payment will be made to the Director at the same time other participants receive payment.

be eligible to receive Special Severance as described in Section 11.11 and Incentive Payments as described in Section 11.12. It is expressly understood that if the Director and the Company enter into a new written agreement (for the provision of services as a director, employee, contractor, or otherwise) on substantially the same or better terms, then the provisions of this section are not applicable. For clarification, this section does not apply should the Director be terminated by the Company for good reason, due to permanent disability, or in the event of the Director's death.

11.5 Termination by the Company for Good Reason

The Company may, by a written notice, immediately terminate the Engagement under this Agreement at any time for any of the following reasons:

(a) if there has been significant negligence in the performance of the Director's duties, or if the Company is subject to significant damage due to negligence or dereliction of the Director's duties;

(b) if the Director uses the Company's information or assets for purposes not approved by the Company;

(c) if the Director intentionally interferes with the performance or efficiency of the Company's business;

(d) if the Director breaches any of the terms of this Agreement, abuses his position for personal gain or breaches his duties to the Company and its shareholders;

(e) if the Director acts illegally or violates generally accepted ethical and moral standards in Japan; or

(f) if the Director performs any other act analogous to any of the foregoing.

If the Agreement is terminated for any of the reasons set forth in this Section 11.5, then the Director shall receive regular salary payment through the date of termination and no additional payment. For clarification, the Director shall not be entitled to receive accelerated vesting of unvested long-term incentive compensation awards or any severance or incentive payments.

11.6 Termination Due to Permanent Disability

Subject to all applicable laws, the Director's Engagement under this Agreement may be terminated immediately by the Company in the event the Director becomes permanently disabled. "Permanent disability" shall be defined as the Director's failure to perform or being unable to perform all or substantially all of the Director's duties under this Agreement for a continuous period of more than six (6) months on account of any physical or mental disability, either as mutually agreed to by the parties or as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by the Director, and one of which has been selected by the two other physicians jointly. In the event of a termination by the Company due to the Director's permanent disability, in exchange for Director's execution of a release in the form attached hereto as Exhibit B, the Director shall be entitled to (i) severance payments equal to the Director's then current salary at the same rate and on the same schedule as in effect at the time of termination for a period of nine (9) months from the date of termination; (ii) payment of premiums owed for insurance benefits at the same level held by the Director at the time of termination for a period of nine (9) months from the date of termination; (iii) the immediate vesting of all unvested long-term incentive compensation awards held by the Director that would have vested had he remained engaged pursuant to this Agreement for a period of nine (9) months from the date of Director's termination[1]; and; (iv) no

1 Note: Performance Cash Units that may vest pursuant to this section will not be paid unless, and then only to the extent that, the performance criteria underlying such awards has been satisfied. As a result, any potential payment related to the accelerated vesting of such Performance Cash Units will be paid following the completion of the relevant performance period and the evaluation of whether the performance criteria have been met, and any such payment will be made to the Director at the same time other participants receive payment.

other severance. The Company shall be entitled to take, as an offset against any amounts due pursuant to subsection (i) above, any amounts received by Director pursuant to disability or other insurance, or similar sources, provided by the Company.

11.7 Termination Due to Death

Director's Engagement shall end immediately in the event of his death. In the event of the Director's death, in exchange for execution of a release in the form attached hereto as Exhibit B by an authorized representative of the Director's estate, Director's estate shall be entitled to (i) severance payments equal to Director's then current base salary at the same rate and on the same schedule as in effect at the time of death for a period of nine (9) months from the date of death; (ii) the immediate vesting of all unvested long-term incentive compensation awards held by the Director that would have vested had he remained engaged pursuant to this Agreement for a period of nine (9) months from the date of Director's death[1]; and (iii) no other severance.

11.8 Termination by Mutual Agreement of the Parties

The Director's Engagement pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the Director and the Company. Any such termination of the Engagement shall have the consequences specified in such agreement.

11.9 Pre-Termination Rights

The Company shall have the right, at its option, to require the Director to vacate the Director'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 the Engagement or a breach of this Agreement.

11.10 Effect of Termination

Upon termination of the Engagement under this Agreement due to whatever cause(s), the Director shall return all of the Company's property forthwith, including, but not limited to, cell phone, laptop computer, keys, credit cards, Company seal or other seals, and Company equipment, and whether or not his term as Director has expired, he shall sign all documents necessary for his immediate resignation of all positions held at the Company or its affiliates, as requested by the Company.

11.11 Special Severance

(a) Amount. Special Severance shall consist of (i) severance payments equal to one-half of Director's then current annual base salary at the same rate and on the same payment schedule as in effect at the time of termination for twelve (12) months from the date of termination; (ii) payment of premiums owed for insurance benefits at the same level held by Director at the time of termination for a period of twelve (12) months from the date of termination; and (iii) no other severance.

(b) 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: (i) Director's continued compliance with the terms and conditions of Sections 7.2, 7.3, and 7.5, Articles 8, 24 and 25; (ii) Director's continued forbearance from directly, indirectly or in any other way, disparaging the Company, its officers, directors or employees, vendors, customers, products or activities, or otherwise interfering with the Company's press, public and media relations; and (iii) Director's execution, prior to receiving any Special Severance, of a release in the form attached hereto as Exhibit B within sixty (60) days after the date of termination of the Engagement.

11.12 Incentive Payments

(a) Terms and Conditions. Incentive Payments shall be equal to one-half of Director's then current annual base salary, payable in equal increments over an eighteen-month period on the same payment schedule in effect at the time of termination of the Engagement. Incentive Payments shall be conditioned upon Director choosing not to engage (whether as an owner, director, 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 for a period of eighteen (18) months following termination of the Engagement. If Director chooses to engage in such activities, then the Company shall have no obligation to make Incentive Payments for the period of time during which Director chooses to do so.

(b) Sole Consideration. Director and the Company agree and acknowledge that the sole and exclusive consideration for the Incentive Payments is Director's agreement as described in subparagraph 11.12(a) above. Accordingly, in the event that subparagraph 11.12(a) 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 Section 11.12 shall be separate and distinct from the other obligations and duties set forth in this Agreement, and any finding of invalidity or unenforceability of Section 11.12 shall have no effect upon the validity or invalidity of the other provisions of this Agreement.

11.13 Treatment of Special Severance and Incentive Payments

The Company may, in accordance with applicable Japanese laws and regulations, withhold any required amounts from the Director's Special Severance and Incentive Payments and remit such amounts to the applicable authorities or agencies with respect to national income tax and local income/inhabitants tax.

11.14 Other

Except for the amounts specifically provided in this Article 11, Director shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, retirement payment, or other severance benefits upon termination of the Engagement. The amounts payable to Director pursuant to Article 11 shall not be treated as damages, but as compensation to which Director may be entitled by reason of termination of the Engagement under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Director pursuant to Article 11 any amounts earned by Director in other engagements or employment after termination of his Engagement with the Company pursuant to this Agreement, or any amounts which might have been earned by Director in other engagements or employment had Director sought such other engagements or employment. The provisions of Article 11 shall not limit Director's rights under or pursuant to any other agreement or understanding with the Company regarding any pension, profit sharing, insurance or other benefit plan of the Company to which Director is entitled pursuant to the terms of such plan.

12. ASSIGNMENT OF RIGHTS

To the extent that the Director designs or invents anything relating to the business of the Company, its parent, affiliates, or subsidiaries, either during the Engagement or during the time prior to the Engagement in his capacity as an employee with the Company, which is patentable or otherwise protectable under applicable law, the parties agree that they will enter into a separate written agreement governing the assignment of that design or invention to the Company. The Director agrees to cooperate with the Company with regard to any such assignment of rights.

13. 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), the Director shall be treated as if the Director had been terminated at the Company’s convenience pursuant to Section 11.1.

(b) A “Termination Event” shall mean the occurrence of any one or more of the following, and in the absence of any of the factors enumerated in Section 11.5 providing for termination by the Company for good reason, Section 11.6 regarding permanent disability of the Director, or Section 11.7 regarding death of the Director:

(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 the Director had with the Company 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 the Director under the terms of this Agreement or any other agreement or understanding between the Company and the Director, 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 the Director relocate or any assignment to the Director of duties that would make it unreasonably difficult for the Director to maintain the principal residence the Director had immediately prior to the Change in Control.

14. ENTIRE AGREEMENT; AMENDMENT

This Agreement constitutes the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes all previous agreements and understandings related to the Engagement of the Director except as expressly stated herein. The terms and conditions of this Agreement may be amended only in writing, signed by both parties hereto.

15. FIDUCIARY RELATIONSHIP

This Agreement is a fiduciary service agreement and shall not be considered as an employment agreement under the Labor Standards Law in Japan. The Rules of Employment of the Company shall not be applicable to the Director.

16. 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. Director shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Director.

17. ATTORNEYS' FEES AND COSTS

If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which it or he may be deemed entitled.

18. NOTICES

Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within three (3) days of mailing by overnight mail, postage prepaid, to Director's last known address and to the Company at:

Company: Callaway Golf K.K.
Attn: Thomas Yang, Director
c/o Callaway Golf Company
2180 Rutherford Road
Carlsbad, California 92008

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

19. 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.

20. 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.

21. ADVERTISING WAIVER

Director 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 Director's name and/or pictures of Director taken in the course of Director's provision of services to the Company and/or its affiliates, appear. Director hereby waives and releases any claim or right Director may otherwise have arising out of such use, publication or distribution.

22. COUNTERPARTS

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

23. **HEADINGS**

Article and section headings in this Agreement are included for convenience only and form no part of this Agreement.

24. **IRREVOCABLE ARBITRATION OF DISPUTES**

(a) Any controversy or claim arising out of or in relation to the Director's Engagement, this Agreement or the breach hereof, will be finally settled by arbitration in Tokyo, Japan.

(b) The arbitration will be conducted before three arbitrators in accordance with the Commercial Arbitration Rules of the Japan Commercial Arbitration Association ("JCAA") then in effect.

(c) Each party to the arbitration is entitled to notify JCAA of the appointment of one arbitrator, respectively, provided that if there is more than one party on either the petitioner side or the opposing side, the plural parties on each such side shall jointly retain one arbitrator. If a party or parties fail to nominate an arbitrator within the time period specified by the applicable rules of JCAA, JCAA shall appoint an arbitrator for that party or parties. The two arbitrators so designated by the parties hereto shall nominate the third arbitrator, who will act as the Chairman of the board of arbitrators. In the event of their being unable to agree upon the third arbitrator within four (4) weeks after the notification to JCAA, the third arbitrator shall be nominated by JCAA.

(d) All parties to the arbitration will be bound by the award rendered by the arbitrator, and judgment for the enforcement thereof may be entered in any court of competent jurisdiction.

(e) Notwithstanding any other provisions of this Agreement, either party will be entitled to seek preliminary injunctive relief from any court of competent jurisdiction pending the final decision or award of the arbitrator.

THE PARTIES HAVE READ SECTION 24 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

__________*(Director)* __________*(Company)*

25. **GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with the laws of Japan. This Agreement is entered into solely in the English language, which language shall exclusively govern its meaning and interpretation.

26. **TERMINATION OF OFFICER APPOINTMENT AGREEMENT**

The Director and the Company recognize that prior to the effective date of this Agreement they were parties to a certain Officer Appointment Agreement entered into September 10, 2001, as amended January 1, 2002 and June 1, 2003 (collectively the "Officer Appointment Agreement"). It is the intent of the parties that as of the effective date of this Agreement, the Officer Appointment Agreement is terminated and that the Officer Appointment Agreement shall no longer be of any force or effect.

In witness whereof, the parties have duly executed and entered into this Agreement as of the date first set forth above.

The Director:	The Company:
	Callaway Golf K.K.
______________________________	By ______________________________
Alex M. Boezeman	Thomas Yang, Director

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 Callaway Golf Company and its affiliates and any employee benefit or stock ownership plan of Callaway Golf Company or its affiliates and also excluding an underwriter or underwriting syndicate that has acquired Callaway Golf 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 Callaway Golf 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 Callaway Golf Company (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors of Callaway Golf Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf Company of the sale, lease, exchange or other disposition, in one transaction or a series of transactions, by Callaway Golf Company of all or substantially all of Callaway Golf Company's assets or a reorganization or merger or consolidation of Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf 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 Callaway Golf Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of Callaway Golf Company or its successor; or

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

EXHIBIT B

RELEASE OF CLAIMS – GENERAL RELEASE

This Release of Claims – General Release ("Release") is effective as of the date signed by Callaway Golf K.K., and is made by and between **Alex M. Boezeman** ("Director"), pursuant to the Executive Entrustment Agreement (the "Agreement") to which this document is attached, and **Callaway Golf K.K.** (the "Company"), a Japanese corporation. This Release is entered into in light of the fact that Director's Engagement with the Company will terminate and Director will be eligible to receive Special Severance pursuant to Section 11.11 of the Agreement.

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

2. Release. Director hereby irrevocably and unconditionally releases and forever discharges the Company, its predecessors, successors, parent company, 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, parent company, 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 Director has against the Releasees, or any of them, arising from or in any way related to circumstances or events arising out of Director's Engagement by the Company, including, but not limited to, harassment, discrimination, retaliation, failure to progressively discipline Director, termination of the Engagement, violations of any notice requirement, or breach of any service agreement, together with any and all other claims Director now has or may have against the Releasees through and including Director's date of termination from the Company, provided, however, that Director 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, Directors & Officers insurance policies, or otherwise. Director also specifically agrees and acknowledges that Director is waiving any right to recovery against releasees based on age, sex, pregnancy, race, color, national origin, marital status, religion, veteran status, disability, sexual orientation, medical condition or other anti-discrimination laws, whether such claim is based upon an action filed by Director or a governmental agency.

3. 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.

4. Governing Law. This Release shall be governed by and construed in accordance with the laws of Japan. This Release is entered into solely in the English language, which language shall exclusively govern its meaning and interpretation.

5. Irrevocable Arbitration of Disputes.

(a) Any controversy or claim arising out of or in relation to the Director's Engagement, this Release or the breach hereof, will be finally settled by arbitration in Tokyo, Japan.

(b) The arbitration will be conducted before three arbitrators in accordance with the Commercial Arbitration Rules of the Japan Commercial Arbitration Association ("JCAA") then in effect.

(c) Each party to the arbitration is entitled to notify JCAA of the appointment of one arbitrator, respectively, provided that if there is more than one party on either the petitioner side or the opposing side, the plural parties on each such side shall jointly retain one arbitrator. If a party or parties fail to nominate an arbitrator within the time period specified by the applicable rules of JCAA, JCAA shall appoint an arbitrator for that party or parties. The two arbitrators so designated by the parties hereto shall nominate the third arbitrator, who will act as the Chairman of the board of arbitrators. In the event of their being unable to agree upon the third arbitrator within four (4) weeks after the notification to JCAA, the third arbitrator shall be nominated by JCAA.

(d) All parties to the arbitration will be bound by the award rendered by the arbitrator, and judgment for the enforcement thereof may be entered in any court of competent jurisdiction.

(e) Notwithstanding any other provisions of this Release, either party will be entitled to seek preliminary injunctive relief from any court of competent jurisdiction pending the final decision or award of the arbitrator.

THE PARTIES HAVE READ SECTION 5 AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.

__________*(Director)* __________*(Company)*

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

7. Advice of Counsel. The Company hereby advises Director in writing to discuss this Release with an attorney before executing it.

8. 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 signed by the Company.

The Director	The Company
	Callaway Golf K.K.

EXHIBIT ONLY – DO NOT SIGN AT THIS TIME

______________________	By: ______________________
Alex M. Boezeman	[authorized signature]
Dated: ______________________	Dated: ______________________

FIRST AMENDMENT TO
EXECUTIVE ENTRUSTMENT AGREEMENT

This First Amendment to Executive Entrustment Agreement ("First Amendment") is entered into effective March 20, 2009, 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 (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. Term. The Director has been elected by the Company's Board of Directors to serve as a director and the representative director through March 20, 2010. The term of the Engagement pursuant to the Agreement shall run through the current elected term of March 20, 2010.

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 First Amendment on the dates set forth below, to be effective as of the date first set forth above.

DIRECTOR	**COMPANY**
	Callaway Golf K.K.
______________________	By: ______________________
Alex Boezeman	Thomas Yang, Director
Dated: ______________________	Dated: ______________________

SECOND AMENDMENT TO
EXECUTIVE ENTRUSTMENT AGREEMENT

This Second Amendment to Executive Entrustment Agreement ("Second Amendment") is entered into effective March 20, 2010, 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 (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. Term. Section 2 of the Agreement is revised to reflect that the Director has been elected by the Company's Board of Directors to serve as a Director and the Representative Director through March 20, 2011 and that the term of the Director's Engagement pursuant to this Agreement shall run through said elected term.

2. Salary. Section 3.1 of the Agreement is revised to reflect that effective March 1, 2010, the Director's annual gross salary shall be JPY 36,245,000, prorated for any partial years of service, payable in equal installments on regularly scheduled Company pay dates.

3. Benefits. Section 4.2 of the Agreement is revised to add the following: "In the event of the Director's death, all outstanding unvested service-based full value long-term incentive awards (e.g., restricted stock units and phantom stock units) held by the Director shall immediately vest."

4. Annual Vacation. The Director acknowledges that as of January 1, 2010, the Company's paid vacation program, as described in Section 5 of the Agreement, has been reinstated. The Director acknowledges that the temporary change to the accrual of paid vacation, in effect in 2009, did not constitute a breach of the terms and conditions of the Agreement.

5. 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 Second Amendment on the dates set forth below, to be effective as of the date first set forth above.

DIRECTOR	**COMPANY**
	Callaway Golf K.K.
______________________________	By: ______________________________
Alex Boezeman	Thomas Yang, Director
Dated: ______________________	Dated: ______________________

THIRD AMENDMENT TO
EXECUTIVE ENTRUSTMENT AGREEMENT

This Third Amendment to Executive Entrustment Agreement (“Third Amendment”) is entered into effective March 20, 2011, 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 and March 20, 2010 (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. Term. Section 2 of the Agreement is revised to reflect that the term of the Engagement pursuant to the Agreement shall be extended through March 29, 2014.

2. Salary. Section 3.1 of the Agreement is revised to reflect that effective March 1, 2011, the Director’s annual gross salary shall be JPY 36,825,631, prorated for any partial years of service, payable in equal installments on regularly scheduled Company pay dates.

3. 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 Third Amendment on the dates set forth below, to be effective as of the date first set forth above.

DIRECTOR	**COMPANY**
	Callaway Golf K.K.
______________________________	By: ______________________________
Alex Boezeman	Thomas Yang, Director
Dated: ______________________________	Dated: ______________________________

CALLAWAY GOLF SOUTH PACIFIC PTY LTD

A subsidiary of Callaway Golf Callaway

ACN 094 768 359 ABN 26 094 768 359

CONFIDENTIAL

21 October 2009

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

Re: Contract of Employment

Dear Leighton:

We are pleased to offer you employment with Callaway Golf South Pacific Pty Ltd (**Callaway**) in Melbourne, Australia. The terms and conditions of employment (**Employment)** are set out in this contract of employment (**Contract**), Appendices and Schedule.

1. **POSITION**

(a) You are employed as the **General Manager** of Callaway commencing on 19 October 2009.

(b) You shall report to the Senior Vice President, International, Callaway Golf Company (**Senior Vice President**), or to another person as may be designated by the Board of Directors of Callaway, depending on Callaway's business needs.

(c) In accordance with the Fair Work Act 2009 (Cth) you are required to work 38 hours per week plus reasonable additional hours. Callaway's normal operating hours are Monday through Friday, 8 am to 5 pm. You will not be paid overtime or other payments in respect of additional hours worked outside of normal working hours, and you acknowledge and agree to this. Your usual place of work is Melbourne, however you will be required to travel to other locations as may be necessary for the discharge of your duties.

2. **PROBATION**

(a) Your Employment is subject to a six month probationary period, during which time your Employment may be terminated by the Company at any time by giving you six (6) months' notice in writing or payment in lieu of notice (**Probation Period**). During the Probation Period, Callaway will continually review its operational requirements and your conduct, capacity and performance.

(b) Should your employment be terminated by Callaway during the Probation Period for other than serious misconduct or breach of this Contract by you, Callaway will provide you with executive-level outplacement services with a company mutually agreed upon between you and Callaway.

(c) The Probation Period does not limit the operation of the statutory qualifying period of employment under the workplace relations legislation as it exists from time to time.

3. **COMPENSATION**

(a) You will be paid a Base Salary and Vehicle Allowance in accordance with Schedule 1 of this Contract (**Remuneration)**.

(b) Base Salary will be paid in monthly instalments in arrears into your nominated Bank, Building Society or Credit Union account. The Vehicle Allowance will be paid in accordance with Schedule 1.

(c) An increase will be made to your Base Salary upon successful completion of the Probation Period, meaning you remain employed and continue in the General Manager role following the Probation Period.

(d) Your performance and Remuneration will be reviewed annually by Callaway generally during the first quarter of each year. Remuneration, however, will not necessarily be changed as a result of such a review. Compensation decisions shall continue to be completely discretionary.

4. **PERFORMANCE INCENTIVES**

(a) You may be eligible for a discretionary bonus in accordance with Schedule 1. Bonuses are payable in accordance with Callaway's policies and procedures regarding bonuses as they may exist from time to time.

(b) You will not be paid any bonus unless at the time the bonus is payable you are an employee of Callaway and neither you nor Callaway have given notice of termination of your Employment in accordance with this Contract.

5. **ABOVE AWARD PAYMENTS**

(a) Throughout your Employment with Callaway, your Employment may at various times be covered by a Modern Award. You understand and acknowledge that your Employment may not currently be covered by a Modern Award, however, your Employment may become subject to a Modern Award at a future date. You acknowledge and agree that, in circumstances where your Employment is subject to any future Modern Award, your remuneration package, including the value of cash and non-cash benefits, will be offset against any Entitlement available to you.

(b) The term ‘Entitlement’ means any benefits available (or that become available) to you under legislation, industrial awards or certified agreements or any other industrial instrument, and includes cash and non-cash benefits.

6. **APPLICATION OF MODERN AWARDS**

(a) In light of your Remuneration, you acknowledge that:

(i) your Employment is, or may otherwise be (but for this Contract), covered by a Modern Award;

(ii) this Contract is an undertaking in writing to pay you an amount of earnings in relation to the performance of work during a period of 12 months or more (**Undertaking**); and

(iii) by signing this Contract you agree and accept the Undertaking and agree that, by accepting the Undertaking, you are no longer bound by any Modern Award.

7. **BUSINESS RELATED EXPENSE**

7.1 **Reimbursement**

(a) Callaway will reimburse you for reasonable and necessary business-related expenses incurred by you in the performance of your duties, on the provision of satisfactory documentary evidence and receipts, as determined by Callaway. All business related expenses must be submitted for reimbursement monthly.

8. **SUPERANNUATION**

(a) Callaway will contribute to the qualifying superannuation fund of your choice a percentage of your Base Salary (excluding allowances, e.g., vehicle allowance) that is equal to that which Callaway is statutorily obliged to pay on your behalf. Currently, an amount equal to 9% of your Base Salary (excluding allowances) will be paid to the relevant superannuation fund on your behalf.

(b) You should note that you may make a member contribution of your Base Salary (excluding allowances, e.g. vehicle allowance) to the superannuation fund. If you make a 5% contribution of your pre-tax Base Salary, Callaway may, at its discretion, make an additional 1% contribution. If you intend to make a member contribution, please inform the Company Financial Accountant.

9. **CALLAWAY-PROVIDED EQUIPMENT**

(a) The Company shall provide you with the equipment it deems necessary and appropriate to perform your duties, including a mobile phone, Blackberry/handheld device, and laptop computer (collectively **Equipment**). You agree to maintain the Equipment and protect it from damage. On provision of all documentary evidence reasonably required by Callaway, Callaway will reimburse you for the cost of mobile phone service. You acknowledge that any Equipment provided to you by Callaway is and shall remain the property of Callaway. Upon termination of your Employment, all Equipment shall be returned in good working order to Callaway.

(d) Callaway will be responsible for the repair and/or replacement of the Equipment when necessary.

10. **DUTIES**

The Employee will:

(a) report to the Senior Vice President, or to any such person as designated by the Chairman and/or the Board;

(b) assume and exercise the powers and perform the duties from time to time vested in or assigned to him by the Senior Vice President and/or any individual designated by, or with the authority of, the Board, and comply with all Callaway rules, regulations, policies and procedures from time to time in force;

(c) faithfully and diligently serve Callaway, its subsidiaries and affiliates and use his best endeavours to promote their interest and welfare;

(d) refrain from acting, or being seen to act, in conflict with Callaway’s best interests;

(e) unless absent on leave as provided in this Contract or through illness or involuntary injury, devote the whole of his time and attention to the business of Callaway and its subsidiaries during the normal working hours of Callaway and at such other times as may be reasonably necessary;

(f) perform those duties specific to his position as General Manager;

(g) display the highest ethical and professional standards of service delivery and confidentiality towards Callaway and its clients.

These duties do not limit your duties of good faith or fidelity to Callaway or any other duties implied at law.

11. **ANNUAL LEAVE**

(a) You will accrue annual leave at the rate of four weeks (20 days) per year of service, to be taken at a time which is mutually convenient to both you and Callaway, and as approved in advance by the Senior Vice President or his designee.

(b) You will be paid your Base Salary and Vehicle Allowance for all periods of annual leave.

12. **PERSONAL LEAVE**

(a) You will be entitled to ten (10) days personal leave per annum.

(b) You will be entitled to personal leave if you are unable to perform your duties because of personal illness or injury (**Sick Leave**) or where you are required to care or provide support for a member of your immediate family or household because of their personal illness, injury or an unexpected emergency affecting that person (**Carer's Leave**).

(c) For Sick Leave to be paid, Callaway may direct you to provide a medical certificate supporting the absence. Callaway also maintains the discretion to request a medical certificate in respect of Carer's Leave.

(d) Personal leave is cumulative from year to year however, accrued personal leave will not be paid out upon termination of Employment for any reason.

13. **LONG SERVICE LEAVE**

You will accrue long service leave in accordance with the Long Service Leave act 1992 (Vic) which currently provides for leave to accrue at the rate of 13 weeks for each 15 years of continuous service.

14. **EMPLOYEE WARRANTIES**

In signing this Contract, you warrant that:

(a) you have not been convicted of any criminal offences (other than as advised to Callaway in writing); and

(b) you do not suffer from any pre-existing medical condition which, taking into account the nature of the duties involved in this role, would adversely affect your ability to perform this role (other than as advised to Callaway in writing).

15. **TERMINATION OF EMPLOYMENT**

(a) Either you or Callaway may terminate your Employment at any time by giving six (6) months' written notice, or by the payment or forfeiture of six (6) months' pay in lieu of notice.

(b) In the case of serious misconduct, or if you commit any serious breach of this Contract, Callaway may terminate your Employment without notice and without any payment in lieu of notice.

(c) You agree and acknowledge that the notice payable in accordance with clause 15(a) is inclusive of any legislative entitlement to payment or compensation for termination by reason of redundancy that may otherwise be payable to you.

(d) Regardless of which party gives notice of termination, Callaway may direct you during the notice period to complete some, all or none of your duties for all or part of the notice period.

16. **CALLAWAY'S CONFIDENTIAL INFORMATION**

(a) It is a term of your Employment that you will not, except in the proper performance of your duties, divulge or use any Confidential Information.

(b) Confidential information is information not lawfully or properly available to the public at large including, but not limited to, technical data, trade data, trade secrets, know-how and confidential information relating to the businesses, finances, accounts, dealings, transactions, methods of operation, assets or affairs of Callaway or any related corporation of Callaway obtained during the course of your Employment. This obligation continues after termination of your Employment with Callaway.

(c) It is a term of your Employment that you sign the Employee Invention and Confidentiality Agreement, attached as Appendix 1 to this Contract.

17. **DISCLOSURE OF OTHERS' CONFIDENTIAL INFORMATION**

It is the understanding of both Callaway and you that you shall not divulge to Callaway and/or its affiliates any confidential information or trade secrets belonging to others, including your former employers, nor shall Callaway and/or its affiliates seek to elicit from you any such information. Consistent with the foregoing, you shall not provide to Callaway and/or its affiliates, and Callaway and/or its affiliates shall not request, any documents or copies of documents containing such information. Failure to comply with this obligation by you shall be grounds for immediate termination of your Employment with Callaway.

18. **RETURN OF CALLAWAY PROPERTY**

You hereby agree that all Callaway property, including, but not limited to, Equipment, corporate documents, customer information, sales manuals, sales reports, books, records and other property provided to you by Callaway and/or its affiliates during the course of Employment is and shall remain the property of Callaway and/or its affiliates. Upon termination of Employment, whether voluntary or involuntary, you shall immediately return to Callaway all property and Equipment belonging to Callaway and/or its affiliates.

19. **NON COMPETE**

It is a term of your Employment that you sign the Non Compete Agreement, attached as Appendix 2 to this Contract.

20. **CALLAWAY POLICIES AND PROCEDURES**

(a) You agree to be bound by Callaway's Employee Handbook and other policies and procedures in place from time to time. In addition, you agree to be bound by Callaway Golf Company's Code of Conduct, Policy on Avoiding Insider Trading, and other policies and procedures in place from time to time. Callaway reserves the right to vary its policies and procedures from time to time, and in the event of any such changes, Callaway will provide you with a copy of the new policy terms.

(b) You and every manager, supervisor and employee within Callaway are responsible for applying and promoting these policies and for maintaining the highest standards of behaviour.

21. **GOVERNING LAW**

This Contract shall be governed by the laws of Victoria, Australia.

22. **COMPLETE UNDERSTANDING/MODIFICATION**

This Contract constitutes the complete understanding between the parties, all prior representations or agreements having been merged into this Contract. No alteration or modification to any of the provisions of this Contract shall be valid unless made in writing and signed by both parties.

23. **FURTHER INFORMATION**

If you have any questions or would like further information, please contact the Senior Vice President or Callaway Golf Company's Senior Director, International Human Resources.

24. **ACCEPTANCE AND ENCLOSURES**

To accept your offer of Employment on the above terms, please sign the enclosed copy of this Contract and return it to me within seven days of the date of this Contract. If you do not accept this offer within the time period specified, this offer shall be automatically revoked at 5:00 p.m. on the seventh business day following the date of this Contract.

I welcome you to this new position at Callaway and wish you every success.

Sincerely,

Thomas T. Yang, Director
Callaway Golf South Pacific Pty Ltd. and
Senior Vice President, International,
Callaway Golf Company

I have read, understand and accept the terms of Employment with Callaway as set out in this Contract.

__________________________________ Dated:__________2009
Leighton Richards

APPENDIX 1

EMPLOYEE INVENTION AND CONFIDENTIALITY AGREEMENT

This Employee Invention and Confidentiality Agreement (**Agreement**) is made effective as of October, 2009, by and between Callaway Golf Company and/or its subsidiaries (**Callaway**) and Leighton Richards (**Employee**).

As a condition of employment by Callaway, Employee understands and agrees as follows:

1. **Confidential Information** includes Callaway's trade secrets and proprietary information comprising, but not limited to, all patented, copyrighted and/or trademarked materials, lab notebooks, graphic and/or written records, manufacturing techniques, programs, processes, formulas, codes, research and development related information, non-public product information, business plans and strategies, marketing data, cost of materials data, customer lists, supplier lists, employee lists, the terms or contents of all contracts or negotiations, and third party information that Callaway has agreed to keep confidential.

2. Employee will not, at any time, whether during or subsequent to the term of Employee's employment with Callaway, in any fashion, form, or manner, unless specifically consented to in writing by Callaway, either directly or indirectly, use for Employee's own benefit, or divulge, disclose, or communicate to any person, firm, entity or corporation, in any manner whatsoever, any Confidential Information or Invention of any kind, nature, or description concerning any matters affecting or relating to the business of Callaway, unless the party to whom the information is revealed has a need to know and is bound by a similar Callaway confidentiality agreement. The Confidential Information and Invention(s) are important material and represent confidential trade secrets, proprietary information and confidential business information of Callaway, and affect the successful conduct of Callaway's business and its good will. Any breach of any term of this paragraph is a material breach of this Agreement.

3. **Invention** regardless of whether it has been patented, trademarked or copyrighted, includes, but is not limited to, any invention, design, innovation, improvement, discovery, idea, process, sources of and uses of materials, apparatus, plans, systems and computer programs, as well as all related notebooks, documentation, and all proprietary information and rights, relating to the design, manufacture, use, marketing, distribution, and management of Callaway’s products.

4. Employee transfers and assigns to Callaway all of Employee's right, title and interest in all Inventions which Employee conceives or reduces to practice during Employee's employment with Callaway to the extent the Inventions either:

   (a) result from any work performed by Employee for Callaway, or

   (b) relate to Callaway's business or Callaway's actual or anticipated research and development.

   Employee agrees to disclose to Callaway all Inventions subject to this Agreement and to help Callaway properly document its rights to such Inventions, and to assist in the preparation of any and all U.S. and/or foreign applications for patents, trademarks, copyrights and assignments to Callaway which relate to such Inventions.

5. Employee agrees to disclose to Corporate Legal and/or the Senior Vice President any Invention:

   (a) resulting from any work performed by Employee for Callaway, or

   (b) relating to Callaway's business or Callaway's actual or anticipated research and development, which Employee develops, conceives and/or reduces to practice, either alone or with anyone else, during Employees employment and/or within one year of the termination of Employee's employment.

6. Employee shall disclose such Inventions to Callaway, even if Employee does not believe that Employee is required under this Agreement to assign Employee's interest in such Inventions to Callaway. If Callaway and Employee disagree as to whether or not an Invention is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included and/or that assignment to Callaway is not required.

7. Employee shall not divulge to Callaway any confidential information or trade secrets belonging to others, including Employee's former employers, nor shall Callaway seek to elicit from Employee any such information. Consistent with the foregoing, Employee shall not provide to Callaway, and Callaway shall not request, any documents or copies of documents containing such information.

8. All equipment, notebooks, documents, memoranda, reports, files, samples, books, correspondences, lists, programs, documentation, and/or other related materials acquired by Employee as a result of Employee's employment with Callaway, as well as copyrights, trademarks, and patents resulting from any work performed by Employee during the term of Employee's employment with Callaway, other written graphic records, and the like, affecting or relating to the business of Callaway, which Employee shall prepare, use, construct, observe, possess, or control, shall be and remain Callaway's sole property. In the event of termination of Employee's employment with Callaway for any reason, Employee agrees to deliver promptly to Callaway all the foregoing which are then or have been in Employee's possession or under Employee’s control, and will not take with Employee the originals or copies of Callaway's documents and/or documentation relating to Callaway's Confidential Information and/or Inventions, except with Callaway's prior written consent.

9. Employee agrees to permit Callaway, and persons or other organizations authorized by Callaway, to use, publish and distribute advertising or sales promotional literature concerning the products of Callaway or its affiliated companies, 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 employment with Callaway, appear. Employee hereby waives and releases any claim or right Employee may otherwise have arising out of such use, publication or distribution.

10. In the event Employee violates this Agreement, Callaway may terminate Employee's services to Callaway immediately, bring litigation in any federal or state court of competent jurisdiction to enjoin Employee's breach of this Agreement, and recover costs of such litigation, including attorneys' fees, in the event Callaway is successful in the litigation. This Agreement shall be governed by the laws of Victoria, Australia.

Executed the day first above written.

____

Leighton Richards

[Rev. 12/22/00]

APPENDIX 2

NON-COMPETE AGREEMENT

This Non-Compete Agreement (**Agreement**) is made effective as of October, 2009, by and between Callaway Golf South Pacific Pty Ltd (**Callaway**) and Leighton Richards (**Employee**).

As a condition of employment by Callaway, Employee understands and agrees as follows:

1. **Definitions**

For this purpose of this Agreement, the following Definitions apply:

“engage or be involved in” includes by direct or indirect involvement as a principal, agent, partner, employee, shareholder, unit holder, director, trustee, beneficiary, manager, contractor, adviser, consultant or financier.

“Associated Companies” includes Callaway Golf Company and its subsidiaries, affiliates or related bodies corporate.

“Business” means designing, manufacturing and selling golf equipment.

2. **Customer and Client Relationships**

Employee acknowledges that Employee has been placed in a position with Callaway whereby Employee has established or will establish personal contact and relationships with customers, clients and persons in the habit of dealing with Callaway and/or its Associated Companies and that these relationships form part of the goodwill of Callaway and/or its Associated Companies and are of great value to Callaway, and/or its Associated Companies.

3. **Duty not to Compete**

Employee will not, during the course of the Employment, without the prior written approval of Callaway, undertake any appointment, position or work that:

(a) results in the Employee competing with Callaway and/or Associated Companies;
(b) otherwise adversely affects Callaway and/or Associated Companies; or
(c) hinders the Employee's performance of duties owed to Callaway.

4. **Prohibited Activity**

For the period set out in clause 5 and within the area set out in clause 6, the Employee must not, in competition with the Business of Callaway or Associated Companies, without first obtaining the written consent of Callaway:

(a) solicit or compete for the custom of or engage or be involved in any business with any person, firm or corporation who or which was a customer or client of Callaway at the time during the 12 months preceding the termination of the employment with Callaway; or
(b) engage or be involved in any capacity in any entity, firm or corporation which competes with the business of Callaway or Associated Companies.

5. **Period of Restraint**

Starting the first day following your last day of notice, the period referred to in clause 3 will be:

(a) 12 months;
(b) 9 months;
(c) 6 months; or
(d) 3 months.

6. **Geographic Area of Restraint**

The area referred to in clause 3 will be:

(a) Australia and New Zealand;
(b) Australia;
(c) Victoria, Queensland and New South Wales; or
(d) Victoria.

7. **Clauses are Severable**

Clauses 5 and 6 will be construed and have effect as if they are a number of separate sub-clauses which result from combining each such combination with each sub-paragraph of clause 5 and combining each such combination with each sub-paragraph of clause 6. Each resulting sub-clause is severable from each other resulting sub-clause. Employee acknowledges that Employee intends that each such sub-clause will be binding upon Employee and that it will be construed to have the maximum enforceable effect.

8. **Enforceability**

Each restraint, covenant and combination of restraint and covenant contained in this Agreement is regarded by the parties as separate, distinct and severable so that the unenforceability of any restraint or covenant or combination of any restraint or covenant will in no way affect the enforceability of the other restraints or covenants.

9. **Solicitation of Callaway's Employees**

Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by Callaway or Associated Companies to terminate such employment while employed by Callaway and for a period of one year thereafter.

10. **Acknowledgement by Employee**

Employee acknowledges that the covenants in respect of restraint of trade contained in this clause are fair and reasonable and that Callaway is relying upon this acknowledgement in entering into this Agreement.

In the event Employee violates this Agreement, Callaway may terminate Employee's services to Callaway immediately, bring litigation in any federal or state court of competent jurisdiction to enjoin Employee's breach of this Agreement, and recover costs of such litigation, including legal fees, in the event Callaway is successful in the litigation. This Agreement shall be governed by the laws of Victoria, Australia.

Executed the day first above written.

____
Leighton Richards

[Rev. 12/22/00]

Schedule 1

1. **Position Title**

General Manager, Callaway Golf South Pacific Pty Ltd, subject to successful completion of the Probation Period set forth in Clause 2 of the Contract.

2. **Reporting**

You will report to the Board of Directors, by way of Thomas Yang, Director, Callaway Golf South Pacific Pty Ltd., and Senior Vice President, International, Callaway Golf Company, or as may be designated by the Board.

3. **Base Salar**y

(a) The Base Salary is AU$200,000.

(b) An increase will be made to the Base Salary upon successful completion of the Probation Period.

4. **Vehicle Allowance**

The Vehicle Allowance shall be paid in accordance with current Callaway policy, and you shall track mileage or any other requirements in accordance with Callaway policy, as such policy may be modified from time to time.

5. **Annual Bonus**

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 thirty percent (30%) 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.

CALLAWAY GOLF SOUTH PACIFIC PTY LTD

A subsidiary of Callaway Golf Callaway

ACN 094 768 359 ABN 26 094 768 359

CONFIDENTIAL

06 November 2009

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

Re: First Amendment to Contract of Employment

Dear Leighton:

This First Amendment to Contract of Employment is entered into effective 06 November 2009 between Leighton Richards and Callaway Golf South Pacific Pty Ltd (Callaway) and amends the terms and conditions of the Contract of Employment entered into between the parties as of 21 October 2009 (Contract), as follows:

> Schedule 1, Clause 5, "Annual Bonus," is amended as set forth in the attached "Schedule 1," and supersedes and replaces Clause 5 of the Contract in its entirety.

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

The parties have executed this First Amendment to Contract of Employment effective 06 November 2009.

Sincerely,

Thomas T. Yang, Director
Callaway Golf South Pacific Pty Ltd. and
Senior Vice President, International,
Callaway Golf Company

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

____
Leighton Richards

Schedule 1 (Rev. as to Clause 5 effective 06 November 2009)

1. **Position Title**

   General Manager, Callaway Golf South Pacific Pty Ltd, subject to successful completion of the Probation Period set forth in Clause 2 of the Contract.

2. **Reporting**

   You will report to the Board of Directors, by way of Thomas Yang, Director, Callaway Golf South Pacific Pty Ltd., and Senior Vice President, International, Callaway Golf Company, or as may be designated by the Board.

3. **Base Salary**

   (a) The Base Salary is AU$200,000.

   (b) An increase will be made to the Base Salary upon successful completion of the Probation Period.

4. **Vehicle Allowance**

   The Vehicle Allowance shall be paid in accordance with current Callaway policy, and you shall track mileage or any other requirements in accordance with Callaway policy, as such policy may be modified from time to time.

5. **Annual Bonus**

   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 thirty percent (30%) 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.

CALLAWAY GOLF SOUTH PACIFIC PTY LTD

A subsidiary of Callaway Golf Callaway

ACN 094 768 359 ABN 26 094 768 359

CONFIDENTIAL

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

Re: <u>Second Amendment to Contract of Employment</u>

Dear Leighton:

This Second Amendment to Contract of Employment is entered into as of 01 March 2011 between you and Callaway Golf South Pacific Pty Ltd ("Callaway") and amends the terms and conditions of the Contract of Employment entered into between the parties as of 21 October 2009, as amended 06 November 2009 (collectively, the "Contract"), as follows:

> Schedule 1, Clause 3, "Base Salary," is amended as set forth in the attached "Schedule 1," which supersedes and replaces Schedule 1 of the Contract in its entirety.

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

Sincerely,

Mark Nechita for
Thomas T. Yang, Director
Callaway Golf South Pacific Pty Ltd. and
Senior Vice President, International,
Callaway Golf Company

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

____
Leighton Richards

Dated: ______________________________

Schedule 1 (Rev. as to Clause 3 per Second Amendment to Contract of Employment)

1. **Position Title**

   General Manager, Callaway Golf South Pacific Pty Ltd, subject to successful completion of the Probation Period set forth in Clause 2 of the Contract.

2. **Reporting**

   You will report to the Board of Directors, by way of Thomas Yang, Director, Callaway Golf South Pacific Pty Ltd., and Senior Vice President, International, Callaway Golf Company, or as may be designated by the Board.

3. **Base Salary**

   Effective 01 March 2011, the Base Salary is AU$265,000 (prorated for any partial years of employment).

4. **Vehicle Allowance**

   The Vehicle Allowance shall be paid in accordance with current Callaway policy, and you shall track mileage or any other requirements in accordance with Callaway policy, as such policy may be modified from time to time.

5. **Annual Bonus**

   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 thirty percent (30%) 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.

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>Third Amendment to Contract of Employment / Effective 01 August 2011</u>

Dear Leighton:

This Third Amendment to Contract of Employment ("Third Amendment") is entered into as of 01 August 2011 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 06 November 2009 and 01 March 2011 (collectively, the "Contract"), and amends the terms and conditions of the Contract as follows:

1. **<u>Global Change</u>. Throughout the Contract, references to "General Manager" shall be changed to "Managing Director, Southeast Asia and South Pacific".**

2. **<u>Termination of Employment</u>. Clause 15 of the Contract is amended to read as follows:**

   (a) "Either you or Callaway may terminate your Employment at any time by giving nine (9) months' written notice, or by the payment or forfeiture of nine (9) months' pay in lieu of notice.

   (b) In the case of serious misconduct, or if you commit any serious breach of this Contract, Callaway may terminate your Employment without notice and without any payment in lieu of notice.

   (c) You agree and acknowledge that the notice payable in accordance with clause 15(a) is inclusive of any legislative entitlement to payment or compensation for termination by reason of redundancy that may otherwise be payable to you.

   (d) Regardless of which party gives notice of termination, Callaway may direct you during the notice period to complete some, all or none of your duties for all or part of the notice period.

   (e) Upon termination of this Contract, you agree to resign as a director of Callaway, as well as from any other positions you may hold at Callaway, and as a director or officer of any affiliate of Callaway."

3. **<u>Appendix 2</u>. Appendix 2, Clause 6, to the Contract is amended to read as follows:**

   6. "Geographic Area of Restraint

   The area referred to in clause 3 will be:

   (a) Australia, New Zealand, Singapore, Malaysia, Thailand and India;

   (b) Australia, New Zealand and India;

   (c) Australia and New Zealand;

   (d) Australia;

(e) Victoria, Queensland and New South Wales; or

(f) Victoria."

4. **Schedule 1**. Schedule 1 to the Contract is superseded and replaced in its entirety with the Schedule 1 attached to this Third Amendment.

5. **Counterparts/Signature**. This Third 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.

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

Sincerely,

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

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

____
Leighton Richards

Dated:

Attachment: Schedule 1

Schedule 1

(Revised per Third Amendment to Contract of Employment effective 01 August 2011)

1. **Position Title**

   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**

   The Base Salary is AU$280,000 (prorated for any partial years of employment).

4. **Vehicle Allowance**

   The Vehicle Allowance shall be paid in accordance with current Callaway policy, and you shall track mileage or any other requirements in accordance with Callaway policy, as such policy may be modified from time to time.

5. **Annual Bonus**

   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 thirty percent (30%) 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.

CALLAWAY GOLF COMPANY
OFFICER EMPLOYMENT AGREEMENT

This Officer Employment Agreement ("Agreement") is entered into as of May 1, 2011 (the "Effective Date") by and between **Callaway Golf Company**, a Delaware corporation, (the "Company") and **Joseph Urzetta** ("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 May 1, 2011 and continuing until such time that the Agreement is amended or terminated as set forth 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, U.S. Sales, 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 Senior Vice President, U.S., 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 at the rate of $315,000.00 per year (prorated for any partial years of employment), payable in equal installments on regularly scheduled Company pay dates.

(b) Annual Bonus. The Company shall provide Employee 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. Employee's bonus target percentage is fifty-five percent (55%) of Employee'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.

(c) Long Term Incentive. The Company shall provide Employee an opportunity to participate in the Company's applicable long term incentive plan 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 thirty (30) 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.

(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 equal to Employee's target bonus for the current year pro-rated to the 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 immediate vesting of all unvested long-term incentive compensation awards held by Employee that would have vested had Employee continued to perform services pursuant to this Agreement for a period of six (6) months from the Permanent Disability Date[1]; (v) subject to Section 7(g)(iii)(2) 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), (ii), (iii) and (iv) of this sub-section 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 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 section 7(b)) 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 three (3) times Employee's base salary and target bonus (combined), 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.

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1 Note: Performance Cash Units that may vest pursuant to this section will not be paid unless, and then only to the extent that, the performance criteria underlying such awards has been satisfied. As a result, any potential payment related to the accelerated vesting of such Performance Cash Units will be paid following the completion of the relevant performance period and the evaluation of whether the performance criteria have been met, and any such payment will be made to Employee at the same time other participants receive payment.

(d) Retirement. Employee shall be permitted to participate in the Company's 401(k) retirement investment plan, employee stock purchase plan and executive deferred compensation plan pursuant to the terms of such plans, as the same may be modified from time to time, to the extent such plans are 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 related to Employee's compensation 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. Employee's employment under this Agreement may be terminated by the Company at any time without substantial cause. In the event of a termination by the Company without substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) a cash payment equal to Employee's target bonus for the current year pro-rated over the portion of the year actually employed; and (iii) the immediate vesting of all unvested long-term incentive compensation awards held by Employee that would have vested had Employee remained employed pursuant to this Agreement for a period of twelve (12) months from the date of such termination[1]. The payment of the benefits described in (i), (ii) and (iii) of this sub-section shall be made as soon as administratively practicable following the date of termination. In addition to the foregoing and subject to the provisions thereof, Employee shall be eligible to receive Special Severance as described in subsection 7(g) and Incentive Payments as described in subsection 7(h).

(b) 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.

(c) Termination by Employee for Good Reason. Employee's employment under this Agreement may be terminated immediately by Employee for good reason at any time. In the event of a termination by Employee for good reason, Employee shall be entitled to receive (1) any compensation accrued and unpaid as of the date of termination; (2) a cash payment equal to Employee's target bonus for the current year pro-rated over the portion of the year actually employed; and (3) the immediate vesting of all unvested long-term incentive compensation awards held by Employee that would have vested had Employee remained employed pursuant to this Agreement for a period of twelve (12) months from the date of such

1 Note: Performance Cash Units that may vest pursuant to this section will not be paid unless, and then only to the extent that, the performance criteria underlying such awards has been satisfied. As a result, any potential payment related to the accelerated vesting of such Performance Cash Units will be paid following the completion of the relevant performance period and the evaluation of whether the performance criteria have been met, and any such payment will be made to Employee at the same time other participants receive payment.

termination[1]. The payment of the benefits described in (1), (2) and (3) of this sub-section shall be made as soon as administratively practicable following the date of termination. In addition to the foregoing and subject to the provisions thereof, Employee shall be eligible to receive Special Severance as described in subsection 7(g) and Incentive Payments as described in subsection 7(h). "Good Reason" shall mean a material breach of this Agreement by the Company. Notwithstanding the foregoing, no basis for a termination for Good Reason will be deemed to exist (a) unless Employee notifies the Company in writing, within ninety (90) days after the Employee knows that Employee is entitled to terminate for Good Reason, that he or she intends to terminate his or her employment no earlier than thirty (30) days after providing such notice; (b) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition; and (c) the Employee resigns from employment prior to expiration of ninety (90) days after the end of the period described in (b) above.

(d) Reserved.

(e) 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.

(f) 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.

(g) Special Severance.

(i) Amount in Event of a Termination Pursuant to Section 7(a) or 7(c). In the event of a termination pursuant to Sections 7(a) or 7(c) 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 bonus, 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.

(ii) Amount 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 bonus, 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 Section 9(c).

(iii) Additional Special Severance.

(1) In addition to the Special Severance referenced above, Employee shall 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.

(2) Notwithstanding the foregoing, 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

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1 Note: Performance Cash Units that may vest pursuant to this section will not be paid unless, and then only to the extent that, the performance criteria underlying such awards has been satisfied. As a result, any potential payment related to the accelerated vesting of such Performance Cash Units will be paid following the completion of the relevant performance period and the evaluation of whether the performance criteria have been met, and any such payment will be made to Employee at the same time other participants receive payment.

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 date of termination, 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.

(iv) Conditions on Receiving Special Severance and/or Additional Special Severance. Notwithstanding anything else to the contrary, it is expressly understood that any obligation of the Company to pay Special Severance and/or Additional 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 or Additional 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 or Additional 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 section 7(k) below.

(h) Incentive Payments.

(i) Amount in the Event of a Termination Pursuant to Sections 7(a) or 7(c). In the event of a termination pursuant to Sections 7(a) or 7(c) of this Agreement, Employee shall 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 bonus, 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.

(ii) Amount 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 bonus, 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 Section 9(c).

(iii) 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.

(iv) 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(h)(iii) above. In the event that subsection 7(h)(iii) 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(h) 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(h) shall have no effect upon the validity or invalidity of the other provisions of this Agreement.

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

(j) Other. Except for the amounts specifically provided pursuant to this Section 7, Employee shall not be entitled to any further compensation, bonus, 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, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(k) 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.

(l) 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 bonus or incentive compensation paid based upon such erroneously stated financial information, (ii) any bonus or incentive compensation or equity compensation received by Employee during the twelve 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 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), 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 bonus or incentive compensation or equity compensation received by Employee during the twelve 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 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.

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 or expiration 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 or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

(d) <u>Competing Business</u>. 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) <u>Other Employees</u>. 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) <u>Suppliers</u>. 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) <u>Conflict of Interest</u>. 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 Section 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 Section 7(b) 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) 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: Steven C. McCracken
Senior Executive Vice President, Chief Administrative 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 expiration or 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.

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

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
______________________	By:	______________________
Joseph Urzetta		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. 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. <u>Governing Law</u>. This Release shall be construed and enforced in accordance with the internal laws of the State of California.

5. <u>Binding Effect</u>. 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. <u>Irrevocable Arbitration of Disputes</u>.

(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 expiration or 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 Steven C. McCracken, Senior Executive Vice President and Chief Administrative 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: ______________________

Exhibit 31.1

CERTIFICATION

I, Anthony S. Thornley, 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/ ANTHONY S. THORNLEY

Anthony S. Thornley
President and Chief Executive Officer

Dated: November 2, 2011

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: November 2, 2011

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 September 30, 2011, 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 November 2, 2011.

/S/ ANTHONY S. THORNLEY
Anthony S. Thornley
President and Chief Executive Officer

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